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30-Years Ago: Remembering the Market Crash of '87

October 19, 2017, will mark the anniversary of the Market Crash of 1987, otherwise known as "Black Monday." The Dow Jones Industrial Average plummeted 508 points or 22.61% — in one day! The market had already dropped 12% from the high in August of that year.

Everyone in the financial industry can remember where we were on that day. I was a rookie "stockbroker" in the training program at Merrill Lynch. I had my own spacious 5'x5' cubicle set in among several other cubicles. I had been there less than a year, and I was working hard to establish myself by cold-calling for new clients (Yes, it worked, but it wasn't easy). My wife and I had a newborn and were barely scraping by on the meager salary the firm paid me. But, like many people in their mid-twenties, I was highly motivated, persistent, overly confident, but naive. Plus, having a family and owning a home, I had to make this work.

Since I didn't have many clients, that day's events really didn't impact me that much. I sat in my cubicle and just watched it unfold around me. (Special Note: Thank you to all those brave people who took a chance on me back then. You know who you are!) The experienced advisors and all of the support staff were "losing it." It was a panic. They tried frantically to put in orders, but there was no way to tell if they were being executed. This was at a time when all orders were hand-written on three-layer tickets. Orders and confirmation of orders were done by wiring to the exchanges. No one knew what was going on. There were no televisions or internet for news. We watched the decline on a "Quotron" monitor that was shared with six other trainees. There was a lot of shock, upset, and frustration. The order room was one-foot deep in paper. The market may have officially closed at 1:00 p.m. PST, but no one went home until late into the evening.

It is a day I will never forget. Even though I survived the day relatively well, it was the weeks and months after that were painful. The crash negatively impacted both investors and financial companies. Investors were so thunderstruck that they lost confidence in investing in the stock market. No one wanted to receive a call from a no-name, rookie stockbroker in the middle of their dinner. They preferred the safety of deposit accounts and CD from banks, S&Ls, and credit unions. Remember, yields were very high at that time. Not only was I unable to open up new client relationships, my company, who agreed to pay a salary plus bonus for the first two years, decided to eliminate training salaries and make us 100% commission. 100% of nothing is nothing! In addition, my wife had quit work at the beginning of October because we didn't like leaving our newborn with a babysitter. A week after the crash, we found out that she was pregnant with number two! Did I mention that I was overly confident and naive? That year, I made less than $30,000 gross. After taxes and our house payment of $1,100, there wasn't a lot leftover for a family of three and a half. Bottom-line: WE WERE POOR!

Interestingly enough, I remember one of my mentors talking to me the next day. He said, "One day, you will be glad that this happened early in your career. You will learn a lot from this." I gave him a side-glare. What could this old guy in his fifties know? Well, he was right. What my wife and I experienced over those couple of years left a permanent impression on our lives — for the better.

Life's Lessons Learned Well

Now that thirty years have passed, I can see how that event and subsequent experiences have shaped me into the man I am today. This, in turn, has made me a better advisor. Here are a few things I learned out of this experience.

We are entitled to nothing. When I became a new broker, I thought I was a "hop, skip, and a jump" away from a six-figure income and a house near the beach. I wanted it to come easy, but the world told me, "No, sorry buddy, but you will have to wait." It took about ten years before my wife and I finally had extra money in our bank account at the end of the month. From this, I learned gratitude and contentment. When were able to afford such things as a new car or to add on to our house, we appreciated it so much more than if it came easily. One of my favorite sayings continues to be "Entitled to nothing, grateful for all."

Continued on back ...

Life's Lessons Learned Well *(continued)*

Old people are smart. I graduated from Cal State Long Beach with a degree in Finance and got hired within a couple of months by a big firm who put me through a rigorous training program. I knew it all. My degree and my business card told me so. I was ready to take on the world. What I didn't know was that there is a big difference between academic knowledge versus real life experience. My youthful hubris kept me from being open to some sage advice when it was offered. I am sure I missed out on some good opportunities because I was too focused on feeding my own ego. Now, I try not to take myself too seriously, and I am always open to listen to my elders. As I have gotten older, I find myself more interested in biographies and history more than fiction. I also now like dried apricots. When did that happen?

Positive is better than negative. Tough times are inevitable. Not only are they inevitable, they are normal. Not only are they normal, there are opportunities in the middle of difficult periods. Once I accepted this as a given, I spent less emotional capital on things over which I had little to no control. I actually think it's easier to be negative. Being positive takes intention. I learned to be positive from Sir John Templeton, who was a famous mutual fund manager well into his nineties. During the Crash of '87, I remember him on the Louis Ruykeyser show (remember that one!). When most pundits were trying to figure out what happened, he was the first one to say, "The United States is the greatest country in the world to own businesses, and that hasn't changed. I will always be willing to buy shares from investors who are willing to sell them to me at lower prices." He played that same record during every major downturn, even after the internet bubble burst. I have also learned the importance of surrounding myself with optimists and limiting my exposure to pessimists. Both are contagious.

Progress not perfection. I doubt that I will ever have washboard abs, and I haven't owned a comb for over 25 years. But that doesn't mean I don't go to the gym to maintain a good level of fitness, and it doesn't mean that I can't rock the bald look — which I do! During the market crash, even investors who diversified properly and had an appropriate asset allocation got hurt by the downturn. In other words, even if you did everything right, you still felt the pain. Perfection is unattainable, but progress is always possible. Going for progress gets one focused on those things over which you can control. In our practice's Successful Investor Mindset philosophy, the two main tenets of "logic over emotion" and "structure over prediction" came out of this point of view. With the market, you will never get out at the top and buy at the bottom. However, you can fine-tune your allocation, you can continue to contribute to your retirement accounts, you can add to your current positions, and you can also not over-use consumer credit.

People matter most and time compresses. You will hear us say often, "Life is about relationships and experiences." The market has always done its thing, and it will continue to do so. But you can't get time back. This has hit home for me over the past couple of years as my parents and kids have gotten older. I am acknowledging that they won't be around forever, and with regard to my kids, I now get just a sliver of their lives. At the end of the day, we won't be asking, "What'd the Dow Jones do today?" We will be asking for our loved ones, and we will reminisce about our memories spent together. I cannot believe I have been a financial advisor for over thirty years. I also can't believe that I have been married for over thirty years and that one of my kids is in his thirties. It happened so fast, and I also feel that time seems to go even faster. Don't wait to tick things off your bucket list, and do spend time with the people that mean the most to you.

Looking back over the thirty years since the crash, I can actually agree with the man that told me I'd be glad that the market crashed so early in my career. That big slab of "humble pie" taught me to appreciate what I have and how much more I had to grow. I have learned to embrace life's trials and tribulations. I try to use them as opportunities to become a better person or as a chance to serve others. I know these insights have made me a better financial advisor.

Noah's Corner

Past Versus Future

Approximately 90% of adults believe that they are above- average drivers, which in a sense, disproves itself. If everybody is above average, then doesn't the standard of average change? A similar study, entitled "Behaving Badly," was done on professional fund managers in 2006 by researcher James Montier. Of the 300 surveyed, 74% of them believed they had delivered above-average job performance. In addition, the authors of a study called "Positive Illusions and Forecasting Errors in Mutual Fund Investment Decisions" found that most participants had consistently overestimated the past performance of their investments. More than a third overestimated by at least 5%, and more than a quarter of the participants overestimated their performance by at least 15%!

In financial planning and investing, it is important to keep focused on the future and not the past. The past can give us great insight, but it can also be misleading. In addition, our recollection of the past can be affected by emotion or a lack of understanding. This can lead to overconfidence and biased decision-making.

We frequently see this in our practice and in the real world. Overconfident investors tend to have portfolios with high turnover, concentrated stock positions lacking diversification, and poor performance results (Boys Will Be Boys: Gender, Overconfidence, and Common Stock Investment, Quarterly Journal of Economics 2000).

How else do we see focusing on the past hurt portfolios? Chasing return. Throughout our careers, Robert and I have heard about great stocks and funds in which our clients want to invest. Sometimes there is a perception issue, meaning the stock or fund hasn't actually performed as the client perceived it to perform. The other issue is that maintaining high performance numbers over a long period of time with consistency is incredibly difficult and quite rare. Whatever the issue, studies have shown that periods of outperformance are often followed by periods of underperformance.

Nevertheless, studying the past can give us a great advantage. We can see how specific asset classes reacted to certain market conditions. We can estimate the volatility and long-term returns of financial markets. But we cannot use the past to predict the future. When making investment decisions, we encourage people to look the probabilities of the future as opposed to the perceptions of the past. The past is full of important information, but we dhould use it to inform our decisions and notdefine them.

Source: http://www.investopedia.com/university/behavioral_finance/behavioral9.asp

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