Bundle Up

Looking Ahead at 2026 1-8-2026

Looking back at 2025 with the benefit of hindsight, the market left us with much to be thankful for. What started out as a relatively dour story, ended on a high note. Broad market indexes were higher double-digits. Index-lovers rejoice! As we enter the cold winter months, I believe it make sense to revisit the idea of diversification.

This past weekend, I went skiing in New Hampshire with my family. My brother and his family were able to join, which was a treat, as well as my parents. I'm coming up on my 35th year or so as a New England skier, so I've learned a thing or two. Not just about skiing, but about how to dress. Dressing for weather is a priority if you want to be successful out there. If you don't dress warmly enough, you'll be focused on how cold you are and will be more prone to making errors of judgment on the slopes, leading to a sloppy and even a potentially dangerous performance. Picking your outfit is a lot like picking your allocation – there is a lot to think about.

I firmly believe that having the right jacket is like being properly allocated to the US Large Cap Growth segment of the market. In other words, if you have the right jacket, a lot else can go wrong with your outfit in order for the day to be spoiled! In sum, with a great winter jacket, you'll be toasty, cozy, and set up for perfection. Spend the time and dollars necessary to get a great jacket, don't skimp out. But there are other important components to the torso region, as well. I insist on having a great fleece/ flannel underneath. Kind of like a necessary allocation to dividend or value US stocks. This choice is important, too, but not mission critical. Importantly, if you have a strong fleece game, your exterior jacket can be subpar and you'll still have a great day. Ideally, you want a great jacket and a great fleece, together. 2026 showed us how great investing is when Large Cap Growth and Large Cap Value both go up, like having both at once.

The next important component of a successful day on the slopes is having great ski boots. Having great ski boots is like having an adequate allocation to fixed income in one's portfolio. It keeps you grounded, and serves as the ballast ensuring that you remain anchored to your skis (long-term allocation). When the $h1t hits the fan, it's your boots that will bail you out – and having boots that are comfortable and flexible (i.e. duration matched to your specific cash flow needs) is of paramount importance to achieving your long-term goals.

Finally, and most importantly, the helmet. The helmet is arguably the most essential, if least sexy item for a successful ski trip. It isn't pretty, but it's there to save your life. Kind of like diversification itself. Scott Galloway, an NYU business school professor who lost millions of dollars going concentrated, describes diversification as the body armor that would allow you to take a shot straight to the chest, and be able to survive. With the weighting of the "magnificent 7" stocks now approaching 40%, it's hard to argue that diversification has been any less important than it is today. Proper diversification doesn't just happen at the asset class level. It happens in the interplay between sectors. Non-experts in asset allocation would never know that at times, often when needed most, healthcare has a negative correlation to most other sectors, or that Bitcoin is really just a leveraged bet on unprofitable technology – or that if you own the incorrect "duration" of fixed income, there are times when bonds are just as risky as stocks, if not moreso! I would argue that there is no single point in history in which diversification has mattered more, and simultaneously, the talking heads at the index providers have never been louder in asserting that set and forget benchmark strategies have been more important.

They forget one important fact. In the age of A.I. eats everything, benchmarks don't avoid bubbles, they put the inflating of them on steroids. The expert skier needs to know not just how much tech to own, but how much to overweight or underweight semiconductors at the right moment (the industry is highly cyclical) – and when to go overweight healthcare or big banks. Ultimately, these decisions will matter to you making it through the trees successfully and without a substantial head injury.

But having a great ski partner matters, too. The camaraderie of joining another expert on the slopes is one of the most joyful experiences anybody could have. First, it provides a buddy system for entering treacherous terrain. Going with my brothers has always been a blast. I insist on going last because I am the most cautious. I missed out on a trip with my two brothers to Utah last winter, and apparently my middle brother came away with a head injury (he's better now.) Having a buddy system, and just a person you can scenario-plan with is almost like having another layer of diversification. You might think you know everything about skiing, and the mountain, but you'll never see things from the exact vantage point at the exact same time as your partner, and having that small informational edge might make the difference between the best day on the slopes and a sloppy end of day ski injury. So in the spirit of winter, bundle up, wear your helmet, and find a great partner who is invested in your success!

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