StraightTalk

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2025 – A Return to Normal Volatility

I recently returned from the Raymond James Chairman's Council trip to Southeast Asia – visiting Vietnam and Cambodia, a part of the world that was new to me. The cultural differences there compared to life here at home were quite stark; beyond the beauty of the countryside, the two big takeaways were the enormous Buddhist religious influence in Cambodia and the heavy Communist overtones in Vietnam.

Outside of Siem Reap, Cambodia, I watched the sun rise over the UNESCO Heritage site, Angkor Wat, and toured several other 12th century temples, with monks visibly worshipping in many of them. Over 97% of Cambodia follows Buddhism, and those virtues of patience, kindness and individualism are omnipresent.

In Hanoi, Vietnam, I saw an economic freedom somewhat akin to what we enjoy, but with significant Communist limitations. For instance, the government always owns the land – you lease your home or business building for a 49-year term, with a possible extension of another 49 years, and then it reverts back to the government. So, it's possible to "own" your home or business for your lifetime, but you cannot pass those assets down to future generations.

And in both countries the idea of retirement is basically non-existent, as there is almost no safety net – you simply work as long as you are physically able, and the younger generation honors the elderly by caring for them within the family. While this part of the world does not appear to be a good fit for a financial planning career – there is an emerging, vibrant economy in both countries, with agricultural farming, food service, made-to-measure clothing, and tourism being the prominent industries.

In Cambodia, we witnessed monks clad in orange robes and sandals carrying iPhones. In Hanoi, there were makes and models of electric cars not seen in the U.S., plus over 6.5 million registered gas powered scooters buzzing around – which made both the traffic and air quality quite congested!

Perhaps most importantly, the looming presence of China was very apparent in both countries. Chinese technology company products were ubiquitous in Hanoi, while in Siem Reap, China has recently finished constructing a gleaming new airport, complete with its own 15-mile long private highway to help bolster Chinese trade and attract tourism to the region. China is definitely flexing their muscles in that region, and it is something we in the West should be paying attention to.

With the majority of financial news rightly centered around Asia, there was only minimal coverage of U.S. related news in January, which was actually refreshing! Most of the local news over there was focused on governments trying to improve daily life with ever more central planning. From carbon taxes (which supposedly will not slow growth as they cost corporations their profitability) to governments issuing multiple rounds of stimulus checks (similarly promised to not be inflationary) – I was reminded that these countries may be different, but the behavior of the human beings in government appears to be the same.

Speaking of which, as we returned home, we learned the previous President pardoned most of his family tree for financial crimes they may or may not have committed, while the incoming President launched two cryptocurrencies named for himself and his wife in a blatant money grab. Indeed, instead of noble civil service conducted behind closed doors, it seems brazen personal enrichment based on professional influence is the new permanent fixture of life in Washington, DC.

So, it should come as no surprise that worldwide today, the public's faith in government, media and organized religion is at an all-time low. Edelman, a global communications firm, publishes an annual study called *The Trust Barometer*, that tracks this trend. Their Barometer consistently finds that business is the only institution perceived as being competent enough to introduce innovation for solving the world's problems.

All of this underscores why, both here at home and around the world, *we don't own the governments, we own the great companies,* for their historic ability to succeed despite the foibles of those very governments that regulate them.

In my opinion, owning the great companies of America and the world is the simplest, most effortless way to build wealth over time. There is no meaningful period when this strategy has failed to outpace the pernicious effect of inflation and taxes. The difficulty, of course, is that we must endure other people's pricing of our great companies each day. Nowhere else in life do we track these short-term gyrations – not with our businesses, and certainly not with our homes. Can you imagine creating a spreadsheet to record the weekly value of your home, as it fluctuates with interest rate changes and real estate cycles? Who would do that? But somehow, it has become an accepted practice to catalog the ups and downs of the daily prices on a two-decade investment in these companies.

And herein lies the conundrum – as we have just capped off an impressive two-year stock market run. In plain English, this market is currently priced for perfection. And, in my opinion, if the earnings results are anything short of that perfect expectation, there is an increased chance for a price correction.

Jeff Bezos recently said in an interview, *"Modern A.I. is a horizontal enabling layer. It can be used to improve everything. It will be in everything. In history, this is most like electricity."* Indeed, the promise of Artificial Intelligence improving most areas of life is real, but not yet realized. But the prices of companies involved in the early-stage buildout of that ecosystem are running ahead of that future realization. Surely there will be bumps in the road along the way – increased government regulation, competition, the inevitable economic cycle slowing demand for their products at some point, etc. – but for now, investors are shrugging off all those possibilities.

Even the casual observer has noticed part of the technology sector in our economy shooting virtually straight up over the last 25 months, leaving all other investments in its wake. Predictably, this has sparked investor questions about selling holdings in a diversified portfolio that were not up double digits to buy more of what was. My answer to this age-old question can be found in one of the countless words of wisdom from the Oracle of Omaha. Decades ago, Warren Buffet famously said, *"The investor of today does not profit from yesterday's growth."*

Indeed, periods like this can be of greater danger to investors than price declines – leading to what is commonly referred to as "performance chasing." Virtually no portfolio strategy I am aware of has historically produced worse returns than performance chasing. The time-tested strategies of diversification and rebalancing can easily be discarded when the siren song of overnight riches from investing in the hot sector becomes loud enough.

Indeed, owning some of what is red hot, *and some of what is not* significantly reduces portfolio risk and looks quite smart when the inevitable sector rotation comes. Sometimes that rotation is so orderly, akin to a gradual handoff from one sector leading to another, that investors miss it. Other times, like in 2008, 2020 and 2022 – most investment sectors correct at the same time, and the price decline in the broader market is unmistakable.

My crystal ball is not clear enough to discern the immediate future, but it does have much greater clarity over the longer term. If the crazy events of the last year do not offer proof that none of us can see over the immediate horizon, I don't know what better example to provide. In just 12 months, the price of a leading chip maker saw its share price triple, the best-known cryptocurrency (which has absolutely zero utility) went from $16,000 to over $100,000, and a company that buys and holds that cryptocurrency (really, that is all they do) went up 480%. This feels to me…a bit euphoric.

The point is that the immediate future is always unclear, until it plays out, and the fear of missing out is always a backward-looking strategy. I do not know when a routine price correction will arrive in the near term, but over the longer-term, I believe prices always follow earnings growth, which looks to be accelerating.

Indeed, owning a diversified collection of the great companies in what I am calling the coming Information Revolution will offer significant rewards for the patient investor. One must simply tune out the noise, and ride through the inevitable short-term volatility to realize it.

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