

## **Fear Not the Black Hole**

Your money is not going there. Friday the 13<sup>th</sup>, May 13, 2022 the Wall Street Journal front page shows a bright picture of the second Black Hole ever discovered. It is a scientific milestone. Just 50 years ago in 1971, Cygnus X-1 was discovered. Today we rediscover an amazing law of science.

My layperson explanation is that the force and density of gravity of a Black Hole is so powerful that a sucked in particle is stretched to infinity as it enters. Black Holes spark our imagination and help create works of science fiction about time travel.

When it comes to investments, our imagination also extrapolates, helping us envision wonderful or horrible, permanent and everlasting outcomes. Metaphorically, this Black Hole thinking can occur during a difficult investment period known as a bear market. We are in one now and we do not know how long it will last. We imagine this bear market as a Black Hole, where our money goes in, never to be seen again. Your investment capital, however, if properly diversified and allocated, is not going into a Black Hole. Not now. Not ever. Stop imagining. Only you are subject to the law of imagination.

Psychologists warn us of works of fiction in our own minds. One example is “recency bias” that favors recent events over historic ones, giving greater importance to the most recent. Think of the morning news on television or your iPhone. It reports what just happened, not what will happen. And, it must report it in a way to get your attention (click bait) since it is paid for by advertising (a law of marketing).

After a difficult three-year period in 1996, I wrote an article to clients called “The Laws of Economics.” At that time, it was a statistical reference to “regression to the mean.” In layperson term it means, “Things have a way of averaging out.” The message at the time was that the financial market needed to get better just to “average out.” The last 5 years have been above average for investors. The 0% interest rates needed to restart our economy after COVID helped invoke TINA thinking (there is no alternative- to stocks). This boosted investment returns. Could we be simply experiencing this simple law of investing? My view, this is no Black Hole, no permanent outcome, just a season in economics.

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You may have heard the quote, “There is a season for all things”. To me, we are entering the next season of economic life, to be followed by a new season; supply and demand as taught in Econ 101. Awareness of other “laws” help replace “Black Hole” imagination.

- Accounting (match assets with liabilities).
- Capitalism (Adam Smith’s invisible hand).
- Psychology (recency bias, anchoring, valuing loss greater than gain).
- Economics (the study of how math, money, psychology all work together).

A Black Hole is something to be truly admired, studied, and even used to spark the imagination of possibilities. However, your money is not going there.

Forever your philosophical economics student and always willing to be wrong,

Sincerely,

Chris Davis  
Managing Director - Investments