The Riverwood Wealth Management Group
at Morgan Stanley

News and Views

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After an eventful spring it looks as if summer has arrived, though I doubt that the market cares too much about what season we are in. Despite that, the sun feels good, and we are happy to take our joy where we can get it. As we all know, the seasons and the years pass all too quickly. I find it hard to believe, but it was thirty years ago this summer that I entered the business. So much has happened and changed over those intervening decades that I am certain I only recall a fraction of it. Just think back to what you were doing thirty years ago and how different your life is.

Of course, a lot has happened in the markets over that time as well. We have experienced one of the worst 10 years periods in the S&P as well as one of the best. We witnessed some noteworthy market disruptions over that span as well. Most recently, the market reaction to the global Covid-19 pandemic, beginning in 2020, is still fresh in our minds. Likewise, the 2008 Financial Crisis sparked by subprime mortgages is a pretty recent and well-remembered event. The dot.com bubble bursting in the late 1990's, fueled by the rapid growth (and more rapid demise) of many internet related companies. Let's not overlook, or forget, the market disruptions that resulted from the 9/11 attacks. There are numerous other, perhaps less dramatic, but no less difficult events that have occurred over that span. In fact, the same could likely be said for any 30-year period in history.

Another event, possibly less well remembered, would be what has come to be known as the Russian Debt Crisis in 1998 when the Russian government defaulted on its debt. That alone is noteworthy, but the fact that a large hedge fund had made some very, very levered investments hinging on the Russian bonds doing well almost led to a global financial meltdown. Instead of going up in value the Russian bonds ultimately went to zero. This alone would be bad for the hedge fund, but the amount of leverage they had employed made it a near global disaster. Using loans, which used securities and bonds for collateral, they bought even more of the bonds. As the value of the bonds went down, so did the value of the collateral they had used to borrow the money. This forced the banks to ask for more collateral, or for the money back. Of course, they could not come up with it since everything they had was invested in Russian Bonds that were going down in value. The hedge fund had to sell those very bonds to meet the bank demands. This selling drove the value of the bonds even lower which resulted in more collateral demands from the banks. A vicious, inescapable spiral ensued, as did fear regarding the viability of other sovereign debt in the region. After all, if Russian bonds were defaulting, what would happen with the other countries? It took a concerted effort by numerous financial institutions to prevent deeper damage to financial markets.

In retrospect, that event had impact on me in terms of my approach to the markets. I was new in the business and still trying to understand "how the machine works" and I came away with several core concepts. One would be that markets are far more inter-connected than one might believe. Never take any noteworthy disruptions for granted, as you never know when some hedge fund had made an ill-conceived, over levered "bet" that might be impacted by some event creating a domino effect on the markets. That led to the other core belief. That being that everyone's investments should be tailored to their own unique goals, time horizons, and risk tolerances and should not ebb and flow with some view about how well the market may or may not be doing. Don't be overly aggressive when the market seems to be doing great and don't be too cautious based what appears to be difficult Rather, make your allocation choices based on you and your objectives.

The other concept I took away is that disruptive events will occur with some frequency in the market. They always have and they always will. You cannot avoid them, nor can you invest around them. Likewise, despite how dire disruptive events may seem, markets have always emerged. The better course of action is to have a consistent and repeatable investment process and couple it with your unique objectives and tolerances and stay with it. Thanks for allowing us to help, Call anytime.

Team Member News…

Please join us in congratulating Sara's youngest, her daughter Gabriella, who will be graduating from Mukwonago High School and heading off to college.

She will be attending the University of Illinois at Urbana Champaign, will be majoring in Kinesiology, and will be playing volleyball for the Illini.

Good Luck!

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