

When Do We Learn?

“All of this suggests to us that the next significant market shock—and there always is one; they come along with almost the frequency of the crosstown bus—will probably come out of deep left field (in the jargon, an unknown unknown, as opposed to a known unknown like valuation or the national debt). And like all the shocks of the past, and all those yet to come, it will have very little to do with us, other than as a potential bargain-hunting exercise.”

—From the draft [annual letter](#) to clients, NMI January 2026

ARE WAR IN THE MIDDLE EAST AND THE EXPLOSION of fear and loathing around AI left-field enough to validate the above outlook? Or do we need even more and different total shock(s)?

More to the point, did we carry the above message to our clients with sufficient force *before* the events of the last couple of months? Or did we try to glide past the need to do this, hoping against hope that we wouldn't need to anytime soon? And if the latter, what on earth are we now telling our shell-shocked clients?

Let's back up just a few months—while acknowledging that this may feel like an era of geologic time—to last October. To anyone with a functioning adult memory, it was as intensely speculative a time as one had experienced since the dying days of dot-com.

As how could it not be, human nature being what it is? The broad equity market had been compounding at 16% since the March 2009 low, *and at 24% since the bear market low of October 2022*. It was perhaps more



concentrated than it had ever been, in high tech names trading at stratospheric multiples. Nasdaq was that much higher for being that much more concentrated. Bitcoin hit \$126,000.

Like all things that cannot go on forever, these trends stopped. Rational concern about the circularity of huge-tech capex began to set in. And in these intervening months there came to pass one of the most dramatic and sweeping rotations of all time—out of tech-heavy growth and financials and into every conceivable sort of value, both large and small cap. Not to mention an epic run of screaming outperformance by international stocks. Sectors, in other words,

From the Impatient to the Patient

“But despite the improving sentiment, the [Northwestern Mutual Planning & Progress Study] survey findings reveal a parallel trend that advisors may find concerning: Many investors, particularly younger ones, are turning to speculative assets that are more accessible than ever in an effort to catch up financially.

“About 39% of Americans say they are investing or considering investing in high-risk assets such as cryptocurrencies, options, prediction markets, sports betting or meme stocks.

“Among the investors drawn to speculative assets, 73% say they are doing so because they feel financially behind and believe those investments could help them reach their goals faster than traditional approaches.

“That sentiment is particularly strong among younger generations, the survey found. Roughly 80% of Gen Z investors who are considering speculative assets say they are motivated by the feeling that they need to accelerate their wealth-building efforts.”

—“*Feeling Financially Behind, Americans Turn to Riskier Bets, Northwestern Mutual Says*”

Jennifer Lea Reed, *Financial Advisor*, March 9

that had long since been given up for dead. Validating yet again the technical analyst Walter Deemer’s memorable dictum, “The stock market will do whatever it has to do to embarrass the greatest number of people to the greatest extent possible.”

This rotation was well underway before the Citrini panic and the attack on Iran—to the great joy of those of us who are very broadly diversified, and who had only recently carried out our annual rebalancing. ***But to relatively little effect in terms of the mainstream equity market’s overall valuation.*** At around 6,700 on the S&P 500 as I write, the forward P/E assuming \$320 earnings has settled all the way down to...21. (And that \$320 may be starting to look a little iffy.)

Forgive me, but at anything like 21x forward earnings, the market is still considerably above its 30-year average of 17. In point of actual fact, it’s one full standard deviation above that average—an event of notable rarity. ***By any historical standard, mainstream equities—even after this epic rotation—remain at best fully valued, and at worst overvalued.*** And on top of that, you’ve had panic verging on existential terror over AI *and* war in the Middle East *and* growing signs that the newly democratized asset classes of private credit and equity may be coming a cropper.

Which means that, if an advisor had not had a full and frank conversation aimed single-mindedly at shockproofing the clients fairly recently, said advisor is currently in a world of at least potential hurt. Indeed, said advisor may already be found curled up in the fetal position at the bottom of their foxhole, into which terrified clients are lobbing grenades of questions neither they nor anyone else can answer authoritatively.

It’s my fond hope that no one who subscribes to this newsletter, and has read ***This Time Isn’t Different***, currently finds themselves in this lamentably defensive position. They know both as an article of faith and as a core behavior management stratagem that ***you cannot start doing lifeboat drills after Titanic hits the iceberg.***

All of that said, we may find it useful to recite our essential position in this and indeed all similar situations. In broad outline, what will we say when asked by a client what we make of all this, and how we propose to deal with it in terms of their portfolio?

1. No one—absolutely no one—knows how AI will ultimately play out. No one knows how or when the situation in Iran will be resolved. And you cannot make rational investment policy out of complete unknowns. (You can certainly make ***irrational*** investment policy, as in “Let’s just get the hell out of the market and hold cash until all this settles

down.” But then even worse decisions would just cascade, and any hope of lifetime investment success would vanish—along with the advisor’s ability to be of any further help.)

2. We are not running your portfolio off current events. Even more pointedly, we never *react* to current events in any way. Our investment policy is dictated purely by your most cherished long-term financial goals, as expressed in the plan we’ve made for their achievement. Unless your goals change, we don’t alter the plan. And if the plan isn’t changing, neither will our investment policy. These are really the only variables in a lifetime of investing over which we have any control. Fortunately, that control is total.

3. Clients who are net accumulators of equities should view any and all market declines as a blessing—an all-too-rare opportunity to acquire shares of great businesses at panic markdown prices. (If only via dividend reinvestment, which really sits up and barks at such times.) Others should be holding sufficiently robust cash reserves to see them through, using the strategies we have in place.

4. All of the companies we own are even now actively seeking to capitalize on the development of AI in ways that will most directly benefit shareholders. Of course there will be winners and losers, and of course neither we nor anyone else can forecast which will be which. (See (1) above.) This is exactly why we’re so broadly diversified.

5. Our plan continues to anticipate that at least 20% of our invested capital will appear to disappear temporarily

about every five years or so. Neither the onset of those declines nor the resumption of the permanent uptrend can be timed. Hence we ride them out, thereby capturing the full miracle of uninterrupted compounding.

6. Whether the current weakness turns into the next one of these drawdown events is unknowable in advance. But since the last one (down 25% in 10 months) took place in 2022—and since the market has soared since then—we wouldn’t be surprised, and certainly wouldn’t be panicked, if it did. Indeed, we wouldn’t be surprised by anything. **Speculators get surprised by declines; lifetime investors like us get validated. We planned for this.**

7. When the war in Iran ends, and as the ultimate shape of AI in the real world becomes clear, we believe the capital markets will continue to price corporate earnings and dividends essentially as they have over the long term. That is to say: with real (net of inflation) returns to the shareholders more than twice what the bondholders receive. To a financial planner trying to achieve the great goals of life for their clients, this isn’t just all they can know. **It’s very nearly all they need to know.**

I do not doubt for a moment that—as with all revolutionary, disruptive technologies—some significant portion of the money currently being thrown at AI may be lost, after which the survivors will thrive as never before. I repeat that neither I nor anyone else can know with any precision how that will play out. It is why I practice—and encourage you to practice, with anyone who’ll listen—*the humility that is diversification.*

My entire theory of prospecting in eleven words:

“I have stood on a mountain of no’s for one yes.”

— B. Smith (1949-2020)

Client's Corner

The Liberating Potential of Chaos

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IN THE FIRST SEVENTY DAYS OF THIS YEAR, THERE occurred—in no particular order—the following:

- The U.S. military extracted the President of Venezuela from his palace; he is currently being held in Brooklyn.
- The President of the United States broached, with apparent seriousness, the possibility of acquiring Greenland.
- The Supreme Court struck down the administration's IEEPA tariffs.
- The price of Bitcoin completed the process, begun the previous autumn, of halving.
- The first primary contests in what will be the midterm elections kicked off, possibly signaling a change in control of one or both houses of Congress in November.
- There was a well-nigh tectonic rotation in the stock market from growth to value, as AI morphed in the mind of the market from technological miracle to Frankenstein's monster.
- Federal agents shot to death two protesters in Minneapolis under bitterly disputed circumstances.
- A research paper from a hitherto little-known source posited a scenario in which unemployment might rise to 10% and the stock market decline nearly 40% by 2028. That the writer was not actually *predicting* this outcome was a distinction totally lost on the stock market, which experienced a brief but total moment of existential panic.
- The price of silver went parabolic, culminating in a one-day 31% decline—the largest since March 27, 1980, the day the Hunt brothers' attempt to corner the silver market collapsed.
- The United States and Israel decapitated the leadership of Iran, effectively closing the Strait of Hormuz and causing oil prices to spike; said spike is ongoing at this writing, with—as financial journalism loves to cry—“no end in sight.”

• In February, the U.S. economy shed 92,000 jobs, a somewhat ominous development that had been forecast by precisely nobody. (The consensus forecast had been a gain of 55,000 jobs.)

There was some other stuff—the above is a curated rather than an encyclopedic list—but you get the point. Which is simply that we find ourselves in a moment of near-perfect economic, financial, political and geopolitical chaos. It's a Jackson Pollock splatter painting.

Now, there's always a crisis or three brewing somewhere, but a confluence like the current maelstrom is rare, and of inestimable potential value to investors and their advisors. We must not waste it, but rather allow it to teach us what it's trying so desperately to do. Which is, simply stated, that *we can never make rational long-term investment policy out of current events.*

This is a terribly difficult idea for many people to take on board. Whenever there's a headline crisis du jour—the highly anticipated Recession of 2023, for example, which (in case one had forgotten) never actually happened—it is natural for investors to fixate on it. Not least of all because journalism pounds away at it day after day. Until the poor benighted investor cries out to their advisor, “Mustn't we alter our portfolio strategy to protect ourselves from this? Surely we need to do *something*.” Human nature defaults to this response; it's not even a conscious process.

I proceed, in these little essays, on the assumption that your advisor will have made a comprehensive analysis of your goals. He or she will have derived a long-term plan for the achievement of those goals, and funded that plan with a well-diversified portfolio whose historic returns—including the historic incidence of bear markets—would get you where you need to go in the time allotted.

Thereafter the challenge is simply to execute that plan over time with patience and discipline, looking neither to the right nor to the left (and *never* at the television).

But then crisis (real or imagined) strikes, and the equity market experiences another of its quite frequent corrections. If and as prices fall even further, journalism's coverage becomes ever more shrill and apocalyptic. Human nature pleads for relief from the pain...even as the crisis comes closer and closer to being ameliorated, and the market falls closer and closer to a level where it's fairly valued if not actually undervalued. Thus the emotional cycle hurtles toward its tragic conclusion.

Your financial advisor has no more idea how the current situation(s) will be resolved than you and I do. What they *do* know is that it's impossible to achieve your long-term financial goals by reacting episodically

to the never-ending succession of current events crises.

Moreover, they know that, as a general statement, the economy can't be consistently forecast nor the equity market consistently timed. Thus they'll will be encouraging you, at moments of maximum uncertainty like this, to tune out the noise and stand by your plan. All of history and logic confirm that in the long run, this has turned out to be the best advice.

Meanwhile, one can only hope that today's prevailing chaos may finally liberate investors from the toxic illusion that long-term, goal-focused, planning-driven investing should ever be affected by current events. It should not, and indeed must not.

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What We Need Now

IN THE NEXT FEW DAYS, WE WILL MARK THE FIRST anniversary of the Tariff Typhoon—an event the statmeister Charlie Bilello identifies as the second fastest bear market of all time.

Measuring as he does from the intraday high on February 19, 2025 to the intraday trough on April 7, Charlie finds that the S&P 500 declined 21.3%. (The decline on a closing basis was “only” 18.9%.) The huge preponderance of this quite terrifying episode eventuated over just four trading days. The VIX managed to close over 50, an extreme of terror previously recorded on only 74 days since 1/1/1990. (With one exception in January 2009, all the other dates are either in 2008 or 2020—the GFC and COVID panics.)

Why am I reciting the gory details of this massive but momentary panic attack? Because it feels to me as if no one remembers it. (For the record, the Index turned positive for the year on May 13, and reached a new all-time high on June 27, bringing new meaning to “If you blinked you missed it.”) From April 2025 through February of this year—i.e. just before we hit Iran—the Index return

compounded at something like 36%. *It was the ultimate validation of “buy the dip.”* And that's what bothers me. Stay with me here.

I follow the financial blogger Sam Ro. Among his many gifts, Mr. Ro always processes what's going on through the prism of his own emotions as an everyday investor trying to build his fortune. Typical of these was his Tariff Typhoon posting on April 10, 2025, titled “I'm nervous, too!”

In it, he confessed all his rattled first instincts, then calmed down and reiterated the list of long-term epiphanies he uses to keep himself and his readers focused on history instead of headlines. These may be summed up in his dictum, “It's OK to have emotions—just don't let them near your stock portfolio.”

On Sunday night, March 9 of this year—as the futures were auguring a spectacular market wipeout in the morning—Mr. Ro, running to catch a plane, posted “I'm nervous, too [PART 2].” Mostly he was just recycling last year's posting, which of course remained perfectly valid, and for the same reasons.

But it was the subhead of this current posting upon which I fixated. I now realize that it was the straw that broke this camel's back, and finally prompted the screed you are now reading. Said subhead was, and I quote:

“Unfortunately, this big sell-off is what stock market investing is all about.”

Now, I don't personally know Mr. Ro, and have never communicated with him directly. But this was too much. As politely as seemed possible under the circumstances, I emailed him:

“On what planet is five percent a big sell-off?”

Mr. Ro's response was as candid and revealing as it was nearly instantaneous. He gave me to understand that his email traffic had blown up with very large numbers of people totally freaking out. And I thought, “This is what I've been afraid of. And I've been trying to suppress my concern. For fear of being misunderstood, I have successfully beaten back the impulse to write about it up until now. But this is beyond the pale.”

It is central to all my work—as well as to my core beliefs as an equity investor, and as the father and grandfather of equity investors—that I take absolutely no position on the state of, much less the outlook for, the economy and the markets. I am in point of actual fact a long-term permabull. (There, I've said it. I'm out of the closet. I feel so much better.)

I operate on two essential principles:

(1) American common stocks are by far the greatest and the most effortless way for ordinary investors to accumulate (then live off, and then bequeath) real wealth from a standing start.

(2) The economy can't be forecast nor the market timed; thus I cannot achieve outperformance by going in and out of the market based on a current view of those two variables. Personally, I don't fear a 50% market decline. Rather, I live in terror of (in Munger's formulation) interrupting the compounding unnecessarily.

I hold further that the foregoing principles are universally true, and that they must form the investment philosophy of the Behavioral Investment Counselor. Thus I solemnly assure you that the alarmed screed which you're about to read is *in no way a forecast*.

I neither know nor care whether the next five percent move in GDP is up or down. I am even more blissfully ignorant and insouciant as to whether the equity market's

American common stocks are by far the greatest and the most effortless way for ordinary investors to accumulate real wealth.

next 20% change will be positive or negative. *You will err critically if you take what follows to be an exercise in talking the market down.*

Now, with all that out of the way, I may proceed finally to my point. Stated as simply yet vehemently as I can: **I. Hate. This. Market.**

I believe the equity market is in by far the weakest hands, and is supported by the most unrealistic expectations, since the spring of the year 2000. As Mr. Ro's “big sell-off” of five percent warns us, the investing public has been so well rewarded for so long by the stock market that they have lost touch with reality.

As how could they not? Again, the S&P 500 has compounded at 16% for the 17 years since the trough of March 2009, when the oldest cohort of Gen Z was just finishing up seventh grade. This is the second longest and strongest run of its kind, eclipsed (if only for the time being) by the 19% compound return from August 1982 to March 2000. No one (I say again no one) remembers the near-bears of 2011 and 2018; the first and only screaming, mass-panic bear market since the GFC was brought on by COVID—the mother of all exogenous variables—and was over in a month.

And let it be remembered that it was COVID that totally unleashed the gamification of investing. The meme stock craze was a pure product of social media, the ill effects of which—investing as a form of video game—have only metastasized in the interim, via phenomena like Robinhood and cryptomania.

Just the other day, Schwab's CEO spoke glowingly about how a new generation of investors keeps showing up to buy equities at every pullback. “We've seen younger investors really engage in the market,” he averred. “We [meaning Schwab] are the most followed financial company on YouTube and have strong engagement on TikTok and Instagram.”

In *This Time Isn't Different*, I argued that if we're

managing investor emotions in a productive way, we're rendering clients (in Nassim Taleb's term) **antifragile**—meaning that every serious market decline through which we coach them makes them that much stronger and prepared for the next one.

But as I look about me, everything I observe points to the very opposite trend. The notional “big sell-off” of five percent—also termed by a *Barron's* writer a “brutal correction”—tells us that the rapid and repeated success of “buy the dip” is progressively and meaningfully weakening people. It is against this drift that we Spartans must sharpen our efforts.

What we need now—the best thing that could happen to us—is an average post-WWII bear market. Average, that is, not merely in depth but in duration: call it a 30% decline that takes a full year to fall from peak to trough. The potential benefits of this to the goal-focused, plan-driven long-term advisor would surely be manifold:

- The weakest segment of our book would fall away, with our gentle prompting. (“If you capitulate here, I will no longer be able to advise you. You'll then be paying for advice I can't provide.”)

- Our surviving clients would hew to our behavioral advice as never before. (“This is why we stayed both diversified in the crazy up market and steadfast in the decline. As always, *the tortoise won.*”)

- The more serious members of the investing public would become that much more open to accepting help from seasoned professionals like us. (“Had I been your advisor, I can assure you that this would not have befallen you. And it never will again.”)

- A good 20% or more of the “advisors” who entered the profession since COVID would disappear, orphaning their clients. (“He's no longer with us.”)

This, I repeat, seems to me the healthiest thing that could happen to us right now. And I would be the first to acknowledge that it probably won't—at least not anytime soon. (Earnings look too solid, among other strengths.)

This just makes our job that much harder. And it underscores the importance of ***aggressively shockproofing our clients.*** Because when that day comes—when the lemmings rush in to buy the dip and get wiped out in the market's next big leg down—it will be too late. (See “*Titanic/iceberg*” above.)

Three Great American Resources: Oil, Gas and Resilience

“The U.S. economy of today should weather the storm of the Iran war. The United States is a net exporter of oil and natural gas. Domestic oil and gas companies are generating many billions of dollars in profits from the sharp rise in oil and gas prices. Excess profits from the war could be as high as \$63 billion. Those profits will be recycled back into the economy. More drilling for oil and gas will take place. Additional jobs will be created. A portion of the additional profits will be returned to shareholders, who will then invest in new profitable ventures. Capital spending will increase. The oil and gas sectors will emerge from the Iran war with strengthened balance sheets and higher production levels. U.S. energy producers will gain share in global oil and natural gas markets, including the market for liquefied natural gas.

“Yes, energy prices, especially gasoline prices, have surged, and this will have a negative effect on household consumption, which is the driving force of the U.S. economy. But as a percentage of disposable personal income, America's families spend dramatically less on gasoline than they did just 20 years ago. In 2007, as a percentage of GDP, households spent 5.7% on energy, including gasoline. Today, that percentage is just 3.7%, and perhaps lower. Even a 30%-40% increase in gasoline prices will not cause a recession.”

—James Rogan, writing in the *Washington Examiner*, March 17

The Undead Myth of the Failing Dollar

ALONG WITH THE MYTH OF THE IMMINENT RECESSION—actual incidence: a total of 20 months since November 2001—there is no more persistent nor baseless financial/economic trope than the failing dollar.

This myth takes two forms: (1) the death of the dollar as the world’s dominant reserve currency, and (2) the secular decline of the dollar’s intrinsic value.

To the first issue, we may profit from examining the year-end 2025 data. At that point, global central banks held about \$11.5 trillion of reserves. They broke down as follows:

Currency	Value (USD trillions)	Share of total (%)
U.S. dollar	\$6.63	57.80
Euro	2.28	19.84
Japanese yen	.67	5.81
Pound sterling	.54	4.73
Other currencies	.53	4.65
Canadian dollar	.32	2.77
Chinese yuan	.25	2.18
Australian dollar	.24	2.05
Swiss franc	.21	0.18
Total	11.47	100.00

Source: Visual Capitalist

To the second issue, the best measure of the dollar (compared to anything but itself) must be the Federal Reserve’s Nominal Broad U.S. Dollar Index, which tracks the value of the dollar against a broad basket of trading partner currencies, weighted by trade. I’m not going to use precious newsletter real estate to show you the whole chart of the last 10 years. (Look it up on [FRED](#), if you care to.) Suffice to say that it’s been as low as 107, as high as 130, and sits now just north of 120.

The name of the current bogeyman is de-dollarization, even as the dollar continues to benefit from very deep and

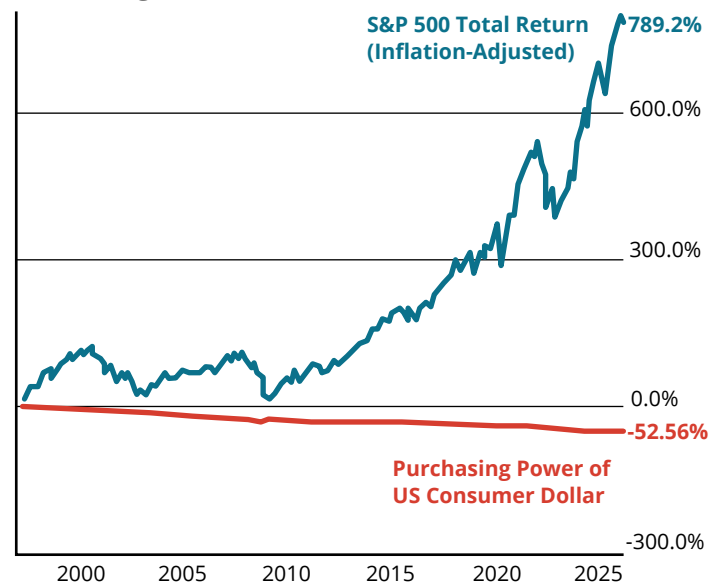
liquid U.S. markets, as well as its indispensable role in global trade invoicing. And we’ve just witnessed a quite spectacular resurgence in the dollar’s power as a safe-haven asset in chaotic times.

If our clients want to worry about something related to the dollar, let’s politely encourage them to focus on its relentless depreciation in purchasing power right here at home, in the real lives of real people. Because that’s something they can actually do something about—by investing patiently in U.S. equities.

Since 1950, inflation has compounded at three and a half percent. The S&P 500 has compounded at 11.5%, for a real return net of inflation of eight percent. (Income investors take note: even the cash dividend of the S&P 500 has grown at five and a half percent.) Mainstream equities continue to function as by far the most effective *and totally effortless* inflation hedge ever crafted by mankind.

Doomer porn about the dollar is always with us. But the numbers don’t lie, the facts speak for themselves, and the logic is irrefutable.

% Change Over Last 30 Years



Sources: Charlie Bilello, Creative Planning; YCharts.