

Why are the words “This time it’s different” called the “four most expensive” in the English language?

BY NICHOLAS H. STONNINGTON



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ne of the most quoted, and often misinterpreted, axioms about investing comes from Sir John Marks Templeton, an immensely influential 20th century American-born British stock investor, who said:

“The four most expensive words in the English language are, ‘This time it’s different.’”

Investors thought the recent stock market rout signaled a recession. Some worried that fear of a recession could even cause a recession. Recessions are part of the economic cycle. While a stock market rout does create an opportunity to rebalance a disciplined investment strategy, it is not a reason to suddenly panic and sell stocks or run to gold and Treasury bonds. Stocks do

tend to move in anticipation of changes in GDP, so you would think that if there is going to be a recession, you should get out of stocks. Yet stocks have appreciated at a 9 percent compounded rate throughout recorded stock market history, which includes many recessions.

The question is, how does the 21st century investor interpret and put the words of the pioneer of the mutual fund to good use? Let’s examine the words “time” and “different.”

The late 1980s and the 1990s were a

fail. For some reason, housing caught fire and started minting millionaires faster than you could say “subprime mortgage.” Then it collapsed, taking with it the fortunes of those who, keeping pace with the “times,” had switched most of their investments into housing.

When investors become convinced a “time” is so different that long-standing investment principles—such as discipline and diversification—no longer apply, the result can be very expensive.

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Today, Sir John Templeton’s axiom has taken on a reverse meaning, but the result is no less expensive.

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“time” investors considered “different.” That difference could be summed up in four letters: t-e-c-h. Inventions no one could even have imagined a decade earlier created a means for global communication that we could carry in our pockets. This phenomenon was so different it even had its own version of a stock exchange called Nasdaq. Investors poured their money into this void. Then it collapsed, taking with it the fortunes of those who changed their portfolios to reflect the “times” by switching most of their investments into tech stocks only to see the Nasdaq drop 75 percent.

Fast forward to the early 2000s, another “time” when what was “different” could be summed up in seven letters: h-o-u-s-i-n-g, the Rock of Gibraltar of the U.S. economy, the tortoise of investing that could never

The point? Things change; different forces are at work in any given time. For example, a current worry for some is a lack of liquidity in the marketplace. This, combined with the absence of corporate buybacks and heavy selling by sovereign wealth funds, may have contributed to the poor market performance in early 2016. While illiquidity may be causing price fluctuations, ultimately the market will adjust and implement the right pricing.

“Different” inventions and reinventions may create bubbles that burst. While recessions come and hopefully go, the underpinnings of the market, while shaken, will remain in place. As should your investments—assuming they were well researched and chosen for being solid businesses with reliable management. Because those businesses, when faced with market volatility, will not only make necessary adjustments, but will also stay the course. As should you. ●

ABOUT US

NICHOLAS H. STONNINGTON HAS BEEN A WEALTH ADVISOR SINCE 1983.

He founded Stonnington Group in 2004 to better serve clients by offering them a platform for independent fiduciary advice. The Stonnington Group team manages client investments and advises on their businesses. Mr. Stonnington was ranked No. 1 in Los Angeles on *Registered Rep* magazine’s 2002 list of America’s Best Wealth Advisors. He is a sought after investment expert and has served as a frequent guest commentator on KFWB News 98 (Los Angeles). His expert commentary has been featured in such publications as the *Wall Street Journal*, the *Los Angeles Times*, the *New York Times*, *Investment News* and *Investment Advisor*. His research has been published in the *Family Wealth Report* and he has written articles on investing for numerous industry journals. Mr. Stonnington has presented at industry conferences, including the Milken Global Conference, on topics related to philanthropy and socially responsible investing. ●

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