

The Riverwood Wealth Management Group at Morgan Stanley

News and Views

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Mark Bisbach, CFP®

Executive Director
Senior Portfolio Management Director
Alternative Investments Director
Financial Advisor
NMLS #1262355

Sara Pitcel

Senior Vice President
Senior Portfolio Management Director
Family Wealth Director
Insurance Planning Director
Financial Advisor
NMLS #1290442

Jeffrey J. Krause, CPWA® CFP®

Senior Vice President
Portfolio Management Director
Alternative Investments Director
Family Wealth Director
Financial Advisor
NMLS #128816

Denison J. Kummrow CPM® CRPS®

Associate Vice President
Senior Portfolio Manager
Financial Advisor
NMLS #1295559

Kurt Maltby, CFP® ChSNC®

Associate Vice President
Financial Advisor
NMLS #1504808

Daniel T. Krause

Executive Director
Financial Advisor
NMLS #2593226

Another year and another round of expert opinions about what is going to happen during 2026. I spent a little time over the past few weeks looking over the predictions put forth by many of these same pundits 12 months ago and found that none of them had any of the major market moving events of 2025 listed. This is not meant to cast dispersions on them or their professional accreditations. But to be honest, I guess it is meant to make a little fun of the hubris involved in thinking one can make such predictions with any accuracy. We do realize that we have written on this topic before, and this time we will attempt to put a different spin on it by trying to describe how we try to incorporate having a view about the future in our investment process.

First, we need to point out that any of the views put forth in this note are mine and not necessarily those of Morgan Stanley or its affiliates. Having said that, let's start with interest rates. We believe is more likely to than not that the Fed will move rates lower in 2026. We do not know how many cuts there will be nor when these cuts might happen. We do not believe such accuracy is as important as having a view on the general direction. Our view about the general direction of rates leads us to consider extending the duration, or date of maturity, on the bonds we want to own. We also recognize that we might be wrong about our view on rates and recognizing this helps us keep our investments around the theme within parameters that could help limit downside if that is the case.

Another opinion we have is that geo-political events will probably occur with the same, or even increased, frequency as they have over the past 12 months. Issues surrounding trade, intellectual property, and energy seem to be among the most contentious in this regard and could cause us to be more (or less) interested in certain sectors or types of companies. We do not need to predict which company, or which specific country might be affected, we don't need to know what month such an event may occur, nor do we need to know exactly what might trigger such an outcome. Simply having the view that there is an increased likelihood of something happening can help guide our investment, and our allocation, decisions.

There are, of course, countless other areas in which we have opinions, but you get the idea. We believe that when forecasts attempt to be too precise negative outcomes can occur, even if the general premise of the forecast was correct. Certainly, being both very detailed and being correct can result in good outcomes. But being correct multiple times is, by definition, harder than being correct once. We have also observed what we perceive as a correlation between the specificity of a prediction and the amount of confidence in the forecaster. A sort of tunnel vision sometimes develops around the forecast which can lead to a level of over-confidence which, in turn, could lead to over-allocation into an investment that requires the future to roll out in a very specific manner. We think this is especially true if the forecaster had made an accurate prediction recently. Over the years we have noticed that if one makes a detailed prediction in which they are correct, they often seem to be elevated to superstar seer status. For decades to come they will be referred to as the person that predicted "xyz" and every forecast they make for years to come will be considered sacred. Interestingly enough (at least to us) no one seems to remember the predictions made by this cohort that were incorrect or inaccurate. There seems to be limited downside to being wrong. We believe this is one reason that so many of these pundits make as many detailed predictions as they do. If they get one correct their career is set for years to come while getting one wrong simply means they must try again. What seems to be lost, or not tracked very well, is the cost of inaccurate predictions.

In a nutshell, we know it is important to have a view about the markets, rates, the impact of political events, inflations, and so forth...and we do. But we don't believe it is important, and could even be harmful, to attempt to be too specific in these views. If we can have a good outcome simply by getting the direction of rates correct we prefer that to needing to know the number of rate cuts and the exact stopping point of rates to have a good outcome. We like the idea of removing as many requirements as possible from the successful execution of our investment thesis. In addition, we think it is important to recognize that we might be wrong, and to be ever mindful of the impact of those instances. Thanks very much, and as always, please call anytime.

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20975 Swenson Drive, Suite 300, Waukesha, WI 53186

Phone: (262) 523-8300

Fax: (262) 523-8333

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