

Hello everyone,

A question I sometime hear is, when will the stock market settle down? Would anyone really want a stable stock market? The answer to that question is an emphatic, no! But why would I make such a statement?

A stable stock market would mean no growth opportunities. The reason that would happen is because everything would be known in advance, which would mean no risk. Would that be a good idea? Again, the answer is, no! No risk would mean some politically appointed central committee would oversee planning the economy and allocating resources for the production of goods and services, which is the hallmark of a socialistic system. The former Soviet Union tried planning every aspect of their economy up until 1989 when it failed miserably due to inefficiencies. Still, the basic socialist idea is embraced in several countries and even by some people here in the USA.

The alternative to socialism is capitalism. The USA does not practice a pure form of capitalism but mixes laissez-faire capitalism with certain features of socialism such as Social Security and Medicare. This mixed model allows investors to express their expectations by either rewarding or punishing companies depending on future profits or losses. While the US may not employ a pure capitalistic model, the stock market reflects the basic idea of capitalism.

In the US capitalistic model, stock prices react to new information in fits and starts as investors interpret incoming information in conflicting ways. When new information is positive, prices rise as more buyers enter the market than sellers. The reverse happens when the news is not good. Some investors attempt to anticipate future information and the way other investors will react to it. Such ill-advised attempts are nothing more than guesswork driven by factors such as gut-feelings, political sentiment, or personality traits that make them either optimists or pessimists.

The market is a highly sophisticated mechanism that allows investors to disagree. If everyone interpreted new information uniformly without disagreement, stock prices would be stable. But that is not possible. Consequently, the stock markets have never been stable and never will be as long as capitalism is the dominant form of economic activity.

Here at Copley Investment Management, we do not engage in guesswork or allow our personal feelings to interfere with the investment decision-making process. We treat each decision in a professional manner void of any biases or prejudgments. We accept what the market tells us and allocate capital according to each client's tolerance for risk. This model has served our clients well for many years and we believe it will continue providing good financial results in 2022 and beyond.

I hope this essay helps you understand some of the complexities of the stock market and that it puts you in the right frame of mind for accepting volatility in equity prices. We strongly believe capitalism will continue to work not only in this country but throughout the world. The socialist alternative simply does not work. A reasonable allocation of funds to the stock market, depending on one's risk tolerance, is in your long-term best interest regardless of how volatile it may be at any point in time. All the best for the New Year. REC