THOUGHTS FOR THE WEEK

SOME THOUGHTS ON THE INVESTMENT LANDSCAPE

December 13, 2024

Happy Holidays! And with 21 days left in the year, it's been a cheerful one for investors. At the time of writing (12/10):
The S&P 500 has returned 28.57%
The Russell 1000 Growth (US Growth Stocks) has returned 36.06%
The MSCI ACWI Ex US (International stocks) has returned 9.93%
The Bloomberg Aggregate (US Bonds) has returned 3.14%
(source: Bloomberg)

It's been easy to make money this year. And if you've been invested in US stocks, the last decade has been pretty darn good, too. The S&P 500 has returned 13.5% per year over the prior decade (source: Bloomberg), almost 3 percentage points above the long-term average return of ~10.9% (source: Bloomberg).

It's been a great show, so to speak, but the prior decade's returns leave the question: Where do we go from here? There are few "laws" in finance – this isn't physics, governed by sets of immutable relationships. The past can only tell you so much about the future. The investment world is a random, dynamic environment with trillions of inputs, primarily based on the collective expectations of participants. Reflexive forces are at work, too – we use the analogy of rock climbing, it's as if the shape of the rock changes, depending on where you place your hands and feet.

All this leads to a fact: We, nor anyone else, can predict the future. Which is why investing is an exercise in probability calibration. Investment assets represent a claim on future cash flows, nothing more. And as asset prices are primarily built on expectations, rising prices signal rising expectations. And when the bar is continually rising, the odds of achieving or exceeding those expectations declines. In other words, the odds of disappointment increase.

Will market declines occur? Almost certainly. When? No one knows. We can't predict the future. But there are a few things any investor should be contemplating:

- **How comfortable am I with my stocks losing value?** The US stock market goes up ~70% of the time (source: Bloomberg), and long-term returns have been attractive. But the long-term road is filled with deep potholes. Charlie Munger advised stock investors to expect a few nasty downturns of -30% or more per decade. If you hold 60% of your assets in stocks, that's a decline of -18% or worse on your stock holdings, holding other assets equal. If you hold 70% stocks, the decline is -21%, or worse. Can I stomach that?

- **If I sell stocks, I'm paying taxes…I hate paying taxes.** Well, taxes are a trade-off. If you want to control your risk, you're going to pay some tax. Given the deferred gains many investors have built up, any sales could result in a rather high tax bill. Do I pay some tax now to lower my risk?

- **Do I have enough cash?** You can't spend stocks. You can't spend real estate. You *can* spend cash. And to get cash you need to convert an asset. Ideally, you convert that asset to cash when prices are attractive to you, as the seller. You don't want to have your hand forced. That raises the risk of having to sell at bad prices. Do I raise a buffer of cash now, while prices are good? Am I OK if, by doing so, I "miss out" on future returns? Again, think trade-off (ALL investment decisions involve trade-offs).

By now, readers understand our predilection toward long-term investing: it's a trend you want to befriend, as, a) asset prices tend to rise over time and b) the power of compounding is exponential. But…you need to survive the short-term, to get to the long-term. In effect, the long-term is a series of short-term events, linked together. To remain a long-term investor, you need to be comfortable with volatility, and the occasional large drawdown. Comfort levels tend to rise when you have liquid assets on hand to fund your short-term needs for a few years. Having your short-term spending needs indemnified makes it easier to live with bear markets and recessions.

So, maybe, while egg-nogging away (OK, maybe not while egg-nogging!) this holiday season, give a thought to how you're feeling about liquidity. And, maybe, don't be afraid to pay some tax to bolster that liquidity. We don't know what next year, or the next few years, will bring. Our long-term optimism is strong, but we're keenly aware that you need to survive any short-term adverse events to enjoy the rewards of the long-term. Let's have conversations if you're inclined.

We want to thank each and every one of you for the trust and confidence you place in our practice. We're a service organization, and we need to earn that trust and confidence every day. Cheers to a wonderful holiday season for you and your families! *Thoughts* will return in January.

The Burbank Group
Mike, Cate, Scott, Willis, Suzy, Oscar and Wes

Private Wealth Advisors:
Mike Burbank, CIMA®, CFP® Managing Director
Scott Hafeli, CFA Executive Director
Willis Davis, CFA Senior Vice President

Cate Rachford Senior Vice President, Group Director
Suzy Shin Wealth Management Associate
Oscar Castillo Portfolio Associate
Wes Cai Wealth Management Analyst

Morgan Stanley Private Wealth Management | The Burbank Group

555 California Street, 14th Floor | San Francisco, CA 94104
Phone: +1 415 576 3134

To unsubscribe from the email list, please contact Wes Cai at Wes.Cai@morganstanleypwm.com.

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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Any type of continuous or periodic investment plan does not assure a profit and does not protect against loss in declining markets. Since such a plan involves continuous investment in securities regardless of fluctuating price levels of such securities, the investor should consider his financial ability to continue his purchases through periods of low-price levels.

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.

Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. An investment cannot be made directly in a market index.

MSCI All-Country World ex USA Index is a free-float-adjusted market-capitalization index that is designed to measure equity market performance in developed and emerging markets, excluding the United States. An investment cannot be made directly in a market index.

The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, fixed rate agency MBS, ABS and CMBS (agency and non-agency). Provided the necessary inclusion rules are met, US Aggregate-eligible securities also contribute to the multi-currency Global Aggregate Index and the US Universal 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.

Bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally, the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which is the risk that the issuer will redeem the debt at its option, fully or partially, before the scheduled maturity date. The market value of debt instruments may fluctuate, and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer.

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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