THOUGHTS FOR THE WEEK

NAPOLEON'S SHINY SHOES

February 28, 2025

Napoleon Bonaparte is a controversial historical figure. Some scholars claim he was the greatest military commander of all time. Others see another cruel authoritarian ruler. Perhaps both are true.

In any event, *real* history buffs agree on one thing: his success on the battlefield can be attributed to his very shiny shoes.

According to scholars, Napoleon would have a corporal shine his shoes while officers briefed him on battle plans. The corporal would inevitably eavesdrop on the conversation. After the briefing, Napoleon would ask the corporal if the battle plans made sense. If the corporal understood the plan, Napoleon would proceed with the proposal. If the corporal were confused, Napoleon would send his fellow officers back to the drawing board.

Napoleon saw the value in simplicity and the risk in complexity. The lowly, shoe-shining corporal was his complexity-barometer.

When building portfolios on behalf of clients, we almost always take into consideration the value of simplicity. We try to keep things as simple as possible, and we incorporate complexity only when the tradeoffs are sufficiently compelling.

The Investment Battle Plan

The rationale for investing is simple: forgo consumption today, to consume more in the future. Prices tend to rise over time, so investors demand a return on their forgone consumption. Therefore, the first and most important battle for which any investor must prepare is the fight against inflation. From 1928 to 2024, US inflation averaged ~2.9% (Source: NYU Stern).

US Treasury Bills (T-Bills) put up a good fight against inflation. They offer a compelling tradeoff for the simplest of savers; are backed by the full faith and credit of the US Government; trade in deep, liquid markets; experience little price volatility; and pay interest that is exempt from state and local taxes. From 1928 to 2024, 3 Month T-Bills generated an average return ~3.4% (Source: NYU Stern).

Investors seeking a higher return premium over inflation have to weigh the tradeoffs between tying up capital for longer and the complexities that come along with that decision. For example, a 10 Year US Treasury Bond has historically offered investors a higher yield than a 3 Month US Treasury Bill. However, longer maturity bonds have historically experienced higher price volatility than their short-term counterparts. From 1928 to 2024, 10 Year US Treasury Bonds generated an average return ~4.6%, but with a price that was ~2.6x more volatile than the price of a short-term treasury bill (Source: NYU Stern).

If Uncle Sam's bond doesn't offer you enough juice, consider lending money to corporations for a pickup in yield. Corporate borrowers don't have a printing press like the US Government, and interest and principal payments are backed by a business' ability to generate. That's not a terrible thing, but understanding a company's credit profile is another complexity to consider on the investment battlefield. From 1928 to 2024, investment grade corporate bonds generated an average ~6.7% return (Source: NYU Stern).

Investing in the US stock market has historically provided an even higher premium over inflation. But owning a stake in a business dials up the complexity and potential risk. A. As an equity owner, you'll share in a slice of the residual profits a company generates after satisfying all obligations, including those of the bond holder (see prior paragraph). Short-term price movements can be highly volatile (6.5x US T-Bills since 1928), but patient investors have been rewarded over the past ~100 years. From 1928 to 2024, the S&P 500 generated an average annual return of 10.1% (Source: NYU Stern).

Up until now, we think Napoleon's corporal is tracking, and he's convinced most investors may be well served by a simple portfolio of stocks, bonds, and treasury bills: stocks to drive potential growth; bonds to generate potentially consistent cash flow; and treasury bills to address liquidity needs. We tend to agree.

However, investors may choose to wade further into complexity by investing in "alternative investments" to address unique investment objectives, manage risk preferences, and take advantage of tax or liquidity considerations. Investments like private credit, real estate, private equity, and hedge funds can offer a compelling tradeoff for investors. But they often come with higher fees, less liquidity, the use of leverage, and variable tax considerations. We incorporate alternative investments into client portfolios only when we feel they offer a compelling tradeoff of after tax, net returns relative to their risk and higher cost. Regardless, back to the battle plan, it's imperative to understand what you own and why.

We are constantly weighing the tradeoffs between return, risk, complexity, and cost. Sometimes that happens behind the curtain. But we want to ensure that clients understand those decisions, and most importantly, understand what they own and why. We're not expecting shoeshines in the process.

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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 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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