Morgan Stanley

PRIVATE WEALTH MANAGEMENT

Andrew Schultz | My Thoughts
The Black Swan

My definition of a Black Swan Event is an event that causes many markets to have major fluctuations downward. In my past 30 years of investing, I can recall many, what I would define as, Black Swan Events; 1998 Russian Ruble crisis, 9/11/2001 followed by tech selloff, 2008 financial crisis, 2013 Taper Tantrum, 2020 Covid 19, 2022 Ukraine invasion. During most of these occasions, many of the world's stock market indexes dropped substantially. It would seem on average about every 5 years or so we seem to have a Black Swan event.

Please ask yourself, Did you anticipate any or all of these? When any of these events happened did you then sell out of risk assets at or near the market top? If you did, did you then buy back in at or near the market bottom?

I believe if many are honest with themselves, the answer is no, no, and no.

The questions one should be asking themself if there being honest with themselves is; Were you too overweight in risk assets, for many that is stocks, going into any of these events? Did you panic after any of these events and sell out at or near the bottom when it may have been a better time to be buying? Do you feel too heavy in risk assets right now, and are you getting nervous?

In my opinion, if one uses Murphy's law as their lead tenet in portfolio construction, one may never have to ask themselves any of these questions as one would hopefully be prepared for most Black Swan events. In my opinion, many investors are typically far too overweight in risk assets relative to their risk tolerance and forget far too quickly just how far markets can drop when Black Swan events happen.
In my opinion, there is a better approach to investing that I have advocated for most of my career. If you have not read many of my articles before, I encourage you to go to my website and read them in my archives. You can then see that this is not an opinion of the moment but a philosophy of investing that I have believed in for most of my 30-year career.

To review my basic tenets; One should never invest any money in the stock market, unhedged, that cannot handle 50% volatility. For most investors, I have found that is typically only 20-30% of their investment assets. In my opinion, diversification means owning many different asset classes, stocks, bonds, alternatives, commodities, real estate, etc., and does not just mean owning a diversified basket of different stocks. As I often say, "A portfolio should contain as many different definable, repeatable processes with track records that have low correlation or no correlation to each other." The issue many investors have with this is that during bull stock markets, a portfolio of this nature may underperform a portfolio that is mostly in stocks. But what do you think may happen to a portfolio of this nature during "Black Swan Events?"

I believe slow and steady wins the race and keeps investors invested. Over the long term, in my opinion, this is a wise way to preserve wealth. Going too heavy into risk markets relative to one's risk tolerance with the mindset of assuming one will sell out at or near the top once bad things begin to happen, in my opinion, is a "fool's errand." Instead, I believe "Be a Turtle, not a Hare," "Let Murphy be your guide," and seek the counsel of a qualified Financial Advisor to help you do this.

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