

MARKET COMMENTARY – August 1, 2024

Pigs get fat. Hogs get slaughtered. ~Wall Street adage

For those readers who are not yet our clients, we need to explain something that quickly becomes second nature once a working relationship is established. During the onboarding process and then annually throughout our time working together, we pepper clients with all sorts of questions to ascertain with as much precision as possible the extent and timing of financial needs. Simultaneously, our interviews are designed to establish a client's natural level of risk aversion, while providing education when those levels may not be in his own best interest – i.e. – too aggressive, or not enough.

We then assimilate all those data points into an allocation for each account and for the portfolio in totality. Those allocations may all be different due to tax efficiency reasons or account-specific short-term goals.

With this new Investment Policy Statement (IPS) in hand operating as our marching orders, we put assets to work. Immediately, prices change. Some climb. Some fall. Things go right. Others, wrong. Regardless of the short-term vagaries, we monitor portfolios, making sure they are within the tolerances set by the IPS.

One tidbit of advice we learned early in our career from snow-haired practitioners was to “let our winners run.” It's a maxim that summarizes an important reality. Much of the market's return, as well as an individual's account return, will be from just a portion of the holdings. To be clear, it is normal for a handful of companies to account for a lion's share of the final results. It is for these companies (Microsoft, Apple, Broadcom, etc.) that success begets success. And like a racehorse on a streak had better be on the track, portfolio winners (generally speaking) should be allowed to compound.

Which finally brings us to our barnyard adage above.

As we grew up on a working farm, we employed the terms pig and hog in a sloppy manner that matched the mess splattered on our boots. They were mostly synonyms, to us. Yet the axiom above accurately captures the minute and technical difference in the words. Pigs are smaller. Hogs are bigger. Pigs become hogs. Hogs become bacon.

Now let us bring the agricultural and the investing strands together.

As winners win, their values come to take up ever-larger shares of a portfolio. If Meta began at a 2% weighting, perhaps it has grown to 5% or more. If equities overall began at 60%, they might tally to 70% after a long bull market. What a great example of letting those winners run!

But that success brings additional risk. Going forward, the fate of the portfolio rests more heavily on fewer, riskier holdings. If Meta has a bad quarter or can no longer compete, it affects the client's wealth with two-and-a-half times the force now as at the start in the example above. Likewise, if a bear market breaks free from its cage, holding 70% in stock brings more downside than holding 60%.

The key component is striking the correct balance between tactically layering additional risk by allowing the winners to run in the first place with the very strategically prudent practice of pruning. That is, trimming / selling winners to bring them back into compliance with the long-range risk targets so that unexpected bad market news doesn't bring excessively bad outcomes. It's a way to take a hog and turn it back into a mere pig, to delay a trip to the butcher a little longer.

The upshot for our client portfolios is that as long as prices hold or improve in 2024 and into 2025, we expect to begin the process of trimming winners – be they assets classes or individual securities. This does NOT mean eliminating risk or opportunity. It means right sizing the risk taken. The market has provided an astounding run. We do not pretend to know precisely when it will end. We do know that our clients have goals and short-, medium-, and long-term needs for their monies. Our job is to achieve them across all periods so that no one sees his lifestyle irreparably harmed.

Let us again become mere pigs. *Oink!*

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
Jason Born, CFA
President