

THOUGHTS FOR THE WEEK

AI IS THE ANSWER

Month, DD YYYY

Long before Chat GPT, Apple Intelligence, and the thought of placing small modular nuclear reactors on top of industrial buildings to power data centers...there was the original AI: Allen Iverson.

Nicknamed “AI” and “The Answer”, Iverson is one of the NBA’s most decorated players of all time.

His accolades include the 1997 Rookie of The Year; eleven NBA All-Star Game appearances; two All-Star Game MVPs; one NBA MVP; and an induction into the NBA Hall of Fame. His playoff scoring average trails only Luka Doncic and Michael Jordan.

Iverson was known for executing a “crossover” with perfection. A series of jabs and sidesteps would cause defenders to get out of position. Then, AI would dodge hard in one direction. The vulnerable defender would lunge to catch up. Iverson would stop on a dime, dribble the ball low and quick from one side to the other (the “crossover”), leaving opponents with paralysis and Iverson with a direct line to the basket.

Some investors try to dip, dodge, and crossover their way to the “investment hoop”, while others appreciate that the best investing offense is sometimes a good defense. In fact, playing good defense in basketball has several overlapping themes with successful investing.

Start with a good, stable athletic stance. Stability on the court helps players stay in front of their opponents. More diverse portfolios can help investors stay in front of risks by potentially dampening volatility. A less volatile portfolio may help reduce stress and lower the probability of having to sell long term assets during periods of market duress. Investors can seek to lower portfolio volatility through diversification. Adding cash, bonds, real estate, and other financial assets to a traditional equity-oriented portfolio could help reduce the magnitude of a portfolio’s “ups and downs” as certain assets are zipping while others are zagging. The right mix of stocks and other diversifying assets is highly personal, but time horizon, need for liquidity, risk and pain tolerance for volatility will dictate how much and the type assets an investor can use in his or her portfolio.

Stay low. Players should focus on keeping their knees bent and their rearends low to the ground. Investors should focus on keeping other things low: mainly taxes and fees. Tax efficient investing is typically long term in nature. It reduces the need to trade in and out of investments, which can trigger regular tax inefficient gains, impeding an investor’s ability to compound capital. Fees, too, are “compounding killers”. For example, a \$1M portfolio growing at 7% for 30 years grows to \$7.6M, while a portfolio growing at 7% less a 1% fee (eg, growing at 6%) grows to \$5.6M. Eliminating cost entirely from a portfolio is impractical, and many investors will find value in paying professionals for assistance. Focus on “low cost” not “no cost”.

Watch the defender's hips, not the ball. Strong ball handlers will lure their opponents into watching the ball, but successful defenders are better served by keeping their eyes on a player's hips. The market analogy: the ball is to the market "price" as the player's hips are to the market's "value". The ball will cross from left to right through a player's hips, just like the market's price will fluctuate above and below the market's value. Understanding the relationship between price and value will help prevent overpaying for assets and may offer investors an opportunity to pick up investments on the cheap.

Avoid fouls. Great defenders don't have to make the most steals and blocks. They just need to prevent their opponent from scoring and avoid sending him or her to the foul line. In much the same way, investors don't need to make heroic trades ("steals and blocks") to generate attractive returns. But they do need to avoid mistakes, which are largely attributed to poor planning and emotional errors like panicked selling. We typically recommend that clients carry cash on hand to fund near to medium term needs, and we always counsel that volatility is a matter of "when" not "if", parroting Charlie Munger, "If you can't stomach 50% declines in your investment, you will get the mediocre returns you deserve." Preparing for those future needs and emotional demands will help prevent investors from "fouling out".

Coaches will tell you that "Offense wins games. Defense wins championships." A strong offense can put points on the board and carry a team through a given game, but a strong defense is critical for sustained success throughout the season, into the playoffs, and through the last buzzer of the final game. Investing is one of the longest "games" you will ever play, and a good offensive investment strategy might carry you through any given month or quarter, but good defense should carry you further.

Enjoy your reading and your weekend.

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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 | 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.

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ID 4158040 01/25