

BY CAROL CLARK

## What Now? Adapting thoughtfully to a structural shift

**A**T SOME LEVEL, THERE'S A GROWING REALIZATION that the current economic "decline" is not just a speed bump. The assumption that a return to the "status quo" is sure to come—that it's merely a matter of time—also appears to be quickly fading. The emerging conclusion: Things typically don't come this unhinged only to revert to what existed before.

While exceptionally unsettling, it's important to remember that U.S. economic history is littered with instances of major structural shifts that have been caused or accompanied by significant advances in technology, as well as changes in financial and social systems. (Take a look at John Steele Gordon's *Empire of Wealth* for numerous examples.) New industries emerge while others die. Bubbles are created as investors rush to profit from new technologies or trends. Financial and legal systems struggle to keep pace with innovations. Bubbles eventually burst, lack of adequate oversight is exposed, and a period of transition to the next level is set. Such phases are often messy and filled with uncertain and unknowable outcomes, a process that drives both investors and the general public crazy!

Much has already been written regarding the mechanics of what came apart over the past couple of years. Still, few have taken the time to think bigger picture and longer term about what potentially comes next. It's as if most are figuring the literal "end" is nigh. How realistic is that? At this juncture, we should instead be trying to provide answers to perhaps the most pertinent question: What now? In other words, how do we (re)structure our day-to-day financial actions to adapt?

First, don't try too hard. Given the severity of decline we've just experienced, human nature leads some to consider intensive action in an attempt to rapidly rebuild lost wealth. It's important to remember that risk and return still go hand in hand. Aggressively searching for higher-yield investments in an attempt to make a quick buck—solely because you think they will go up, not based on fundamental prospects—almost never ends well. On the other hand, searching for opportunities in asset classes that no one else wants to own has often paid off for those with the stomach and the wherewithal. When competitors are weak, strategic market share can be built for decades from markets like this.


Don't sit still either. Another common reaction to economic trauma is to do nothing or to revert to an even more

conservative stance (e.g., bailing out now, stopping 401(k) allocations, choosing not to capitalize on an opportunity you know is right even if you can afford to, etc.). Certainly, such actions may have served a legitimate purpose at one point. But do they continue to when markets have already reset to a much lower level?

Keep in mind that despite media rhetoric, economies and asset markets do not move in lockstep. And yes, it's true that this economic environment is different than it's been before. Every economic turning point is different than others that have preceded it. Yet, it's also true that the stock market is a leading (not coincident) economic indicator. Peak to trough declines experienced in the current instance already seem to imply that market participants expect an economic outcome at least on a par with the Great Depression.

What few seem to be considering, however, is that in non-financial Corporate America, balance sheets, margins, cash on hand, etc. were all in very solid shape going into this downturn. Consequently, Corporate America entered the downturn with arguably more solid fundamentals than had been the case in prior downturns.

Third, take baby steps. Taking substantive action in an environment like this can be exceedingly trying. One way to break the internal and often emotional logjam can be to take small steps on the way to your long-term goals. Just a few examples to consider: upping your 401(k) allocation by 1 percent; rebalancing your asset mix into the classes that are down by trimming assets that have risen; spending less than you earn by "X" percent and increasing that percentage over time; having greater "skin" (i.e., equity) in purchases rather than relying on credit—and ensuring those who are managing an investment, asset, or company do as well; or researching expansion or investment opportunities in places or asset classes that have, until recently, been overpriced.

We can't change things like the market declining more than 50 percent from its peak in 2007, credit being tougher (though not impossible) to get, or the IPO market (at least for now) drying up. What we can do is make the best of things and get on with the business of living. How you thoughtfully answer "What now?" could well be one of the best gifts you give yourself this decade. 



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