What Does GDP Mean For Your Investments? - Transcript

Tim Mullooly: In episode 190, we're going to talk about this morning's GDP numbers. Stick around.

Welcome to The Mullooly Asset Show. I'm your host for today, Tim Mullooly. This is episode number 190. Let's talk about this morning's GDP numbers. We're recording this April 29, 2020. Today we saw the first quarter GDP numbers for 2020. GDP shrunk by 4.8%. For the viewers out there, GDP stands for gross domestic product and it's a widely used number as kind of a scorecard for the economy. It kind of gives people an idea of how the economy has been doing over the last couple months. Many news outlets were quick to point out that this drop in GDP was the biggest that we've seen since 2008, but what does that actually mean for you guys? What does that mean for the individual investors? What do you do with that information?

A MarketWatch article called the plunge in GDP "sharp and sudden." While it might be sharp, was it really all that sudden? The thing about GDP that you need to remember is that GDP is always backwards looking. It's always looking out the rear view mirror. Unless you've been living under a rock for the last two months, this drop in GDP isn't a real surprise. Everybody saw this coming. Everyone's been expecting a decline in GDP for weeks now. The same article in MarketWatch says that "the worst is yet to come." That sounds very ominous and dark. The financial media loves to use these scary headlines to get you to read what they write.

But again, that statement shouldn't really be a surprise. As we sit here on April 29, 2020, the majority of the country's economy has been closed for the entirety of the second quarter up until this point. The second quarter started on April 1st. Yeah, for the first quarter or for the beginning of the second quarter, the economic data isn't going to look good because the economy has been closed. Again, it might be true that the numbers might look worse in the second quarter, but it's not exactly news. Here's the important thing for individual investors, you, to remember, the economy and GDP are not the stock market. They're not the same thing.

As we record this with a 4.8% decline in GDP just announced, the stock market is up over 500 points, just over 2%. As Josh Brown from Ritholtz Wealth Management put it, you can't invest in GDP. Sometimes the market and GDP and the economy walk side by side in the same direction. When one's doing well, the other does well. Sometimes, like right now, one does well, the other doesn't do well. They don't move in the same direction all the time. While GDP numbers are backwards looking, the stock market tends to be forward-looking. Knowing that the first and second quarters of 2020 the economic data is going to be ugly, the market can start to look forward into the third and fourth quarters of 2020, even into 2021, when more and more businesses will be open again and things will start to rebound.

What do you do with this information? As a long-term investor, not much. If you're making wholesale investment decisions for your long-term investment portfolios based on the first draft of quarter one 2020 GDP numbers alone, you're making a pretty big mistake. Again, this number is backwards-looking. It tells us what has happened, not what's going to happen in the future. Outside of your investments, the only thing this GDP number really tells you is that while the economy is hurting, with your personal finances, it's much more important now more than ever to have a handle on basics like cashflow and being able to stick to the plan that you have in place.

While the GDP numbers this morning might be a little shocking to some people, there isn't too much that you need to do about it as a long-term investor. That's all you need to know for episode 190 of The Mullooly Asset Show. We'll see you next time.