

# Mitch on the Markets

## How Can You Capitalize on Uncertainty?



By Mitch Zacks  
Portfolio Manager

There have been some notable shortages in this economic expansion. A shortage of GDP growth, a shortage of inflation, a shortage of personal income growth, lackluster private business investment, loan growth that hasn't quite kept up with demand. Taken together, it has resulted in what we term "muddle-through" economic growth. It's growth that's acceptable, but runs a bit short on inspiration.

Taking issue with this kind of 'weaker' economic growth is more of a political stance than an investment mindset – stocks don't care if growth is slower than average. Growth is growth, and as long as corporate earnings are increasing, stocks can do just fine (and they have done just fine).

At this stage of the economic, political, and bull market cycle, however, there is one factor that there seems to be no shortage of: **uncertainty**.

### As Expectations Rise, So Do Uncertainties

The stock market rally since the election of President Trump has often been attributed to an increase in investor confidence. Stocks are rising, many argue because investors are anticipating a business-friendly administration with lower taxes and fewer regulations across the board. Throw-in infrastructure spending and a hard line on domestic production, and the expectation of accelerating economic growth and inflation seems perfectly logical.

And to be sure, there may be some truth to that line of thinking. But, it doesn't mean there is any *certainty* about how we will get there. If anything, the past few weeks have served as a reminder that government and policy-making are extraordinary complex and frustrating endeavors, and that dead-ends and disappointments come with the territory. The x-factor may be how effectively President Trump can build consensus in Congress when it comes to actual lawmaking – a factor that very much remains to be seen.

And so, with this as the current background, we start to see some of the uncertainties build. How many of the economic-oriented promises can be kept? How many distractions and/or battles will come in the way of giving the market what it's "expecting" based on campaign promises? If the reality of policy-making is far less substantial than what was promised, will the market throw a tantrum? These are all of the uncertainties investors need to watch for.

### **Be Careful Not to Let Uncertainty Give Way to Panic**

At some point in the future, uncertainty about the direction of the economy, government, and the stock market may *feel* in disarray (if it feels that way now, stay cool – the U.S. is still poised for growth and economic conditions are healthy). That 'disarray' may be accompanied by some selling in the stock market, and investors may be quick to remember the 2008 Financial Crisis. In my opinion, given all the build-up that may lead to that period, it's going to be easy to panic.

And that's where the theme of this article comes into play: *how to capitalize on uncertainty*. In Warren Buffet's annual letter to shareholders of Berkshire Hathaway, he sums it up about as good as anybody can, and his words fall into line with our philosophy here at Zacks Investment Management. His quote:

*"During scary periods, you should never forget two things: First, widespread fear is your friend as an investor, because it serves up bargain purchases.*

*Second, personal fear is your enemy. It will also be unwarranted. Investors who avoid high and unnecessary costs and simply sit for an extended period with a collection of large, conservatively-financed American businesses will almost certainly do well"*

### **Bottom Line for Investors**

As far back as any reader can scan in the volumes and volumes of works that I've published, you will be certain to find a steadfast commitment to simplicity in investing and a firm belief in the long-term value of equity investing. Investors are best served taking a long-term approach and keeping their emotions as far away from their investment decisions as possible - Build a diversified portfolio that takes great care to select stocks and asset classes in which to invest, keep close watch on it over time, and make adjustments when necessary...but then just back away and *give it time*.

As far as uncertainty is concerned, make it your friend. When everyone is running for the hills and fear permeates the marketplace, that's when investors should redouble their long-term commitment to equities.

**-Mitch**

### About Mitch Zacks

Mitch is a Portfolio Manager at Zacks Investment Management. Mitch has been featured in various business media including the Chicago Tribune and CNBC. He wrote a weekly column for the Chicago Sun-Times and has published two books on quantitative investment strategies. He has a B.A. in Economics from Yale University and an M.B.A in Analytic Finance from the University of Chicago.



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