

The Big Short

If you have not read the book by Michael Lewis or seen the movie, you may wish to do so sometime soon. My reason for suggesting this to readers is to help us all begin to recognize when desires for certain outcomes lead to setting up artificial means to get there. In the case of the mortgage/housing bubble, a political desire for everyone to own a home led to pressure to relax regulations regarding lending standards, getting a little more than a decade long party started. Once started, Wall Street, rating agencies and yes, we the public happily joined in. It's tough to wait for and struggle to earn what we want, but our collective approach to taking shortcuts ultimately cannot end well.

Good Intentions

Home ownership is a key foundation to financial success for any household. Wanting all Americans to have this beginning to financial freedom is truly a noble desire. One of the great privileges of being a financial planner is helping people develop the path and encourage them to take the sometimes challenging steps to achieve that success and for most of us, it is not that easy. The easy routes most often lead to bad if not disastrous results.

Warning Signs

The movie does a very good job of laying out the pieces to the puzzle and then gradually putting them in place. If you aren't put off by the movie's deserved R rating, then you can see how we ended up with a significant financial crisis eight years ago. Of particular interest to me were the indicators some people saw clearly. Signs that in hindsight seem obvious, but at the time very few people wanted to heed.

Turning The Titanic

"In extremis" is an interesting condition, what you might describe as an "Oh No!" moment, when you know something bad is about to happen, but you are powerless to do anything about it. One of my favorite take aways from "The Big Short" is that the managers who bet against the mortgage market were absolutely right, but agonized as it took approximately two years for the markets and the "powers that be" to catch up with the reality of what was happening.

This Can't Last

Many people made this comment in the years leading up to 2008 as they watched housing prices double. With the benefit of hindsight it is pretty easy to agree with them. The question I have for you is: What might be going on today that does not add up and cannot last forever? There are a few things out there. Structures put in place that create artificial outcomes

that, while perhaps desirable, are ones that can't last. The really hard thing is figuring out when and how they might break down.

Something Has to Give?

Lots of economic activity around the world is being propped up by ever increasing debt and interest rates that are not only low, but in some cases actually negative. If you, as the people in *The Big Short* did, dug in and investigated the credit worthiness of the governments and institutions borrowing the money, you might not want them owing you money. Only when enough people come to that realization do things give and the timing of that only the future knows.

Where To From Here?

By all indications, individuals are gradually increasing their cash reserves. It would seem that preservation is becoming more important than earning a return, as cash earns almost nothing these days. Historically high levels of cash is a very bullish signal for stocks and other riskier assets, still there seems to be good reason for caution moving forward. My discussions with folks lately have generally led to taking a more conservative investment stance.

Bottom Line

A wonderful margarine commercial from the 70's used the tag line: "It's not nice to fool Mother Nature!" *The Big Short* was set up by trying to get to desired results by artificial rather than natural means. There are other examples of similar processes at work today. While it may be early to make the call, my sense is that some additional caution may prove worthwhile going forward. If you'd like to discuss anything in specific, please do give me a call. I have some additional resources to recommend.

Your Feedback

I would love feedback on this newsletter. Future issues may include a host of good ideas, insights, specific steps to take financially, life insights and of course "Wit and Wisdom". Most importantly, I'd like it to be of value to you and to encourage an exchange of great ideas and insights. Please send your feedback to:

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