THOUGHTS FOR THE WEEK

TALKING HEADS

August 08, 2025

I've changed my hairstyle so many times now, I don't know what I look like.
– Talking Heads

Talking Heads were masters of reinvention, blending punk, funk, and art rock into a sound that defied norms. Their 1984 documentary, *Stop Making Sense,* remains a cultural touchstone—its 40th-anniversary re-release filled theaters in 2024. We recommend a watch (or re-watch) of this classic.

David Byrne's witty lyrics and antics poke fun at society's timeless obsession with chasing fads, like trendy haircuts or oversized grey suits. It reminds us of how frenetic investors chase market trends. Time it right, and you're an icon; miss it, and you're stuck with a mullet in a mohawk world.

Investment strategies, like haircuts, come in a variety of styles. *Technical analysis* uses charts—Bollinger bands, "vomiting camels," and other peculiarities—to predict market movements. *Fundamental analysis* dives deeper, estimating an investment's intrinsic value through a company's earnings projections or a bond's contractual cash flows. A third approach tempts investors with promises of quick gains: *Sector Rotation*.

Sector rotation involves trading in and out of different economic sectors—technology, energy, healthcare, financials, consumer staples, and more—to capture the strongest market segments while avoiding laggards. Charlie Munger describes it best: "You simply figure out when oils are going to outperform retailers, etc., etc., etc. You just kind of flit around being in the hot sector of the market making better choices than other people. And *presumably*, over a long period of time, you get ahead." The talking heads *of CNBC* make it sound simple—like switching hairstyles to keep up with the times—but predicting short-term market movements is nearly impossible. In fact, chasing trends often leads to weaker returns and higher taxes compared to a more consistently diversified investment strategy.

The consequences of poorly timed speculation are far more serious than a bad haircut. A 2021 Dalbar study found that the average equity investor underperformed the S&P 500 by about 1.7% annually from 2000 to 2020, largely due to mistimed trades. Some investors rode the technology wave during the 1990s dot-com boom or joined the energy sector during its early 2000s surge. But buying is only half the battle—selling before the trend fades requires impeccable, often unrealistic, foresight. By the time most investors sense a shift, it's too late to profitably rotate, leaving them with a buzz cut instead of a bob. In contrast, a diversified portfolio, holding all market sectors, offers the potential for steadier growth.

Frequent trading can rack up significant costs. Short-term capital gains—profits from assets held less than a year—are taxed at ordinary income rates, up to 37% for high earners in 2025, compared to 15–20% for long-term capital gains. A 2023 Vanguard study found that high-turnover strategies like sector rotation can reduce after-tax returns by about 1–2% annually compared to a buy-and-hold approach. For a $1 million portfolio growing at 7% over 30 years, a 1% tax drag lowers the final value from $7.6 million to $5.7 million. Transaction fees and commissions further erode returns, acting like scissors snipping away at your wealth. A diversified portfolio, minimizing turnover, allowing the intrinsic value of your investments to compound steadily over time. From 1928 to 2024, the S&P 500 averaged about a 10.1% annual return, driven by consistent diversified growth, not trend-chasing speculation (Source: NYU Stern).

There are rare tales of investors trading their way to success—some manage hedge funds, others corner you at cocktail parties with their "expert" insights. Munger builds on the prior quote, "Maybe some people can do [sector rotation] ... All I know is that all the people I know who got rich—and I know a lot of them—did not do it that way." Munger favored long-term, patient investing, getting rich "slow." He warned that chasing trends often led to costly unintended consequences, and he encouraged investors to pursue simpler, diversified equity strategies. We could not agree more.

As *Talking Heads* remind us, *This is not a party. This is not a disco. This ain't no fooling around.* A sound investment strategy is serious business.

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Awards:
2024-2025 Barron's Top 250 Private Wealth Management Teams
Source: Barrons.com (Awarded 2024-2025). Data compiled by Barron's based on 12-month period concluding in Dec of the year prior to the issuance of the award.

2024-2025 Forbes Best-In-State Wealth Management Teams
Source: Forbes.com (Awarded 2024-2025). Data compiled by SHOOK Research LLC based on 12-month time period concluding in March of year prior to the issuance of the award.

Mike Burbank | **2017-2025 Barron's Top 1,200 Financial Advisors: State-by-State**
Source: Barrons.com (Awarded 2017-2025). 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 | **2020 & 2022-2025 Forbes Best-In-State Wealth Advisors**
Source: Forbes.com (Awarded 2020 & 2022-2025). Data compiled by SHOOK Research LLC based 12-month time period concluding in June of year prior to the issuance of the award.

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