

## **Meeting Summary for AAII Houston - April Retirement Solutions SIG Meeting - Rules for Markets and Investing**

Apr 10, 2025 11:28 AM Eastern Time (US and Canada) ID: 871 2326 4217

### Quick recap

The team discussed the current market situation, the importance of understanding one's financial needs, and the potential for significant shifts in the market due to ongoing trade wars. They also emphasized the importance of diversification, the need for dynamic spending and investment allocation, and the significance of managing risk and simplifying investment strategies. The group also touched on the potential for wealth creation, the impact of tariffs on global trade, and the importance of staying informed about market trends.

### Next steps

- All attendees to review Charlie Biello's weekly market updates for ongoing insights.
- John to send Charlie Biello's email address/subscription link to David Kinner and other interested participants.
- All attendees to consider rebalancing portfolios, focusing on international stocks, value stocks, and small caps when timing seems appropriate.
- All attendees to evaluate their current asset allocation and consider increasing cash/cash-like positions for flexibility.
- All attendees to attend Rob Bernstein's presentation on April 19th about financial metrics and market navigation.
- All attendees to reassess their investment strategies using the "bucket approach" for different time horizons.
- All attendees to consider Roth conversions for depreciated assets when appropriate.
- Frank to continue monitoring entry positions for international markets before making investment moves.

## Summary

### Discussing Market Outlook and Investment Rules

In the meeting, John, Frank, and Walter discussed the upcoming presentation on the current market situation and the rules for investing. They decided to focus on the outlook and using buckets to segregate money for easier allocation. Frank apologized for the changes in the agenda, which included adding an outlook section and discussing the importance of understanding one's financial needs. They also mentioned that they would be presenting alongside each other. The conversation ended with a discussion about the agenda and the need to focus on the future rather than the past.

### Tax Proposals and Economic Impacts

John discussed the current tax extension in the House, which is estimated to be around 4.2 trillion annually. He also mentioned a proposal by Elon Musk and Doge, which could generate a trillion dollars annually. John highlighted the potential short-term negative impacts on GDP and the possibility of inflation from repriced imports. He also mentioned Trump's plan, which includes a 15% personal and business income tax, adjustments on capital gains, and no tax on tips, social security, and overtime pay. John emphasized the need for immediate and future dividend payments to taxpayers and the potential use of tariff revenues for tax dividends or deficit reduction. He concluded by discussing the current GDP, which is 16 trillion dollars, with consumption being the largest component, followed by investments, government expenditures, and a trade deficit.

### Market Situation and Investment Strategies

John and Frank discussed the current market situation and potential next steps. They highlighted the high adjusted PE ratios and the need to reduce exposure to high PE ratio stocks and move towards a broad market exposure. They also suggested investing in foreign stocks, value stocks, small caps, and high yield bonds. Frank presented data from the BEA, showing a significant increase in net lending and borrowing, which he attributed to the previous administration's policies. He emphasized the need for a different approach to address the current economic situation.

## Tariffs and Global Trade Impact

Frank discussed the current economic climate, highlighting the impact of tariffs on global trade and the potential for significant shifts in the market. He noted that 51% of the Big Mag's revenues are sourced abroad, and 41% of the S&P 500's revenues are also sourced abroad. Frank also discussed the potential for a massive reshuffling of the economic deck, with several \$500 billion shifts expected to take time and result in clear winners. He also touched on the Treasury Market, where the US Treasury Securities issuance has been in the \$2.5 to \$3 trillion range, with a significant portion coming due in the next year. Frank warned about the risk of the market coming unglued if the dealers, who are heavily leveraged and have limited borrowing capacity, are unable to support the trading of the debt.

## Understanding Asset Allocation and Market Risks

Frank discussed the importance of understanding when one needs money, as it determines the risks one can take and the kind of assets one should have in their portfolio. He suggested considering three different buckets for this purpose. Dan expressed concern about high yield corporate bonds and the potential for interest rates to continue rising. John clarified that the intermediate bucket should be a mixture of assets, not just bonds. Charles suggested a 5% investment in gold funds as a hedge. The group also discussed the impact of tariffs and the suspension of trade negotiations on the market and investor confidence.

## Equities, Dynamic Spending, and Psychological Investing

Frank discussed the importance of equities in a portfolio, despite their volatility. He also touched on the need for dynamic spending and investment allocation. Frank then introduced a new topic, discussing the psychological aspects of investing, using Charlie's presentation as a guide. The group was asked to vote on their preferred advice for young investors, with options including humility, not trusting others, and verifying information. Frank also highlighted a Ponzi scheme that lasted for 17 years, emphasizing the importance of thorough accounting and comfort testing.

## Managing Risk in Investment Strategies

Frank discussed the importance of managing risk and simplifying investment strategies. He highlighted the long-term success of a 60/40 stock/bond portfolio compared to a highly

sophisticated approach. Frank also emphasized the importance of staying in the markets during times of adversity and tuning out negative noise. Charles questioned the performance of stocks in the 1970s, to which Frank agreed, noting that the decade was marked by economic challenges.

### Investing Psychology and Market Fluctuations

In the meeting, Frank discussed the importance of investing psychology and valuing time over money. He emphasized the need to understand one's position and how to respond to market changes. Frank also highlighted the significance of diversification and the importance of setting clear plans for responding to market fluctuations. He mentioned the need to balance risk and reward, and the importance of not getting caught up in the hype of internet-based investment services. The team also discussed the importance of simplifying and being humble in their investment approach.

### Market Wealth Creation and Diversification

Frank discussed the importance of understanding the market and the potential for wealth creation. He highlighted the need to identify key companies that have driven the market's wealth and suggested that buying a few of these companies could lead to significant returns. Frank also emphasized the importance of patience and not interrupting the compounding process. He shared a chart showing the potential for wealth creation over time, even for those nearing retirement. The group also discussed the current state of the market, with the VIX at 56, indicating a high level of anxiety. Frank concluded by emphasizing the need for diversification and the potential for a market turnaround.

### Trade War's Impact on US Economy

Frank discussed the potential shifts in the US economy due to the ongoing trade war and the impact it could have on various industries. He highlighted the need for companies to adapt and diversify their products and services to remain competitive. John suggested signing up for a weekly update to stay informed about market trends. Charles emphasized the importance of Congress in setting policy and allocating funds, and the need for a more targeted approach in the trade war. Dan added that the trade war could make it difficult to build factories in the US due to the reliance on Chinese processing of raw materials.

## Investment Strategies and Market Conditions

The group discusses investment strategies and market conditions. John and Frank mention having significant cash reserves and diversified portfolios, waiting for the right time to make moves. Charles asks about the ability to make big moves in the current market, and the group discusses the potential for international investments and value stocks. They also touch on oil prices, the Federal Reserve's stance, and the importance of timing in investment decisions. Frank explains his approach of watching for movement in different asset classes before establishing positions. The discussion concludes with a mention of Warren Buffett's cash accumulation and a reminder of an upcoming presentation by Rob Bernstein on market updates.