

INVESTOR'S EDGE

Investors still have reasons to stay optimistic about the year

The market doesn't have above-average insight, but is above average in emotionality.

In the short run, the market is a voting machine but in the long run, it is a weighing machine. — Author and investor Ben Graham



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Guest columnist

"I've heard it said that working within the investment management profession is the equivalent of 'having hours of boredom punctuated by moments of terror.' I've been managing money for almost 40 years now and can say this is largely true. My first moments of terror began six months into my career with the October 1987 stock market crash and have occurred numerous times since, including this last April when the broad market had its fastest 15-day decline in history.

It's remarkable the difference a few weeks make. By the second half of May, the market has essentially recovered all of early-mid April's "tarrifying" losses, and sentiment on Wall Street has done a complete 180. In fact, according to Bespoke Investments, the CBOE Volatility Index, "the VIX", known as Wall Street's fear gauge, had the fastest round trip from panic to calm ever — from April 7's intraday high of 60.13 to about 18 at the end of May.

In April's Question and Answer Column I noted that if ongoing trade negotiations were productive, they would be constructive for the stock market and dampen volatility. On May 8, the Trump Administration announced a trade deal with the UK and on May 11 announced a deal with China to reduce tariff rates and honor a 90-day pause. Tariffs for U.S. goods sold in China will decrease to 10%, while tariffs for Chinese goods have dropped to a 30% rate — down significantly from the 145% rate several weeks ago. As could be expected, markets responded with a 1,161-point surge in the Dow Jones Industrial Average the following Monday.

This market volatility brings me back to lessons I've learned from previous corrections throughout my career. Although I imagine most individual investors don't even remember, back in 2018, the stock market had two sharp declines, including an almost 20% decline in the fourth quarter as the Federal Reserve began raising interest rates, which took the market by surprise. It was an uneasy Christmas for most money managers, myself included.

Anyways, legendary investor Howard Marks had recently penned an insightful piece on volatility that is apropos today, part of which is included below:

Especially during downdrafts, many investors impute intelligence to the market and look to it to tell them what's going on and what to do about it. This is one of the biggest mistakes you can make. As Ben Graham pointed out, the day-to-day market isn't a fundamental analyst; it's a barome

ter of investor sentiment. You just can't take it too seriously. ... any intelligence that could be behind their buys and sells is obscured by their emotional swings. It would be wrong to interpret the recent worldwide drop as meaning the market "knows" tough times lay ahead...

It is the goal of some investors to "Sell" when the subsequent movements will be down, but "Buy" when the subsequent movements will be up. If you think you can tell which is which from watching the market movements, then you are sadly mistaken. Future price movements can only be predicted on the basis of the relationship between price and fundamentals, and this can only be done in the long-term sense. The market has nothing useful to contribute on this subject.

It seems clear to me: that the market does not have above average insight, but it is often above average in emotionality. Thus, we should not follow its dictates.

Brilliant — readers take heed!

Going forward, I continue to believe that markets can generate solid returns for the full year of 2025. History says that following sharp bouts of volatility, stocks tend to do well. While the markets will remain laser focused on trade news, inflation readings, tax law changes, and economic/earnings growth, I think the worst of the potential damage from the April 2 tariff announcement has been mitigated. The fact is that the U.S. economy has been extraordinarily resilient for some time now and investors overall remain quite defensively positioned.

At this stage, I believe the bull market remains intact.

But only time will tell.

Summer is on its way — let's enjoy it!

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