5 Lessons from 2023

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2023 was the year that defied all expectations, especially the most bearish on Wall Street. Bank of America, Goldman Sachs, Citibank, Barclays, Morgan Stanley, and UBS all said the S&P 500 Index would end the year at 4,000 points or less. Instead, the index closed out the year at 4,769, just a few points shy of its record 2022 level. One lone voice in the wilderness, Tom Lee of Fundstrat Global Advisors, called foul, predicting stocks could reach 4,750, essentially nailing the call. Similarly, our team said the S&P could reach 5,000 points by year end, directionally the right advice. So how did so many smart people get it wrong? We think the easiest answer is herd mentality. Everyone jumping off the same cliff together feels good in the moment, but produces disastrous results for investors. Bearish Wall Street strategists are sometimes too afraid to be right and knowingly make bearish calls thinking they'll be protected in the herd. While being bearish sounds smarter than being bullish, it's usually the bulls that end up making investors money. In fact, most people that actually manage money on Wall Street were bullish going into last year…because they have to produce results! Many of the doomers that have been wrong 90% of the time don't have to produce performance reports, so they can keep being bearish…and wrong.

In our view, there are 5 lessons investors can learn from markets last year:

#1 - Short term bonds beat long term bonds: During the March bank failures, notably SVB and First Republic, it was obvious how poorly managed these institutions were. Further, these banks bought risky long term bonds assuming rates would never rise. When rates did rise, a bank run was triggered. The lesson is simple – don't mix up the purpose of your portfolio. Stocks are for growth, bonds are for safety. Many investors bought so-called "safe stocks" last year in hopes they would be protected from market volatility. They also bought long term bonds attempting to reach for yield. The opposite happened – value stocks got crushed and so did long term bonds. Rather than making this mistake, we believe investors should keep their bond portfolio extremely safe and take risk on the stock side of the portfolio.

#2 – Buy and hold beats market timing: Volumes of research show how poorly market timers do over the long run. Sure, they can make money from time to time, but no one can consistently know when to hold 'em and know when to fold 'em. Worse yet, if you mis-time the market, you'll usually miss out on some face ripper days in which you can recover. The Buffett/Munger mentality of buying and holding great companies for the long run is a far better strategy. You'll see some ups and downs, but over time, stocks go up.

#3 – Contrarianism beats the herd: Without the Wall Street herd, no one would make money in the market. Every market has two sides - buyers, and sellers. Over time, patient equity buyers crush panicking sellers. When corrections and recessions occur, we buy from people forgetting that stocks have recovered every time they've gone down.

#4 – Capitalism beats communism: While capitalism isn't perfect, it's the best system we have. It doesn't take many history books to find that communism has ruined every country it's been tried. We've long cautioned investors on taking the bait, believing a turnaround is due in China, a place void of the rule of law and personal property rights. Usually, investing rewards basic common sense, a constant we don't see changing soon.

#5 – Optimism beats pessimism: It's hard to believe, but the world is getting better each year. People are living longer, child mortality is down, and less people are on the poverty line than ever. The stock market reflects human ingenuity which consistently makes our lives better over time. Yes, there's 10 reasons to be pessimistic in 2024, but remember, there were 10 reasons for 2023 too, none of which changed the direction of markets. Stay bullish, stay optimistic, and stick to your plan. We think optimists will continue being rewarded.

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