EXPERT CONTRIBUTOR

RICH GROFF | CERTIFIED FINANCIAL PLANNER

Are Your Investments Ready for the Upcoming Recession?

By Rich Groff

A recession is generally defined as two consecutive quarters of negative Gross Domestic Product (GDP) growth. It's a period of economic decline with a reduction in trade and industry activity and a natural part of the business cycle, I might add. There are multiple other characteristics associated with recessions, but for this purpose, the general definition is adequate.

The yield curve inverted back in December historically has marked a recession following this occurrence anywhere from 10 -20 months later as depicted in the chart below:

Date of inversion	Start of recession	Number of months
09/17/1978	01/02/1980	15.5
09/12/1980	07/01/1981	10
08/11/1989	07/01/1990	11
02/02/2000	03/01/2001	13
02/01/2006	12/01/2007	22

What is the yield curve? Simply stated, the yield curve is a graph that plots the interest rate yield on bonds (of equal quality) over varying maturities. Most of the time, the shorter maturities have a lower yield than the longer maturities. This makes sense since investors usually want a higher return in exchange for tying up their money for a more extended period. In a recent Federal Reserve blog, David Wheellock shared the Fed's survey of commercial lenders and how lenders tend to tighten credit standards after an inversion. The lenders indicated their reasoning as follows:

- Loans become less profitable when short-term rates are higher.
- Banks' risk standards get more stringent.
- An inversion may signal a less-positive economic outlook.

Does an inversion cause a recession, or does an inversion cause banks to tighten lending which in turn can create a recession? I'm not sure, but what I do know is that the yield curve inversion preceded each of the last 11 recessions, and that alone is strong evidence of a correlation that's for sure!

Recessions can be and are great opportunities for sure. The point is not to inspire panic, but to equip you with knowledge so you can focus your efforts on planning and preparation. We are making sure our clients are with portfolio managers that have done extremely well prior to, during, and after a recession. This tends to be the elite top 8% of all money managers as approximately 92% of all money managers have not beaten the S&P 500 Index over the past 10 and 15 years! The main reason is their inability to perform well just prior, during, and right after the recession. If you would like a 2nd opinion on your portfolio as it specifically relates to these important aspects and how you too can access these elite managers for extreme value-added, please let me know! The difference can be huge for those that remember 2000 and most recently 2008!

Rich Groff II, CFP is a 3rd generation Certified Financial Planner and resident of Flathead Lake with offices in Polson (across from Pure West Realty) and Peoria, AZ servicing millionaires exclusively throughout the United States since 1989. He offers a 30 minute complimentary strategy conversation in-person or via a telephone meeting. Any questions can be directed to Rich@legacyplan4u.com or call 1-888-858-4996 Ext. 119.