Stirling Bridge
Wealth Partners, LLC

*MARKET COMMENTARY – April 1, 2025*

***From MO-mentum to NO-mentum***

The momentum style of investing (simply buying what has won in the recent past) doesn't have a lot of intuitive underpinnings to explain why it might work. Investing in quality with success in the vein of Buffett can be explained because well-managed companies are more efficient with higher profit margins and are thereby better able to invest in the next generation of products. Buying value stocks might work over long periods of time because unloved companies are simply cheap. If they survive, they will likely be sold at a higher price in the future. Growth companies exhibit sales compounding that mathematically forces the discounted values of their future cash flows to be higher today.

But what of momentum darlings? They went up yesterday. Buy them and they might go up today. That is the logic. And with some very notable and quite painful exceptions in our lifetimes (e.g. '00, '08, '16, '22), it has worked over longer cycles.

Truth be told, there is some overlap between the quality, growth, and momentum strategies. Familiar companies like Apple or Nvidia can sometimes be found in all three pools. However, there are oftentimes momentum names that will never be considered as high quality or growth oriented (think Microstrategy or GameStop - tons of momentum, little quality).

February and March witnessed the swiftest momentum unwinding in two generations. Candidly, yesterday's winners, just plain lost. Hedge fund selling pressure in these names climbed two or even three standard deviations on some days. It might be important to note that normal retail investors continued to buy run-of-the-mill ETFs and even individual names throughout the recent downturn in formerly high-flying names. This buying helped form a bottom in mid-March and a small rally. Whether or not that was a true bottom remains to be seen as hedge funds and other high-frequency traders react to every tariff headline with typical manic-depressive tendencies.

Related to this discussion is that the equal-weighted S&P 500 has widely outperformed the more common market cap-weighted index thus far in 2025. This fact demonstrates that the "average" stock in the S&P has performed markedly better than the biggest of the big during the rout. Our read is that the economy remains on firm footing (for now) and there was reason for the "average" company to see its price outperform. On the flip side, there was reason for the big tech companies to see some gas released from their formerly bloated prices.

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You see, momentum investing relies entirely on the human factor of investing. All investing is, of course, a human endeavor. Yet, other styles of investing incorporate more financial logic alongside a human component. The all-too-human animal spirits drive momentum investing. It's all herd instinct, tribal actions, and the fear of missing out. It's the desire to brag at the club that you, too, feel you must own the biggest headline stock that drives price-to-sales ratios from 5, to 10, to 20 and beyond without a sustainable growth story. The same rapid, emotional factors contribute to cracks forming swiftly in those formerly loved holdings.

Our goal in this month's commentary is not to disparage momentum investing. It is just one style among many. Its success over the previous generation could be tied to one-off flukes: the ubiquity of the computer, round-the-clock news, the invention of hedge funds and high frequency traders. Or it could prove resilient and rise yet again later this year or next as our competitive instincts compel us collectively forward.

Rather, our goal is to set the tone of the recent sell-off, to better define the issue, and to chart a course forward. Unsurprisingly, our course is to focus on quality holdings, those that can thrive in almost every economic environment and come out of downturns stronger than their peers. The tariff fight may yet cause economic harm (as of this moment any actual harm remains miniscule). Despite hedge fund pronouncements, the current course does not necessarily have to end in true pain. The employment situation remains strong. But February inflation blipped up. New trend?

Remember, our clients have balanced portfolios. Utilities and staples absorb price shocks from any momentum holdings. Safe bonds absorb shocks when all stocks decide to tumble. We design your portfolios to provide for your needs through thick and thin.

Stirling Bridge Wealth Partners, LLC is fortunate to count many of you as clients. In the good times and bad, we remain committed to providing customized investment solutions and robust financial planning wrapped in a package of exceptional service. We thank each of you for your dedication to us and for your trust.

Sincerely
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President