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RZH INSIGHTS

GIVING THANKS WHILE SURROUNDED BY TURMOIL

2023 seems to have been an exhausting year in the markets and for the world in general. The Israel-Hamas conflict has cast a dark cloud of uncertainty over the world and challenged the strength and legitimacy of this year’s stock market recovery. The following is a list of challenges the market has contended with in 2023:

- Apprehensions surrounding potential government shutdowns
- The looming debt ceiling crisis and its implications
- A banking sector in turmoil
- The relentless grip of inflation
- Mortgage rates soaring to a two-decade high
- Concerns over BRIC nations and potential dollar devaluation
- An alarming spike in crime rates in major US cities
- Geopolitical tensions: China-Taiwan, Russia-Ukraine, Israel-Hamas
- The unexpected downfall of FTX and the broader cryptocurrency market
- Issues surrounding open borders and the escalating refugee crisis
- Controversies and debates surrounding Trump’s past actions
- Allegations of corruption circling the Biden family
- The inability of Congress to elect its Speaker
- The ever-present shadow of a potential recession
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The media, with its penchant for sensationalism, has magnified each of these issues, inducing fear among investors and testing their risk appetite. The phrase “This time is different,” often a red flag in investing circles, has been heard all too frequently this year.

Yet, with all of this negativity and pessimism, the greatest companies have once again shown their resilience, ingenuity and resourcefulness to adapt and overcome these challenges. An index of some of the largest and best-managed companies in the world (the S&P 500) has risen 28% from its low last October and almost 20% this year.[1] On January 11th, I wrote "Don't be surprised… if the markets turn higher well in advance of things settling down. This is normally how market recoveries start as the stock market is famous for generating a strong rally well before a recession is over and before Fed policymakers end their tightening cycle." Still, it's a paradox that even with a recent bull market in stocks, the prevailing sentiment among investors feels more bearish. As of this writing, we are only about 5% from the all-time high of the S&P 500.[2]

Such is the tumultuous journey of a dedicated, long-term equity investor. The entry ticket to an asset class that has historically delivered over 10% annual growth is the constant barrage of market volatility and apocalyptic predictions. Returns are lumpy and they can be discouraging for extended periods of time. Yet, history has shown that disciplined investors, those who eschew market timing and speculation while aligning with knowledgeable financial advisors, have seen their wealth grow exponentially. To wit:

Over the past 50 years, a period that encapsulates the investing lifespan of many reading this memo, the stock market has delivered an average annual return of about 10.3%.[3] However, this journey was far from smooth. It was disrupted by 12 bear markets (declines of 20%+), each accompanied by its unique set of doomsday prophecies (aka: "This time is different"). Some of these downturns were particularly brutal, with investors seeing their portfolios decline roughly 50% during the '73/'74, '01/'02, and '07/'08 market crashes. Yet, with all this destruction (12 bear markets and losing half your money three times), $1,000,000 grew to about $133,000,000.[4] Yes, rub your eyes, you read that correctly… $133 million!

However, successful investing is not just about waiting it out and staying the course – far from it. I believe there are two overlooked, but vitally important, virtues associated with successful investing and multi-generational wealth creation: Humility and Optimism

Humility entails recognizing our limitations in predicting future events, be it unforeseen events like 9-11, the Financial Crisis of 2008, the COVID pandemic, the Silicon Valley Bank collapse or even Taylor Swift dating Travis Kelce.

Optimism, on the other hand, is an unwavering belief in a brighter future, underpinned by the conviction that challenges are transient and that “this too shall pass.” To grow $1 million dollars into $133 million over the last 50 years all you had to do…was believe in America and our relentless ability to adapt and innovate.

These are obviously learned skills as human nature is not programmed to be so thoughtful and carefree. Our instinct to avoid pain and self-preserve is very strong. These realizations have informed our financial planning and portfolio construction immensely. This is why we spend so much time getting to know each client intimately before crafting a plan for their assets. Our process involves extensive stress testing and scenario modeling. We then incorporate risk reduction redundancies and financial controls into our planning and portfolios. These tools empower us to fulfill our mission of helping our clients embrace life to the full extent of their wealth.

As we finish out 2023 and head into the holidays, we remain hopeful for more peaceful and civil times ahead with the humility that future events are unpredictable. Most importantly, all of us at RZH are immensely grateful for your friendship and support as we navigate this uncertain world together. The entire team at RZH is committed to standing by your side, and guiding you every step of the way. Your trust in us is a privilege, and we’re deeply grateful for it.

With warmest regards for a wonderful Thanksgiving,

Carl

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Important Note Regarding RZH Investment Methodology: Illustrating the benefits of long-term investing by showing 50-year returns is easy to do and almost cliché at this point. We realize that not everyone has a 50-year time horizon. In practice, while we firmly believe that the economy cannot be consistently forecast nor markets consistently timed, we are acutely aware of the current environment and market dynamics. This means we will be strategic within asset classes and take advantage of evolving opportunities or reduce exposure to areas we believe have a greater chance of underperforming based on historical precedent or current observations.

For instance, there are many silver linings this year that we have leaned into. Most notably is that money market funds yield over 5%, bond yields of 5.5%+ are available with daily liquidity and no risk through US T-Bills, and growth stocks (RZH's largest equity category) have risen over 35% due to the emergence of AI (artificial intelligence). Likewise, we have reduced emerging market exposure this summer and fall due to China's declining economic health, aggressive geopolitical posturing, and autocratic risks. In the US we have reduced our allocation to small-cap stocks given their historical challenges in similar economic environments and periods of high interest rates.

[1] Yahoo! Finance, S&P 500 Historical Data Calculator as of 11/17/2023.
[2] Yahoo! Finance, S&P 500 Historical Data Adjusted Close Price as of 01/03/2022.
[3] S&P Returns Calculator, https://dqydj.com/sp-500-return-calculator. Period shown 10/31/1973 – 10/31/2023.
[4] Assumes $1,000,000 invested on 12/31/1972 through 12/31/2022 with no additional contributions and/or withdrawals, dividend reinvest, taxes paid from an alternative source, and an assumed annual rate of return of 10.3%. Full calculation methodology available upon request.

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