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PAGE 2 SECTION 3 DAILY HERALD

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Lessons learned through four decades in wealth management

BY JOHN CHAPMAN
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John Chapman

My Wall Street career began 40 years ago, and the industry bears little resemblance to what it was in the 1980s.

None of the largest U.S. companies from that time are on today's top 10 list. Companies such as IBM, ExxonMobil and General Motors have been replaced by the likes of Apple, Microsoft and Tesla.

Over these four decades U.S. stocks have risen nearly tenfold, giving investors an enormous opportunity to accumulate wealth (as measured by the S&P 500 and adjusted for inflation). There also have been various crises along the way that created openings for countless investors to lose large sums of money.

Understanding numbers and how businesses make money are essential skills for investors. Proper diversifica-

tion, attentiveness to valuations and managing risk matter. So does the ability to change one's outlook when the facts change. Investment strategies are meant to be continuously tested and updated; they are not paragons to be stubbornly defended.

I have come to realize that markets are surprisingly consistent over time, even as the details of each cycle are dissimilar. Markets rotate through periods of irrational optimism and illogical despair in observable patterns. Periodic bouts of chaos are as inevitable as are the bubbles that produce them.

There are other, less obvious lessons I have learned over the past 40 years:

Lesson No. 1: This time is not different.

In nearly every moment of excess experts from all corners of the financial world proclaim, "this time is different" — alleging that the old rules of investing no longer apply and that the new situation bears little similarity to the past. Short memories make it remarkably easy for investors to miss important wealth building opportunities, while repeating costly mistakes.

As the German philosopher Georg Hegel famously said, "The only thing that we learn from history is that we learn nothing from history."

Lesson No. 2: Most investors are hardwired for error.

Successful wealth management is less about the economy and markets, than it is human behavior. Markets do what markets do. Success often comes down to how investors respond to good news and bad.

Productive choices frequently involve doing the very thing that feels the worst. As Warren Buffett tells us "Be fearful when others are greedy, and greedy when others are fearful." Easier said than done.

Lesson No. 3: Change accelerates over time.

Innovative technologies are transforming nearly every human domain. Our world as we know it, is likely to look very different in just five to 10 years.

It is estimated that more than half of the companies in S&P 500 are directly in the cross hairs of "creative destruction" and many will become obsolete. Understanding how this transformation impacts wealth creation will likely drive investment returns for many years to come.

Change has never moved faster than it is today, and it will never again move this

slowly.

Lesson No. 4: Curiosity is a game-changer.

Albert Einstein once observed that "curiosity is more important than knowledge." Reading is a natural response to curiosity. Berkshire Hathaway's Charlie Munger once said, "In my whole life, I have known no wise people who didn't read all the time — none, zero."

Successful people make reading a priority. In a world becoming dominated by short text messages, tweets and social media posts, a commitment to reading can give investors an important edge.

Lesson No. 5: Optimism pays better.

No matter how challenging the difficult times may be, optimistic thinking allows an investor to look through hopelessness and recognize emerging opportunities well before they are obvious to

others.

It has always been true that bad times follow good times and good times follow bad times. Optimists understand that bull markets have historically been significantly longer and stronger than bear markets.

I've had the good fortune of many lessons from my four-decade ride on Wall Street, I look forward to more to come in the years ahead, and welcome anyone who would like to join the conversation.

• *John Chapman is the Chief Executive Officer of Clearwater Capital Partners and serves as the firm's Managing Partner. With 40 years of Wall Street experience, Chapman directs all wealth management and advisory services for the firm, is the firm's Chief Investment Strategist, and chairman of the firm's Investment Policy Committee.*