



# Wealth Management Report

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## Dear Investors:

**Anniversaries:** In early October, investors had a chance to celebrate two notable stock market milestones. October 8th marked six months since the “tariff crash” bottom on April 8th, while October 12th marked the three-year anniversary of the current bull market that began in late 2022 just before OpenAI kicked off the AI Boom with the November unveiling of ChatGPT.

In the six months since the tariff-crash low in early April that saw the market plummet 10% over two days and 19% from the February peak to April trough, the S&P rallied 35%, while the tech-heavy Nasdaq 100 gained nearly 50%.

In the three years since the S&P 500 made its bear-market low in October 2022, it rallied nearly 90%, while the Nasdaq 100 gained more than 125%.

Needless to say, buy-and-hold investors have had a pretty easy go of it in the last few years.

As we enter the fourth year of the bull market, there’s uneasiness creeping into professional opinion circles that the market is now in a bubble. To this we respond with a recent quote from “The Psychology of Money” author Morgan Housel: The most common market take can be described as “person who didn’t see this coming is now 100% confident about what happens next.”

Take “bubble” calls with a grain of salt, even when they come from well-known and respected investors. At the same time that articles popped up last week with headlines that JP Morgan CEO Jamie Dimon was [warning](#) about market froth, Mr. Dimon was also penning a *WSJ Opinion piece* announcing a 10-year \$10.5 trillion initiative for “national security and economic resilience” that focuses on those same frothy areas of the market right now: AI, infrastructure, robotics, rare earths, battery storage, cybersecurity, quantum computing, drones, and space.

Yes...after the rally we’ve seen, there are reasons to be cautious (like always), and there are steps one can take that we’ll discuss later to help limit downside risk when the AI Boom hits the brakes. But remember that history has been harsher on sideline-sitters rather than disciplined investors playing on the field who adjust within the market rather than jumping into and out of it.

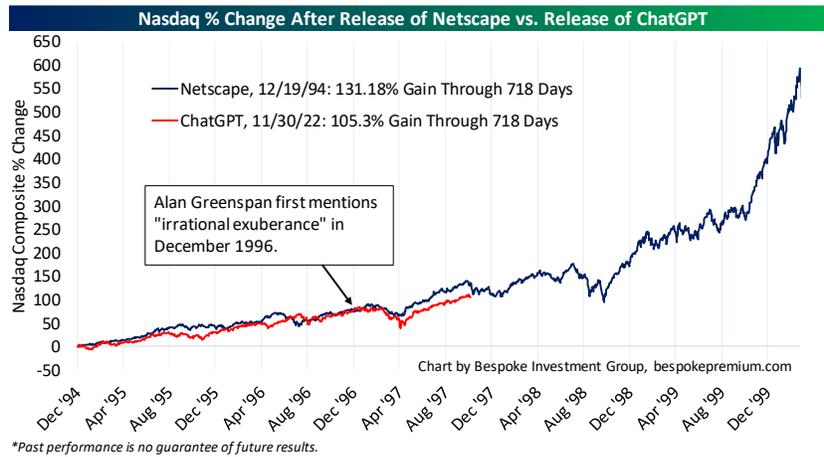
**The AI Bull:** As the old saying goes, “Don’t fight the tape,” and when you’re in a bull market, that means staying long. We definitely don’t recommend fighting the tape in a bull market that has a theme like “AI” attached to it. With the current bull market turning three, here’s a stat to remember and look back on a year from now to see if something similar plays out: Since 1928, there have been nine other S&P 500 bull markets (20%+ gains without a 20% decline in between) that lasted at least three years, and in year four of those bulls, the index saw a median gain of 13.1% with positive returns eight times (89%).



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So far, the AI bull has been tracking the Internet bull of the 1990s nearly perfectly. When we look at the Nasdaq’s performance following the release of the Netscape web browser in December 1994 and compare it to the Nasdaq’s performance in the years after ChatGPT’s release in November 2022, the paths have been incredibly similar.

While it feels like the stock market, and the Tech sector in particular, has already rallied significantly (which it has), that same feeling was also in place back in 1996/1997. At that point, the Internet Boom had already been raging for a few years, and a few months earlier in December 1996, Fed Chair Alan Greenspan famously uttered the words “irrational exuberance” to describe the animal spirits going on in the equity market.



As the chart above shows, even though the Nasdaq was up more than 100% in the first few years after Netscape kicked off what would end up being the biggest market rally (and ultimately bubble) in history, that rally was still only halfway complete in terms of length, and it was only a quarter of the way to the peak in terms of its gains.

Of course, no two markets (or technologies) are alike, but this chart is evidence that already strong bull markets can get much stronger and last much longer than anyone can imagine.

**Another Anniversary.** The recent 18-year anniversary of the stock market’s peak before the Financial Crisis on 10/9/07 should serve as a counterweight to the three-year anniversary of the current bull that happened a few days later on 10/12. The chart below shows the S&P’s action in the year leading up to its 2007 peak:





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Concerns about bank balance sheets were front and center for more than six months in October 2007, but the S&P still managed to rally 10% and break out to a new all-time high in the two months leading up to the 10/9/07 top. The chart at right, however, shows what the market did in the year after that top. It fell more than 40%.



Few investors correctly predicted and profited from the Financial Crisis, and most had no idea, or subconsciously chose to ignore, what was looming. In hindsight, it's always easy to say, but it's not as though the warnings weren't there. As mentioned above, several mortgage firms tied to the subprime housing market were going bankrupt in the months leading up to the peak, and the housing market had peaked more than a year earlier.

What most investors (present company included) failed to appreciate was the amount of leverage in the system. While the subprime mortgage market was relatively small, the firms most involved in the sector were heavily leveraged, which magnified losses. Instead of paying closer attention, most investors heard the assurances of respected individuals in government and finance and looked at the market rallying back to new highs and concluded that the subprime market would remain contained. It didn't.

**Even Keeled.** The 18-year anniversary of the pre-Financial Crisis top is a simple reminder that every bear market starts with prices at fresh bull market highs. Just because the market is hitting a record high today doesn't mean it won't go lower tomorrow. Keep this in mind if you find yourself looking in awe at your account value on big up days or are thinking about jumping in to speculative areas like nuclear, quantum, space, or flying cars, which have all gone parabolic recently. In hindsight, selling during the tariff crash in early April looks like a terrible move now, but plenty of investors did just that. Similarly, should anyone be buying the most hyped areas of the market today after a 50%+ gain in the Nasdaq over the last six months?

As a way to stay grounded after big rallies like we've had recently or big drops like we had in April, rather than comparing your account value today to its historical peak or trough, focus instead on your account's average value over the last quarter or so. That average is a better benchmark than its value on any given day.

Likewise, if your account value rockets higher after a big market move, imagine how you would feel if your portfolio was suddenly worth 10% less. That is probably a more realistic level than whatever the account value was at all-time highs. Would you be able to handle it? It doesn't take much these days for stocks to see sharp daily pullbacks. Just witness what happened last Friday when a single Truth Social post derailed a market rally.

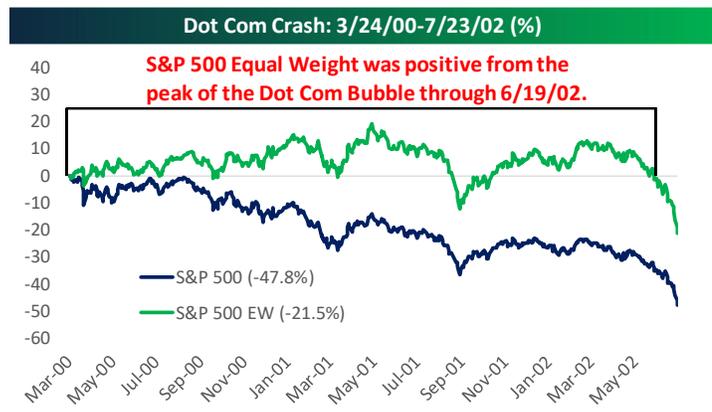


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**How to Keep It.** Along with managing your emotions during bear markets, managing them during the best of times is just as important. We are big believers in letting your winners run, but don't let any one position or exposure to any sector get too big. Many investors are dealing with how to handle big gains right now. As weightings get larger, take some chips off the table and allocate those funds to other areas of the market. We also like setting downside stops on big winners at key support levels where we can either sell a slice or a larger stake if that support breaks. Again, when cash is raised from these sales, look to allocate it to other areas of the market in order to stay invested during long-term bull markets.

One easy shift when cash is raised from big winners is to move in to the S&P 500 Equal Weight ETF (RSP), as it has much less exposure to the AI trade. While no one knows when it will happen, and we don't think we're there yet, one day the AI Boom will hit a peak. As mentioned earlier, every day that the market makes a new high, it *could* be the top. If you've lightened up on big winners on the way up and shifted into lower-beta, less AI-exposed positions like RSP, you'll still see declines if the market trades lower, but it will be much less painful.

A case in point is how the S&P 500 Equal Weight did after the peak of the Dot Com boom in March 2000. Had you owned the S&P 500 Equal Weight index rather than the S&P 500 Cap Weighted index, you would have been flat over the next two+ years through June 2002 instead of down 40%+. It's not discussed much, but as Tech stocks crashed for much of 2000 and 2001 up until 9/11, the rest of the market traded higher.



Don't get us wrong. We're still long-term believers in AI. It's just a question of how many of your eggs do you want in that basket? For investors with little to no exposure, establishing positions in the space still makes sense. Just don't go chasing them after big moves higher. Instead, look to add exposure on days when everyone else is panicking over something like a fleeting headline or a Truth Social post.

If you'd like to speak with us about our wealth management services and our various strategies, please email us at [client@bespokeinvest.com](mailto: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](#).