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In The News

Imagine that it is January 1, 2025. Your crystal ball reveals that over the next six months we will see higher import tariffs, rising global trade tensions, a negative GDP in the first quarter and escalating conflicts in the Middle East. The S&P 500, which tracks five hundred of the largest publicly traded domestic companies, will have one of its worst starts to a year, down 15% by April 8th. Knowing these facts, what would you have predicted for the return of the S&P 500 Index for the first half of the year? Despite the ongoing anxieties over tariffs, the economy, and wars in Ukraine and the Middle East, and to the dismay of market timers, the S&P 500 gained 24.9% from April 9th – June 30th, according to *Bloomberg*. The S&P 500 ended the first half of 2025 with a total return of 6.2%, despite a peak-to-trough drawdown of 18.8% from Feb. 19th – April 7th. Even more surprising, it ended June at an all-time high, the fastest recovery back to a new high after a decline of 15% or more, according to *Dow Jones Market Da*ta. The stock market does not need perfect conditions to move higher. In fact, stocks often rise when expectations are low, and the news is "less bad" than feared. To the ongoing dismay of stock pickers, 56% of the stocks in the S&P 500 Index underperformed it in the year's first half.

Vanguard Index ETFs *Source: Morningstar*	**YTD %**
Total US Stock Market (VTI)	**5.6%**
International Stocks (VEU)	**18.3%**
Emerging Market Stocks (VWO)	**12.8%**
Small-Cap Domestic Stocks (VB)	**-0.6%**
Real Estate (REITs) (VNQ)	**2.0%**
Total Bond Market (BND)	**4.1%**

This chart shows the year-to-date total return of some popular Vanguard index ETFs. In a reversal of the trend of recent years, developed international stock markets and emerging markets outperformed domestic stocks in this year's first six months. If you looked at the share price of VTI on the first trading day in January ($293.06) and not again until June 30th ($303.93), you would think that not much happened. A great deal has happened, but at least so far, to no lasting effect. Panic does not often seize the investing public as suddenly as it did in the first week of April, nor vanish as quickly as it did the following week. Still, the "tariff tantrum" episode serves as the latest lesson that investors succeed over time by sticking with their plan regardless of the current "crisis." Patience might be the investor's most important weapon when confronting the latest clickbait apocalypse. Selling stocks at panic prices rarely turns out well. Selling during a market decline is easy. Getting back in at the right time, before the rebound passes your exit point, is almost impossible. This has nothing to do with smarts. It's all about emotions. Those who kept a long-term view and remain disciplined despite the uncertainty surrounding the "tariff tantrum" were again rewarded, while investors waiting for an all-clear signal missed the rebound.

The S&P 500 finished the first half of the year at a new all-time high. This is good news, but some investors hesitate to invest in the stock market when it is at an all-time high. Is this hesitation reasonable? The historical data says no. According to data from *FactSet Research Systems*, from January 1950 through June 2025, if you invested on a day on which the S&P 500 hit a new all-time high, your average return was 9.4% one year later, 29.1% three years later and 50.2% five years later. This compares to returns of 9.1%, 27.3% and 48.5% respectively for days when the Index was not at an all-time high. The annualized differences in the subsequent returns are so small that there is no reason to avoid investing at market highs. The time to invest in stocks is when you have money to invest. The time to sell stocks is when you need the money for something more important. All else is unnecessary commentary.

But soon after the S&P 500 hit a new all-time high on June 27th, the perma-bears offered the usual litany of predictable reasons why this isn't really good news, that things are about to go from good to bad and that the stock market is about to fall. "Valuations are too high, gains are too narrow, we have too much market concentration, and geopolitical risks continue to accumulate." Blah, blah, blah. It's hard for me to express the disdain that I have for the financial media's chronic pessimists who see the end of the world around every corner. Despite having been wrong time and time again, they are still given global microphones to frighten investors out of doing what has always worked. These so-called "experts" pretend that they possess insight into future cataclysmic events, when in truth, their view of the future is as opaque as yours. Worse than their failed predictions is their brazen persistence. Why don't they just go away and leave us alone? They've been able to build their brand, despite their horrible track record of failed predictions, because they are never held accountable. Their audacity is matched only by their utter lack of humility and refusal to blush in embarrassment. Sadly, like the drug cartels, there will always be a market for their product – those sad souls who want to hear that the world is going to Hell. If history tells us anything it is that the pessimists may sound smart but if you want to be a successful investor, you need to maintain an optimistic outlook.

The rather tumultuous first six months of this eventful year highlight why it is important to remember a handful of the timeless truths about successful investing - principles that will work as well in the years to come as they have in the past.

• The essential component in successful investing is having a goal-focused, long-term portfolio allocation that is the product of a comprehensive financial plan that encompasses your goals, time horizon and risk tolerance. It should not be based on headlines or anyone's short—term outlook for the economy or the capital markets.

• The economy cannot be consistently forecasted, and the stock market cannot be consistently timed. Attempting to gain any advantage by going in and out of the equity market, based on current or expected conditions is a fool's errand. In a 1976 interview, legendary investor Benjamin Graham, called the father of value investing, said – *"The investor's chief problem – and even his worst enemy – is likely to be himself." "if I have noticed anything over these 60 years on Wall Street, it is that people do not succeed in forecasting what's going to happen to the stock market."* Everything seems so obvious with the benefit of 20/20 hindsight, but no one can predict next week's headlines.

• The best way to capture the full compound return of equities is by keeping an appropriate proportion of your portfolio permanently invested in stock funds. The old adage deserves to be repeated: "Time in the market, not timing the market."

• Investors must be prepared to ride out the equity market's frequent, often significant but historically always temporary declines. During such trying episodes, reinvesting stock fund dividends allows you to buy more lower-priced shares—and eventually the equity portion of your portfolio will recover before the popular stock indexes do. Famous hedge fund manager Barton Biggs identified three ingredients for successful long-term investing - staying power, faith, and a strong stomach.

These truths are counterintuitive, which is why good financial advice is worth its weight in gold.

Social Security, Again

The Social Security program was designed as a pay-as-you-go program, not a funded endowment that spins off benefit payments like a pension fund. Social Security taxes are used to pay benefits to retirees. In the past, when many people were working relative to the number who had retired, tax receipts exceeded benefit payments, and the surplus accumulated in the Social Security Trust Fund. Today, the number of workers paying into Social Security has fallen relative to the number of retirees receiving benefits. In addition, retirees are living longer, but workers are not delaying retirement and paying taxes for additional years. Thus, tax revenues coming in are less than benefit payments. The difference is made up by drawing from the Trust Fund.

In June, the Social Security and Medicare Trustees released their latest annual report indicating that the combined Social Security trust fund and Disability Insurance trust fund would be able to pay 100% of scheduled benefits until 2034, one year earlier than last year's estimate, after which point it would be able to pay about 80% of scheduled benefits from payroll taxes. At that point, either benefit payments will have to be cut to the level of tax receipts, or the shortfall will have to be paid from the general U.S. government budget, further adding to the deficit. There are many options for solving this problem and they have been known for years. The solution will include some or all of the following:

- Raise the Social Security tax from the current 12.4% (employer and employee each pay 6.2%).
- Eliminate the Social Security tax earnings cap - $176,100 for 2025.
- Raise the Full Retirement Age (now 67) for younger workers.
- Reduce the annual cost of living adjustment.
- Establish a means-based test, phasing out benefits for high income retirees.

The reason that these simple fixes have not been implemented and Congress continues to ignore the warnings in the annual Trustees report is that they are unpopular with voters. One thing that Democrats and Republicans agree on is that Social Security is the third rail of politics. As I heard my Aunt Julia say many times, "Keep your hands off my Social!" Thus, Congress continues to kick the can down the road.

A 4 x 6 Index Card

The financial media makes investing more complicated than necessary and often confuses more than clarifies. University of Chicago professor Harold Pollack gained acclaim a few years ago by insisting that all the important financial advice you need can fit on one side of a 4 x 6 index card. When I first heard this, I thought, “How small did he print?” A picture of the index card reveals that Pollack provided nine pieces of advice, written in rather large print. Let’s take a look at the professor’s recommendations to see if they really contain all the financial advice you need.

1. **Max your 401(k) or equivalent employee contribution**.
   This is a good piece of general advice, but it would be better to first pay off high interest consumer debt and accumulate an appropriate cash reserve. For workers with no 401(k) company match, it might be more advisable to contribute to a Roth IRA or a traditional IRA which provide almost unlimited low-cost investment options.
2. **Buy inexpensive, well diversified mutual funds such as Vanguard’s Target 20xx funds.**
   I am not an enthusiastic fan of target date funds since they typically contain just a few asset classes. But they are certainly better than actively managed funds or performance chasing the latest hot funds.
3. **Never buy or sell an individual security. The person on the other side of the table knows more than you do about that stuff.**
   Owning individual securities is riskier than owning a well-diversified stock fund. It is unlikely that you know something about a company that is not already factored into its stock price.
4. **Save 20% of your money.**
5. **Pay your credit card balance in full every month.**
6. **Maximize tax-advantaged savings vehicles like Roth, SEP and 529 accounts.**
   This sounds a lot like #1, so I guess there are only 8 things investors need to know.
7. **Pay attention to fees. Avoid actively managed funds.**
   This sounds a lot like number 2, so I guess there are only 7 things investors need to know.
8. **Make your financial advisor commit to a fiduciary standard.**
   Get it in writing, not verbally. Most people who provide financial advice, specifically insurance agents and stockbrokers, are not required to act as fiduciaries (who must always act in their clients’ best interests). They are not required to disclose conflicts of interest and are only required to recommend “suitable” investments. Some financial advisors are part time fiduciaries. Dual registration allows the advisor to wear both hats—fee-based fiduciary and commission-based broker. This can make it difficult to know if a recommendation is made based on what is best for you or what generates the best commission for the advisor.
9. **Promote social insurance programs to help people when things go wrong.**
   Apparently, the professor could only think of 6 pieces of financial advice, but he still had some space left on the index card. If we cannot keep politics off the card, I would replace his #9 with – V**ote for people who will let you keep more of your own money.**

Pollack’s list is fine as far as it goes but it’s not all-inclusive. Let’s flip the card over and add a few more pieces of advice.

10. **Make sure you have adequate amounts of umbrella, disability, and life insurance – just in case.**
11. **Keep your estate planning documents up to date.**
12. **If you have to choose, saving for your retirement is more important than saving for your kids’ college.**
13. **Don’t kid yourself; you probably know less about financial planning and investing than you realize.**
14. **There is no perfect portfolio – yours should emphasize simplicity and shun complexity.**
15. **You can only control the inputs to, not the performance of your portfolio.**
16. **Successful investors focus on their goals and investment strategy, not on the stock market.**
17. **Your behavior as an investor will have a larger impact on your retirement lifestyle than the performance of your investments. Human nature is the investor’s number one enemy.**
18. **Your financial advisor should create a comprehensive and comprehensible financial plan that will keep you on course to your financial goals. If you do not have a financial plan – you do not have a financial advisor.**
19. **Before getting into more consumer debt to impress your friends and neighbors remember this – one third will not notice, one third will not be impressed, and one third will think you are a self-obsessed fool.**
20. **Maintain your optimism - the Perennial Pessimists have always been wrong and there is no reason to believe that their track record will change anytime soon.**