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Money Talks: Complacency

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Although often perceived as a negative connotation, certainly the concept of complacency has a more palatable sense when we consider life here in paradise. For those lucky enough to live in the tropics, the concept of complacency seems just fine.

The reality is that investor complacency has often been the cornerstone of money management. Even more disturbing, are the consequences for the average retired investor. (See Dow Jones 3.3 percent over the last 15 years)

It is even more difficult to digest when we consider investing in retirement is the concept of perhaps being forced to compromise one's lifestyle. Yet, at the same time, many retired investors seem to have such a myopic view that many simply sit with the same old tired, stale cookie cutter portfolios awaiting the next market move.

Regardless of how little importance many will put on the concept of money versus lifestyle, maintaining ample assets throughout retirement remains critical as these very same investors will beat the table telling anyone who will listen how conservative they are and how little appetite they have for loss. Yes, the power of complacency cannot be overstated here while most simply sit and do the same thing over and over again hoping for different results over time.

Recently, an insightful column was written touching on some concrete evidence regards the current state of complacency that consumes many investors. Many of the very same retired investors simply fail to heed the warnings. The title of the column tells the whole story; "Why investors are ignoring warnings about stocks". For regular readers of this weekly diatribe for truth, this should sound all too familiar. The column opens with quotes by some influential and respected investors who are, to many, household names. "Billionaire investor Carl Icahn says the stock market is…a mirage." It goes on to quote "…influential bond investor Jeff Gundlach says sell everything." Finally the piece goes on to quote well known and respected fixed income fund manager Bill Gross who "once ran the world's biggest bond fund…" as saying; "I don't like bonds, I don't like most stocks."

The important thing to remember here is that these individuals all have one thing in common; they made their fortunes and reputations on Wall Street. Their opinions certainly should carry significant influence for those fortunate enough to read them.

Later the column refers to the little known VIX index known as the CBOE Volatility Index. Also referred to as the "fear gauge", VIX measures how much market volatility investors expect. It goes on to state that; "…low VIX readings are often viewed as a sign of investor complacency as risk builds." The bottom line is quite simple; the average investor has fallen into a state of complacency as the markets have continued to show an inability to experience a meaningful and cleansing sell off which by now, most believe is necessary and inevitable. Retired investors, with their finite number of years remaining with which to generate meaningful gains, must embrace the warnings. Unfortunately, due to high levels of complacency, far too many investors will simply be left "holding the bag" yet again, when the stock market finally experiences the inevitable.

By now, it should come as no surprise that we are a consumption driven economy which gives way to high levels of complacency. On the heels of the Dow Jones spending the last 16 months moving in a sideways direction, the inability to experience a meaningful correction has lulled many into an even higher state of complacency.

However, there are exceptions to the complacency rule. Many retired investors have embraced the power of true diversification through the addition of managed futures. Not only have they significantly outperformed stocks, but also have shown exceptional strength in poor market conditions. The power of futures offering as much as four times more returns with four times less risk combined with the predictability of the insured index strategy which captures market gains while avoiding market losses certainly allows for the life of a SWAN, Sleep Well At Night.

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