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Is Risk Amnesia Setting In?

The U.S. stock market has enjoyed eight years of steady gains with the S&P 500 increasing over 300%. While there are rumblings about overvalued stocks, by and large investors expect the good times to continue through the foreseeable future.

Which raises the question, "Is risk amnesia setting in?"

Risk amnesia happens when investors forget the pain of bear markets and begin to think that this time is different, that the Trump bump will last, and that investors have gotten at least a little smarter since the last major market drop. The danger of risk amnesia is not that expectations will prove false, but that investors will overreact in panic when the eventual downturn does occur.



One of baseball's great players, Satchel Paige, was quoted saying "Don't look back. Something might be gaining on you." When it comes to investing, stopping to take a look back for a reality check makes good sense. Amnesia is a very poor risk management approach. All investments have risk. Accepting that risk gives us the ability to put measures in place that strive to limit losses and profit from downturns.

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