Morgan Stanley

Private Wealth Management

Ben's Bow Tie Brief

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Meet Our Team

Bulls versus Bears
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Bulls versus Bears – the tug of war continues!

For the last three and a half years Bulls have comfortably been in control, as consumer and artificial intelligence capital expenditure has driven outsized growth in economic activity, corporate revenues, and earnings. Stock markets have ridden this wave to new all-time highs and market breadth is improving. Owners of stocks feel great, as their portfolios have reached levels not imaginable just a short while ago. It has paid off to be bullish.

But the screams of the Bears are starting to get louder. Concerns over future wealth destruction due to excessive circular financing by tech companies are increasing, and some are questioning if the current "drunken sailor spending" related to AI will pay off with long-term economic accrual and sustainable free cash flow and earnings growth. All the while, earnings quality and accounting methodologies are starting to be questioned. Not to mention geopolitical uncertainties, energy-driven inflation, and a questionable labor market.

What I find interesting is that both Bulls and Bears look at the same data, stocks, and markets and come to radically different conclusions.

Regardless of what side you sit on, I find that a lot of investors are still hyper focused on where to allocate their money to potentially generate a high rate of return, without giving as much thought to the risk that might be associated with trying to generate those outsized returns. Technology revolutions like the one we are going through right now (related to AI) deservedly open people's minds to the possibilities that lie ahead. Those possibilities drive investor enthusiasm, which is fine. But we must remember that most tech and industrial revolutions that came before inevitably resulted in the misallocation of capital and a ton of failures along the way. It's never a straight line up, it's never all profit and no loss, and many times the early pioneers were the ones that got shot in the back, only to be displaced by entrants no one saw coming.

I'm not trying to rain on the parade. I just want to maintain a healthy dose of realism after an amazing period of outsized market returns. And while there are plenty of reasons to be excited about the potential longer-term economic future, we must recognize that risks are creeping up in the short term.

Now more than ever investors should remain disciplined, and most importantly, diversified. After three and half years of mostly uninterrupted gains, we can't lose sight of the fact that a meaningful and potentially long-lasting drawdown can occur at any time. We cannot identify if, when, or why said drawdown will happen – all we can do is prepare. As I've written about many times, that preparation should always be done in advance and include a clearly defined and written goals-based financial plan that incorporates the possibility of a "consequential" drawdown. That financial plan helps inform how much liquidity we should maintain and how we should allocate our financial resources. Armed with this information we can make emotionally-sound long-term investment decisions while blocking out the short-term Bull/Bear noise.

I'm always here to address any questions or concerns you may have. Thank you, as always, for being our clients. It is a privilege, and indeed a joy, to serve you.

Best,

Ben