"Why Things Sometimes Work Until They Don't"

By Tommy Williams, CFP®

Is it a sugar rush or something more sustainable? Economic growth in the United States was strong during the second quarter. Gross domestic product (GDP), which is the value of all goods and services produced in the United States, grew by 4.1 percent. That's the fastest growth in four years, reported the BBC.

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The news was received with varying levels of enthusiasm. President Trump said the gain is "an economic turnaround of historic importance" and thinks the economy should continue to grow rapidly, reported Shawn Donnan in Financial Times.

Economists were less certain. They think second quarter's GDP gains were underpinned by one-time factors. These included high levels of profitability attributable to last year's corporate tax cuts and an increase in exports as U.S. producers and their buyers abroad tried to avoid upcoming tariffs, reported Financial Times.

Another consideration is the business cycle. The business cycle tracks the rise and fall of a country's productivity over time. The U.S. appears to be in the latter stages of the current cycle. John Authers of Financial Times explained:

"…President Donald Trump's self-congratulation yesterday was fully merited. Things are going according to plan. This business cycle looks ever more like a normal one, which is a fantastic and welcome development after an epochal crisis and then a decade of doldrums…The advent of a normal cycle is itself a problem because a normal cycle terminates with high interest rates and declining growth. The president has voiced his disapproval of these things, but they are the logical and sensible consequence of the economic developments that are now unfolding."

Financial columns, such as this one, tend to focus on macro issues – the big picture. You simply can't "get into the weeds" in the amount of space provided. However, there is a micro concept that I seldom hear discussed that I want to share with you. The question is this: What is one of the things that makes an investment successful – until it isn't?

Imagine that you invest in your friends' company. It does very well and of course you add more money to it – and so does everyone who knows about it. The growth is tremendous and the company explodes in size. Everyone wants to be on the "winning team" so they pile on with their money until the ability to grow the large successful enterprise gets harder and harder. Maybe management even complicates the process by going public so investors everywhere can pile on (and your neighbor has a built-in exit strategy). In the meantime your neighbor has gotten older, perhaps tired and has taken up some hobbies. Maybe even turned things over to "professional management." In other words the successful "track record" everyone is investing in (your neighbor's talent) is no longer running the show. Of course, that's when Everyone wants to pile on and a good thing has a tendency to not be so good anymore. What should you do? Make sure to do your homework (your own research or that of a professional) to ensure that you're not buying history, but investing in things that have a promising future.

Ever notice that your rearview mirror is very small relative to the size of your windshield? That's because it is much more important to see what's in front of you than what is behind you. It is the same for investments. There truly is a point of diminishing returns and you should take care to "pile on" at the right time.

Visit us at www.williamsfa.com. Tommy Williams is a CERTIFIED FINANCIAL PLANNER™ Professional with Williams Financial Advisors, LLC.

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