The Riverwood Wealth Management Group at Morgan Stanley

News and Views

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To say that there is a lot of uncertainty in the air would a massive understatement. Of course, the markets always have a lot of unknowns and there are always events occurring that were unexpected. That part is not new. What is different this time is the speed and volume at which these events are occurring. Imagine a leak suddenly occurring in your roof. Probably unexpected, but not something that you would consider too unusual. Now, imagine a leak popping up every day for a week in different places and unrelated to each other. That would certainly have a different feel to it.

From our perspective the question is, how do we invest in such an environment? Long-time readers know that our approach to investing has always been centered on several core beliefs. First and foremost, among them is that establishing an asset allocation that matches your goals, risk tolerances, and time horizon is of utmost importance. We believe the decision as to just how much should be exposed to stocks, relative to risk tolerance, is among some of the best ways to help manage the anxiety that usually accompanies market turbulence. We cannot eliminate the angst that comes with declining markets, but not being over-exposed to equities during such events needs to be done ahead of time to be most efficient. This might mean it feels a little like "not keeping up" when the equities are rising, but also means not keeping up when they are declining.

Once that decision has been reached, our next belief has to do with the criteria we strive to utilize in our stock selection. In our view, in the long run, total return has a lot to do with just how much you pay for an investment. It might seem very apparent at first blush, but as we know during rising markets it is not unusual for hot, or popular stocks to sell for very high prices based on their expectations of future growth. Sometimes paying those prices to acquire those types of stocks can work out, but in our view that is a bit more like speculating than investing. We try to focus our efforts around valuing an investment around what it currently earns, what the sales volumes are now, what the debt levels are now, and so forth. Certainly, it is important to consider the rate of potential future growth, but we do no "over-weight" those estimates since they may not happen. We believe this approach helps us attempt to avoid being exposed to volatile outcomes if those forecasts or expectations are not met.

Another principle we strive to follow is that of equity diversification. It is very easy to find yourself over-allocated to a sector that has been doing well for some time. Recently technology related stocks have broadly been good performers, so over the course of months or years it can be very easy to own a portfolio that is over-allocated to these names. But what tends to happen periodically is that those "hot" sectors will suddenly have a broad correction and any portfolio that is over exposed to those type of stocks will experience declines that could be greater than a diversified portfolio may have experienced. In addition, during such declines it is not unusual for sectors that had been poor performers to suddenly start doing well and a diversified portfolio would already have some exposure to those sectors and could benefit fully from such a rotation.

None of this is meant to give the impression that following such views will prevent declines. Not at all. But we do believe a focus on math and fundamentals over time can provide a more consistent outcome. It seems reasonable to us that any time one can eliminate any of the "unknowns" inherent in the investing process the outcomes could be somewhat more predictable. We also feel that following such principles may have the impact of taking some of the emotion out of the investing process. To the extent that an investor can replace some of the emotion (and hope) that often accompanies investing with a consistent, repeatable process based in math we believe the range of outcomes can be more consistent and predictable over time. Some have said that investing is a combination of art and science. If so, we believe there is value in over-weighting the science aspect of that equation. Doing so does not mean the roof will not leak, but hopefully it will help in minimizing any long-term damage. Thanks for allowing us to help. As always, call anytime.

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Morgan Stanley has recently observed an increase in Morgan Stanley impersonation scams. We want to take a moment and remind you of these important points.

Morgan Stanley will never call or text you to:

- Ask for your account password or a one-time passcode
- Prompt you to transfer money
- Request remote access to your computer or offer to connect you with our IT department.

If you receive what you suspect is a fraudulent call or email from Morgan Stanley, please reach out to us or call 888-454-3965.

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