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"THIS TIME
It's (probably not) Different"

FOUR LITTLE WORDS, but oh how much they tell us about financial markets and investors.

Those words could be spoken or written anytime. For every moment is, after all, in some way, different from the moment before. But usually the words are heard in the later stages of unusually long periods of bullish euphoria or bearish gloom. For it is at just such a time, when everybody—including those who should know better—are certain that, "*This time* (now, fill in the blank with attention-grabbing headlines like "breakthrough technologies" or "radically different tax policies") *EVERYTHING's different!!*"

At just such moments, it may seem that all nagging, past, irresolvable problems are now fixed, *or*—if things are gloomy—that all hope is now irretrievably lost.

Which ever, the words "this time it's different" do equally well, whatever the extreme of investor sentiment.

And no matter how long the laws of nature or economics have been in operation, once we hear or see those four little words marking the long-awaited arrival of the Age of Aquarius—or the Apocalypse—RUN FOR YOUR LIFE!

When you hear those four little words, be very, very wary. In other words, if the words come amid giddy euphoria, it's probably time to sell whatever financial investment is causing the euphoria. And, if on the contrary, "this time it's different" is heard at a time of unsearchable dread, you might want to buy some of whatever is the source of everyone's depression.

This is my first caution in a book about saving for retirement. Be wary of the euphoria OR the dread that says now is the time to invest big-time, or now is the time to bail.

You think I'm kidding? I'm not. Let me give you some valuable history.

"This time it's different" was heard often back in 1999 and into early 2000. You may recall, back then, the US stock market, along with stock markets of most of the rest of the world, had been rising for almost two decades. Phenomenal! There seemed to be no end in sight to the opportunities to be had or the money to be made. Some investors in hot markets were using stocks for checking accounts. Plumbers and auto repair people were reportedly giving up their day jobs and becoming day traders.

Commentators at many major news outlets uttered such nonsense as, "This time is different because the dot-com and technology companies of the 'New Economy' don't need money in the ways 'Old Economy' companies did." No way! For "everybody knew" that the "New Economy" (that meant companies like eToys.com and Webvan.com and Boo.com—which, by the way, are not around anymore) didn't need to borrow money, since their own stock was like money. And they could whip more stock out of their corporate wallets to buy other companies anytime they wanted to. And "everybody knew" that, "this time," it would be different. Forever!

Yet—funny thing—by the spring of 2000, New Economy companies were failing. Badly! And it wasn't just their stock prices. No, hundreds of these New Economy companies just plain went out of business. A full 100 percent gone.

Kaput!

But the best of times are not the only times we hear, "This time it's different." Bad times, too—in fact, very, very bad times—work just as well, if not better, to stimulate such craziness. The late 1960s, for instance, and all of the 1970s, were pretty dismal times for investors. Inflation roared. An endless war in southeast Asia seemed increasingly futile and nationally divisive. College students took to the streets and, as well, took over some colleges. An American president resigned in disgrace. Stocks fell and went nowhere for about 18 years.

By August of 1979, a now famous (or maybe infamous) *Business Week* cover screamed "The Death of Equities!" Inside, the story tried to prove once and for all why equities (stocks, that is) were just plain too risky for sensible people to own. Which, come to think about it, is really too bad for any who read the story and took it seriously; for, within three years, the greatest bull market ever in stocks was in powerful motion. And that bull market—which "The Death of Equities" article claimed was impossible—happened and ran for the next 18 years, delivering returns of over 19% a year.

In 2002, another very gloomy time, "This time it's different" was back again. After the huge bull market run from 1982 to the spring of 2000, stocks fell back to earth, correcting about 50% over the next two-and-a-half years. Jay Leno, funny man that he is, was nightly making jokes about stocks and their owners because "this time it's different." Now, Jay Leno is no Hall of Fame investment guru or even an economic heavyweight, but millions of people listen to him. And his monologues reflect the news and sentiments of the day, the hopes and fears of his audience.

Unfortunately again, at the exact moment that Leno was so snarkily panning stocks in the fall of 2002, the next great period to own stocks was being served up. But only the disciplined and the brave were paying attention.

Make no mistake, I am not asking you to become a market timer; that is, someone who tries to find those inflection points where investors can buy at the bottom and sell at the top. No one can do that! And you will never be always right. But I am saying, and want you to realize, that investor sentiment goes up and down like hemlines and fog. And since it does, distrust conventional wisdom that seems able to call tops and bottoms to markets. We all love certainty. But in the investment world, little can be guaranteed. As Warren Buffet, one of the greatest investors of all time said, amidst the deepening darkness of October 2008, "Be fearful when others are greedy, and be greedy when others are fearful."

Now, please understand, I'm not promoting either fear or greed as you begin (or continue) to save for retirement, but we are all subject to these emotions, what behavioral economists call "animal spirits." These are strong, distorting emotions that drive our thought and behavior. These two opposing forces—fear and greed—drive investment markets and investor behavior, too. When either fear or greed is getting a strong upper hand, we're going to hear, "This time it's different." And when you hear those words, try *not* to drink in the Kool-Aid of that conventional wisdom. Because this time—like all the other times—it's probably not different. It's just those ol' "animal spirits" doing their mischief.

This is such an important point for us all to understand: We are not always and only rational beings. We are also very emotional creatures in so much of our lives. And investing for our retirement, much like love, can bring out the best and the worst in us. What may seem like it will never end—because our emotions "feel" that way—eventually does end.

If you're going to be a good investor, learn this. You can't give up hope when things look hopeless. Because things will change. And when things begin to look unbelievably good, get ready! They will change again.

How much must Americans have thought, near the end of the American Civil War, that—in the North or especially in the South—"this time it's different; we're never going to recover." The same could have been said in the 1940s, when America was fighting two horrific wars simultaneously in Europe and the Far East and, to pay for those wars, America ran up debts that exceeded the gross national product. Scary stuff! Things seemed grim whether we won or lost.

And it was even worse in Germany and Japan. How much must their defeats have shattered their peoples' hopes in a possible, let alone an inviting, tomorrow? For in those two lands, and in much of Europe and Asia as well, total war had annihilated cities, destroyed entire economies, killed and displaced millions of people, and left the land in ruins. Yet, within a few years, those countries and their economies were on their feet again, growing, providing jobs, building homes, and creating investment opportunities that, today, make many formerly shattered countries major players on the world economic stage.

Yes, to some degree, America coming out of the Civil War, or coming out of The Great Depression, or fighting and paying for World War II "this time" *was* different; somewhat worse than past upheavals. So, too, for Germany and Japan in 1945. After all, two nuclear bombs had been dropped on major Japanese cities. But over the slightly longer term, the devastation that caused so many to think, "It's all over this time" or that "all hope is gone," simply wasn't true.

For in the end, the resilience, the adaptability, and the hopefulness of sorely tried people proved too strong to keep the nation down forever.

Saving for your retirement is a marathon. It spans, if we do it right, from our early twenties until our retirement, say, at about 65. Then, it carries on until we die. Actuaries tell us that, in America, men live to about 79, women to about 82, on average.

That's a long, long time, a lot of years! As investors or just as people who have to save for our retirement, we have to be smart and prudent. We have to use imperfect savings vehicles that can and will fail us at times—or at least tease our better judgment sometimes. After a very bad year, we may conclude that, from now on, this is the "new normal." Markets are going to underperform miserably forever. Putting money under a mattress may seem advisable.

Conversely, when the good times come back—and they will—and only get better and better for a while, watch out! They won't last, either.

We will always have to make decisions with less than perfect knowledge. We never know enough. The future will never be as clear as we want it to be. We'll never know whether the good or bad times we're living through are life changing or a bump in the road. Is what's happening the dawn of a new economic law or a cyclical hiccup?

Amazingly, for thirty years, leading up to 2009, US Treasury bonds have given investors a greater return than stocks. This should not have happened. But it has. Should you and I as retirement investors now sell out all our equity-oriented investments and move our money into Treasury bonds? I sure hope not. For I fear that would be an awful mistake. Unique events over the past thirty years, not least of which was the roaring inflation of the 1970s and the success we had in stopping that inflation in the 1980s, enabled Treasuries to be the wildly successful investment they became. However, Treasuries have now had their great run and will, for a while at least, be less than the star they were.

What is likely to happen next? I don't know for sure. But in the two of three times in history when bonds outperformed stocks for long periods of time, stocks came back and, in their comeback, delivered higher-than-normal returns for years to come.

Are we at such a point again?

No one knows for sure. But no investment asset continues to outperform forever.

Or, for that matter, underperform forever.

But no one rings a bell telling us when the party is over.

Or when the bombs will finally stop falling.

Hence, invest early, invest consistently through all kinds of investment weather, own a broadly-diversified portfolio of equity-oriented investments, mixed with some bonds and maybe some commodities.

And resist the temptation to believe that "This time it's different."