HCM Market Brief

Managing Expectations in a Strong Market

The latest HCM Market Brief takes on a challenge that can be surprisingly difficult in a strong market: managing expectations. Doug Johnson, CFA, Dan Rinck, APMA, and Wealth Advisor Greg Middendorf, CFP®, CCPS®, discuss why investors can feel disappointed even when their portfolios are performing well, how the dominance of AI-related stocks fuels a fear of missing out, and why disciplined diversification and financial planning still matter. The central message is that successful investing isn't about chasing the hottest name or wringing out every possible return. It's about building a plan that can withstand both strong and difficult markets.

When Winning Still Feels Like Losing

Greg opens with a recent conversation with a longtime client couple. Their balanced portfolio was performing very well. Virtually every piece was outperforming its benchmark, and the overall account was up roughly 6% to 7% for the year to that point. Yet the clients seemed disappointed. They felt they should be doing better.

The problem, Greg realized, wasn't the portfolio. It was their expectations. After several years of unusually strong performance, many investors have come to view exceptional returns as normal. The goalposts have quietly moved, and solid long-term returns can suddenly feel inadequate.

There Are Real Reasons for the Strength

The investment team is quick to acknowledge that the market's strength rests on genuine fundamentals. Corporate earnings, revenues and profit margins have all been strong, and artificial intelligence has become a major driver of both investment and market performance. Doug notes that current earnings growth rates are unusually high, reaching levels more often associated with the early stages of an economic recovery. In other words, the market isn't rising without support.

The Myth of a "Normal" Market

At the same time, Dan points out, investors have grown accustomed to outsized returns. The S&P 500 had been annualizing at roughly 21% to 22% over the preceding three years, well above its long-term historical average. That creates a dangerous psychological shift: investors start to believe a 10% return is something they're owed every year, rather than an approximate long-term average.

Doug's response is worth underscoring: there is no such thing as a "normal" market. Historical averages are useful for planning, but actual annual returns can vary dramatically from one year to the next.

Judge the Plan by Your Goals, Not the Hottest Trade

That leads to one of the brief's major themes: investors should judge their portfolios against their own goals and appropriate benchmarks, not against whatever investment happens to be performing best. A diversified 60/40 portfolio may not keep pace with a concentrated technology portfolio during an AI-driven rally, but that doesn't mean it's failing. Bonds play an important role in providing diversification and reducing risk, especially for investors approaching or already in retirement.

FOMO and the Pull of the AI Trade

The AI boom creates another psychological challenge: FOMO, the fear of missing out. Dan explains that strong bull markets have historically had a particular segment driving a disproportionate share of returns. Today, that segment is AI-related companies, and they're commanding most of the attention. Investors naturally begin to wonder whether they own enough technology. But leaning further into the market's hottest names also means accepting significantly greater volatility.

SanDisk offers a cautionary example. After a substantial rally tied to the AI investment cycle, the stock suffered a 55% drawdown over a relatively short period. It's a vivid illustration of the risk in concentrating a portfolio in individual high-growth companies: even when the long-term story stays attractive, the short-term losses can be severe. Diversified portfolios still capture the major market leaders through broad ETFs, while dialing back the risk that comes with any single stock.

The Strength Runs Deeper Than the Headlines

Just as important, the speakers note, the market's strength is broader than the AI headlines suggest. While AI dominates the financial news, many other areas, including value stocks, international markets, emerging markets and small-caps, have also performed well. Investors fixated on the AI trade alone may be missing the broader strength playing out across the market.

Four Questions Every Investor Should Ask

The conversation then turns to investor psychology. Doug suggests investors continually ask themselves a handful of questions: Am I diversified? Do I have a plan? Can I balance FOMO against loss aversion? And can I manage hindsight bias?

Hindsight bias leads investors to look back at a successful investment and assume the opportunity was obvious all along. In reality, no one ever has the benefit of knowing what comes next. Dan's Bitcoin story illustrates the point: he bought at a much lower price and eventually sold for a substantial gain, but the subsequent rise made it easy to feel he'd sold too early. The truth is he made the best decision he could with the information he had at the time.

What Financial Advice Is Really For

That philosophy points to an important distinction about the role of an advisor. The job, Doug says, isn't necessarily to "make clients rich." It's to help keep them from becoming financially vulnerable and to make sure they can accomplish what they want in retirement. Protecting clients from catastrophic mistakes can matter just as much as capturing gains.

Managing Downside Risk Without Guessing

HCM's approach to downside risk is built on an objective process rather than emotional market timing. Major declines of 20% or more have occurred several times over the past 30 years, while smaller 10% corrections are far more common. HCM doesn't advocate fleeing entirely to cash whenever markets turn uncomfortable. Instead, the firm uses an objective framework to spot warning signs and potentially reduce risk when the probability of a larger decline rises. The goal is to recognize the "road signs" that a selloff may be worsening, rather than simply reacting to headlines.

Knowing when to get back in matters just as much. Re-risking often has to happen when investors are most uncomfortable, when sentiment is at its worst, and an objective process helps strip some of the emotion out of that decision. The team points to 2022 as an example of the process at work, when portfolios reduced risk and later re-risked amid significant market declines.

Extra Layers of Protection for Retirees

For retirees, the financial-planning component becomes especially important. HCM combines financial plans, tax planning, Monte Carlo analysis and bond ladders to create multiple layers of protection. A bond ladder can serve as a "calm bucket," a source of stable assets to draw income from during a downturn. Rather than selling stocks after a 20% to 30% decline, clients can draw on the bond ladder while giving their investments time to recover.

Turning a Down Market Into a Tax Opportunity

The brief also emphasizes the role of tax planning during volatile markets. Because HCM pairs investment advisory with CPA expertise, the firm can weigh investment decisions alongside their tax consequences. A down market may open the door to tax-loss harvesting, turning an investment loss into a potential tax benefit that can offset capital gains. Importantly, tax-loss harvesting isn't simply selling and moving to cash; the proceeds can be reinvested in a similar investment, so the portfolio stays positioned for a potential recovery.

Roth conversions can offer another opportunity during a decline. If an investor eventually wants to move traditional retirement assets into a Roth IRA, doing so after a significant drop means paying taxes on a lower account value. If $100,000 falls to $50,000, for instance, converting at that point generates taxable income on $50,000 rather than $100,000, while the investor still owns the same number of shares. If those investments later recover, that growth can happen inside the Roth.

The conversation also touches on the possibility of lower capital-gains tax rates. Lower rates could be attractive, the speakers acknowledge, but they could also tempt investors to trade more frequently, and over-trading tends to hurt long-term returns. It's a reminder that tax planning should be integrated with investment strategy, not driven by headlines.

The Bottom Line

In the end, the brief returns to its central message: build the financial plan around the client, not around the headlines. Elections, wars, rallies, AI, corrections and every other news event will always offer a reason to react. HCM's philosophy is to resist chasing whatever happens to be hot and instead maintain a diversified portfolio, an objective investment process, a comprehensive financial plan and a proactive tax strategy.

The key takeaway is simple: strong markets are enjoyable, but they shouldn't redefine what investors consider normal. The goal isn't to capture every last dollar of a bull market. It's to build a portfolio and plan that can participate in the growth while staying resilient when markets inevitably turn difficult. For HCM, successful wealth management means preparing for both sides of the cycle, and helping clients stay disciplined when their emotions are pushing the other way.