

## CIO Vantage Point

HENRY MERCER | Chief Investment Officer

“ **It only takes one moment of overconfidence, distraction, or sloppiness to undo a lifetime of compounding.**

- Seth Klarman

The U.S. stock market has continued its impressive rally into record high territory. Hard to believe, but the S&P 500 index has surged 35.5% since April's Liberation Day panic. Recent strength has been ignited by the resumption of rate cutting by the Federal Reserve. History has proven that an accommodative monetary policy is bullish for equities and, as always, the trend of stock prices will be influenced by the central bank. Wall Street is expecting two additional reductions of the Fed-funds rate before year-end and most projections foresee gradual easing lasting into mid-2026.

Today everyone is a Fed watcher. Powell's F.O.M.C. is in a tough position. The September policy statement says the following: "Job gains have slowed, and the unemployment rate has edged up but remains low. Inflation has moved up and remains somewhat elevated." Both elements of the Fed's governance mandate are heading in the wrong direction. Right now, the priority has shifted to stabilizing the job environment, but a serious rekindling of inflation would be a bearish development. Furthermore, the battle over the central bank's independence combined with the government shutdown makes the situation unnecessarily complex. Godspeed Jay Powell...

2025 serves as a perfect example of the axiom that the stock market climbs a wall of worry. The Magnificent Seven and beneficiaries of the hyperscaling of artificial intelligence continue to bolster the returns of U.S. large capitalization indices, but a broader cross section of companies began to participate in the advance during the late summer. Lately, small capitalization indices such as the Russell 2000 and S&P 600 have been outscoring the big boys. This could be a game-changer.

Confounding conventional wisdom, the White House tariff rollout has been a non-event for the globe's stock exchanges. Tariffs, in fact, have provided a booster shot. One consequence of the levies on trade is a weaker dollar. This is funneling liquidity overseas and the year-to-date returns have been eye-popping. Here is a sample: South Korea +47.9%, Hong Kong +33.4%, and Germany +23.6%. Japan's Nikkei 225 index has surged 21.7% to a record high, breaking out of a 36-year trading range. Kind of makes our Nasdaq Composite's 19.1% gain look shabby in comparison. As the iconic song says,

"something's happening here, what it is ain't exactly clear."

Unfortunately, the current political vitriol is killing any sense of optimism about the U.S.'s future. Amid all the bickering, it is easy to overlook that the bull market celebrated its third birthday on October 12. No one truly knows the rally's life expectancy, but history lends a rational perspective.

The table below summarizes every U.S. bull cycle since the S&P 500's inception back in 1921:

## S&P 500 / HISTORICAL BULL MARKETS

Start Date	End Date	Index Start	Index Peak	Gain	# of Days	
8/1/1921	9/7/1929	6.45	31.92	<b>395%</b>	<b>2959</b>	Roaring 20s
6/1/1932	7/18/1933	4.4	12.2	177%	412	FDR Bounce
3/14/1935	3/6/1937	8.06	18.68	132%	723	New Deal Hope
3/31/1938	11/9/1938	8.5	13.79	62%	223	Recovery Stumbles
4/28/1942	5/29/1946	7.47	19.25	<b>158%</b>	<b>1492</b>	WW II - US Arsenal
5/17/1947	6/15/1948	13.71	17.06	24%	395	Marshall Plan
6/13/1949	8/12/1956	13.55	49.74	<b>267%</b>	<b>2607</b>	Post-War Boom
10/22/1957	12/12/1961	38.98	72.64	86%	<b>1512</b>	Cold War
6/26/1962	2/9/1966	52.32	94.06	80%	<b>1324</b>	Martin's Punchbowl
10/7/1966	11/28/1968	73.2	108.37	48%	784	Go-Go Era
5/26/1970	1/11/1973	69.29	120.24	73%	961	Nifty 50
10/3/1974	11/28/1980	62.28	140.52	<b>125%</b>	<b>2248</b>	Stagflation
8/12/1982	8/25/1987	102.42	336.77	<b>229%</b>	<b>1839</b>	Greed is Good
12/4/1987	7/16/1990	223.92	368.95	65%	955	Post-Crash Breather
10/11/1990	3/24/2000	295.46	1527.46	<b>417%</b>	<b>3452</b>	Disinflation / Dot-Coms
10/9/2002	10/9/2007	776.76	1565.15	<b>101%</b>	<b>1826</b>	Housing Bubble
3/9/2009	2/19/2020	676.53	3386.15	<b>400%</b>	<b>3999</b>	Quant Easing
3/23/2020	1/3/2022	2237.4	4796.56	114%	651	Covid Stimulus
10/12/2022	??????????	3577.03	??????????	<b>89%</b>	<b>1095</b>	Mag 7 / A.I.

The key takeaway is that it is reasonable to expect today's stock market upswing will continue. Please take a minute to compare the advance in terms of duration and percentage gain with past bull markets. Age, and scale, at this point, are not a concern. The clear message is that betting on our nation's special brand of democracy, capitalism, and entrepreneurship has been a consistent winner over the long run. Booms, busts, bubbles, panics, Democrats, Republicans, wars, terrorism, assassinations, scandals, depressions, recessions, inflation, deflation, stagflation, natural disasters, manmade disasters, epidemics, pandemics, easy money, tight money - the overriding trend of our stock market is up and up. Sure, there are corrections and bear markets, but successful "investing" requires taking advantage of them.

Contemporary investors are bombarded with information, along with nonsense. The buzz is 24/7. If you watch the financial networks, a single question has been constant throughout the three-year rally. Guests are asked every day to forecast the short-term direction of the stock market – a futile exercise. This unproductive chatter makes it nearly impossible for regular viewers to stick with their long-term objectives.

There is an enormous contrast between forecasting and managing portfolios. Withum Wealth's task as an investment advisor is to tune out the buzz and compound your wealth in a rational, disciplined manner. The comment by legendary investor Seth Klarman cited above is right on target. Wealth generation is all about compounding, not speculating. Investing is a serious endeavor. Mental mistakes can damage returns.

Seth Klarman is less well-known than other investing Hall of Famers like Warren Buffett, but this is by choice. Klarman is humble, publicity shy, and keeps opinions closely guarded. He has operated Baupost Group, a hedge-fund partnership headquartered in Boston, since 1982. Baupost's returns have been sensational. Furthermore, Klarman is a value investor, who has remained true to the old school principles championed by Buffett. He credits his success to "a contrarian philosophy and a calculator." Klarman also authored *Margin of Safety: Risk Averse Value Investing Strategies for the Thoughtful Investor*, a must-read. Good luck trying to find a copy; it will be costly. He jokes that the optimum title for a best seller now would be *Safety of Margin*.

Guess what approach Klarman credits as the source of Baupost Group's stellar performance?



The correct answer is “diversification.” This sounds dull for a hedge-fund ranked at the top of the heap. Klarman’s competitive advantage is a combination of temperament, rigor, and intelligence. He keeps his composure when markets are at their worst, and just as important, when they are at their best. His dedicated team at Baupost searches for value producing assets within a well-defined set of guardrails. Diversification is that guardrail, as is an obsession with balancing – by name, sector, and asset class. In Klarman’s opinion, the biggest changes over the past 40 years are global investing, private markets, technological disruption, and greater mispricing due to algorithmic trading.

Since this is my first official CIO letter as a member of the Withum Wealth family, I am going to make some personal observations. I have been an investment manager for as long as Seth Klarman, navigating 8 bull markets and 7 bear. Most of my career has been spent operating my own registered investment advisory firm – a challenge and a privilege. I retired at end of 2021 still at the top of my

game. This was the goal of my life game. Long story short, I was happy with zero intention to unretire but could not resist the opportunity to join a firm that, much like Baupost, is skillfully led, team-oriented, and utilizing a truly diversified investment strategy.

My main contribution to Withum Wealth is a historical perspective and a seasoned sense of value. I have experienced my share of impossible, “black swan” events in the financial world, which allows me to establish and maintain the appropriate guardrails at WWM. In addition, you can count on me to advocate buying during stock market panics and whenever it is possible to scoop up bargains in all the asset classes comprising WWM’s allocation buckets. Lastly, we at Withum Wealth work for terrific people. I cannot possibly tell you how much your confidence and encouragement enhance the firm’s investment returns.

Please feel free to contact me anytime with questions, comments, or suggestions.

**Long live the bull...**



**CIO Vantage Point**  
presented by  
**HENRY MERCER**  
Chief Investment Officer  
Withum Wealth Management