DECEMBER 7, 2021

RZH INSIGHTS

Dear Friends of RZH:

The US stock market has been climbing a wall of worry all year and yet the S&P 500 has risen 23%! Concerns over inflation, new Covid variants, increased taxes, and supply chain issues have not seemed to derail the upward advance. As patient, disciplined, goal-focused planning-driven investors we know that there will always be a crisis du jour. Yet, understandably, the chorus of “irrational exuberance” has been getting louder.

I have received numerous requests to address these concerns in writing. Just as I was finishing a memo on this topic, I received the most wonderful letter from my mentor Nick Murray (RZH Insights 10-5-2020). The following is an adaptation of his letter which was so perfectly timed…

Sunday marked a most significant anniversary in the economic and financial history of the United States. When properly appreciated, it can serve as an importantly teachable moment.

December 5th was the 25th anniversary of Alan Greenspan's "irrational exuberance" speech, in which the world's most respected central banker darkly warned of an impending speculative crescendo.

And in a way, he was eventually right. Sure enough, that greatest of all bull markets topped out – ***40 months after Greenspan's speech. In the meantime, the S&P 500 had doubled.***

I thought it might be instructive - as well as a certain amount of good fun - to cast an eye over the intervening quarter-century. Let's begin with a key item of baseline data that may and certainly should inform our inquiry.

Fact: The Standard & Poor's 500-Stock Index had closed that Thursday afternoon, in blissful ignorance of what was coming later in that evening in Greenspan's speech, at 744. And sure enough - just as the oracle had grimly suggested it must - the S&P 500 topped out…three years, three months and 19 days later, on March 24, 2000, at 1,527. You read that right: it more than doubled in the 40 months after Greenspan's dire warning.

I suppose I could just stop here, invite you to draw the obvious inference from the above, and call it a day. Said inference is, of course: ***No one - no central banker, no economist, no market strategist, no hedge fund manager - no one can predict the market, much less tell you where to get out and/or back in. The economy cannot be consistently forecast, nor the market consistently timed. By anyone.***

But before I let you go, I'd just like to throw out a very few other potentially relevant factoids.

- Last Friday December 3rd, the S&P 500 closed at 4,538, ***up more than six times since Greenspan spoke.***

- With dividends reinvested, $1,000,000 invested in the S&P 500 on 12/4/96 is getting ***pretty close to $10,000,000 along about now.***

- The earnings of the S&P 500 for the year 1996 were $40.63. With less than a month to go in the current year, the consensus forecast is around $200, ***up almost exactly five times.***

- The S&P 500's cash dividend in 1996 was $14.90. Consensus forecast for this year is about $60, ***up almost exactly four times.***

- The Consumer Price Index (a measure of Inflation) was 158.6 in December 1996. It will most likely close out this year around 280, ***up a mere 1.8 times.***

In summary: Inflation up 2X – the stock market up 10X. This is why you own equities for the long run.

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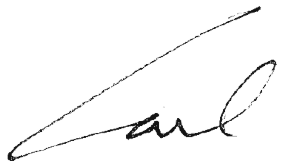
At RZH our conviction for owing equites for the long run is unwavering. Having studied the markets for 30+ years I know that irrational exuberance comes and goes but the power of the equity markets is enduring. The key is to know why you are investing, who the stakeholders of your wealth are and which dollars are best invested in stocks versus bonds.

As your wealth management partner, RZH is truly grateful for the opportunity to work with you and your family to perpetuate the benefits of your wealth across multiple generations.

On behalf of all of us at RZH we wish you, your families and loved ones a most wonderful holiday season and best wishes for a terrific New Year!



P.S. The most recent CPI reading showed a 6.2% increase from a year ago. Inflation is back and it's very real. However, the last time we had 6% annualized inflation was in 1990. Since then the stock market is up 14X and inflation is up 2X.