Here’s to Your Wealth

Discussions for financial health and well-being

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I read an article in *BusinessWeek* magazine by Barry Ritholtz. Mr. Ritholtz owns Ritholtz Wealth Management, headquartered in NY, with about $2 billion under management. The title of the article is “The Death of Equities,” and a major theme is how inflation is destroying the stock market. Let’s look at a few of his comments, and keep track of how many of these themes you have seen or read lately.

Ritholtz provides 4 reasons why inflation is killing equities:

1. During periods of rapid inflation, costs rise faster than companies can raise prices, so profits decline.
2. Inflation can make realized profits look better than they are.
3. History has taught investors that when the inflation bubble bursts, it usually leads to weaker profits and stock prices.
4. When rates rise in response to inflation, capital will flow from equities to debt as investors seek to lock in higher yields, (Ritholtz, para. 13).

Mr. Ritholtz then goes on to explain how people were originally drawn into equities because the “climate was right: fairly steady growth with little inflation. To bring equities back to life

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now, secular inflation would have to be wrung out of the economy…it will take two or three years of confidence building, of testing, before the market can seriously act like it did…" (Ritholtz, para. 6).

Addressing the lack of broad stock participation in the market, Ritholtz notes, "the only stocks that have done well recently have been hyper-growth stocks such as energy-related, gambling, high-technology, or fast-growing small companies" (Ritholtz, para. 22). He points out that these investments are not attracting capital like they used to as investors "built up their cash portions or stuffed their portfolios with short-term securities paying high rates" (Ritholtz, para. 23).

Ritholtz closes his article with a couple of comments from others. First, Gershon Mandelker, associate professor of business administration at the University of Pittsburgh. He points out that people need villains to blame for their woes, and some may want to lay blame on oil companies for rising prices. But, he reminds us that inflation is caused by governments printing money, not by rising oil prices. (Ritholtz, para. 44). Ritholtz reminds us that "whatever caused it, the institutionalization of inflation, along with the structural changes in communications and psychology, have killed the U.S. equity market for millions of investors. Alvarez de Toledo of Shearson Loeb Rhoades Inc adds to this sentiment by stating "we are all thinking shorter term than our fathers and grandfathers" (Ritholtz, para 44 & 45).

How many of these themes resonate with you? How many have you seen, heard or read about lately? Things like rapidly rising inflation, weaker corporate profits, investors moving into higher yielding debt investments, narrow market leadership instead of broad participation, investors amassing cash in higher yielding products, blaming rising energy costs and short-term thinking.

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The most interesting thing about this article is that Barry Ritholtz wrote it in **1979**. It was published by *BusinessWeek* on **August 13, 1979**. It’s true that conditions and events were different in the 1970’s versus the 2020’s. However, whether we look at the 70’s as Ritholtz was doing, or the tech bubble and terrorist attack of the early 2000’s, the Great Financial Crisis of 2008-09 or the COVID pandemic, one thing remains constant. Short-term news and thinking move prices temporarily. That is out of our control. What we can control is how we react. Since the article was published in August 1979, the S&P 500 has provided an annualized return of 11.6% per year. As finance guru and author Morgan Housel reminds us, “past success always seems easier because you know how the story ends. Every past market crash looks like an opportunity, every future crash looks like a risk” (Housel, 2023).

A major part of what we do is help people navigate through volatile times and maintain focus on long-term goals and what they can control. Financial goals are reached by owning a diversified portfolio of high-quality investments, a well-defined strategy, and patience.

Wishing you good health and good wealth.

References

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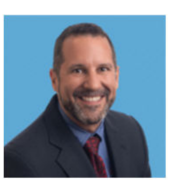

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