GLOBAL
WEALTH ADVISORS LLC
Registered Investment Advisor

INSIGHTS

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The Power of Prices - Equilibrium

Above the Fray
May 23, 2025
By Wes Crill, PhD Senior Client Solutions Director and Vice President,
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An important function of competitive markets is driving prices to equilibrium. This refers to a state where market prices balance the demand from both buyers and sellers. Every trader who thinks the price of a security is high is offset by one who thinks the price is low. So, they agree to transact, voluntarily, at the current price. If there is insufficient interest in buying, the price must fall until a new equilibrium is reached.

If this sounds too abstract, sports betting markets may be a useful parallel. When an undefeated team squares off against a winless team, few expect the latter to emerge victorious. The only way to induce gamblers to bet on the weaker squad is to lower the "price." This is accomplished by a point spread indicating essentially how much the underdog can lose by and still be considered a winner for betting purposes.

The largest point spread in NFL history came in 2013 when the Denver Broncos played the Jacksonville Jaguars. The gulf in quality between the teams was so great that nobody would bet on the moribund Jaguars until you spotted them 28 free points. Anything short of that and the supply would exceed the demand for the Jaguars.

In case you're wondering, the Broncos won that 2013 contest by "only" 16 points. So, the winning bet was the Jaguars. An underdog winning against the spread is far from an aberration—historically, they do about half the time.[1] And that's the key takeaway from market equilibrium. Winning against the market becomes a coin flip because the quality of assets has already been handicapped in the prices. In other words, knowing a good company from a bad one won't help you pick better stocks than the market. You've got to have more insight into those companies than other investors, and that's a tall order in competitive markets. ❍❍❍

1. *Steven D. Levitt, "Why Are Gambling Markets Organized So Differently from Financial Markets?" The Economic Journal, 114, (April 2004): 223–46.*

A Personal Note from Global Wealth Advisors

As of the writing of this note, the first six months of 2025 are shaping up to be slightly positive for the DJIA, S&P 500 and NASDAQ indices. This is primarily due to the tariff actions and concern over potential rising inflation and slowing GDP. The foreign and emerging markets have enjoyed double-digit returns as the dollar has weakened, and investors have been buying stocks in these areas due to attractive valuations and expected economic growth.

The Fed has been cautious about the need to reduce the Federal Funds Rate from its present target of 4.25% to 4.50% and many interest rate traders are estimating there is only about a 15% chance of a quarter percent rate reduction at the July 30th meeting. Those odds are currently around 65% for the September 17th meeting and about 45% for another quarter percent reduction at the October 29th meeting and these estimates change by the minute.

If the Fed lowers interest rates a quarter-point once or twice this fall, it will help stimulate the economy and lower borrowing costs for consumers. It would also be a tail wind for the financial markets so stay invested and you will be glad you did.
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E + R = O: A Formula for Success

May 6, 2025
By: David Jones
Head of UK and Ireland Advisor Group, Dimensional Fund Advisors, Ltd.

Combining an enduring investment philosophy with a simple formula that helps maintain investment discipline can increase the odds of having a positive financial experience.

An Enduring Investment Philosophy

Investing is a long-term endeavor. Indeed, people will spend decades pursuing their financial goals. But being an investor can be complicated, challenging, frustrating, and sometimes frightening. This is why it is important to have an investment philosophy you can stick with—one that can help you stay the course when things get rough.

This simple idea highlights an important question: how can investors maintain discipline through bull markets, bear markets, political strife, economic instability or whatever *crisis du jour* threatens their serene progress towards their investment goals?

Over their lifetimes, investors face many decisions, prompted by events that are both within and outside their control. Without an enduring philosophy to inform their choices, they can potentially suffer unnecessary anxiety, which may lead to poor decisions and outcomes that are damaging to their long-term financial well-being. When they don't get the results they want, many investors may blame things outside their control. They might point the finger at the government, central banks, markets or the economy. Unfortunately, the majority may not do the things that might be more beneficial—evaluating and reflecting on their own responses to events and taking responsibility for their decisions.

Some people suggest that among the characteristics that separate highly successful people from the rest of us is a focus on influencing outcomes by controlling one's reactions to events, rather than the events themselves. This relationship can be described in the following formula:

E+R=O (Event + Response = Outcome)[1]

Simply put, this means an outcome—either positive or negative—is the result of how you respond to an event, not just the result of the event itself. Of course, events are important and influence outcomes, but not exclusively. If this were the case, everyone would have the same outcome regardless of their response. Let's think about this concept in a hypothetical investment context. Say a major shock, such as the failure of a bank, causes a market to fall (event). In a panicked response, potentially fueled by gloomy media speculation of the resulting uncertainty, an investor sells some, or all, of their investment (response). Lacking a long-term perspective and reacting to the short term news, our investor misses out on the subsequent market recovery and suffers anxiety about when, or if, to get back in, leading to suboptimal investment returns (outcome).

To see the same hypothetical example from a different perspective, a surprise event causes markets to fall suddenly (E). Based on his or her understanding of the long-term nature of returns and the short-term nature of volatility spikes around news events, an investor is able to control his or her emotions (R) and maintain investment discipline, leading to a higher chance of a successful long-term outcome (O).

This example reveals why having an investment philosophy is so important. By understanding how markets work and maintaining a long-term perspective on past events, investors can focus on ensuring that their responses to events are consistent with their long-term plan.

The Foundation of an Enduring Philosophy

An enduring investment philosophy is built on solid principles backed by decades of empirical academic evidence. Examples of such principles might be: trusting that prices are set to provide a fair expected return; recognizing the difference between investing and speculating; relying on the power of diversification to manage risk and increase the reliability of outcomes; and benchmarking your progress against your own realistic long term investment goals.

Combined, these principles might help us react better to market events, even when those events are globally significant or when, as some might suggest, a paradigm shift has occurred, leading to claims that "it's different this time." Adhering to these principles can also help investors resist the siren calls of new investment fads or, worse, outright scams.

The Guiding Hand of a Trusted Adviser

Without education and training—sometimes gained from bitter experience—it is hard for non-investment professionals to develop a cogent investment philosophy. And, as we have observed, even the most self-aware find it hard to manage their own responses to events. This is precisely why a financial adviser can be so valuable—by providing the foundation of an investment philosophy and acting as an experienced counsellor when responding to events.

We know that investing will always be both alluring and, at times, scary, but a view of how to approach investing combined with the guidance of a professional adviser can help people stay the course through challenging times. Advisers can provide an objective view and help investors separate emotions from investment decisions. Moreover, great advisers can educate, communicate, set realistic financial goals and help their clients deal with their responses even to the most extreme market events.

In the spirit of the E + R = O formula, good advice, driven by a sound philosophy, can help increase the probability of having a successful financial outcome. ❍❍❍

1. *Jack Canfield, The Success Principles: How to Get from Where You Are to Where You Want to Be (New York: HarperCollins Publishers, 2004).*

Recession and Markets

Above the Fray
May 5, 2025
By Marlena Lee, PhD
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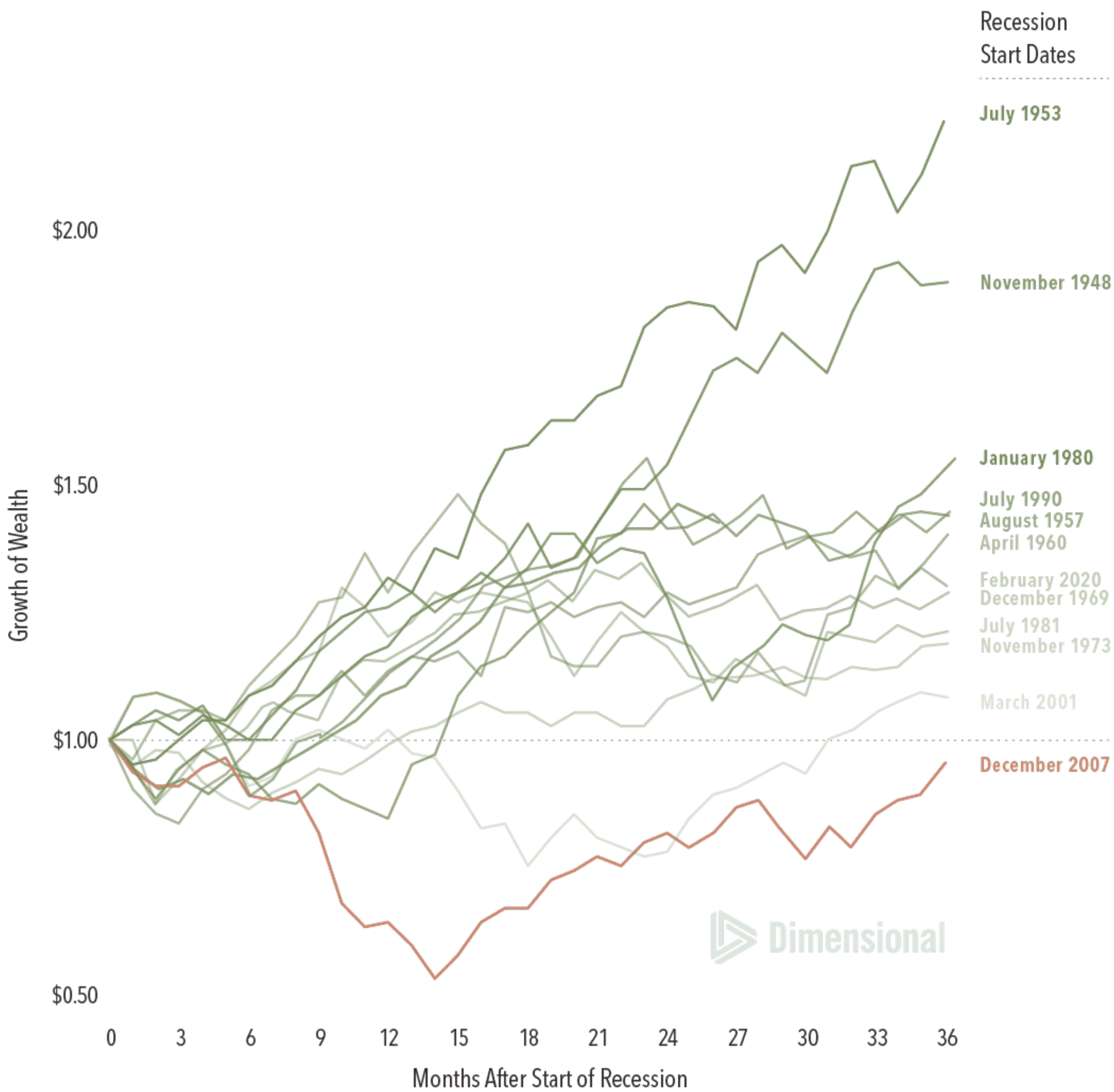
Against the backdrop of heightened political uncertainty, potential trade wars, and lower consumer sentiment, investors may have concerns about whether the US could tip into a recession. The National Bureau of Economic Research identifies recessions using backward-looking data, so we won't know we're in recession until after it's begun. Luckily for investors, markets are forward-looking and generally react before we see slower economic growth show up in the macroeconomic data. This also means that expected stock returns are positive, even when the economic outlook is weak. This is born out in the historical data. One dollar invested at the start of a recession saw positive returns after three years in 11 out of 12 past recessions. The average of the three-year returns after the start of a recession was 43.2%, which is nearly identical to the 41.8% average return of all three-year periods from 1947 to 2024.[1] ❍❍❍

Exhibit 1

Growth of a Dollar for US Stocks over a 3-Year Period Beginning from the First Month of Recession

January 1947–March 2025



In USD. Each line shows the growth of $1 for a hypothetical investment in the Fama/French Total US Market Research Index over the 36 months starting the month after the relevant recession start date. Data presented is hypothetical and assumes reinvestment of income and no transaction costs or taxes. Sample includes 16 US recessions as identified by the National Bureau of Economic Research (NBER) from January 1947 to December 2024. NBER defines recessions as starting at the peak of a business cycle. A business cycle is a description of the various stages of economic output. The chart is for illustrative purposes only and is not indicative of any investment. The Fama/French indices represent academic concepts that may be used in portfolio construction and are not available for direct investment or for use as a benchmark. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment. See "Index Descriptions" for descriptions of Fama/French index data.

INDEX DESCRIPTIONS

Fama/French Total US Market Research Index: July 1926–present: Fama/French Total US Market Research Factor + One-Month US Treasury Bills. Source: Ken French website.

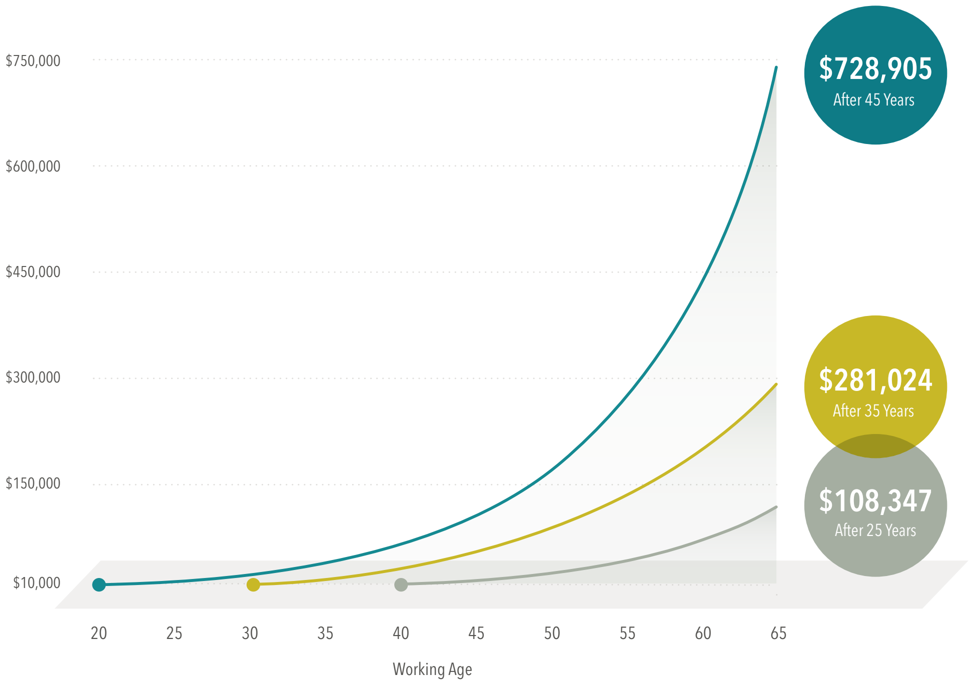
1. *Source: Fama/French Total US Market Research Index. The sample start date is based on quarterly US gross domestic product data, a key measure used to identify changes in economic activity across the business cycle that is first available starting in 1947*

DIMENSIONAL QUICK TAKE

Dimensional

The Power of Compounded Returns

HYPOTHETICAL GROWTH OF $10,000 OVER 45, 35, AND 25 YEARS
10% Annual Compounded Return



Compounding is a powerful force. When returns are reinvested, the investment's value can grow exponentially over time.

- Consider a hypothetical $10,000 investment earning 10% a year—the S&P 500 Index's approximate annualized return since 1926. Over a 45-year working lifetime (age 20 to 65), $10,000 would have grown to $728,905.
- At a 10% annual return, an investment doubles in value about every seven years. So, the earlier you start investing, the larger the potential compounding effect.
- For example, investing $10,000 at age 20 would result in a much higher end value at age 65 than investing the same amount at age 30 or 40.

Compounding can help turn a small investment into substantial wealth. But to harness that power, the sooner you start, the better.

Past performance is no guarantee of future results. Investing risks include loss of principal and fluctuating value. There is no guarantee an investment strategy will be successful.

In USD. For illustrative purposes only. S&P 500 Index annualized return January 1926–December 2025 is 10.42%.

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Financial Thoughts

In 2023, the average contribution to 401(k) accounts by Americans increased slightly to $5,993. When employer contributions are included, the total average contribution to 401(k) accounts rose to $8,618 in 2023, up from $8,362 in 2022 and $8,236 in 2021. The percentage of income contributed to 401(k) accounts by participants increased slightly to an average rate of 8.0% in 2023, up from 7.9% in 2022. This increase in contributions as a percentage of income is partly due to common 401(k) plan features like a default contribution rate of 4% or higher seen in many plans, along with options that allow savers to automatically increase their contribution rate over time (Source: Hicapitalize, 2024).

A household needed to earn $107,700 to afford a new single-family home and pay property taxes and insurance costs in 2024, according to a new report from Oxford Economics. That's nearly double the household income of $56,800 needed to afford a new home in 2019. Just 36% of U.S. households earned enough to afford a new home, compared to 59% in 2019.

U.S. economic output per person is 40% higher than in Western Europe and Canada, and 60% higher than in Japan (Source: *The Economist*, 2024). ❍❍❍

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