

# Planning & Investment News

WILLIAM F. ROBERTSON & ASSOCIATES

Wm . F. Robertson & Assoc.  
G. Richard Truitt\*  
1200 Summit Ave., Suite 516  
Fort Worth TX 76102  
817.870-1242  
[richard@wfrplanning.com](mailto:richard@wfrplanning.com)

[www.wfrplanning.com](http://www.wfrplanning.com)

\*Securities offered through  
GFI neos Wealth Management, Inc  
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Inc.

## THE NEW NORMAL

Mutual fund manager PIMCO maintains that a new economic reality is emerging which they label the *New Normal*. This new economy will be characterized by lower productivity, higher taxes, inflation, and a government more in the role of a participant as opposed to a regulator. PIMCO is careful to say that the *New Normal* is not the end of the world. We will adjust and get used to the new conditions. They are not predicting exactly what this new economic reality will look like, nor are they predicting when we will get there.

Another way to state PIMCO's position is that "this time is different" – a very dangerous statement. For instance, one would have missed the great investment gains of 2003-2007 if one had taken the stance that "this time is different" after 9/11 and the internet stock bubble crash and invested extremely conservatively. Common wisdom in investing is never to say "this time is different."

Yet, with much trepidation, we are taking the stance that this time is indeed different. Economic data suggests the debt in the world economy, after an almost thirty year period of increasing leverage, reached an unsustainable level in 2007-2008. We are now entering a period of "unwinding" that debt. As anyone who has personally incurred too much debt can attest, paying off the excess indebtedness is painful.

We at Robertson & Associates are being influenced by the works of William Strauss and Neil Howe, especially their book *The Fourth Turning*. These men outline approximate eighty year "generational cycles" that can be documented back seven "cycles". They maintain that generations have similar patterns and results. For instance, a generation going through an event such as the Great Depression became the heroes of World War II. It is somewhat chilling to see that WWII, the Civil War, and the Revolutionary War are approximately 80 years apart. And as chilling, the Great Depression started approximately 80 years ago.

The purpose of this article is not meant to cause doom and gloom. We do not know what tomorrow will bring nor are we attempting to be prophetic. There are smarter "experts", with more technical resources, who think everything is going to be "OK".

In the past, our investing assumptions included that stocks go up in the long run. This assumption leads us to advocate a buy and hold approach with a well diversified portfolio. And we do think stocks will go up in the long run - that capitalism will remain the engine driving economic growth. Defining the "long run" is the problem. For most of our clients, the next ten years are more important than whatever is going to happen in twenty years.

Since we have to use models to guide our investment counsel, we feel it is prudent to choose conservative ones. We do not know if the future will look like PIMCO's *New Normal*. We hope it does not. But as stated in previous articles, we would rather err on the side of safety and have a smaller allocation to equities (stocks). We ask that you let us know if you would rather be more aggressive in order that we can structure a portfolio more in line with your risk tolerances.

If indeed "this time is different" and we are heading towards a *New Normal*, then to quote Francis Schaffer, "how should we then live?" As stated, we are overweighting our investment models

towards the more conservative bond asset classes. We are concerned about the US stock market and we are concerned about inflation. We continually evaluate the potential use of other asset classes as we attempt to navigate this market.

If indeed we are in for more economic trials, our standard of living may have to decrease. We know all too well how difficult this can be. But it seems better to reduce spending voluntarily, on one's terms, as opposed to being forced by economic events. After years of budget counseling, we know there is not a "one size fits all approach" to budget planning. We stand ready to walk along side you if we can be of service.

Maybe most importantly, one's attitude or outlook is the primary concern. As stated above, PIMCO predicts we will adjust to this new reality. We wonder if we can do better than "adjust". We would guess that most of you feel called, to some degree, to have an impact (be "salt") to those around you. We would propose that we not "waste" this recession.

Warren Buffett is reported to have said "it is when the tide goes out that you see who is swimming naked." That has been painfully real to those who invested with Bernie Madoff and Allen Stanford.

In a different vein, but same concept, we have been shown things in our own lives that we wish were not there. John Piper in his sermon, "What is the Recession for?"<sup>1</sup> states:

...the recession is especially good at exposing the sin of wasting other people's money (or our own), the selfishness or greed..., and the sin of fear when everything starts coming down, and the sin of grumbling and impatience. And so on and on. What a gift the recession is in the exposure of sin.

We would suggest that this may be a time to "get our house in order." If we are wrong, we will still be in better shape spiritually and better situated financially. Learning to be content with much and with little is such a gift. My wife and I (Richard) have started to check our spirit as we see evidences of this *New Normal*. We joke about seeing the *New Normal* when we see an overflowing trash can at a city park because budget shortfalls are cutting back on services. We grieve about the *New Normal* when we see a news clip about Meals on Wheels in Plano having to cut back their service to homebound seniors from two to one meal a day.

We will get through this. We may even hopefully continue in the mild prosperity that we have so graciously experienced in the past. Together in community, though, we dream that each can in the *New Normal* live the life for which they were created.

G. Richard Truitt, Jr. CFP™

William F. Robertson CFP™

## **WE ARE GROWING**

We are excited to announce that Patrick B. Wallace, CFP™ is going to join William F. Robertson & Associates. We have known Pat for several years through our connection with Kingdom Advisors. Pat brings with him a successful practice and thus his interaction with our clients will be limited. He will be, though, another resource and support for us to better serve you. Pat is also active in his local church serving as a deacon, leading Crown Financial Ministry group studies and teaching 2<sup>nd</sup> grade Sunday school with his wife, Tracie. Prior to entering the financial services industry in 2002, Pat enjoyed a very successful career in engineering with General Dynamics and Abbott Laboratories and later in technical sales and retail marketing with Intel.

On a personal note, Pat is a private pilot and active in the local aviation community. He and Tracie recently moved from Hick's Airfield in Fort Worth and enjoy flying their RV6A on cross country trips.

Please help us welcome Pat the next time you are in the office.