

Client's Corner

The Market Is Inviting You to Make The Big Mistake. Consider Declining the Invitation.

WHAT A DIFFERENCE THREE WEEKS MAKE.

From a new high on February 19, the Standard & Poor's 500-Stock Index dropped ten percent in said three weeks, into what financial media love to call "correction territory." In the process, about \$5 trillion of "stock market wealth" is reported to have gone up the flue.

This was one of the fastest corrections in market history, and is most remarkable for the suddenness and totality with which investor sentiment jackknifed—from blissed-out "Why do we own anything other than the Index?" euphoria to "Why are we in stocks at all?" terror.

The precipitant of this massive reversal is widely held to have been the quixotic initiatives of the newly installed president, particularly as they relate to tariffs. Which may be accurate as far as it goes, but which misses an important point—to wit, that the market in general, and in particular the so-called Magnificent Seven stocks which had lately dominated it, had been priced for (and arguably beyond) perfection. In a very real sense, the market couldn't afford to have *anything* go wrong, whereupon—as it so often does in similar circumstances—*everything* went wrong. And *fast*.

If history and logic are any guide—and I would maintain that they're the only guides we ever really have—these very disturbing developments (and perhaps still more to come) constitute an invitation currently being offered to investors by the witch of markets: to follow their worst impulses and make The Big Mistake by going to cash. This little essay suggests that you politely but firmly decline the invitation.

Knowing nothing about you personally—but keenly aware of the caliber of financial advisor who forwarded this essay to you—I proceed on certain assumptions. First, that you and your advisor have long since agreed upon your most cherished lifetime financial goals. Next, that you've made a formal plan for the achievement of those goals. And

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finally, that you've invested in a broadly diversified portfolio of equities which would, assuming historical rates of return, in the long run carry your plan to success.

And going into mid-February, I'll assume you and your advisor were quite contentedly following that program, with quite good results. After all, the broad market—whose hundred year return hovers around ten percent per year—had compounded at about 16% since the last real "end of the world" blew itself out in March 2009.

But now, the witch is whispering in your ear those four most dangerous words in investing: "This time is different." As, narrowly speaking, it surely is. Why, just in the first quarter of this century, there have been four vastly different and quite terrible bear markets.

The current chaos is surely different from any and all of those very real crises, as indeed all of them were completely different from each other. *All crises are different*. But—and here, finally, one begins to come to the point—they haven't been anywhere near different enough to derail the relentless growth of innovation and productivity by America's leading companies. Indeed, just prior to the dot-com implosion, the S&P 500 closed out 1999 at 1469. As I write in late March, it's 5600. Even the cash dividend more than quadrupled.

Without a shred of objective evidence, I think I'm on solid ground in suggesting that long-term investors who heeded the siren song of the witch, and who sold into

any of these major declines, had occasion relatively soon to regret that decision bitterly, and for a long time. Also without a shred of objective proof—because there are no facts about the future, and because past performance is no guarantee of future results—I suggest that this time probably won't be importantly different *in the long run*.

It may be difficult for you to accept this thesis. If it's any comfort: you wouldn't be human if you weren't

feeling the fear. But feeling the fear and then acting on it—thus making what has historically always proved to be The Big Mistake—are and remain two completely different things. Helping you separate the two is, I submit, why your financial advisor was sent into the world.

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Source: Levels, percentage price declines and dividends: "S&P 500 Earnings History," NYU. CAGR March 2009 to February 2025: Historical Return Calculator on the website "Of Dollars and Data."