My Thoughts: "Why is everyone so surprised?"
By: Andrew Schultz

Why is everyone so surprised the stock market recently dropped the way it did and has been volatile? It seems to make a lot of sense to me!!

We recently went through a practically uninterrupted, raging Bull stock market for almost 9 years in a very low interest rate environment. Some may argue we are still in it. During this period, stocks, as an asset class, had outperformed many other asset classes [1]. As result, many retail and institutional investors exited other asset classes and overweighted into stocks.

When one is overweight in a volatile asset class, relative to one’s risk tolerance, and that asset class temporarily drops, emotions tend to take over. Investors then tend to sell more than they probably should at the wrong time instead of potentially riding it out. The fear of loss can become overwhelming. Thus markets tend to sell off harder than might have been the case, if everyone were allocated correctly among different asset classes relative to their risk tolerance.

Twice in the last decade (2001-2010) we saw many equity markets go down approximately 50% from peak to trough [2]. What this says to me is that the only money one should have allocated to stocks in their portfolio is the portion that can handle 50% volatility. For most investors, based on this assumption, their equity allocation is too great.

I am not sure what the next 9 years look like, but I feel strongly that using a rearview mirror of the last 9 is not the best way to allocate investments going forward.

Andrew Schultz
Managing Director, Wealth Management
Senior Portfolio Management Director
Private Wealth Advisor

Morgan Stanley Private Wealth Management
The Schultz Group
1691 Michigan Ave.
Suite 550
Miami Beach, Florida 33139

Phone: 305 695-6116
Fax: 786 619 3760
Email: andrew.schultz@morganstanleypwm.com
https://fa.morganstanley.com/theschultzgroup

Private Wealth Management is the boutique business within Morgan Stanley Wealth Management that is exclusively focused on Ultra-High-Net-Worth individuals, families and foundations. By providing advice founded on a culture of excellence and driven by global insight, Morgan Stanley PWM is devoted to helping clients preserve and grow their financial, familial, and social capital.
1. (Source): Bloomberg, Morgan Stanley Research, as of 12/12/2018
2. (Source): Global Financial Data, msnbc.com research

The views expressed herein are those of the author and do not necessarily reflect the views of Morgan Stanley Wealth Management or its affiliates. All opinions are subject to change without notice. Neither the information provided nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. Past performance is no guarantee of future results.

This material does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The strategies and/or investments discussed in this material may not be suitable for all investors. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a Financial Advisor or Private Wealth Advisor. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives.

Asset allocation and diversification do not guarantee a profit or protect against a loss in a declining financial market.

Information contained herein has been obtained from sources considered to be reliable, but we do not guarantee their accuracy or completeness.

Morgan Stanley Private Wealth Management, a division of Morgan Stanley Smith Barney LLC. Member SIPC.

S&P 500 Total Return: The S&P 500 has been widely regarded as the best single gauge of the large cap U.S. equities market since the index was first published in 1957. The index has over $5.58 trillion benchmarked, with index assets comprising approximately $1.31 trillion of this total. The index includes 500 leading companies in leading industries of the U.S. economy, capturing 75% coverage of U.S. equities. This index includes dividend reinvestment.

CRC 2381506 1/19