Morgan Stanley Private Wealth Management

Ben's Bow Tie Brief

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Meet Our Team

THE PACKAGE
December 2024

Financial plans map out a strategic course to help meet an investor's goals and cash flow needs. These plans serve as blueprints for a disciplined investment process.

When we create financial plans for clients, we assume portfolios achieve historical rates of return, which include a periodic incidence of bear markets. The permanent premium return from equities is matched with temporary declines to form an organic whole. The premium returns from equities wouldn't be as great if we weren't forced to sit through the declines. That's the price we pay for holding wealth in equities. That's ***The Package***. And that package must be clearly understood and accepted by investors.

This is from where our strength is derived. It's from where clients' potential to become shockproof is derived – recognizing that significant market declines aren't just normal; they're necessary to justify the premium returns we hope to receive from equities. Our plans assume those declines, every bit as much as they assume the resulting returns.

In my opinion, financial advisors do a poor job communicating ***The Package***. They tend to hold up the glorious long-term record of equities while soft-pedaling the drawdowns. I think investors need to buy ***The Package*** in its entirety, or they're going to end up panicking out of the market at some point during their investing journey.

Buying the whole package is the only way for investors to have equity market success; and it's the only chance we as financial advisors have to help foster a sound, long-lasting relationship.

Financial plans tend to be put in place for two reasons. First, to help protect investors from their fear. When markets are turbulent or after a bear market, financial plans focus on the longer-term and help keep portfolios appropriately invested in equities.

Second, and equally important, they help protect investors from their greed. When markets are ripping and over-enthusiasm builds, financial plans dampen investors' risk taking by limiting equity exposure to predetermined prudent allocations.

Exposure to equities is critical to helping achieve your cherished financial goals. But you must know and embrace the incredibly significant emotional/behavioral challenges you are going to face along the way.

I share these thoughts because investors greed today, in the 16th year of a secular bull market, seems to have eliminated normal bounds of risk taking. Investors are shunning prudent financial planning and ignoring basic investment concepts like diversification and valuation. Some are now even using leverage to buy riskier momentum stocks. Returns haven't necessarily been unprecedented, but investors' enthusiasm and willingness to take risk might be. Diversification at this point in the cycle is unfortunately viewed more as a drag on potential returns than a worthwhile risk management tool.

We will at some point be forced to engage with a historically inevitable bear market, and it won't be fun. For that reason, I remind you of ***The Package*** that comes with owning equities. It's time to mentally prepare for the potential of a market correction and the ensuing emotional stress it will bring. With that said, if you are properly diversified and maintain sufficient liquidity for your lifestyle needs, the playbook remains the same – sit tight through the temporary decline – and never get scared out of the market.

I hope everyone has a wonderful holiday season, and don't hesitate to reach out with any thoughts or questions.

Best,

Ben

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