

Market Commentary First Quarter 2024

The world is changing, and change creates both opportunities and threats. Recently, my observation was reinforced by reading Mustafa Suleyman's provocative book, *The Coming Wave: Technology, Power, and the Twenty-First Century's Greatest Dilemma*.

Mustafa Suleyman, a co-founder of both DeepMind and Inflection AI, acknowledges the many potential gains as technology advances from basic AI, "the science of teaching machines to learn humanlike capabilities," to artificial general intelligence (AGI), "the point at which an AI can perform all human cognitive skills better than the smartest humans."¹ But these advances, combined with those in related technologies, will "both empower humankind and present unprecedented risks."² In Suleyman's opinion, the risks could be big enough to bring down nation-states.

One of the major risks is the possibility that new technologies won't create as many new jobs as they eliminate. "In the past, new jobs were created at the same time as old ones were made obsolete," notes Suleyman, "but what if AI could simply do most of those as well?"³ The displacement of workers could be far greater than what occurred in earlier

technological revolutions. To prevent an explosion of unemployed and homeless populations, governments globally will need to act—perhaps in the form of retraining people, providing a universal basic income, or an innovative approach not yet identified. The consequences of inaction could be serious.

At a minimum, the scale of change will be disruptive. And the fallout from such global shifts is difficult to predict. I'm reminded of playing a game of chess or the Asian game of go, in which the potential combination of moves following the initial move seems almost endless.

While this disruption will create winners, there will also be companies that don't adapt and won't participate in the gains generated by the new economic reality. Companies and investors will need to be nimble, not locked into following a single sequence of steps along a narrowly defined path. That's part of why I'm always looking at trends and new technologies, even if their use isn't yet practical.

In an environment of ongoing, somewhat unpredictable change, it's especially important to invest with a professional. As Jim Collins, author

of “Great By Choice,” has noted, you might not see what makes a world-class mountain climber exceptional on a regular hike, but if you are racing a violent storm on Everest, what makes him different and great will be clear. I believe the same is true for a professional investor versus those who lack a professional’s analytical tools and ability to dig into the details of specific investments. A professional can see risks and opportunities that others can’t.

In portfolios, the professional investor’s discipline and knowledge translate into moves that might make an individual uncomfortable. For example, during the third quarter of 2023, we bought a number of momentum stocks in client portfolios. They rose nicely in price. Then I noticed these stocks becoming much more popular—even with individuals who don’t often pay attention to stocks. This popularity made me think of Joseph P. Kennedy, who reportedly exited the stock market when his shoeshine boy started giving him stock tips—just prior to the 1929 crash that launched the Great Depression.⁴

When specific stocks are broadly held, who’s left to buy more shares to boost prices further? In addition, I was concerned about the stocks’ valuations moving too high, which began to remind me of the stock correction that took hold in 2000 after the

market hit two highs within a few months. To me, the 2024 situation seemed to be a good time to lock in gains in those momentum stocks, rather than to risk losing a lot when a correction occurred.

Still, many individuals might hesitate to sell in this situation because they worry about paying taxes on capital gains or making a decision about what to do with the proceeds of the sale. Inaction, however, ignores the importance of prioritizing the overall health of the portfolio. It is important to consider whether past winners can maintain their growth, market share, and profit margins amid a convergence of new technologies.

Selling winners isn’t the only mark of a professional investor. It’s also important to sell losers in response to new information. If a stock doesn’t rise with the market, it’s possible that, eventually, many people will sell, so the stock goes even lower. And if there’s no catalyst on the horizon to boost the stock, it might be time to sell. However, many people find it hard to sell in this situation because they feel that they’re locking in their losses. In contrast, I believe it’s better to think of these sales as fine-tuning a portfolio as new information becomes available. As a result, the portfolio should be better positioned for success—better able to take advantage of emerging trends—than a portfolio weighed down

by losers. Such sales also make portfolios more defensive by removing risks.

For now, the proceeds of these 2024 sales have been allocated into fixed income as I look for additional attractive investments at reasonable valuations.

As always, thank you for the trust you have placed in me and in 7Summit Advisors. We work hard to earn that trust each day.

Sincerely yours,
Li Chang

¹Suleyman, p. xvii.

²Suleyman, p. xvii.

³Suleyman, p. 12.

⁴Leslie Shaffer, "Is the shoeshine boy indicator flashing red?" CNBC.com. <https://www.cnbc.com/2013/11/11/is-the-shoeshine-boy-indicator-flashing-red.html>