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AlphaWealth Monthly Brief

“Ultimately it is not the stock market nor even the companies themselves that determine an investor’s fate. It is the investor.”

- Peter Lynch

In this month’s edition of the brief, we focus on Cliff Asness’ perspective on the importance of embracing diversification. We also highlight Jamie Dimon’s recent annual letter to shareholders.

Cliff Asness’ Perspective on Diversification

A recent paper that has gained significant attention within the academic and quantitative investing community proposes a bold assertion: that long-term investors should allocate 100% of their portfolio to equities rather than maintaining a diversified investment mix. Founder of AQR Capital Management, Cliff Asness, provided an insightful rebuttal, dismissing this proposition as nothing new, citing similar arguments dating back to the mid-1990s.

At its core, the argument for 100% equities rests on the premise that equities historically offer higher returns compared to other assets, such as bonds. This makes them the logical choice for long-term investors seeking maximum returns. However, Asness critiques this perspective, labeling it as a simplistic interpretation of financial theory. He emphasizes that while equities may indeed offer higher expected returns, the importance of diversification should not be overlooked. The principle of diversification, a fundamental tenet of modern finance, suggests that investors should spread their investments across different asset classes to mitigate risk. While equities may provide higher returns on average, a diversified portfolio offers a better risk-adjusted return.

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Moreover, Asness warns against the dangers of extrapolating historical performance into the future, particularly in the context of rising valuations. He cautions that relying solely on past trends, especially during periods of inflated asset prices, can lead to skewed conclusions and suboptimal investment decisions. Asness advocates for a more comprehensive approach to investment analysis - one that considers not only historical performance but also the complexities of portfolio construction and risk management. He asserts that while finance 101 principles remain valuable, investors must resist the temptation to oversimplify investment strategies or blindly follow historical trends. Instead, investors should seek a balanced approach that embraces diversification, acknowledges market complexities, and remains grounded in sound financial theory.

Jamie Dimon’s Letter to Shareholders

Jamie Dimon, Chairman and CEO of JPMorgan Chase, recently published his annual letter to shareholders, covering a wide range of topics from specific issues facing his company to national security to artificial intelligence. Let’s take a look at some of the best quotes from Dimon’s letter:

On the importance of American leadership on the global stage: “In the free and democratic Western world, and, in fact, for many other countries, there is no real or good alternative to America. The only other potential superpower is China. Other nations know they can rely on the founding principles of America. If we reach out our hand, most nations will happily take that hand. America is still the most prosperous nation on the planet, which not only can guarantee our military strength but also positions us to help our allies develop and grow their nations.”

On economic national security: “The United States cannot rely on any potential adversaries for materials essential to our national security — think rare earths, 5G and semiconductors, penicillin and materials critical to essential pharmaceuticals, among others. We also cannot be sharing vital technologies that can enhance an adversary’s military capabilities. The United States should properly and narrowly define these issues and then act unilaterally, if necessary, to fix them.”

On global trade negotiations: “We must have a better understanding of trade. As a nation, we refuse to get into genuine trade discussions, but this ignores the complete and obvious truth — we already have trade relationships with all these countries. Approximately 92% of the world’s consumers live outside the United States. Increased trade allows our workers and farmers to access those markets. We should negotiate trade agreements that can achieve more, economically, for ourselves and our allies, as well as meet all of our national security needs.”

On maintaining focus on long-term trends: “There is too much emphasis on short-term, monthly data and too little on long-term trends and on what might happen in the future that would influence long-term outcomes. For example, today there is tremendous interest in monthly inflation data, although it seems to me that every long-term trend I see increases inflation relative to the last 20 years. Huge fiscal spending, the trillions needed each year for the green economy, the remilitarization of the world and the restructuring of global trade — all are inflationary. I’m not sure models could pick this up. And you must use judgment if you want to evaluate impacts like these.”

On artificial intelligence: “While we do not know the full effect or the precise rate at which AI will change our business — or how it will affect society at large — we are completely convinced the consequences will be extraordinary and possibly as transformational as some of the major technological inventions of the past several hundred years: Think the printing press, the steam engine, electricity, computing and the Internet, among others.”

Fast Facts

Over the last 30 years, the purchasing power of the U.S. consumer dollar has been cut in half due to inflation. At the same time, the S&P 500 has gained 840% after adjusting for inflation. - Charlie Bilello

Founders Steve Jobs, Steve Wozniak, and Ronald Wayne created Apple Computer on April 1, 1976. Soon after the company was formed, Wayne sold his 10% stake in the newly formed Apple back to Jobs and Wozniak for $800. On March 15th of this year, that 10% stake would have been valued at $267 billion. – Dave Manuel

As of December 31, 2023, Berkshire Hathaway stock was up nearly 4,400,000% since Warren Buffett took control in 1965. That’s about 140 times the S&P 500’s 31,000% gain over the same period and represents a compounded gain of 19.8% a year versus the index’s 10.2% annual gain. – Business Insider

90% of Canadians live within 100 miles of the U.S.-Canada border, and around 60% of all Canadians live south of Seattle, Washington. All in all, 27 states in the U.S. are totally or partially north of Canada's most southern point. – Interesting Facts

Thanks to decades of improving aviation safety, the chances of dying in a plane crash went from 1-in-350,000 between 1968 and 1977 to 1-in-13.4 million between 2018 and 2022. Based on current safety levels, it would take an average of 103,239 years of daily travel for a person to experience a fatal accident. – Morning Brew

McKenzie Scott has now given away $16.5 billion from the fortune she came into after divorcing Amazon founder Jeff Bezos. – MarketWatch

An estimated $58 million in loose change is left behind on airplanes each year. – Interesting Facts

Two revolutionary companies went public twenty years ago. Google, which has returned +6,080%, and Domino's Pizza, which has returned +8,200%. – Charlie Bilello

Contact Us

As always, feel free to reach out to us if you have any questions regarding your investments or financial plan or would like to schedule a meeting with our advisors.