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THE INTELLIGENT INVESTOR

A Simple Investing Playbook for the 'Great Cessation'

Although stock prices are down, the risk of unemployment means many may soon need their cash for necessities

By

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Investing, once a necessity, has become a luxury.

"In the 1930s we had the Great Depression, in 2008 we had the start of the Great Recession and now we are facing the Great Cessation," says John Cammack, a private investor and former executive at T. Rowe Price Group Inc. TROW **-0.23%** ▼ in Baltimore. The global economic lockdown to combat the spread of coronavirus, he says, is "stopping the many small actions that make up Adam Smith's marketplace dead in their tracks."

Yet Twitter and the internet are full of urgings to invest now, on the belief that the economy will eventually recover and stocks will bounce back—as they always have in the long run, at least in the U.S.

And the long-term future returns on stocks are becoming more attractive: Since the beginning of February, stocks have become 32% cheaper, as measured by their market price divided by average earnings over the past 10 years, both adjusted for inflation, according to data collected by Yale University finance professor Robert Shiller. That's the steepest decline in so short a period since the start of such data in 1881.

That's encouraging for those with the cash and courage to begin buying into the decline. One of the most basic rules of investing is that as current prices fall, future returns rise—all else being equal.

But all else isn't equal right now.

In this Great Cessation, entire industries are shutting down before our eyes, and millions of people could be thrown out of work. If your paychecks might disappear, you shouldn't be spending money to buy stocks when you might soon need it for necessities.

The first question all investors should be asking themselves now is: Am I more like a stock or a bond?

Every investor's total portfolio consists of two big buckets. The one we always talk about is your financial capital: the stocks, bonds, mutual funds, exchange-traded funds, real estate, cash and other marketable assets you hold. The one we seldom talk about is your human capital: the value of the current and future earnings from your career.

A fortunate few people have safe human capital that offers a lifelong steady stream of payments.

A justice on the U.S. Supreme Court, with lifetime job security, is a walking, talking, gavel-wielding bond—with zero risk of default. Other people's human capital is also bond-like, although not riskless: You're unlikely to be fired or laid off if you're a federal civil servant, a tenured professor at an amply funded university, a police officer, a physician or an emergency medical professional, a member of the military or the clergy.

And, just like bonds, the human capital in such fields generates stable income but seldom a lot of growth. The potential for enormous boosts to your salary is relatively limited.

Other people's human capital makes them much more like a stock. And the past month should have reminded everyone alive that stocks are *not* low risk. They offer the potential for high returns over the course of decades, but that comes at the cost of bone-shattering drops along the way. For many of us, careers are like that too: rewarding over a lifetime, but with harrowing detours and disruptions at unpredictable intervals.

That risk can be latent, too, lurking below a seemingly safe exterior. Just ask anyone in the energy industry today, in housing 10 years ago or in Silicon Valley 20 years ago.

People who work in riskier industries often—but far from always—have the potential to earn a lot more when they themselves take more risk. The return on their human capital, like the return on stocks, can vary wildly: An oil wildcatter drilling in untapped basins could sink dry holes or strike it rich, or a health-care executive could fail from company to company until finally founding a successful firm of her own.

Especially if you're young, you can protect and even turbocharge the value of your human capital by acquiring new languages or other skills, technical training, graduate degrees or other professional credentials. That's even more important if, like so many people in industries like hotels or restaurants, your career has just been sucked into a black hole.

Online and other remote training programs should continue to make that possible even in a global economic lockdown. For many people, that's the first place any spare cash should go at a time like this.

For now, adding extra money to stocks—unless you're more like a bond yourself—might have to wait. To be able to bolster your financial capital in the long run, you first have to rebuild your human capital in the short run.

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What investing decisions are you making now? Join the conversation below.

Write to Jason Zweig at intelligentinvestor@wsj.com

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