The Financial Crisis: 10 Years Later - Transcript

Tom Mullooly: On the second take for episode 92, we're going to talk about time horizons and you.

Welcome to the Mullooly Asset Show. I'm your host Tom Mullooly, and this is episode number 92. We get topics and questions from our clients and our viewers.

Today, we want to talk about an article that we saw in the Wall Street Journal that is worth sharing and worth talking about, but not necessarily for what the original theme of the story was. Story in the Journal, and we'll link to it in the show notes, talked about how we're coming up on the 10-year anniversary of the big stock market crash in 2008 and how Lehman went all the way down to nothing and ultimately filed bankruptcy.

What we want to talk about, however, is the time horizons, how people seem to be forgetting that the drastic results that we saw just 10 years ago wasn't really all that long ago. When we think about time horizons, though, a lot of things that we hear in the news and in our industry is, "Well, for the last six months, the market's done this," or, "For the last quarter, the market's done that," or even, "Hey, in the last year, what have you done for me?"

Is that too short of a time horizon? Is a period like five years, is that too long of a time horizon? Everyone's going to have a different answer for that, but I can tell you for the most part, people's time horizons are usually too short, and they need to start thinking in longer chunks of time.

When we look at a span of six months or a span of a year, or two years, even, we're going to see an entire spectrum of returns. We could see a market that's up mid-teens or a market that's down 20% in a short period of time.

Over the longer periods of time, you're going to see those numbers, those returns really shrink because you're going to take positive years and negative years and come up with what the return has actually been over time.

Some of the things, just thinking about, it's almost 10 years since we saw the Lehman collapse. What's happened in the meantime, there was a day, we talk about it all the time here in the office because it was Casey's birthday where we came in on a Monday morning. It was in August of 2015, and the Dow Jones was down a thousand points in the first 30 minutes of trading. People seem to forget about it.

We had the Flash Crash in May of 2011 where the stock market was down 900 points out of nowhere. If you blinked, you missed it. 30 minutes later, the market was seemingly back to normal.

We went through Brexit. We went through the Ebola crisis. In 2011, everybody thought the Euro was going away, it was going to be disbanded. Market went down 20% on that.

When we talk about 2008, does anybody really recall when you opened up your third quarter statements? The third quarter ended September 30th. Maybe you opened up your statement in mid-October. A lot of damage was already done, but it wasn't over. We have to talk about what people's perspectives are, and we have to talk about time horizons too.

Just think about this. It wasn't that long ago in 2010 when Eastman Kodak was still a member of the S&P 500. Forget about it being a listed stock. I mean, it's already filed bankruptcy. It's gone. But Eastman Kodak, as recently as 2010, was a member of the S&P 500, one of the 500 largest companies around. In that year, it was replaced by a little company called Netflix. Not too bad. 10 years ago, in 2008, Nvidia the chip maker, and Sears Roebuck, had pretty much the same market cap. They were both worth about $10 billion. Take a look today. You're going to see Sears as a $2 stock, and Nvidia, well, you can look it up.

Here's the thing, and this is the perspective that I want to share with you. If you bought the S&P 500, if you just bought an index fund in June of 2008, before a lot of the stories came out and before a lot of people got massacred, if you just bought the index in June of 2008, since then, you've been Rip Van Winkle, you've been asleep for 10 years at this point. You open up your statement and look. You've made 9% a year. Incidentally, the after-inflation return, 7.8%. That's better than the historical average that stocks have returned for the last 80 years. Market's been pretty good last few years, but having the low inflation makes the numbers even better.

We've still met with folks in the last couple of months, more than one of them, who have been sitting in the money market since 2008, and now they want to know what to do. Think about that. The S&P 500 got down to 666 in March of 2009, and today it's trading at 26, 2,700. How do you adjust your mindset to say, "Now's a good time to invest." That's a tough one. I don't know. I don't really know the answer to that. Sometimes I think we should have a sign on our website or on our letterhead that says, "We'll help you manage your meltdowns because we know that they're going to happen."

Investing involves humans and money. Those are two emotional hotspots. It's not easy to sit through drawbacks and pull downs in the market. It happens though, and we have to be prepared for these things. One of my favorite sayings that I've learned in the business over these years is, "It wasn't raining when Noah built the arc." Something to think about. We have to manage our emotions and try and separate them from making money decisions. Not the easiest thing in the world to do. That's why you work with an advisor.

Thanks for watching episode 92. See you on the next one.