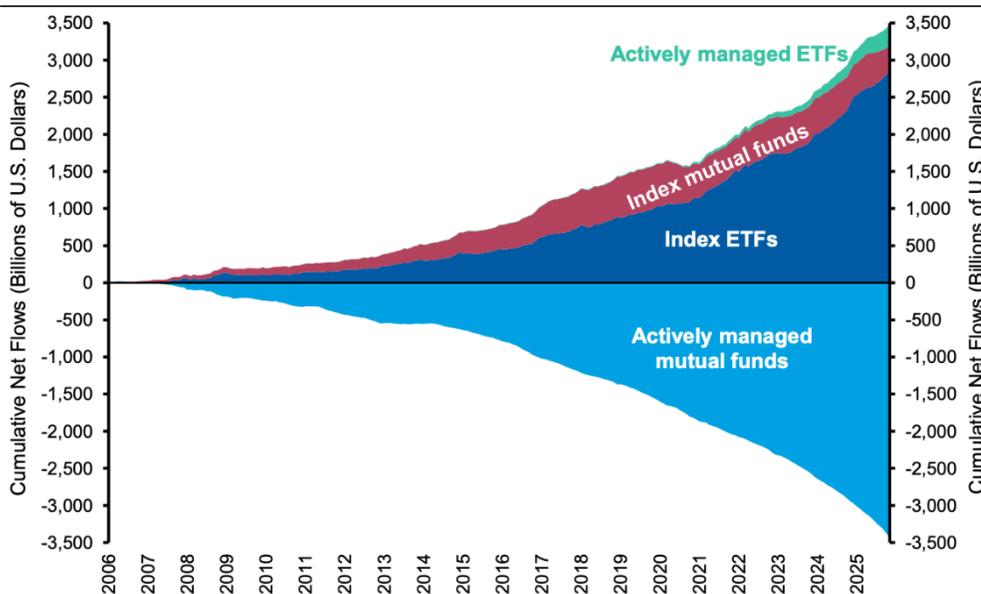


Desert Musings

My wife and I are enjoying the warm Arizona weather. That means it's time for my annual desert musings.

**Exhibit 3: Cumulative Net Flows for U.S. Mutual Funds and ETFs, 2006-2025**



Investors directing capital into U.S. mutual funds and exchange traded funds (ETFs) continued to favor index investing over active management in 2025, a trend that began almost two decades ago. Index mutual funds and ETFs reported estimated net inflows totaling \$903 billion, while active funds reported estimated net outflows of \$189 billion.

The benefits of index investing are arithmetic reality. I long for the day when this becomes obvious to all investors. Most investors choose active funds with recent outperformance for their portfolios, not realizing that outperformance rarely persists. Perhaps, someday, we will define investment failure as earning less than what the stock

market freely offers all investors. Until then, most clients of financial advisors who promote an active investment strategy will continue to underperform the passive strategy that their advisors so often mock.

Wise investors tune out the daily market noise because they understand that emotional reactions to headlines can lead to poor investment decisions. Geopolitical, monetary, and political headlines are blasted our way every day, but today's news is unlikely to have any long-term effect on your portfolio. Information that is broadcast on TV or radio, printed in the *Wall Street Journal* or the *New York Times*, or highlighted in analyst opinions, or on blogs, is already reflected in stock prices. In other words, by the time you hear the news, it's too late to profit from it.

There's an ongoing debate about the stock market's pricing efficiency. An efficient market is one in which stock prices quickly change in response to new information. What's not already reflected in stock prices is the next piece of unexpected news - which is hidden from everyone. Stock prices change when new information alters the consensus opinion of active investors. This pricing method is sometimes called "the wisdom of crowds" and outperforming the market requires outsmarting the collective wisdom of all other market participants. Instead of trying to be smarter than the market, we should spend our time and energy on making sure we minimize the number of foolish decisions that we make. Minimizing foolish decisions is much easier than trying to outsmart the market.

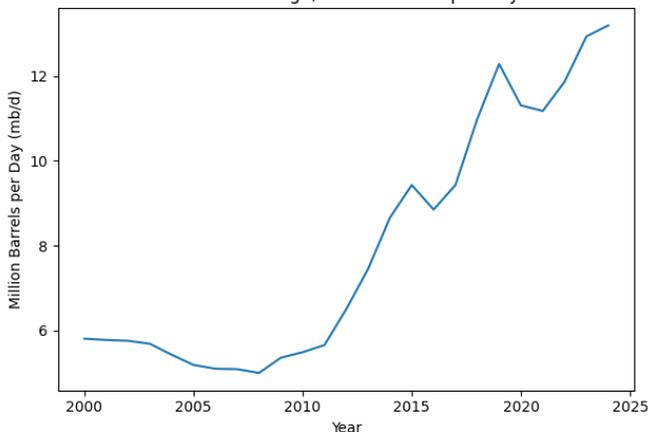
High domestic stock valuations have been attracting media attention for some time now. But current valuations rarely offer useful insight into future returns. In 1996, Federal Reserve chairman Alan Greenspan famously warned of "irrational exuberance" in the domestic stock market that had soared nearly 70% over two years. Greenspan's prediction eventually came to pass when stocks dropped by more than half, but only after they kept rising for three years after his warning—almost doubling after his "irrational exuberance" speech. When the decline finally arrived, stocks fell 50% but still ended up above their level at the time of Greenspan's warning. The "market is too high" prophets will always be with us, badgering us with their warnings, and once in a while someone will get it right. Unfortunately, the accurate seers will only be known after the fact. The weight of evidence suggests that doing a prudent portfolio rebalance during times of high valuations is a more viable strategy than making portfolio changes based on market timing predictions.

Investing for retirement should not involve chasing what outperformed in the recent past or attempting to beat the market. It requires making a series of decisions that weigh risks and rewards in order to achieve long-term goals. Past performance data can only tell us what happened, not why it happened or whether or not the pattern will continue. The future is hidden from everyone, no matter what their credentials are, how much money they manage, how many social media followers they have, or how right they've been in the past. The financial media is overrun with overconfident forecasters telling us which segments of the economy will do well in 2026. But investing in market segments is merely an exercise in under diversification - a particularly bad idea. Investing for retirement is a marathon that requires patience. Focus on what you can control. Interest rates, politics, the economy, and stock market volatility are beyond your control. Instead, focus on these essential truths that contain some good old-fashioned common sense -

- You can control the funding and allocation of your portfolio but not its performance.
- Maintain a broad diversification among and within a multitude of asset classes.
- Own understandable, liquid, and transparent assets.
- Keep costs low and periodically rebalance your portfolio.
- Stay goals focused, not market focused.
- Save more than you think you need to.
- Think long-term.

Without a doubt, this is the dumbest thing that I've read in the financial media in a long time - *"The popularity of and effectiveness of weight loss drugs could lead to significant fuel savings for airlines, as the overall weight of loaded aircraft decreases, analysts at Jefferies say. Major US airlines are expected to spend nearly \$39 billion on fuel in 2026, making these potential savings substantial."* During my career as an airline pilot, we were always trying to find new ways to save fuel. But I don't recall anyone recommending that we sell tickets only to skinny people.

U.S. Crude Oil Production (2000-2024)  
Annual Average, Million Barrels per Day



Speaking of fuel, the U.S. is now both the world's largest oil producer, and a major exporter of crude and refined products. Current US crude oil production of 13 million barrels per day is more than any country in history and the U.S. has produced more crude oil than any country in history for the past six years. This has materially lowered OPEC's ability to set global oil prices. From David Bahnsen -

*"No thanks to many people who have opposed this at every step, U.S. oil production is now 20% of global oil production. It was 8% in 2009. Nearly all of our increase has been used for exports. The decline in market share for gangster autocrat states and the increase in market share for the United States (leading to a legitimate, job-creating, wealth-producing sector of the American economy) is one of the great miracles of my lifetime, and yours."*

Conventional wisdom contains some bad ideas that have achieved respectability because many people believe in them. The idea that you can "protect" your money by periodically taking it out of the stock market until "things get better" is a common, flawed piece of conventional wisdom that is advocated by a large portion of the investment advisory business.

If Henry Ford took a survey of the American people, they would have told him that they needed a better horse. He gave them one. We have no idea what technological advances lie in our future. From the Wright Flyer in 1903 to the iPhone a century later, our economy has rewarded entrepreneurs who have advanced our quality of life. In the USA, capital flows to those enterprises that offer the greatest potential return. In China, capital flows to those enterprises with the greatest political connections. Until this changes, China will never overtake the USA as the world's leading economy.

The financial media thrives on crisis narratives in its ongoing quest to attract eyeballs, ears, and clicks. For them, boring is bad; it causes viewers to grab the remote. They prefer guests who will say exciting things that are wrong over guests who will say boring things that are true. Most guests on financial TV shows eagerly give their opinion about where the market or the economy is headed and pontificate on the best stocks and funds to buy. On the other hand, a guest who believes that investors should own index funds might answer questions with, "I don't know." "I hesitate to speculate." or "It won't matter in the long run." It's hard to get on TV if that's all you have to say -- even if it's the honest truth.

As long as investors seek stock market returns without stock market volatility they'll be suckers for illiquid, incomprehensible, investment products that are sold with the promise of providing these mutually exclusive benefits.

The media's apocalypse of the week is a handy peg on which those who fear the future can hang their anxieties. If your worldview sees a future of chaos, economic weakness and numerous catastrophic events, keep your money in the bank because stock market volatility and media catastrophism will lead you to buy high and sell low on a regular basis.

Instead of building a thriving practice focused on goals based financial planning, many financial advisors are digging a shallow, unmarked grave for their practice by focusing on market timing strategies and performance chasing - two things which are sure to create former clients. By naïvely overestimating their own abilities, they are a danger to their clients' welfare. Inevitably, they'll find themselves spending a good portion of their time prospecting for replacement clients.

Financial advisors are often warned that wealthy people must be approached differently than ordinary folk. Since most wealthy people started out as ordinary folk, this makes no sense to me. The article, "6 Tips for Staying Cool When Presenting to the Wealthy" appeared in a daily blog for financial advisors. Number four was - "clench your left fist". Apparently, this will eliminate "anxiety arousing thoughts" because it "inhibits the language area in the left hemisphere of your brain that is responsible for those troublesome thoughts and primes the right side of your brain that is responsible for delivering a well-rehearsed skill, such as your presentation." What can I say? I can't make this stuff up.

The big mutual fund companies offer hundreds of actively managed stock funds. So why don't they put all investor money into just one fund managed by their most brilliant manager? The answer is because they have no idea which managers are skilled, which have been lucky or who the best performing manager will be this year. So, they'll never roll the dice with just one manager. This is all you need to know about why you shouldn't be chasing after hot fund managers.

For no apparent reason, the price of gold dropped 11% on Jan. 30<sup>th</sup>. Gold yields no interest and pays no dividends. The price goes up because it has been going up or when more people become frightened about the future. This is why gold's carnival barkers buy commercial time, post YouTube videos, and author scary books. This works for a while as the number of bandwagon jumpers increases. Eventually all the fearful are on board and the wheels start coming off the wagon. An ounce of gold worth \$800 in January 1980, when it last reached its inflation adjusted all-time high, is now worth \$5,000 or so, a 4.1% annualized average return and 1% greater than the rate of inflation. \$800 invested in the S&P 500 at the same time and left to compound has grown to \$153,000, a 12.1% annualized rate of return. Long-term investment success is built on aligning your portfolio with your financial goals, time horizon, and risk tolerance, and owning assets with identifiable drivers of return. Stocks generate earnings and dividends. Bonds provide income. Their returns can fluctuate, sometimes sharply, but they remain tethered to economic activity. Gold does not have these properties.

Investors become anxious when they forget that bouts of unpleasant volatility are a permanent feature of stock investing. The solution isn't to engage in the fool's errand of trying to time your way in and out of the market but rather to have a stock allocation that is appropriate for your need and willingness to take stock market risk. Some years the stock market has gone down but most years it has gone up. Get used to it. Stocks represent ownership in corporations that must produce earnings that outpace inflation. Retirees' portfolios require a meaningful allocation to equities to maintain their purchasing power over a decades long retirement or if they wish to leave appreciated assets to heirs. The definition of a "meaningful" equity allocation is person-specific but is likely to be at least 40-50% for most people. The stock market uniquely allows you to invest in, and profit from, human ingenuity and innovation. Most of us don't realize how rare and uniquely beneficial this opportunity is for the average investor today.

The day OCFP opened its doors in 2004, the S&P 500 stood at 1,169. Since then, there have been plenty of good reasons not to invest in stocks or wait until "things get better". There have been years during which stock investors witnessed their invested capital fall 30% - 50%. There have been moments of frightening uncertainty, investor panic, widespread gloom, and emotional pain. Those moments were few and far between, but they occurred, and we were forced to fight through them. The less you paid attention, the easier it was to survive the worst moments. On January 31, 2026, the index stood at 6,929, netting an annualized average return, with dividends reinvested, of 10.8%, 8.1% after adjusting for inflation. That rate of return was well worth whatever emotional distress we had to endure along the way. It has been a cruel two decades for the perma-bears. No tears shed for them.

Most people fall into one of two camps when it comes to spending money. There are those who spend too much and those who save too much. So, if you have to choose one, choose to be someone who saves too much. Do so long enough and one day you'll be able to spend too much and not have to worry about it. It will take some time to get used to "overspending", but you'll easily adapt, I promise.

I don't care what the subject is or what the questions are, all the easy answers have already been found.

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