



Wealth Management Report

Dear Investors:

Before getting to our thoughts on the 2025 investment landscape, a recent *Wall Street Journal* [article](#) by our friend Gunjan Banerji caught our attention and may have caught yours too. It focuses on young investors (mostly men) that have become addicted to short-term trading:

A new type of addict is showing up at Gamblers Anonymous meetings across the country: investors hooked on the market's riskiest trades.

At Gamblers Anonymous in the Murray Hill neighborhood of Manhattan, one man called options "the crack cocaine" of the stock market. Another said he faced hundreds of thousands of dollars in trading losses after borrowing from a loan shark to double down on stocks. And one young man brought his mom and girlfriend to celebrate one year since his last bet.

They were among a group of about 60 people, almost all men, who sat in rows of metal folding chairs in a crowded church basement that evening. Some shared their struggle with addiction—not on sports-betting apps or at Las Vegas casinos—but using brokerage apps like Robinhood.

Overconfident twenty-somethings speculating on stocks to make a quick buck is as old as the stock market itself. As Jesse Livermore said in *Reminiscences of a Stock Operator*, "There is nothing new on Wall Street. Whatever happens in the stock market today has happened before and will happen again." *Reminiscences* was published over 100 years ago in 1923.

An even more apt quote from *Reminiscences* that's applicable to today's iPhone trading bandits is this: "I had to lose it all. I did not know it at the time, but losing was part of the process. It taught me what not to do."

With the stock market, the need to speculate and actively trade seems to be inversely correlated with age. You may have started your "career" in markets with dreams of becoming a successful trader. As the years passed and you gained experience, though, you realized that trying to time the market or actively trade is a loser's game compared to finding quality stocks to own for the long-term.

The numbers on why it's much smarter to be a long-term investor rather than a short-term trader are stark. On any given trading day throughout the stock market's history, the odds of the S&P 500 being up on the day are roughly 53%. That beats the casino or a sportsbook, but your odds of correctly guessing the market's daily change are only slightly better than a coin toss. Combine this with a [recent study](#) showing that most investors couldn't make money trading even when they had the next day's news, and you can quickly see just how naïve it is for the average person to think they can be a successful day trader.



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On the other hand, the longer you're willing to wait, the better your odds become. For all one-year periods, the likelihood of the stock market trading higher increases to 75%, and it goes up to near-90% over all five-year time frames. Those are the kind of odds that would make a pit-boss blush.

Losing money is never fun, but it's better to lose a little than a lot, and one thing young investors have going for them is that they usually have a lot less at stake in their early years. If it takes losing \$5k trading options on a brokerage app to learn NOT to do that anymore, that's a win. View it as the market's "tuition."

The irony of all this is that younger investors who have the longest time horizons usually feel the need to be the most active while older investors with more experience and the shortest time remaining tend to have the most patience and long-term perspective.

Heading into 2025...

"We have two classes of forecasters: Those who don't know—and those who don't know they don't know." – John Kenneth Galbraith

Our friend Jeff Sommer at the *New York Times* has a tradition of writing about annual year-ahead S&P 500 forecasts from Wall Street strategists, who pretty much always look for annual gains of 5-10% and never predict down years. This year's [column](#) is titled "Wall St. Is at It Again, Making Irrelevant Market Predictions." Ouch.

Wall Street strategists are yet again optimistic and collectively expect the S&P 500 to rally by more than 10% in 2025. There's nothing wrong with being bullish, but where were they last year ahead of 2024's 25% gain? Notably, strategists were less bullish than normal heading into 2024 with a gain of just 3% forecasted, and not one strategist had a gain of more than 10% penciled in.

We'd have to be crazy to use the Galbraith quote above and cite Jeff's recent column and then make a market forecast ourselves. You won't be getting one from us!

Instead, we'll stick with the basics: history tells us that the stock market trends higher over time, and we're more likely to have another up year than a down year. However, if we do get a down year, investors should use it as a chance to add to exposure rather than trim it. How's that for a forecast?

In case you're bearish (or bullish) specifically because of back-to-back 20%+ gains for the S&P 500, don't be. We've seen this set-up three times in the index's history, and one time it was down big the next year (-39% in 1937), once it was relatively flat (+3% in 1956), and the other time it was up big (+31% in 1997).



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Probably the biggest question mark heading into 2025 is where we are in the AI Boom. It's no coincidence that the current bull market for US stocks began a month before OpenAI released ChatGPT in November 2022. When we looked at past major technological events like the release of the PC, the web browser, the Windows operating system, or the iPhone, it's amazing how closely the Nasdaq's price action since ChatGPT has tracked its action following the release of the modern web browser (Netscape) back in 1994. We're currently a little over two years past the release of ChatGPT, and the Nasdaq is up nearly the exact same amount (~80%) as it was in the two years following the release of Netscape.

AI and what it means for technological advancement is on par or even more revolutionary than the release of the web browser, so this analogue is one we are okay with. And if the analogue is indeed correct, recall that the Nasdaq had a lot left in the tank from 1997 to its ultimate peak of the Dot Com Bubble in early 2000. Because of this, we continue to look for individual stock opportunities in AI and AI-adjacent groups that include hardware, software, and the grid infrastructure build-out needed to power AI. This is simply too big of an area for potential growth to not continue researching extensively.

Additional question marks as we get set for 2025 are the economy/Fed as well as how the market will perform in year one of the incoming Trump administration.

Expectations regarding the economy and the Fed over the last couple of years remind us of the Mark Twain quote: "If you don't like the weather in New England, just wait a few minutes."

Lately it seems like every other week, market "consensus" changes on the size and even the direction of fed funds rate expectations. It was only a few months ago that the Fed needed to cut rates by 50 basis points because "inflation was under control and the job market was weakening." Following that cut, jobless claims came back down while at the same time inflation readings started to raise eyebrows. As we sit right now, it's a pick-up in inflation that's got the market more worried than a potential slowdown in the economy, but just wait until the next set of key economic reports in January and the narrative will probably be different!

November's election results provided an immediate boost to investor sentiment, and stocks rallied on the optimism that lower taxes, a lighter regulatory environment, and more efficient government would more than offset any negative impacts of new policies toward trade and immigration. However, there's still a lot of unknowns regarding the policies of the second Trump administration and how smooth the implementation of proposed legislation will be with such a slim majority in Congress. Investors should be aware that the first year of a President's term is the second weakest of the four-year cycle, and of the eleven four-year Republican terms since 1928, the S&P 500 was down in the first year seven times (although the S&P 500 did rally 19.4% in 2017 when Trump first came into office).



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You also don't have to look back far to find a year like 2024 that was followed by one of the worst years in market history. Rewind to the end of 2021, and the S&P 500 was finishing that year with a gain like this year's 25% rally and a market trading at record highs. When we re-read *CNBC's* year-in-review article for 2021, we were surprised at the lack of concerns heading into 2022 (a year that turned out to be the worst since 2008 that included a peak to trough decline of more than 25%). [Give it a read here](#). At the end of 2021, COVID was still viewed as the market's biggest worry, but inflation and the massive tightening cycle it spawned turned out to be the driver of both stock and bond market declines in 2022. This should serve as a helpful reminder that whatever you or anyone else expect to be the biggest issue facing markets in the year ahead probably won't be. Instead, it will likely be something very low or not even on your radar right now.



To conclude...

Like all portfolio managers, we've had up years and down years for our clients, but 2024 turned out to be one of the better years in Bespoke's history from a stock-selection perspective. That was not the case for most active managers given the significant underperformance of the "average stock" relative to the major cap-weighted indices in 2024. We will never proclaim the ability to "beat the market" year in and year out, but we do know that with each year that passes, we gain another year of experience that leaves us better suited to manage our clients' investments than the year before. It's this experience that we use to continue to best serve our clients in both good times and bad.

Here's to a happy and healthy new year! On to 2025...

If you'd like to speak with us about our wealth management services, please email us at client@bespokeinvest.com or give us a call any time at 914-315-1248. You can also learn more about Bespoke Wealth Management at our [website here](#).