

THOUGHTS FOR THE WEEK

CHICKA CHICKA BOOM BOOM

March 28, 2025

In between reading The Wall Street Journal and Morgan Stanley Research, the team's newest dad finds time to skim lighter fare. *Frog and Toad*, *Dr. Seuss*, and *Peter Rabbit* top the charts, but there's one book that gets his son's arms waiving like he's front row at a Raffi concert: *Chicka Chicka Boom Boom!*

Chicka Chicka Boom Boom colorfully personifies children as lower-case letters of the alphabet chasing each other up a coconut tree. By the time *z* makes it to the top, the tree is too crowded and...chicka chicka boom boom...down they go! The children's parents (upper-case letters) rush to help the likes of *skinned-kneed d*, *loose-tooth t*, and *black-eyed p*.

Trading strategies – like coconut trees – can get “crowded”, and the financial laws of physics imply that “crowded trades” eventually head in one direction...chicka chicka boom boom!

Wall street banks survey investment managers to track the market's “most crowded trades”. For the past two years, US technology stocks have led the pack. Before that, oil and the US Dollar took the top spots. The prior seven years were almost entirely dominated, again, by US stocks, with cash gaining popularity in 2020 during the depths of the covid crisis (Source: BAML Global Fund Survey).

The implied reversal of a “crowded trade” can make investors uneasy, but the outcomes are mixed, and being a “crowded trade contrarian” is not a sound long-term investment philosophy. For example, investors who avoided US Stocks 10+ years ago in an effort to dodge a pending collapse in prices were wrong. The trailing 10 year average annual return of US Stocks is +12.7%, while non-US Stocks only gained +5.3% per year over the same time period. Putting that into dollars and cents: \$1M of US Stocks turned into \$3.3M, while \$1M on non-US Stocks turned into \$1.7M (Source: The Bloomberg).

But non-US Stocks have started to outperform this year. As of this writing, the US Stock Market is down (3.3%) year-to-date, and the stock market outside of the US is up +8.2% (Source: The Bloomberg). Is it too late for US-centric investors to diversify? Have they missed the next “great trade”? We don't think so, and if it isn't yet clear, we don't apply a “trading mentality” to managing client capital.

Non-US stocks should provide long-term investors a differentiated return stream relative to their US counterparts. Global stocks have exposure to different economic sectors, pay higher dividend yields, are exposed to different political regimes, and trade at lower valuation multiples. To be clear, this is not a recommendation to liquidate all of your US Stocks and invest abroad. You should work with a financial professional to better understand if diversifying makes sense and how to implement a strategy that works best for you.

If US markets remain rocky, moving all of your long-term assets to the “cash coconut tree” – like many investors did in 2020 – can be costly. During the depths of the covid crisis, cash was a calm port in an

otherwise tumultuous economic storm. But unless you exhibited other-world timing skills (or simply got lucky) , you missed out on a rally that kept going. Almost 5 years ago to the day, the S&P 500 bottomed at 2,192 on 3/23/2020. As of this writing, it trades at 5,757 or 162% higher (Source: The Bloomberg).

In sum, trading strategies – crowded or not – tend to offer investors mixed results. The more certain result of hopping from one coconut tree to the next is a healthy tax bite, as short-term turnover – even if successful – can eat into long term returns.

In *Chicka Chicka Boom Boom*, **x**, **y**, and **z** are last to emerge from the pile of battered letters, and readers are made to believe that the children might have learned their lesson.

That is, until the sun sets, a full moon rises, and **a** is out of bed taunting his healing pals.

*Dare, double dare, you can't catch me.
I'll beat you to the top of the coconut tree.*

Like the lower-case letters of the alphabet, speculative investors will continue to follow one another up and down the coconut tress of the capital markets, in hopes of finding the next great trading strategy. Long-term investors, however, are content to stand by and focus not on one individual tree, rather the broader, more diversified grove in which they all grow.

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 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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