Managing in **Uncharted Territory**

In the last My2Cents, I discussed how we are a nation in *Uncharted Territory* primarily due to the Federal Reserve printing over $1 trillion in new money each year and purchasing various investment assets. This printing program, known as Quantitative Easing (or QE), has been designed to keep interest rates artificially low until our economy gains strength and new jobs are created.

Also in the last My2Cents I said “let’s all hope Fed Chairman Bernanke has a steady poker hand and can pull this off.” In June, he announced that the Federal Reserve would begin “tapering” the QE program. The results? Interest rates spiked up and bonds dropped in value and stocks also tanked. It took Bernanke further announcing that QE would be lasting well into our future to finally bring some calm to the markets.

So what should our Investment Management Strategy be in this Unchartered Territory? A time when investments become extremely volatile with the slightest hint that the Fed’s artificial stimulus will be taken away? In this environment I believe you must have a system for managing risk. After all, who wants to go through another 2007-2008 again?

Last year I recognized that changes were coming in the economy and the Federal Reserve’s policies that would bring volatility to the financial markets. I researched and eventually purchased a sophisticated computer-based system to assist in managing risk. This system uses a number of different measurement tools to boil down every investment movement and provides me with one of two simple measurements:

- An investment has positive momentum and is indicated as safe to purchase or own.
- An investment has negative momentum and should be sold to limit the risk of loss.

While no program is perfect, this risk management system has been proving itself over and over again as accurate. On most occasions when it is not right, it is more my misunderstanding what the trend is showing rather than the system getting it wrong. Recently I read the system to be warning of the distinct possibility of a major downward movement in stocks, and as a result I sold a number of equity type investments in client accounts. After further discussion and review with the system designers, I realized the system is in fact calling for a major downward move in stocks, but only after we have reached several major milestone highs. And that could take from 2 weeks to one year.
The best part of our risk management system is that it gives me the entire history of buy/sell decisions on any investment and even gives itself a grade. Not many systems are willing to submit themselves to that level of scrutiny.

Managing in *Uncharted Territory* means using every tool necessary to keep another 2007-2008 from occurring. It is our way of managing risk until we get a clear picture of what our nation’s economy and financial markets will look like without artificial stimulus. And while it can’t help me read Bernanke’s poker hand, it hopefully will keep us from getting run over by the Fed’s QE bus!

As always, I welcome your 2 cents. Thank you for your continued business and please feel free to pass this along to anyone who you feel could benefit from our services.