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TOUCHSTONES

INVESTMENT CONSULTING • FIDUCIARY AND SRI COUNSEL • VIAGEM FOUNDATION PROGRAM

"Things are different this time."

This newsletter, for faith and mission-based organizations, presents pertinent information relating to our work, industry best practices, and real life experiences.

Have you heard that before? In reference to the financial markets, one hears it periodically, mostly when stock prices, or other prices, are going up excessively and when people are speculating as to why.

In the late 1990's during the "dot.com" era, it was the "New Economy", business fundamentals didn't matter anymore, at least according to the media covering the tech industry, or investors who entered the market after seeing stock prices continue to escalate. We know how that turned out, the economy was not so new, and a fundamentals approach was back in vogue after the "dot.bomb" crisis hit earlier this decade.

More recently, other speculative behavior has come back to bite investors, borrowers, and consumers. There are many people pointing fingers at each other about who caused the sub-prime and credit crises. Again, lenders and investors thought that **"things were different this time"**, that real estate prices would continue to rise, and the Fed would keep interest rates low, and everything would be alright. As more money was lent and invested based on precarious assumptions (in part due to lack of transparency and lax business practices), the bets that created the bubble inevitably came apart as conditions changed and people realized (or were reminded of) the need for fundamental risk management and proper disclosure.

Now, there are some people saying that **"things are different this time"** with regard to the economic slow down, and therefore we are going to experience a long-term downward economic trend. Of course, this is possible given the number of serious problems that became visible to the broader marketplace this past year and thus resulted in the current, tentative financial climate. But **are things really that different this time?**

Of course it will take time before we know the longer-term impact of the current financial issues. They will get resolved in time, some corrections will be made, and lessons will be learned.

Unfortunately, there seems to be a tendency for people to have short-term memories when it comes to the lessons learned from bubbles, crises, and speculations. Thus, there is a tendency to collectively repeat mistakes that have previously been made, in one form or another.

However, if some of the lessons learned from these situations and some general best practices described below are applied consistently over time, than "**maybe things will be different next time".**

- Know why you are investing – keep the big picture in mind
- Have set criteria and evaluate investments based on knowledge and reliable information
- Try to maintain an appropriate long-term perspective when your diversified portfolio experiences short-term volatility
- Try to avoid making decisions based on emotional factors such as: optimism, pessimism, greed, fear, and overconfidence
- Try to avoid making decisions based on inaccurate perceptions of past experiences
- Don't ignore negative (or conflicting) information, and ask the hard questions to gain understanding
- Be open-minded to ways of thinking that do not support your self-talk and biases
- Know and apply your fiduciary responsibilities
- Objectively measure and monitor key elements of your investment portfolio and process
- Encourage a culture of strong ethical behavior and integrity with continual attention, care, and communication throughout the organization
- Expect leadership to set a good example, keep promises and commitments, and support others who do the same.

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