CONWAY• JARVIS LLC
Investment Outlook

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Update

A Brief Time Out for a Client Service Announcement

Following the sharp, one-day selloff of more than 3% that we saw in the last week of July, the market has soldiered on these past two weeks to routinely set new record highs. That decline left some traders who sold licking their wounds while most diversified investors who stuck with their positions have enjoyed watching their portfolios swell to record proportions. We've been fielding comments from clients regarding those values and, while happy to hear them, we can't help but caution that change in the market is inevitable. It's not "if" the market will change course, but the "when" that challenges us. Every investor knows this but some need to be reminded. Please pardon us if we're preaching to the choir.

The appetite for risk assets comes and goes with the ebb and flow of an economy that is susceptible to cycles and events. The arrival of COVID was an event that interrupted a long-term expansion of the US/ Global economy. While the economy is currently marching along a path *toward* full recovery, investors have been busy pricing one into the stock market. That's normal for a mechanism that discounts future economic conditions. What's worrisome is that some investors succumb to thinking "this time it's different." Wish we had a dollar for every time we've heard that. History has shown that only the conditions under which markets rise and fall are different. But rise and fall they will. Thankfully, they've never failed to navigate to new heights but the ride can be unsettling.

So, why the caution if we're not seeing an end to this economic recovery any time soon? It's because we see *investor behavior* beginning to repeat itself in actions and attitudes that have preceded major reversals in the markets. It's been eight months since we've seen a pullback of more than 5% in the S&P 500. Every dip in prices during that period has attracted a wave of buying. Increasingly, fundamental analysis has taken a backseat to groupthink with regard to anything that's moving up, be it crypto or meme stock. We've seen record equity inflows of almost $600 billion in the first half of 2021, more than the total for the entire period following the Great Recession of '08. We ascribe much of that to FOMO, fear of missing out.

We're also seeing some equity allocations stretched beyond stated limits due to a number of acknowledged over-weighted positions. We apparently need to find an acronym for *fear of paying taxes*. We're seeing an aversion to rebalancing portfolios for tax reasons. Additionally, there's the extended backlog in processing requests for pledged asset lines of credit by those who want to borrow from their portfolios to avoid capital gain taxes. We would remind all that having a tax burden is the price of success in investing and is a goal that advisors pursue on behalf of their clients.

We're not anticipating anything more than a run-of-the-mill correction over the course of this expansion. However, in the past we've seen investors extrapolate today's conditions forward into infinity and it's usually a condition of a market cycle that ends in tears. We would encourage investors to stay diversified, balanced, and within a range of risk exposure that serves their interests in all conditions, not just those we're enjoying now. End of sermon. Stay tuned.

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