



Gifts for the Well-Behaved Investor

The surprisingly beautiful thing about investing is that there isn't a correlation between sophistication and success or effort and results. You don't have to be the best stock picker, an economist, a finance Ph.D., or a credentialed industry participant to invest successfully. The key trait that contributes to success is behavior: the ability to stomach the highs and lows, neutralize your heuristics and biases, and stay invested according to your plan.

In the spirit of the holidays, let's give an ode to the gifts that 2023 gave well-behaved investors.

- **To those who remained disciplined**—There were two notable things that challenged investors in the last year. First, the market consensus heading into 2023 was for the U.S. to head into recession. This made sense as inflation was stubbornly high, and the Fed was rapidly raising rates. Months later, a banking crisis unfolded as depositors had to question if their money was safe. In both situations, strategists called for less risk-taking and forecasted undesirable scenarios for the market. The well-behaved investor who followed their long-term plan and ignored these dire predictions enjoyed handsome returns as 2023 delivered double-digit gains in equity markets across the globe.
- **To those who remained diversified**—The U.S. market has over 5,000 listed stocks, but you likely only heard about 7 of them this year. "The Magnificent 7" (Apple, Microsoft, Meta, Google, Tesla, Nvidia, and Amazon) posted strong returns as Big Tech and the hype of A.I. were front and center in 2023. As of mid-December, these stocks were up **75% YTD** vs. the overall market's **25%** return. Fortunately, these seven stocks were the largest components of indexes that track the U.S., meaning any diversified, market-index investor likely reaped the benefits of exposure.
- **To those who remained strategic**—Higher interest rates sent bond prices lower during 2022, making 2022 one of the worst performance years on record for bonds. Bonds play a multi-faceted, strategic role in portfolios - provide income, diversification, a source of dry powder and preserve capital over the long-term. Today's market with higher rates lead to higher yields (a good thing), which provide a gift of higher returns for bond investors. When the market is topsy-turvy, it is best to keep calm and carry on.

We don't know what 2024 will bring for investors, but it's not hard to imagine an experience where experts make predictions, worrisome news stories emerge, trends seem irreversible, and doubts creep in. Fortunately, the behaved investor should fare well throughout these conditions and expect more gifts to come.



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