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"Will it be different this time?"

An inside look at past bubbles, why they develop, and how we as investors and advisors can stay out of harm's way.

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INTRODUCTION

There are always signs to indicate a shift in investment behavior, decision making and rationale.

Since the beginning of time, the world and its citizens have experienced and witnessed the before, during and after effects of extreme levels of optimism, euphoria, fear and greed. In this paper, we explore the history of financial bubbles, why they happen and most importantly, how one can avoid becoming the victim of their often devastating impact. As advisors to a diverse group of clients over the past 30 years, we have seen how these bubbles impact the psyche of the common investor over time. There are always signs to indicate a shift in investment behavior, decision making and rationale. In the winter of 2000, there were many conversations that took place that clearly indicated a false sense of security, complacency and elevated levels of greed. Clients who had been bond holders their entire lives were now prepared to invest everything into tech stocks. Everyone was suddenly an investment advisor who could easily beat the market returns. The NASDAQ ultimately lost about 85% of its value in a short period of time. Many investors were left in this wake of destruction and are still waiting for a "buy signal." In the fall of 2007 as I sat in the chair to get my haircut, the stylist was sharing that she just purchased her 3rd home. Perhaps she was the best paid in her profession, but this was a bit unusual. She continued to share how little proof of income, assets and other signs of financial stability were required to get approval for these very high debt-to-value loans. Shortly after this conversation, the 2008 financial crisis ensued and many were left with little to show for in their real estate activities.

We are not in the business of making predictions or making bets with our clients' capital even when our conviction levels are highest. Our job is to protect our clients from what can go wrong in a world that is sometimes complicated. We are living in a global economy where news and information, real and make believe, travels at light speed. A conversation at a coffee shop in Copenhagen overheard by a stranger suddenly becomes fact at a Starbucks in Beverly Hills. This is the world we are living in and it's made our jobs all the more challenging. We discuss how social media has permeated the investment landscape in a most profound way. There are some positives that have been derived from this new age, but it's the dangers of misinformation that is cause for alarm.

The intent of this paper is to educate while providing a historical perspective on past bubbles and how we as advisors and investors can navigate the next potential bubble. As the paper suggests, there are a few areas where signs of greed and euphoria are taking shape and we will share some views on this. On the real estate front, price appreciation has been occurring for many years without a significant correction. Is this because of the massive amount of liquidity in the pockets of buyers, the historically low mortgage rates or simply demographic reasons? In the world of crypto, there seems to be an almost insatiable appetite for all things tied to this relatively new form of currency. As a frequent visitor to Staples Arena, home of the Los Angeles Lakers, it's definitely notable that the new name, Crypto.com paid $700 million for the naming rights. We are not in a position to predict the future of residential real estate or crypto assets, but we are in the business of making sure our clients don't put themselves in harm's way. Time will tell how all of this plays out and we really don't know or care as much as we care about the stability and growth of our clients' balance sheets and financial well-being.

Whether Summa or other elite wealth management teams, we choose to have a repeatable research and due diligence process to help us make sound-of-mind investment decisions. As we discuss in the paper, these battle tested processes go a long way toward insulating us from making decisions fed by fear and greed. They help us provide our clients with a plan that's based on life goals that are directly tied to living a life that satisfies their most cherished objectives.

HISTORY OF FINANCIAL BUBBLES AND THE MAIN CAUSES

Financial (or asset) bubbles are marked by sharp price appreciation in asset prices over a period, sometimes lasting years, followed by an inevitable crash. Before examining how and why bubbles form, let us first review a few notable ones over the history.

Historical Financial Bubbles

Tulip Mania (1634–1637)
Tulip Mania was one of the earliest recorded asset bubbles. In the sixteenth century, Western Europeans brought the tulip plant from the Ottoman Empire to Europe, where its then-rarity and exotic beauty (which became a status symbol) attracted speculators from a wide cross-section of Dutch society in the 1630s. The price of a tulip bulb reportedly rocketed twenty-fold between November 1636 and February 1637 (prices surged to the equivalent of tens and hundreds of thousands of dollars in today's money), only to plunge 99% in three months. Many people lost fortunes and the Dutch economy sank into a mild depression.

Wall Street Crash of 1929
A few years after the end of World War I, the American economy underwent a boom, and the stock market soared amid commercialization of then-new technologies, such as the airplane, automobile, and radio ("the Roaring 20s"). Among other things, borrowed money (aka margin) and herd-like behavior fueled stock market speculation. Even though the "official" crash occurred on October 29, 1929 (aka "Black Tuesday"), prices continued to drop and finally bottomed three years later. The repercussions were

widespread and devastating, with suicides, sky-high unemployment, millions thrown into poverty, and thousands of bank failures during the Great Depression that followed.

Japanese Economic Bubble (1980s)

In response to a mid-1980s recession, the Japanese government undertook aggressive fiscal and monetary stimulus to turn the nation's economy around. The plan worked too well - the subsequent economic boom resulted in Japanese stock prices and urban land values tripling between 1985 and the bubble's peak in 1989. Japan's economy deteriorated after that, as stocks and real estate slid and led the country into an agonizing period of deflation and stagnation (high inflation rate with slowing economic growth rate) — known as the lost decades—that lasted more than 20 years.

Internet/Dot.com Bubble (late 1990s)

The internet bubble (aka the dot.com bubble or the tech bubble) was a classic case of mass market hysteria. The excitement of the then-emerging internet lured investors into the stocks of internet-related names like Webvan.com, Pets.com, eToys.com and many others that were burning through piles of money and had not even turned a profit yet. Valuations went through the roof, but many believed that earnings did not matter. The tech-dominated NASDAQ Composite Index spiked to a new high (above 5,000) in March 2000 and then dropped like a rock (losing nearly 80% from the peak) before bottoming in October 2002. Not surprisingly, a recession followed shortly after the peak.

U.S. Housing Bubble (2007–2009)

The housing bubble was a painful reminder that investors have short memories. Even as the economy and financial markets emerged from the wreckage of the internet bubble, a new home-buying mania took shape (mortgage loans were offered to pretty much anyone regardless of their income level and/or credit score). In retrospect, a plenty of warning signs were there: unsustainable consumer debt, rampant mortgage fraud, mounting defaults, willful ignorance of credit deterioration in mortgage-related securities— yet, most investors looked the other way.

The resulting global financial crisis was the worst economic contraction since the Great Depression, and the world continues to feel some of its effects to this day.

The resulting global financial crisis was the worst economic contraction since the Great Depression...

HOW DO FINANCIAL BUBBLES FORM?

How do financial bubbles form? According to Chris Butsch of Money Under 30, there are five stages to financial bubbles:

Displacement: Also known as the excitement stage, this is when a small first wave of investors notices the opportunity and invests in it.

Boom: This stage occurs when the greater population learns about the opportunity and a second, larger wave of investors starts to pour money into it.

Euphoria: During this stage, investors from the excitement and boom stages start getting rich, at which point everyone else starts to notice and invest.

Profit-taking: During this stage, experienced and institutional investors start to pull out. This causes prices to begin slowing down and leveling off, which signals other experienced investors to begin heading for the exit too.

Panic: This stage occurs when everyone tries to pull out, generally all at the same time, pushing down the prices much lower.

WHY DO FINANCIAL BUBBLES FORM?

Perhaps a more interesting question is why do financial bubbles form? While each bubble may have its unique catalyst, we believe that there are several common psychological aspects that play significant roles in creating financial bubbles. According to the field of behavioral finance, investors have a number of biases that can influence how they make financial decisions, often in irrational ways. We will examine three of those biases here – overconfidence bias, herd mentality, and FOMO (the fear of missing out).

Overconfidence bias

Most people tend to overestimate their skills, whether it's driving skills or stock-picking skills. In investing, overconfidence bias often leads people to overestimate their understanding of financial markets or specific investments and disregard data and expert advice. This often results in misguided attempts to time the market or build concentrations in risky investments they consider a sure thing. In addition, this overestimation of their risk tolerance often results in investment strategies that don't truly align with their needs. In general, overconfidence bias tends to trick the brain into believing it's possible to consistently beat the market by making risky bets, often ignoring market fundamentals, which can be a recipe for disaster at some point.

Herd mentality

Humans are naturally prone to herding. People join any number of herd groups – social groups, religious groups, political groups, sports groups and others. They rely on the mutual support found in these settings and the information sharing that occurs in the group. Investing is no different when it comes to herd mentality. However, often, it is uninformed investors, and those with the most to lose, who form the bulk of the investing herd. Trying to get rich quickly by following the example of successful traders, they wind up losing everything. Herd mentality all too frequently results in the herd "running off a cliff" together. The history of markets is replete with examples of investors driving markets drastically upwards, only for herd panic to crash those markets.

FOMO (the fear of missing out)

FOMO is the fear that someone else is doing something better or more interesting than you are. It's a common human emotion that's become much more prevalent recently with the popularity of social media. When colleagues or friends boast of windfall profits on the stock market, it can cause you to feel envious, dissatisfied with your returns, and question your own investment strategy. FOMO can cause individuals to make irrational decisions that harm their overall investment plans. What doesn't help is the recent introduction of ETFs that are designed specifically to play to the trend-chasing crowd, with such tickers as BUZZ (VanEck Social Sentiment ETF) and FOMO (Fear of Missing Out ETF). Investing solely based on FOMO usually doesn't end well, if history is any guide.

What about today? Are there areas within the financial markets that exhibit signs of euphoria? This is what we will examine in the next section.

CURRENT INVESTMENT LANDSCAPE: SIGNS OF EUPHORIA?

With hindsight on our side, it is easy to observe how these three biases have impacted investor decisions in the aforementioned financial bubbles and other past market trends. The more challenging task is having the awareness to identify these biases in real time. Every bubble is accompanied with often extreme levels of behavior that when looking back seem like glaring red flags that something wasn't quite right. We saw this in 2000 when investors were buying anything and everything that had a ".com" after its company name or was somehow related to the proliferation of the internet. Prior to the crisis in 2008, anyone with a heartbeat could get a seven figure mortgage without proof of income, assets or any other now required proof of financial stability. Today, one doesn't have to look far to see behavior patterns that suggest we could have some day of reckoning in the near future.

We are seeing overconfidence bias, herd mentality, and FOMO play out in multiple areas in the current investment landscape. Fast-growing trends like the influence of social media, the craze in cryptocurrency, and the hype around real estate are exemplary of just how impactful these biases can be.

Trend: Social Media

Emergence of social media

In our day-to-day lives, social media enables widespread sharing of information and content, in real time. What started as a handful of rudimentary social networking sites launched in the late 1990s, has grown to be a suite of platforms that collectively garner the attention of over 4.5 billion social media users worldwide. Today, more than half of the world's population uses social media.

Needless to say, most of society today is familiar with social media. But, in the scope of the financial markets' history, social media is a relatively new factor, with massive impact on investor decisions. The speed in which information (real and fake) travels is truly breathtaking. A whisper in Beijing quickly becomes news in Los Angeles that is taken at face value that can materially impact the psyche of an entire population.

How it's being used

Social media platforms have created a digitalized investing environment in which investment news is at the (literal) fingertips of sophisticated and unsophisticated investors alike.

A pivotal point for social-media-using investors was in 2013, when the Securities and Exchange Commission (SEC) began allowing publicly traded companies to report news and earnings via social media platforms, resulting in an increased flow of information to investors. The impact of this ruling led to CEOs and corporate executives sharing business data through tweets and other real-time feeds. As with anything internet-related, momentum picked up, quickly. Fast forward to today – we have the likes of Jack Dorsey and Elon Musk creating major market moves with a single tweet.

Social media platforms have become a tool and not only for business executives to share information, but also the average retail investor. In the same way that friends use social media to share a snap of their breakfast, retail investors are using it to share and compare investment ideas such as the latest trending meme stock.

- ***Meme stocks***

  Meme stocks are the perfect example of how social media influences modern-day investing. They are referred to as companies that gained a cult-like following online and through social media platforms. The first meme stock was GameStop (GME). In August 2020, an activist investor posted to Reddit explaining why GameStop could be a good bet. This was picked up by a Reddit user named Keith Gill, who posted a video laying out the case for how GME could soar from $5 to $50 because hedge funds would need to cover their positions in the event of a massive short squeeze. Since they had a massive following on Reddit and the users on that platform started buying the stock, the stock exploded to nearly $500 amid a frenzy of short-covering and panic buying. A lot of hedge funds were forced to shut down due to heavy losses. As a result, the meme-stock concept is also seen as taking from the rich Wall Street elites to reward the small retail investors. The other meme stocks included AMC and BlackBerry. As one can imagine, meme stocks' value is a result of its hype on social media and not necessarily based on the companies' fundamentals or performance. Though there is a potential for outsized gains, meme investors are more likely to experience potentially bigger losses as the stocks become overvalued, and with it, their prices could plummet dramatically.

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Some would suggest the meme stock rally was fun while it lasted, but the implications for long term investors and traders alike are profound. More than month-long slide in meme stocks erased a substantial portion of the gains of online Reddit traders' favorites, such as AMC, GameStop, and Peloton. These meme stocks on average were down 27% in just a month. In addition, the Robinhood stock lost 57% in the last 3 months. Social media can make or break the trading in these names in a very short period of time.

- ***Financial influencers***

We're all familiar with the likes of influential financial professionals that have made their careers in sharing their expertise in personal finance, investing, etc. – think Jim Cramer, Dave Ramsey, Kevin O'Leary, or Suze Orman. These financial speakers and influencers are experts in their field and provide tips, tricks, and advice to investors looking to optimize their finances.

As a whole, financial influencers have an important role in the financial world as they educate in an accessible, digestible fashion. Education and access – these are two important factors when it comes to empowering the average investor. And with social media, these renowned financial professionals now have an even larger platform to spread their knowledge.

The area of concern here is not with financial influencers themselves, especially those with credible expertise. The concern is with the commoditization and over-simplification of investment advice and how social media expedites the rapid-fire spread of uneducated recommendations and misinformation. With the growth of social media, we've seen a surge of financial influencers – many of which lack experience and education in market dynamics and investment theory.

The root of this trend is actually nothing new to the financial world – of course there will always be the uneducated investor spewing tips about their latest day trade. Of course you don't hear about the losers in the same way inveterate gamblers seem to forget about their losses. But, what is important to observe here is that investment advice like this is often popular in times of market euphoria. Think back to 1999, in the midst of the Tech Bubble, when taxi cab drivers were sharing stock ideas. Let's also recall the infamous E-Trade commercial broadcasted during the 2000 Superbowl which showed a patient on a gurney who's suffering from a comical condition referenced as "money coming out of the wazoo". The messaging was clear: use this trading platform and you too can have money "coming out of the wazoo". Clever, but we all know how this rampant time ended: the crash-and-burn of the Tech Bubble, where the NASDAQ lost more than 80% of its value in a relatively short period of time. We can draw significant parallels between then and now. Just search for the likes of "how to make money in the stock market" or "how I quit my job to day trade" in YouTube to see the glut of content that is being pushed out and the millions of collective views garnered. As bubbles form, the quality of advice and other factors that lead to successful investing are more difficult to quantify. The rising tide lifts all boats regardless of how seaworthy or expensive the vessel may be.

These current trends – meme stocks and financial influencers – exemplify the power of social media to rapidly herd retail investors and move markets to new speculative highs. But, do these examples exhibit signs of euphoria? "History does not repeat itself, but it often rhymes." It feels as though retail investors are following the hype of financial influencers and turning to trending meme stocks on Twitter for not just investment recommendations, but as their sole source of information – as if a hashtag can predict stock market behavior.

Impact on investors & the current market – just enough to be dangerous?

The emergence of social media as a source of investment tips, advice, and research does have notable positive effects on the investment landscape. Quicker access to information educates and empowers the retail investor, while trading platforms such as Robinhood provide ease of entrance to groups of people that traditionally have never known how to invest or where to start. The investment world is no longer held hostage by hedge funds and Wall Street. These are formative improvements to the retail investment world; but we'd be remiss to ignore the negative impacts we've seen as a result of social media fueled investing.

Social media fans the flames of the aforementioned biases that affect investor behavior. We have meme stocks breeding herd mentality, leading to concentrated retail positions in companies that lack fundamentals. Then there's unsophisticated financial influencers painting an over-simplified picture for naïve and beginner investors, resulting in major overconfidence biases. One has to remember we have a generation of new investors who don't have any historical context or understanding of the financial bubbles and consequent crashes of 2000 and 2008. The "ignorance" factor runs rampant across large investor groups who will likely have to learn the hard way and hopefully, the lessons learned will not put them in harm's way.

Yes, some of these retail investors are doing well for themselves and maybe even putting in a bit of research to back their investments. But when they post their latest stock idea to social media, it's shared with their network of followers, the FOMO kicks in, and soon enough the stock is trending. The problem here is the trickle-down effect to less sophisticated investors. Thanks to social media's ability to spread information like wildfire, what starts out as an innocent stock tip can become a meme stock in a matter of hours. Unsophisticated investors buy into the hype, maybe even ride the rally, but then have no guidance or oversight on when to sell – which, more often than not, results in a crash-and-burn outcome.

There's no doubt that social media is here to stay – and will continue to play a role in investors' decision-making processes. But we believe its role should be a small piece of the puzzle. The degree at which social media is garnering unsophisticated investors and influencing their decisions without appropriate education or guidance is where our concern lies.

In this new environment of meme stocks, financial influencers, and investing tutorials, everyone has become a trader. Winning big on concentrated bets fuels the brain with dopamine and promotes a gambling mentality. Unfortunately for many of these traders, they lack the necessary discipline and process to successfully manage risk. In a market where everything goes up, beginner traders who have learned a tip on YouTube now think they have the skills to win in any position at any time. However, what they don't realize is the major stock indices have provided double-digit returns for the past three consecutive years. The contributing success factors are likely market (beta) related and not specific to any skill on the part of the investor. Many of the tools being used today will not hold up in an inevitable bear market. It makes us wonder where these financial influencers will be when the tide turns. One concern is that the importance of thorough research, managing risk, and remaining diversified is underappreciated.

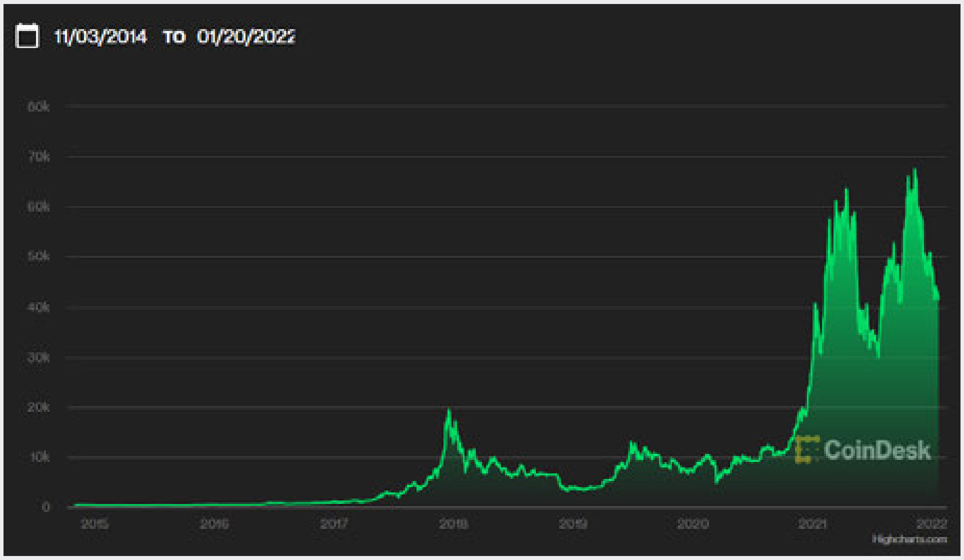
Trend: Cryptocurrency

When cryptocurrency was first introduced, people associated it with blockchain technology. A blockchain is a public, immutable ledger that facilitates next-level accuracy of recording information. In the business operations realm, blockchain optimizes the delivery and storage of business transactions (i.e. orders, payments, production, etc.) as it provides an immediate, inalterable, and completely transparent record of information. Thus, many of us were excited about the opportunities that blockchain presented.

Interestingly, in recent years, we hear less about blockchain technology and more about the digital currencies derived from this technology. Bitcoin and Ethereum, cryptocurrencies that were originally designed as an exchange of payment, are now treated more like financial assets as their early adopters/investors have become millionaires. Bitcoin gained even more traction after tech leader and billionaire Elon Musk posted on social media that Tesla will accept Bitcoin as a form of payment for its cars, while other prominent figures such as Tim Cook have disclosed they hold bitcoin as part of their asset allocation. Furthering its perceived legitimacy, the US federal government approved the first Bitcoin-based exchange-traded fund in 2021, which allows retail investors to buy into the crypto space more easily, and even within retirement accounts. From the beginning of 2020 until December 2021, Bitcoin market share increased six-fold, while Etherum increased almost thirty-fold.

We are not sure if the trend will continue with cryptocurrency, but it is clearly a volatile "asset class". The crypto market lost 47% of its value in a single week in May 2021 in reaction to China announcing a ban against cryptocurrencies and Elon Musk tweeted that Tesla will stop accepting Bitcoin payments. Further adding to the volatile nature of cryptocurrencies is the level at which supply is concentrated. The majority of the supply of these currencies is dispersed among a very few large investors. Approximately 2% of all Bitcoin accounts hold 95% of the available coins, according to Flipside, a crypto-analytics firm. In 2021, less than 20% of Bitcoin supply was actively traded as most of the supply is held in long-term accounts. That means trades do not have to be very large to shift prices dramatically.

The chart below shows the historical price of Bitcoin from November 2014 to the end of January 2022. The price chart illustrates the cryptocurrency's extreme surges and falls. No other traditional currency has ever lost half of its value over the duration of a couple months.

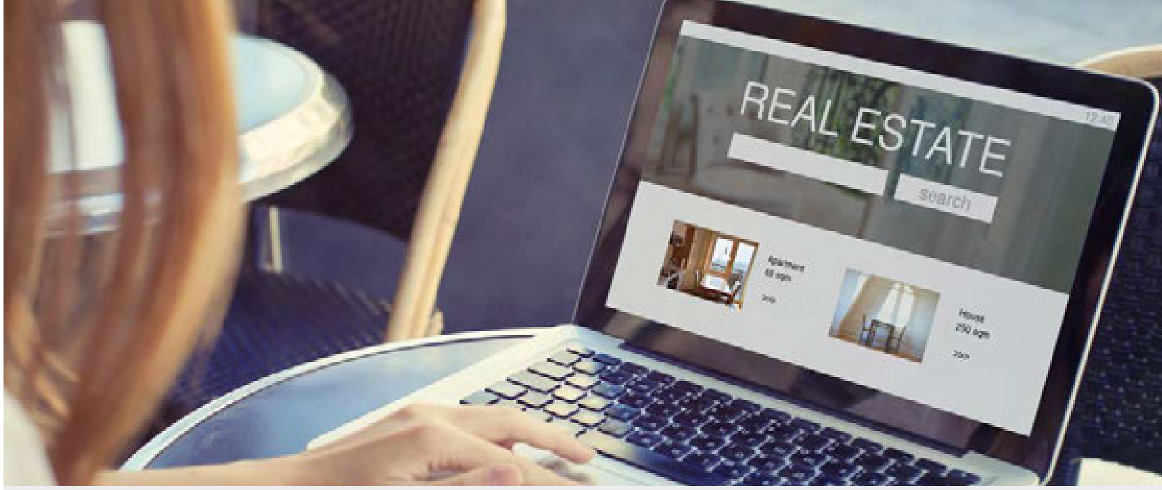


Source: CoinDesk

It's hard to predict where crypto is headed; but based on the recent activity and developments, it seems as though cryptocurrencies have significantly deviated from not only their intrinsic value, but also their original intent: a form of payment via utilization of blockchain technology. It is only a matter of time before a viral tweet or a regulatory development sends crypto prices either much higher or lower from here. That being said, it is important to note that Summa is neither a bull nor bear as it relates to cryptocurrency as an asset class. We are simply providing observations of a euphoric dynamic around the crypto space and a framework for how to look at the topic in a historical context.

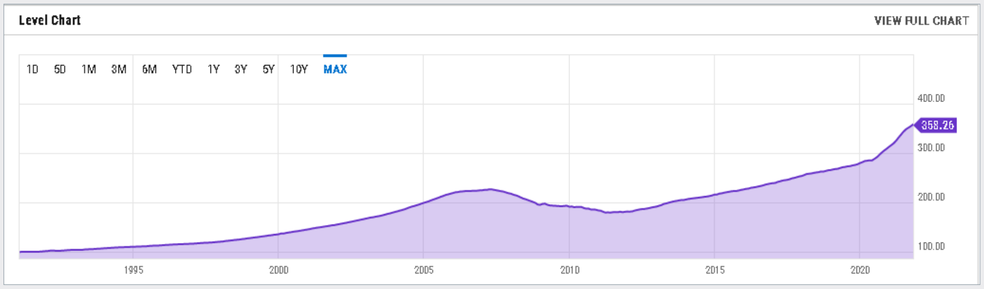
Trend: Real Estate

Real estate is another area that is currently pushing the boundary of euphoric territory. Housing prices are surging to new records with no end in sight. They are fueled by historically low rates, but also by investors' and economists' beliefs that the housing market has a unique ability to support runaway prices. While this describes the current state of the US housing market, it also sounds pretty similar to the 2004-2007 housing bubble, which contributed to the global financial crisis. As we say, "History doesn't always repeat itself, but it usually rhymes." Will this time be different?



Generational demographics and a historically low interest rate environment continue to support housing prices but a change in either will dramatically impact the affordability index. Further, according to NAR, single family home construction has lagged so dramatically, we are now facing a 5.5 million home deficit.

The average home price skyrocketed nearly 20% through the third quarter of 2021 compared to the year prior. It was the largest annual home price increase in the history of the US House Price Index. The chart below shows the US House Price Index over the last 30 years. Looking at the last 2 years, the uptick in price appreciation seems disproportionately high relative to the historical pace.



Source: Ycharts

Apart from these easily-observed quantitative signals, there are also less technical, more qualitative signs of over-optimism relating to the real estate sector. It seems we all know someone with an established career (maybe a full-time lawyer or a corporate professional) who recently made a random pivot to get their real estate license to become a part-time realtor, eager to ride the wave of a hot market. This type of hype is a categorical example of FOMO behavior. One doesn't have to look too far for clear signs of a market that needs to slow down before too many get hurt. Again, this is a movie most have seen before; and the beginning, middle, and end is highly predictable. But those who are not students of historical patterns may be vulnerable.

How long will this last and what could derail this trend? Some analysts are worried this real estate market won't be sustainable, as there won't be enough people to buy houses, contrasting the general refrain that there is an overabundance of demand. Falling fertility rates, an aging population, an uptick in multigenerational housing, and not enough immigrants are the main drivers of a declining population and new household formation. In addition, an uptick in interest rates or an increase in unemployment driven by a new variant of COVID and a prolonged pandemic could also dampen the real estate market. At this stage of the cycle, we support caution and believe it's best to dial down one's expectations.

IMPORTANCE OF FINANCIAL ADVISORY

Behavioral Psychology 101

We have already demonstrated that investors are susceptible to various biases; namely, overconfidence bias, herd mentality, and FOMO. At the root of these biases are human emotions – emotions that often lead to irrational investment decisions. In this section, we will focus on the emotions of fear and greed, which are even more fundamental than the aforementioned biases with respect to making basic investment decisions. According to Kirk Chisholm of *Innovative Advisory Group*, the stock and bond markets are primarily driven by both fear and greed, which are strong primal emotions, not something we can overcome easily.

Fear

Legendary investor Warren Buffet's statement about fear and greed crystallizes the dynamic that permeates every aspect of investing; but it has proven to be easier said than done. "Be fearful when others are greedy and greedy when others are fearful." Mr. Buffet's extraordinary success as an investor is tied to his ability to separate his emotions from any prevailing market condition and in fact use herd mentality to his advantage. While investors rush to cash during extreme market dislocations, Buffett is methodically finding investments he loves that are now cheaper than they were a day, a week, or a year ago.

This is in contrast to the typical retail investor who is victimized by their own emotions, doing the exact opposite of what Buffet preaches: selling low and buying high, or buying and selling into extreme greed and fear cycles, respectively.

Looking back on the 2008-09 market meltdown, the Dow Jones Index lost half its value in less than a year, and millions of investors saw billions of dollars in assets disappear. Many investors pulled money out at or near the bottom. Five years from that 2009 market bottom, the Dow was up roughly 10,000 points to a record 16,000. Patient investors were the winners. James Glassman of Kiplinger once said, "making money in the stock market is hard not because finding great companies is difficult but because the best and easiest-to-understand strategy for winning is so difficult to adhere to. That strategy can be described in three words: buy and hold."

Greed

Greed is probably an easier emotion for most people to understand – we have all experienced it at various levels of intensity. Certainly, it can drive us to achieve great things by wanting more for ourselves and our family; but the flip-side of this emotion can lead to devastating outcomes. The history books run rampant with stories of well-intentioned people succumbing to the seductive powers of greed, losing sight of right and wrong over time. When an investor falls into the trap of greed, decision making becomes impaired, and they become highly vulnerable to taking on more risk than is suitable.

The past few years have provided strong market returns, annualizing at about 26%. This far exceeds the long term historical average which is about 9%. Typically, we see massive inflows into stocks not prior to a 3 year period of strong returns, but afterwards. Think of it as driving your car while looking into your rear view mirror – not the best way to navigate what's to come. Leading with greed will manifest a fixation on missed opportunities and an overconfidence in past results – both of which are detrimental to an investor's forward-looking strategy.

WHAT PROFESSIONAL ADVISORS BRING TO THE TABLE

The key to combatting behavioral drivers such as fear and greed, is having a pre-meditated, all-encompassing, long-term plan in place to act as a guide during times of distress. To help investors manage their emotions and guide them through high-stress environments where their emotions are rampant, battle-tested and experienced wealth management professionals set up long-term financial plans with corresponding goals and objectives based on a client's lifestyle and retirement needs. This planning-based approach that is rooted in reality, discipline, and facts allows the advisor/client partnership to navigate life and the accompanying investment plan unemotionally and with a keen sense of what needs to happen in order to be successful.

With more than 25 years of investment experience on average and with partner tenure that exceeds 30 years, the Summa Group has been through many market ups and downs and has successfully helped clients navigate through different types of investment environments. We attribute much of our success to our unemotional, systematic, and disciplined investment approach and our "win by not losing" philosophy. The Summa Group's proprietary research and due diligence process is a foundational contributor to our success and leverages off the team's financial planning capability.

Portfolio management and manager research
Successful investors come in many forms, but because we tend to advise families who have already built a strong balance sheet of liquid and illiquid assets, we believe the consistent application of our process every day leads to more predictive and consistent outcomes for our clients. We intentionally live in a more narrow

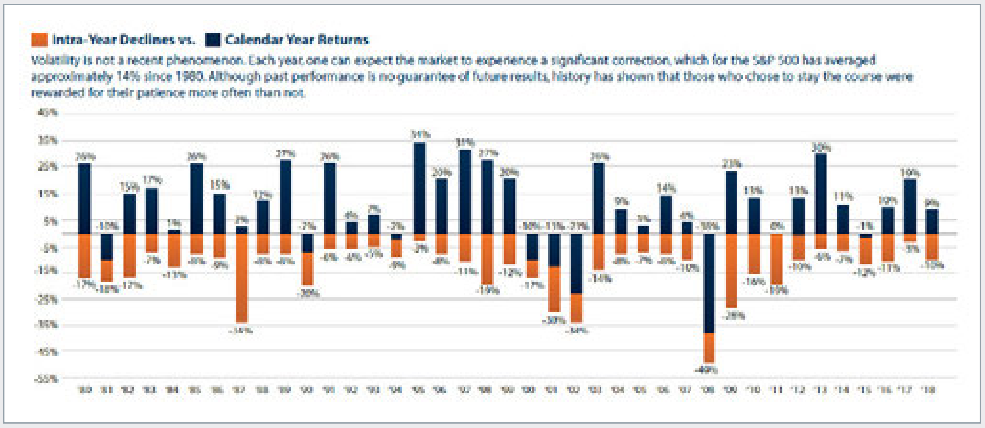
range of possibilities and consequentially, we are willing to accept less of the upside in exchange for less of the downside. Our research and due diligence efforts result in client allocations that are dynamic, flexible, and fluid as we attempt to build a safety net for each of our clients. This approach is far different from one that attempts to generate outsized gains without regard for risk and the possibility of permanent loss.

Macro research and analysis

Our relationships across Wall Street provide our team with access to high quality research on all aspects of the global capital markets, economy, trends, themes, and other factors that need to be considered as we build a client's asset allocation. We tend to be strategic in how we allocate capital but there is a tactical element to what we do, driven by our collective macro view. Removing the behavioral and psychological aspects of investment allows us to focus on what we can control – which is our process.

Our research team gathers various research and insights from economists and thought leaders in the industry on a weekly basis to form our own balanced perspective. We believe it is important to consider all major views and data points before making any investment decisions. No matter how convicted we may be about a specific opportunity, we will not execute in a way that puts our client in harm's way. Over the years, we have made many marginal moves that have been complementary of our near-term thesis and beneficial to our long-term strategy. Our consensus view, driven by our access to high-quality information from many sources, eliminates the dangerous dynamic of "group-think." There must always be a platform to express opposing views no matter how unpopular.

The chart below shows that historically, the market drawdown for a given year is a 14% drawdown on average, but still finishes the year positive most of the time. Having this knowledge helps us understand why market corrections are a necessary and welcome ingredient to long-term investment success. More importantly, this historical perspective helps novice and unsophisticated investors avoid the emotional pull of fear and greed.



Source: First Trust Advisors, LP and Bloomberg

CONCLUSIONS

Bubbles will always be a part of the investment landscape, so it's important to be able to recognize the behavioral patterns and quantitative factors behind them.

The lessons from the past can definitely be used to make educated and unemotional decisions in the future. The challenge in all of this is driven by the common believe that, "It's going to be different this time." We have conversations with people all of the time who are highly intelligent and they believe what they believe. Their level of conviction is without any fundamental flaws and so they are usually going to make a move regardless of what a more reasonable and unemotional person might recommend. As financial bubbles grow in size and breadth, the general population slowly becomes seduced by the idea of outsized wealth creation. As discussed in our paper, the fear of missing out (FOMO) plays a huge role in all of this. Even the most level-headed investors can eventually be sucked into this very powerful vacuum of greed and will abandon disciplines that have been in place for years. The list of people who have lost everything as a result of this dynamic is long and ripe with stories that seem hard to believe.

We refrain from making predictions about the future. Through a strict adherence to a battle-tested investment discipline and process, we can objectively make decisions on behalf of our clients that put them in the best possible situation to have successful outcomes. Bubbles will always be a part of the investment landscape, so it's important to be able to recognize the behavioral patterns and quantitative factors behind them.

Clearly, the mass proliferation of social media around the world, with little in the way of checks and balances to decipher legitimacy from illegitimacy, has only added to the "bubble" dynamic. The perfect storm has little to do with whether something is real or justified and more to do with how quickly information travels and how difficult it is to quantify its legitimacy.

Our paper attempts to bring a historical context to the inevitable formation of bubbles and how we as investors and advisors can navigate the challenges market euphoria presents. A simple awareness of the fear and greed cycle that is so prevalent amongst generations of investors can go a long way toward staying out of harm's way. Of course, the fear of missing out and the idea that it's going to be different this time adds to the temptation of doing the wrong thing at the wrong time.

Elite investment advisor teams are tasked with providing their clients with advice, capabilities, investments, planning, guidance, and many other services that are likely to protect clients from the unexpected. One of our most important roles has nothing to do with what our firms can provide and everything to do with keeping our clients on plan while avoiding the big mistakes.

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