

The Financial Crisis Changed Me Permanently

By Brian Regan

I met with the team that distributes one of the fixed income mutual funds that we use in client portfolios. We were discussing their exposure to the riskier parts of the credit markets which had increased notably. I mentioned that I was perfectly comfortable with the positioning because this is the riskiest allocation within my fixed income sleeve. They were surprised. For most of their clients, this same fund is considered one of the least risky holdings.

I found that contrast interesting. I suspect much of my competition is underestimating spread risk, but I also think it likely says much about me. It reminded me that I am relatively risk averse and I suspect that perspective is influenced by the fact that I graduated college during the Great Financial Crisis.

As a reminder, the unemployment rate during the financial crisis hit 10% just a few months before I graduated. I can say from experience that entry level hiring was near non-existent and I was *damn* lucky to get my first role. Layoffs continued to be rampant for at least the next three years of my career in financial services with wages and benefits stagnant. These types of experiences can be a formative force. I am always a little nervous. *Always*. Perhaps that is why my fixed income allocation is higher quality than my peers who tend to be about two decades older.

To read the first paragraphs you would likely think my personal investment portfolio is conservative. Most investment professionals would likely consider my portfolio *aggressive*. My portfolio is nearly 100% equity. When I log into Fidelity to view my 401k, the first message I see is a warning that I am taking too much risk.

And yet, despite being generally risk averse, I do not agree with Fidelity's take. The apparent contradiction highlights how narrowly and incorrectly risk is often defined.

1. Volatility does not equal Risk. There is a real risk of not being able to afford your future or not being prepared in case the rain really came hard. The probability of increasing my wealth over time, and thus my financial security, has been better in stocks than in cash or fixed income.
2. Volatility is still a big risk, so what I own matters. I own businesses. I do not own commodities or fairy dust like instruments known as crypto currencies. I do not own anything that would be considered speculative to people that

understand the businesses. To the degree that I want exposure to businesses I haven't gotten to know, I buy broad indices.

3. Volatility can be an advantage. I understand the businesses I own. If stock goes down a lot but the business model is solid then I am encouraged because I am given an opportunity to buy more.

Experiencing financial insecurity can push people in very different directions. For some, it leads to discipline and caution, possibly taken so far that they avoid investing entirely. For others, it creates pressure to take extreme risks because it feels like the only way. I believe that is what has driven trends like NFTs, prediction markets, same day option trading, gambling and the lottery. The people who push to being that aggressive think that the feeling of insecurity will go away with just a pinch of good luck. We know for a fact that these options do not work which deepens insecurity.

For me, the cure for that financial anxiety is saving and investing thoughtfully. My equity portfolio is not about thrill seeking. It is about maximizing the probability of positive outcomes over time. I feel great when I can add to my savings and buy equities of companies I understand. I have less financial insecurity today than I did 10 years ago and I hope that 10 years from now I will look back with a sense of calm and wonder about why that young man was always so stressed. At that time, I think I'll likely start buying some fixed income since you only need to get rich once. Until that day, I'll probably continue to work to keep my stress in check.

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