[< Back to The Advisor Institute]

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Are Investors Too Bullish on Bearishness?

By: David Richman | May 23, 2022

Understandably, client conversations are challenging these days. Seemingly even more problematic are prospecting calls mired down with this objection: "Just not comfortable investing in the market right now."

Consider harnessing the power of ism and thesis articulation in the weeks ahead. A reminder on ism and thesis articulation best practices:

- Isms should be timeless, pithy, soundbites that connect the dots to the advice you are delivering to your clients.
- Thesis articulation only deviates on the first attribute—it should be timely rather than timeless.

"Be a time traveler" is one of our favorite isms from Eddie Perkin, chief investment officer, equity at Eaton Vance. This ism expresses the importance Eddie places on looking beyond the noise of a particular moment as one attempts to anticipate future financial headlines.

Isms can readily bring you to timely theses on what everyone is buzzing about. For example, last year, we asked Eddie to step into his time machine regarding financial headlines for the latter part of 2021. He gave us this prophetic thesis: "Inflation will be the headline story."

Since inflation is now, in fact, the headline story, we asked him to step into his time machine once again for his current thesis.

> **"Today's one-way narrative on inflation and rates will change."**
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> "It is worth thinking through scenarios where the narrative—inflation has become a problem—might be derailed. Suppose inflation turns out to be transitory after all. The consumer price index (CPI) reading of 8.5% could end up being at or near a peak. What if something happens to bring more oil supply onto the market? Or some sort of truce in Ukraine that relaxes sanctions on Russia?"
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> "Let's also assume the pandemic continues to evolve into being endemic, allowing the global supply chain to right itself in the coming months. Moreover, suppose that the Treasury market concludes that the year-to-date doubling of long-term interest rates is sufficient. With falling oil prices and supply chain relief, the Fed may not need to be so hawkish, and long rates could partially reverse back toward 2.0%."
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> "Now is one of those rare times when those of us who are contrarians get to play the role of bull. Sentiment is poor, defensives are expensive and, eventually, the one-way narrative on inflation and rates will change. Perhaps we are already starting to see the narrative shift. Consumer demand for discretionary goods has softened and retailers built up

too much inventory which will likely need to be marked down. We believe it may be time to add risk to equity portfolios."

Bottom line: Step into your own time machine. Help current and prospective clients turn down the noise to weather current volatility.

All investing involves risk including the risk of loss.

At the Advisor Institute, our goal is not to shape your opinion or provide investment advice, rather to share this viewpoint as an example of what we believe to be a superb display of ism and thesis articulation.

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