Client's Corner

A Time for Choosing

WHETHER YOU'RE CONSCIOUS OF THIS OR NOT, you're either an investor or a speculator.

Consider the possibility that your financial outcome in 2025 (and well beyond) will depend to a very great extent on which one you are. So now would be a great time to make a conscious choice. And once you get the question framed correctly, it basically answers itself.

If your investment policy is based on a plan—one that you and your advisor continue working on for the long term, ***regardless of current market conditions***—congratulations: you're an investor.

If your investment policy is contingent in any way on current (or anticipated) economic and/or market conditions, you're a speculator.

It isn't a whole lot more complicated than that, even if we try to make it so. Which, I'm sorry to say, is what most people are unconsciously doing most of the time. They tend to think along these lines:

"I have a solid long-term equity portfolio that's essentially driven by my retirement income needs. But I'm prepared to go to cash if the incoming administration's tariff policies (or inflation, or the federal deficit) should tank the market."

Such are not the thought processes of an investor. They are tantamount to saying, ***"My plan is to see what happens, alter my investments in reaction to it, and hope I'm right."*** And the moment the possibility of ***reacting*** becomes operative, investing goes right out the window.

Another way to say this is: investors act continuously on a plan, irrespective of events. Speculators react continually to—or, even worse, try to anticipate—events. I submit that there is for all practical purposes no middle ground.

An investment of $10,000 in the S&P 500 made in February 1950, and left to compound (i.e. taxes paid from another source), is currently worth about $38 million, having grown at slightly more than 11% annually for the last 75 years. Now, you couldn't invest directly in an index in 1950. And net of inflation, your $10,000 grew to "only" (!) about $2.6 million. But bear with me.

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Along the way, the S&P 500 declined at least 20% from a peak to a trough 16 times. Full disclosure: I count episodes where the market was down 20% for just a part of one climactic panic day. If you count "only" 20% declines on a closing basis, there were "only" 11. Either way, the average decline was upwards of a third.

If you count my way, these hits have occurred on an average of about once every five years. If you count the traditional way, the average is closer to about seven years. If you find you're not much comforted by this distinction, I don't blame you.

People who stayed invested for any large segment of this compounding were ***acting*** on a plan to do so. They believed that a large sample of America's most successful publicly held companies would go on innovating, thus compounding their earnings and dividends. (In the event, that confidence was well rewarded. In February 1950, the S&P 500 was 17, and most American households didn't yet have a television set. In February 2025, the Index has surmounted 6,000, and most American households have smartphones.) Such people were ***investors.***

People who withdrew their capital from mainstream equities in ***reaction*** to one or more of the 11 (or 16, or whatever) declines did so because current economic and/or financial conditions were significantly negative; they anticipated that conditions would get considerably (if not permanently) worse. In this, they were ***speculators.***

It would be really good if the equity market could be timed. Overwhelming evidence demonstrates that it can't be—at least not consistently—by anyone. This must lead us all—investors and speculators alike—to the uncomfortable conclusion that the only practical way to be reasonably sure of capturing the compounding is to ride out the interruptions. It's a broad generalization, but: **investors** most often find that, with their advisor's enthusiastic coaching, they're capable of doing that. **Speculators**—not to put too fine a point on it—can't.

Allow me to repeat that this would be a good time to meet with your advisor—and together, to make this critically important conscious choice.

Sources: Compound returns with and without inflation: Maggiulli Calculators, Robert Shiller. Incidence of 20% declines: Yardeni Research, Standard & Poor's. Level of the S&P 500 in 2/50: Standard & Poor's, Yahoo Finance.