



Investing Through Political Turbulence

September 9, 2024

Dear Valued Graham Wealth Management Clients,

We are nearing what seems to be an historic and defining presidential election in modern history. The country, increasingly divided, is polarized among political, foreign, social, fiscal, and economic views. Debates rage over whether we should be involved in foreign wars and conflicts or whether the nation needs an extreme tax overhaul. The news, social media, and talking heads all drive the divisiveness with polarizing messaging, leaving the citizenry and investors concerned and confused.

These are the times we live in, yet we cannot directly control the world around us—unless one of my clients has magical powers they haven't told me about. Please call me if you do!

Fortunately, notwithstanding the noise, concerns, and turmoil, there are a few things we can do as investors to prepare and capitalize at times like we are experiencing this fall. As I mentioned in the 2024 Halftime Letter to Clients, we adopt flexible and strategic positions to NAVIGATE. As investors, we are always navigating fiscal, economic, and foreign policies; political, business, interest rate, sequential, and return risks. All of these factors create a challenging environment in which we must determine how best to invest.

Surprisingly, in investing there is often certainty in uncertain times. The certainty of uncertainty often plays out in erratic and irrational behavior by the market—some days enthusiastic and optimistic, while other days pessimistic and depressed. Essentially, it's a way of saying that market prices are often driven by sentiment rather than rational analysis, and investors should focus on the intrinsic value of investments rather than getting swayed by market volatility. Fear, uncertainty, and doubt often cause investors to panic and react rashly, when it may not actually suit them best. This is where opportunities arise, especially in financial markets. Those who are prepared and strategically positioned are able to capitalize on this irrationality and compound their wealth effectively and efficiently.

Based on the current political and financial environment, it seems we will have a volatile fall leading up to and shortly after this presidential election. We will likely continue seeing market volatility from some of the same factors noted in January and July—primarily inflation and interest rates—now compounded by political developments. However, I sleep well at night knowing GWM clients are well-positioned to handle many outcomes, and you should too.

As I have stressed in previous letters, GWM clients have been positioned to weather economic storms through diversified portfolios consisting of a mix of different asset classes and sectors, with a significant weighting toward U.S. Treasury Bills, money market funds, and dividend stocks. These positions have helped provide our clients downside protection through the turbulent days, weeks, and months since GWM's inception.

In addition to providing downside protection, these positions allow us to capitalize on erratic price movements in asset prices. For example, earlier this year in March and April, interest rates experienced extreme volatility and caused bond prices to fall, allowing many of our clients to lock in long-duration bonds with yields over 5%. Similarly, these past few months have shown volatility in equity markets, allowing our clients to scoop up some amazing businesses at greatly discounted prices. This combination improves our clients' chances of increased returns over the long run.

In the stock market, volatility is often caused by short-term events, but when taken advantage of, can result in long-term benefits. In my previous letters, I have emphasized that GWM operates as a contrarian investor, taking advantage of the inverse of what the masses do. The principles we employ derive from the principles of renowned investors and stewards of capital such as Warren Buffett and Charlie Munger of Berkshire Hathaway, Peter Lynch of Fidelity Magellan Fund, Jack Bogle of Vanguard, and Jamie Dimon of JP Morgan.

When boiling down their insights and advice to the essentials, the first thing they emphasize is never overpay for an asset. This requires the investor to remain extremely patient and wait for obvious opportunities to present themselves, often during periods of volatility. When others are running for the doors, looking to sell their assets for pennies on the dollar, GWM aims to be at the door, buying their dollars for pennies. Recent examples would be buying Meta at \$88 (now \$504 on 9/9/2024), Google at \$92 (now \$148 on 9/9/2024), and Amazon at \$98 (now \$175 on 9/9/2024) in the fall of 2022.

2022 was a dramatic and volatile period. The year saw the invasion of Ukraine, polarized mid-term congressional elections, historic interest rate hikes by the Federal Reserve, rampant inflation, unresolved supply chain issues, and concerns about economic stagflation and recession. The S&P 500 fell -18.11% that year.

Now, let's look at 2023. Last year, we saw a volatile and unstable financial sector, with banks going under due to loan losses that became too great to meet deposit demands after the Fed's rapid interest rate hikes. The war in Ukraine continued, Hamas attacked Israel, and conflict in the Middle East intensified. Inflation lingered but slowed gradually, the Fed maintained its interest rate hiking regime, and the housing market ground to a halt compared to 2021's boom. Americans were laid off and companies initiated drastic cost-cutting programs. The S&P 500 climbed 26.29% in 2023.

Fast forward to now in 2024. We have yet to see interest rate cuts, but there is consensus that the Fed will cut rates at its next meeting. Inflation's decline has slowed substantially, unemployment has increased from 3.4% to 4.2%, war continues to rage on in Ukraine and the Middle East, interest rate markets remain volatile, the housing market is still cool, and political events range from a cognitively questionable presidency to an assassination attempt on a former president, discussion of taxing unrealized capital gains, price-fixing consumer products, and much more before year's end. Despite this, the stock market is currently up 15.35% year-to-date.

There is an old adage on Wall Street: “The stock market climbs a wall of worry.” The past two and a half years have done nothing short of proving that. The moral of the story? Despite these world-changing events, the stock market continues to chug along, as it has done for over 100 years. There is no certainty in life except death and taxes; and although history might not repeat itself, it sure does rhyme. What does all this mean?

As unique as we may feel these times are, there is only so much power and control we have in many aspects of our lives. Global conflict, interest rate hikes and cuts, tax law, stock market behavior, and more are largely out of our control. But what we can control as investors are our responses to the world and its events and to ... NAVIGATE.

Every day I wake up, I am grateful to all our clients for entrusting GWM as your steward of capital. Every day, I assess the direction of the economic winds and tides to help navigate our financial ship through storms and rough waters in search of calm, profitable seas. We know that as long as we have the moon, we will have tides; as long as there is weather, we will have winds; as long as we have a stock market, there will be fear and greed. If we believe this to be certain, which we do here at GWM, the only control we have is to position ourselves to navigate the storms and sail toward desired destinations at a reasonable pace, with mitigated risk.

I write to you today to offer comfort in the chaotic world we live in. Year after year, there will always be something new to worry about and fear. But time and again, as a people and as a country, we navigate and continue to achieve more. I believe in America, as many great stewards of capital have before me. Despite all the turmoil, people will still risk their lives to cross oceans and rivers to come to America. There is no place I would rather be than here. We are the world’s central financial market, our corporations have justified market caps larger than most nations’ GDPs, and we lead the way in scientific research, space exploration, product innovation, and wealth as a nation. Here at GWM, we strive to allocate our clients’ capital in areas that have exceptional financial promise with risk-adjusted returns that fit their individual needs. We will continue to do so.

As always, thank you for trusting Graham Wealth Management to be your steward of capital and to be a partner in your financial journey. We look forward to continuing to work with you to achieve your financial success. If you have any questions or would simply like to talk, please do not hesitate to reach out. My contact information can be found below.

Gratefully,

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