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Strategy for the Fiscal Cliff: Bring it!

No time in recent history, certainly not in the 23 years that I've been directing investment assets on behalf of clients, have we seen the intersection of economics and politics so loudly and absurdly pronounced. ***Either we go over the cliff or we don't.*** Granted, the effects of the cliff will be accrued over twelve months' time. Also granted, a deal can be reached early in 2013 and be made retroactive to the first of the year. Heck, by the time you read this, we could actually have a deal on the whole darned thing. Maybe politicians are just trying to look like they are playing hardball to please their respective voter bases. If so, they can at least look like they gave negotiations their best shot so that compromise isn't misconstrued as weakness.

Maybe we just go over the cliff and after a few months the damage causes a recession, only this time with **a Federal Reserve** that is nearly out of bullets and on the edge of creativity and insanity (VIDEO: FED Strategy...
http://www.youtube.com/watch?v=AiL2Adjqqnc&feature=share&list=UUrBVn28CBfKRsJYK3VO-dIg); depending on your own personal viewpoint, of course.

Recessions and bear markets are usually difficult to predict because no one rings a bell to warn you. Or at least, the warning doesn't sink in. So many pundits have been wrong about major market turns in the past that it makes it hard to take them seriously anyway. But this cliff thing is right in front of us; it is a real and specific date on the calendar. You can't miss it. Dire is not my intent, but rather to let you know how seriously I take it, as I am sure you do as well.

But preparing for the worst and hoping for the best doesn't cut it in this situation. That would be to sell every investment in one's portfolio and hope that the fiscal cliff is averted. To do so would create a different cliff; heaving your investments over a "fear" cliff; one that I believe would have much worse and much longer lasting consequences than the other cliff. After all, the fiscal cliff may never even happen. Let's look at a different strategy. **From the time when Charles Dow and Edward Jones created the venerable Dow Jones Industrial Average back in May 26, 1896, companies that grew their earnings and/or dividend payout ahead of the prevailing inflation rate have been rewarded with higher stock prices.** I wouldn't bet against this trend from continuing. **Those companies, those business disruptors that embrace creative destruction, are all around us.** The share prices of these companies most assuredly will take a hit if the general stock market retreats in the event of a fiscal cliff dive. These companies are often industry leaders and their stock prices are often deemed as too expensive to purchase. If these stocks take a hit, I want to have buy-limit orders in place now to take advantage of the potential short term share price retreat. The actual stocks I have chosen and related limit prices are shared with clients only.

Just take a look at the action in individual stock trading to get an idea of how the "fear" cliff is turning rational investing into irrational. The biggest losers are all of a sudden rising because investors are putting off tax loss selling until next year, while the biggest winners this year are in retreat; both due to expected higher capital gains and dividend tax rates beginning next year**. It is important to remember that adding to high quality on dips and selling low quality on rips is what investors should be doing.** I expect that this piece of investment advice to come back into vogue once we get past absorbing the potential new tax situation. But between now and then, investors can use this strategy loosely described here to potentially benefit from the fear and loathing of the fiscal cliff.

In my experience, investment strategy and process are just as important as individual stock picking. Deal or no deal on the cliff, I plan on turning adversity into opportunity by giving my clients the opportunity to bargain hunt for the market leaders, which typically lead the ensuing recovery once the adversity passes.

(For more information on how to become a client or to learn more about ClientFirst Strategy, Inc., please visit www.ClientFirstStrategy.com.)