

Investing Lessons from Star Wars

Those familiar with the famous phrase “May the Force be with you” may recognize the pun which eventually led to May 4th becoming Star Wars Day. In the movies, the rebel alliance faced daunting odds in their ongoing battle with the evil empire. Similarly, as the current seven-year bull market that began in March 2009 continues – currently 2,608 days as of April 29th - investors face uneasiness regarding how long this rally can continue. As fans around the world prepare to celebrate the franchise's film series, books, and culture, we consider how the following celebrated Star Wars movie quotations may also offer some salient investment advice.

- **Only at the end do you realize the power of the Dark Side** (The Emperor).
In *Return of the Jedi*, the Emperor tells Luke Skywalker that the effects of his evil power will only be felt once it is too late. The seven-year bull market has been driven by many positive factors including global monetary stimulus, strong corporate earnings, low interest rates, and solid economic data. While these tailwinds have been a boon for investors, headwinds lurk everywhere, and, as The Emperor alluded, one can be blindsided. Paying attention to potential headwinds including slowing corporate earnings, weaker global economic growth, above average market valuations, and increasing market volatility are important in portfolio management.
- **These aren't the droids you are looking for** (Ben Obi-Wan Kenobi).
In *Star Wars*, the Jedi Master persuades Stormtroopers to not arrest the main character droids but instead focus their attention elsewhere. Heeding this advice for investment portfolios, there are potential investments to avoid including US Treasuries and Foreign Bonds. In a potential rising interest rate environment, these bond sectors may suffer significant losses. Furthermore, when compared to domestic bonds, foreign bonds have significantly lower yields.
- **You do have your moments. Not many, but you have them** (Princess Leia).
In *Empire Strikes Back*, Princess Leia suggests that Han Solo has moments, although few and far between, when he truly shines. Similarly, alternative investments that offer lower correlations to traditional asset classes don't always stand out, but occasionally have the opportunity to add great value to a portfolio. Their low correlations have been a drag on performance during the current bull market, but with an expectation of increased market volatility, we believe they will have their moment as investors look to brace portfolios against sharp market fluctuations.
- **In my experience, there's no such thing as luck** (*Obi Wan Kenobi*).
In *Star Wars*, after Luke Skywalker successfully passes a training session, Han Solo says he was just lucky while Obi Wan Kenobi counters with this quote. In investing, it is more important to have skill and not just rely on luck. Market pullbacks are normal, and as this seven-year bull market continues to march along, the probability of a pullback increases every day. In fact, according to JP Morgan Asset Management, while the S&P 500 has generated positive annual returns in 27 of the last 36 years, the average intra-year drop has been 14.2 percent. This suggests that despite the market's positive trajectory, sharp intra-year volatility is common and can cause investors to lose sight of their goals. Investing is not an easy endeavor. With that in mind, we continue to suggest having a skilled market navigator, such as your experienced financial advisor, guide you through market swings. Your experienced

financial advisor has seen similar market pullbacks and is prepared to help you navigate this current market pullback.

In the world George Lucas created, the Force is an invisible, ubiquitous power that connects all things within its universe. The dark side of the Force is fueled by negative and destructive emotions such as anger, aggression, jealousy...greed and fear. For investors, markets echo this dynamic with the many forces at play which influence investment decisions and create headwinds and tailwinds for portfolios.

This May 4th, the bull market will have reached 2611 days, four more than the 1950's rally that ran from June 1949 to August 1956. With tailwinds like accommodative monetary policy and strong corporate earnings helping to lead the charge, this bull market could continue. However, heeding the words of key Star Wars characters can offer solid investment advice.

We are led to believe that harnessing the true power of the Force requires discipline, clarity of mind, and dedicated focus. We continue to advocate for setting clearly articulated investment goals, thoughtfully constructing portfolios, and staying the course. Preparing for unexpected headwinds, avoiding overvalued investments, bracing for market volatility and working with an experienced financial advisor can all help during these times.

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