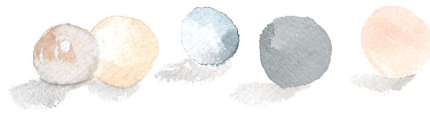

FOMO
(Acronym for "fear of missing out," coined in the social media age)

3RD QUARTER 2023 COMMENTARY • KORI ALLEN, CFP®

If you are old school, you also might recognize this sentiment as envy. It's a close cousin to fear and greed: emotions that fuel the pendulum-swinging public markets.

Earlier this year, the US stock market surged on excitement around significant artificial intelligence advances and the future promise it may have on productivity gains. (Profitability can improve with productivity gains, help company earnings grow and contribute to a country's gross domestic product (GDP)). In long-term trends, stock prices are tied to a company's growth of their earnings. In the short-term, investors might bid up or sell down a stock price believing—or feeling—that earnings may grow or shrink more dramatically. Sometimes market swings will reflect a more optimistic or pessimistic view of other economic or political situations which may or may not influence the markets in the short or long term.

The herd (or hordes) jumped on the bandwagon earlier this year and bid up stocks that might benefit from these advances. As you might suspect, these stocks are technology companies, and many have been darlings for years. However, because of the magnitude and speed of buying, at least one index, the Nasdaq 100, had a special rebalance in July of this year. (Usually indices rebalance or "reconstitute" once at year-end.)

Indices are created to reflect a market or segment of a market and they maintain parameters to ensure that the index remains a fair representation of whichever market or segments they seek to reflect. Many indices, Nasdaq included, are based on company capitalization—the number of shares outstanding—and then the index increases or decreases in value based on the share price(s) multiplied by the outstanding shares. Nasdaq 100 is 100 of the largest Nasdaq-listed US and International non-financial companies. This non-financial aspect is important to note. Most market followers know the Nasdaq 100 as a technology-weighted index already and for it to have to rebalance intra-year due to certain tech stocks out-performing was unusual.

If this isn't wonky enough already, most investment disciplines, mutual funds and exchange traded funds (ETF) tie their holdings to a specific index. The managers will then construct their portfolio under or over-weighting certain holdings to replicate or hope to out-perform the benchmark. What do you suppose might happen to a stock that is "rebalanced" in an index? Depending upon the stock, there might be more buying or selling pressure. Of course, this rebalance and trading does not exist in a vacuum, so while there might be adjustments, other forces are at play moving markets and stocks as well.

Many media outlets simplistically blare market news as "the market" or "The Dow" is up or down today. Many market watchers get a pit in their stomach, or glee, as though this will reflect on their net worth. This so-called news often has little relevance to an individual's situation.

An individual or family's financial health is reflected in net worth and cash flow management. These ideally work synergistically together and can be molded to support a meaningful life and livelihood unique to their situation.

We often say that it's not what you make that matters, but what you keep. When investing, we consider the accounts where the assets will reside. The location will determine tax treatment of income, gains and losses and distributions. A person, in a high-income bracket, might hold tax-exempt municipal bonds in a personal account, while investing in high growth stocks in a tax-advantaged account such as an IRA or Roth IRA. Another person might have low earned income and live in a state without income tax, so might have an entirely different

structure to their portfolio. Does "The Dow is up today" reflect anything back to either example? Additionally, if investments are sold during a year, what is the after-tax gain? That performance number is not monitored, since tax filings happen 4 - 10 months after the fact and with multiple inputs to arrive at a tax liability or refund.

The acronym, FOMO, gained traction during the rise of "influencers" in the media. Those influencers, arbiters, supposedly of taste, can entice people to spend in ways they might not have otherwise. Besides the fear of missing out on market returns, not measuring up or being exposed, and wanting to pursue another's illusion of a life of taste and luxury can be detrimental to a person's cash flow. This comparative view often shows up early. Many families have had their innocent children asking if a friend's family is wealthy because of their cars or vacations. Learning that every situation is different: earnings, spending, debt, values, past lessons, can have a bearing on how one expresses themselves with spending and savings. Understanding your own values and goals and applying those in the management of your finances is vital to success.

The antonym of FOMO is JOMO or joy of missing out. Our goal is to know you and support that joy. That doesn't mean missing out on success, but rather defining success according to your unique situation.

"IF COMPARISON IS THE THIEF OF JOY, THEN OUR CULTURE IS BEING ROBBED BLIND."
—JON FOREMAN

Disclosure: This commentary was prepared as general communication between Pearl Wealth and its clients. Financial plans and investment portfolios should be tailored to an individual's unique circumstance; therefore, this should not be relied upon as research, investment advice, or a recommendation regarding any products, strategies, or any security in particular. This material is strictly for illustrative, educational, or information purposes and is subject to change as conditions vary. Investment involves risk, including possible loss of principal.Additional information, including management fees and expenses, is provided on our Form ADV Part 2 available upon request or at the SEC's Investment Adviser Public Disclosure website, https://adviserinfo.sec.gov. *Past performance is not a guarantee of future results.*