THOUGHTS FOR THE WEEK

CRYSTAL BALLER

September 20, 2024

I want to be your Crystal Baller
I want to show you how it ends

- **Third Eye Blind**

The ancient Celtics were the first to use crystals as divination tools. Their conquerors, Julius Caesar and Pliny the Elder, recounted early “crystal gazers” polishing a green mineral called beryl into highly reflective spheres. Prophets would stare into the stone, often falling into a meditative state that would (allegedly) illuminate secrets of the past, present and future, in a process known as *scrying*.

In the Middle Ages, crystals balls had myriad societal associations: providing health benefits, promoting economic status, and, of course, assisting with your run-of-the-mill magic trick. Even Queen Elizabeth I had an official advisor, John Dee, who spent much of his honorable time on alchemy and, you guessed it, staring into crystal balls on her behalf.

We picture John Dee in a meditative state, with the soft green glow of a beryl ball reflecting off his glazed eyes, palms sweating as he prepares for a meeting with The Queen. Not too dissimilar to that of a modern-day Wall Street analyst staring into the fluorescent glow of a Bloomberg Terminal, palms sweating as she tries to predict the Federal Reserve’s next interest rate move.

The more things change, the more they stay the same.

Every day we invest billions of dollars on behalf of our clients by making educated guesses about the future. Does that make us modern-day-Merlins? Hardly.

We don’t spend much time predicting the next earnings release, Federal Reserve minutes, or inflation data. Rather, we align our prophetic efforts with our clients’ investment horizons, which tend to be quite long.

‘There are two kinds of prophecy. One is the gift to foretell things that are but a little way off, the other is the gift to foretell things that are whole ages and centuries away. Which is the mightier gift, do you think?’

‘Oh, the last, most surely!’

- **Mark Twain, A Connecticut Yankee in King Arthur’s Court**

We agree. We think patient, long-term investors will be rewarded "ages" into the future, but attempting to foretell market movements that are "a little way off" is no more valuable than scrying into a crystal ball.

The following chart casts a powerful beryl-colored glow across your screens. We'll take some time to explain why it supports our thoughts about long- and short-term prophecies. (Source: The Bloomberg)

YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
1994	1%	18%	19%	23%	24%	23%	18%	14%	9%	11%	11%	10%	11%	10%	6%	8%	8%	8%	8%	9%	9%	9%	9%	10%	9%	10%	10%	11%	10%	10%
1995	37%	30%	31%	30%	28%	21%	16%	10%	12%	12%	11%	12%	11%	7%	8%	8%	8%	8%	10%	10%	9%	9%	10%	9%	10%	10%	11%	10%	10%	
1996	23%	28%	28%	26%	18%	13%	7%	9%	9%	9%	10%	9%	5%	6%	7%	6%	7%	8%	8%	8%	8%	9%	8%	9%	9%	10%	9%	10%		
1997	33%	31%	27%	17%	11%	4%	7%	8%	8%	8%	8%	3%	5%	6%	5%	6%	7%	8%	7%	8%	8%	8%	9%	9%	10%	8%	9%			
1998	28%	25%	12%	6%	-1%	4%	5%	5%	6%	6%	1%	3%	4%	4%	4%	6%	6%	6%	6%	7%	7%	8%	8%	9%	8%	8%				
1999	21%	5%	-1%	-7%	-1%	1%	2%	3%	4%	-1%	1%	2%	2%	3%	5%	5%	5%	5%	6%	6%	7%	7%	8%	7%	7%					
2000	-9%	-10%	-14%	-5%	-2%	-1%	1%	2%	-4%	-1%	0%	1%	2%	4%	4%	4%	4%	5%	5%	6%	7%	7%	6%	7%						
2001	-12%	-17%	-4%	-1%	0%	3%	3%	-3%	0%	1%	1%	3%	5%	5%	5%	5%	6%	6%	7%	7%	8%	7%	8%							
2002	-22%	0%	4%	4%	6%	6%	-1%	2%	3%	3%	4%	6%	7%	6%	7%	8%	7%	8%	9%	9%	8%	9%								
2003	28%	19%	14%	15%	13%	2%	5%	7%	6%	7%	9%	9%	9%	9%	10%	9%	10%	11%	11%	10%	10%									
2004	11%	8%	10%	9%	-2%	2%	4%	4%	5%	7%	8%	7%	8%	9%	8%	9%	10%	11%	9%	10%										
2005	5%	10%	9%	-5%	0%	3%	3%	4%	7%	8%	7%	7%	8%	7%	9%	9%	11%	9%	10%											
2006	16%	10%	-8%	-1%	2%	2%	4%	7%	8%	7%	8%	9%	8%	9%	10%	11%	9%	10%												
2007	5%	-18%	-6%	-1%	0%	2%	6%	7%	6%	7%	8%	7%	9%	9%	11%	9%	9%													
2008	-37%	-11%	-3%	-2%	2%	6%	7%	6%	7%	8%	7%	9%	10%	11%	9%	10%														
2009	26%	20%	14%	14%	18%	17%	15%	14%	15%	13%	15%	15%	16%	13%	14%															
2010	15%	8%	11%	16%	15%	13%	13%	14%	12%	13%	14%	15%	12%	13%																
2011	2%	9%	16%	15%	12%	12%	14%	11%	13%	14%	15%	12%	13%																	
2012	16%	24%	20%	15%	15%	16%	13%	15%	15%	16%	13%	14%																		
2013	32%	22%	15%	14%	16%	12%	15%	15%	16%	12%	14%																			
2014	14%	7%	9%	12%	8%	12%	13%	15%	10%	12%																				
2015	1%	6%	11%	7%	12%	13%	15%	10%	12%																					
2016	12%	17%	9%	14%	15%	17%	11%	13%																						
2017	22%	8%	15%	16%	18%	11%	13%																							
2018	-4%	12%	14%	17%	9%	12%																								
2019	31%	24%	26%	13%	16%																									
2020	18%	23%	8%	12%																										
2021	28%	3%	10%																											
2022	-18%	2%																												
2023	26%																													

Time Horizon

The first column of colored boxes shows one year returns of the S&P 500 from 1994 to 2023. The second column, the two-year average return starting in each year. The third column, the three-year average returns for each year. So on and so forth.

Notice how the red boxes become less prevalent as your time horizon increases (moving from left to right). Notice how the 1-year returns vary from -37% to +37%...the 10-year returns vary from -1% to +16%...and the 20-year returns vary from +6% to +10%.

In the short run, the market is a voting machine but in the long run, it is a weighing machine.

- **Benjamin Graham**

The chart shows how short-term returns are more influenced by emotion, and thus more variable (Graham's "voting machine"), while long-term returns are driven by business fundamentals, and as a result less variable (Graham's "weighing machine").

We're writing this week's *Thoughts* on the eve of the Federal Reserve's anticipated rate cutting announcement. All across the world, anxious analysts are bathed in the fluorescent glow of their modern-day crystal balls, palms sweating as they try to "foretell things that are but a little way off", while others sleep well, knowing that a strategy grounded in patient long-term thinking is the "mightier gift".

PRIVATE WEALTH MANAGEMENT

Morgan Stanley

Enjoy your reading and your weekend.

Mike, Cate, Scott, Willis, Suzy, Oscar and Wes

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Source:
The History of the Crystal Ball (vice.com)
Mark Twain, *A Connecticut Yankee in King Arthur's Court*

Awards:
2024 Barron's Top 250 Private Wealth Management Teams
Source: barrons.com (Awarded May 2024) Data compiled by Barron's for the period Jan 2023-Dec 2023.

2024 Forbes Best-In-State Wealth Management Teams
Source: Forbes.com (Awarded Jan 2024) Data compiled by SHOOK Research LLC based on time period from 3/31/22-3/31/23.

Mike Burbank | **2019-2020 & 2022-2024 Forbes Best-In-State Wealth Advisors**
Source: Forbes.com (Awarded 2019-2020 & 2022-2024). Data compiled by SHOOK Research LLC based 12-month time period concluding in June of year prior to the issuance of the award.

Mike Burbank | **2017-2024 Barron's Top 1,200 Financial Advisors: State-by-State** (formerly referred to as Barron's Top 1,000 Financial Advisors: State-by-State)
Source: Barrons.com (Awarded 2017-2024). Data compiled by Barron's based on 12-month period concluding in Sept of the year prior to the issuance of the award.

Mike Burbank | **2013-2020 Financial Times 400 Top Financial Advisors**
Source: ft.com. Data compiled by the Financial Times based the following time periods:
Awarded 2013-2020; data 12/31/12 - 6/30/19
Awards Disclosures

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S&P 500 Index is an unmanaged, market value-weighted index of 500 stocks generally representative of the broad stock market. An investment cannot be made directly in a market index.

Bonds rated below investment grade may have speculative characteristics and present significant risks beyond those of other securities, including greater credit risk and price volatility in the secondary market. Investors should be careful to consider these risks alongside their individual circumstances, objectives, and risk tolerance before investing in high-yield bonds. High yield bonds should comprise only a limited portion of a balanced portfolio.

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Bonds are subject to the credit risk of the issuer. This is the risk that the issuer might be unable to make interest and/or principal payments on a timely basis. Bonds are also subject to reinvestment risk, which is the risk that principal and/or interest payments from a given investment may be reinvested at a lower interest rate.

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