

Market Commentary First Quarter 2025

Uncertainty is creating volatility in financial markets. Under the Trump administration, it appears as if the United States is transitioning from a rules-based ethos to a transactional approach to the world. As the Observer Research Foundation said in a tweet:

The power of grand strategy is contracting to military force for economic extractions. Concepts such as values and trust are fading, replaced by the harsh realities of authoritarian control and strategic coercion.¹

This rapidly changing environment limits the usefulness of old models for investing. With U.S. policies changing daily, it's much harder than even three months ago to make long-term predictions. Such turbulence makes it important for investment managers to pivot when certain things change.

An accelerated pace of change does suggest some investment themes. For example, corporate vulnerability to new tariffs requires investors to make quick tactical moves. Companies that appeared to be positioned for long-term growth can rapidly start to suffer if it becomes more expensive or difficult to source things outside the U.S. They might also suffer from retaliatory tariffs imposed by other countries.

Some themes are strategic as they aren't directly tied to the current political environment and will play out over the longer term. For example, demand will increase for all kinds of energy. According to a projection by the U.S. Energy Information Administration, "Global energy consumption increases 34% from 638 quadrillion British thermal units (quads) in 2022 to 855 quads in 2050.² Growth of the world's population from 7.9 billion in 2022 to 9.6 billion in 2050 is one of the factors that will spur higher energy consumption.

I am also looking for investments that relate to my reading of Carlota Perez' *Technological Revolutions and Financial Capital: The Dynamics of Bubbles and Golden Ages*. Perez discusses how technological revolutions—including the technological transformation that began in the 1970s—spur great growth. However, as Perez notes in her preface, "the uncertainty which inevitably accompanies such revolutionary developments means that many of the early expectations will be disappointed, leading to the collapse of bubbles created by financial speculation as well as technological euphoria or 'irrational exuberance.'"³ In fact, she says, "the sequence *technological revolution-financial bubble-collapse-golden age-political unrest* recurs about every half century and is based on causal mechanisms that are in the nature of capitalism."⁴

It's hard to identify winners in such a dynamic environment, but we are doing our best.

Amid this uncertainty, I'm increasing my focus on what's important to client portfolios. My February climb of 22,838-foot-high Mt. Aconcagua, the highest summit in the Americas, reinforced this commitment for me. I started my climb with some equipment that I considered nice to have. As I climbed higher, I shed the clutter to keep only the essentials. On a similar note, I was impressed by our guides' dedication to safety. For example, on an extremely windy night, our guide had us move our belongings from the tent vestibules to the main section with us to protect our gear. He also adjusted the outside of our tents throughout the night. I strive for that level of care and professionalism with each of my clients. My work with you is important to me. I think, "I don't *have* to do this; I *get* to do this."

As part of my commitment to clients, I am striving to deliver financial planning advice to my clients that negates the "three-generation curse"—the phenomenon that wealth built by the first generation often disappears by the third generation. On my blog, I ask, "Is the wealth built by a first generation (most often, an entrepreneur) destined to dissipate by a third generation? Can one protect one's hard-won assets from future mismanagement? My thoughts led first to identifying causes, followed by a consideration of how to prevent the erosion of wealth."⁵

Today, there are relatively few "old money" billionaires. Most of those listed on the current Forbes 400 (requiring a minimum of \$3.3 billion) did not inherit a family business, but rather built their own. According to the *Financial Review*, "Fewer than 10 percent of today's U.S. billionaires are descended from members of the first Forbes 400 Rich List published in 1982."⁶

Why? References to the failure of generational wealth transition often cite 2002 research by The Williams Group, which studied 3,200 high-net-worth families and found that seven out of 10 families lost their fortune by the second generation. By the third generation, the number jumped to 90%.⁷ The study suggests that this pattern most often results from a "breakdown of trust and communication within the family unit and heirs who were unprepared for financial responsibility." Parents failed to hand down knowledge and values that would help children spend, invest, and save in an accountable way.

In light of this phenomenon, I thought about how parents can help their children and shared some thoughts on my blog. I'm happy to discuss recommendations tailored to a client's individual situation.

Amid the current uncertainty, I continue to position client portfolios defensively. This defensive positioning has meant that portfolios generally have not suffered as much as the market indexes.

I haven't bought or sold much in client portfolios, other than trimming or eliminating investments that appear vulnerable to changing events. I remain alert for opportunities that may arise, especially with pullbacks in stock prices. I continue to reinvest portfolio dividends in existing positions with attractive valuations and prospects.

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

¹The Observer Research Foundation (@orfonline). "The power of grand strategy is contracting to military force for #economic extractions. Concepts such as values and trust are fading." March 4, 2025, 8:30 p.m. on X, <https://x.com/orfonline/status/1897097230202609666>.

²U.S. Energy Information Administration, "GDP growth and population trends are major drivers of energy market projections," International Energy Outlook 2023, October 11, 2023, <https://www.eia.gov/outlooks/ieo/narrative/index.php>.

³Chris Freeman, "Preface" in Carlota Perez' Technological Revolutions and Financial Capital: *The Dynamics of Bubbles and Golden Ages*, Edward Elgar Publishing Limited, 2002.

⁴Perez, p. 5.

⁵"[Can Family Wealth Be Preserved?](https://7summitadvisors.com/can-family-wealth-be-preserved/)" 7Summit Advisors Blog, Jan. 24, 2025, <https://7summitadvisors.com/can-family-wealth-be-preserved/>.

⁶Victor Haghani and James White, "Where did all the billionaire families go?" *Financial Review*, Feb 9, 2024, <https://www.afr.com/wealth/investing/where-did-all-the-billionaire-families-go-20240206-p5f2s9>.

⁷Haghani and White.