Brandon Averill ([00:04](https://www.rev.com/transcript-editor/shared/zbRpqgV0iFQ1sLr2MjxpqcxqnsmAdaEXEj3kBJjKmN1Boxoe3fQGB6rPb_uirYJ1b8-zApWgc_iUu7kM_AKniQMIDOA?loadFrom=DocumentDeeplink&ts=4.86)):

Hey everybody. Welcome back to another episode of AWM Insights. Brandon and Justin here. And we're bringing this to you early in the year and so we're actually recording at the very tail end of 2023. And we just thought it'd be super fitting to do a quick rundown of what actually happened in 2023. Let's talk about what happened in the public markets from both the bond side of the portfolio to the equity side. Let's even touch on a little bit of the private markets. And as we were preparing for this, it was really taking the opportunity to reflect on what the year had. Pretty striking. I mean, we had a pretty unbelievable year from a financial uncertainty, if you want to call it that. I was reading in preparation for this, actually the end of 2022, this is a funny stat and kicks into the, don't be a predictor.

([00:56](https://www.rev.com/transcript-editor/shared/jQFl0JPVMTjS8-8iN_Ua_JAA36-SIstBwqwkffM32_8juHkJybhKhEOgKDcNgQ88k5Z8gWuKHmc_enUxp-9TyzNBkKs?loadFrom=DocumentDeeplink&ts=56.55)):

But at the end of 2022, 85% of economists predicted a recession in 2023. Missed the mark a little bit. But there was a lot that happened. Inflation was all over the place. We had interest rate cycles going on, big changes there with interest rates increasing. We had volatile stock and bond markets. So at the end of the day though, when you take the step back and you looked longer picture, everything started to fall right within norms that I think we start to see over the long-term. So with that, obviously we'd love to turn over to you, Justin, just let's walk through this and talk a little bit. I think bond markets maybe starting there because what a year. I mean, something we haven't seen in quite some time. And I think people are just trying to figure it out. What does that look like? So maybe for clients that are listening, could you just give us a little synopsis of what we saw in 2023? Maybe some highlights on why things happened the way they did and why we don't predict interest rates and why we're not all that concerned about it.

Justin Dyer ([02:01](https://www.rev.com/transcript-editor/shared/Y39kRgsD_5Yzf7MwioAIcs3tije536_AUN8R0hi7s1bH4A4d4bDhtsoRlLhBXqw5FAGWew3wipAR7R_6CPisXdjbDJQ?loadFrom=DocumentDeeplink&ts=121.5)):

Well, I'll start with the end there. It's nearly impossible, a fool's errand. Time and time again it's shown to be not a high probability outcome. Trying to predict the future and trying to predict interest rates specifically. I mean this year to an extent is a great reminder of that. Each year we always like to look back and pull the real meaningful nuggets of learning from it and interest rates probably fall close to the top of that list. You hit on the fact that to start the year it was wildly pessimistic. Inflation was incredibly high, interest rates were continuing to be ticked upwards by the Federal Reserve. Fast-forward to December, January, depending on when you're listening to this, we still have, let's call it, higher interest rates, but the tone, the feeling within the market is vastly different.

([03:02](https://www.rev.com/transcript-editor/shared/Xg2aXIWfWTZuG6SNVfr_j_ysrvZHTPZiOWT2-IlUoVbzUxYPYnafbEPLnN-796LBJCNjOKd72DdTjw1PBVatJ01Ul9c?loadFrom=DocumentDeeplink&ts=182.07)):

Inflation is now under control. A lot of people were predicting that that was going to potentially spiral out of control and interest rates were going to have to be increased to continued record highs. And that could have been a result. This gets to why we don't predict, we prepare for a variety of outcomes. We don't predict for this exact reason. So interest rates are still relatively high. They've come down, the expectation over the next 12 months is that they're going to be a lot lower than they are today. Inflation is under control both in the US and abroad for the most part.

([03:40](https://www.rev.com/transcript-editor/shared/U2umCZjPob7NWu5e6jKkMt0vdc9QUQT76jGhwEGZDlaRIJl7Qvy0lzoFWlErroQoLVDbanXjYi6QPzAUFq_LvT6nLbk?loadFrom=DocumentDeeplink&ts=220.05)):

There's pockets here and there where things are a little bit different. And the Fed has all but done a little victory lap, if you will, that we're going to have a soft landing, which is potentially one of the first times that's ever happened. And for those of you who don't know that term or haven't read it in the press, in the newspaper, it's essentially the Fed landing this gigantic aircraft, call it the US economy, without causing a recession, bringing inflation under control, keeping employment relatively high and just getting it to a very healthy equilibrium, if you will.

([04:19](https://www.rev.com/transcript-editor/shared/MOwPB3Fv2S08rx8h8KKxOYLeT-mbG00g7WhqZN9us6rzuKKkuk8SNI3_qnuXipGurQ6ePmI-8ZU6emNRXsPFG0Y6E4w?loadFrom=DocumentDeeplink&ts=259.65)):

And for all intents and purposes, that seems to be where we're heading. I'm not going to put my stake out there to say that that's going to actually be what happens over 2024. See above around predicting the future. But it seems like we're in really good shape as we end the year and start 2024. So it's been one for the ages, I guess, it's fair to say.

Brandon Averill ([04:42](https://www.rev.com/transcript-editor/shared/zTMtWKyUss4ljq7FEuudz5HL8pg4hNYUKb61OXiIGDXTbJtw1yP-6t5wR50igGOIGa8E5Pdp9lhBsGNIA5W__uGTlfY?loadFrom=DocumentDeeplink&ts=282.12)):

Yeah. And I think when we look at the bond market, like you said, we prepare for things, we don't try to predict them. And I think this bleeds over into the equity markets and we'll talk public equities here. But at the beginning of the year, there was no shortage of people that were saying, "Hey, we have pending doom coming. This recession is coming, markets are going to crash. Sit on the sidelines. Sell and go to cash and wait around and let this flush out. And then you'll be able to get back in at better prices." And we all know, the people listening to this podcast know we preach this a lot, but why that can be such a catastrophic mistake. And so turning to the public equity markets, if you were that investor, you did pull your money out. I mean, what was the potential negative impact to that by having such a short-term view in this year?

Justin Dyer ([05:32](https://www.rev.com/transcript-editor/shared/9WlWibO1RBwFlr6I0siOfu0lHFEU-EPsmc-IL40PdYqDoSl7VrY3H7EVk9m9SMCJwDrENQwEpy5QXFJhEwImjCnO_XU?loadFrom=DocumentDeeplink&ts=332.67)):

Yeah. Well, you missed out on an above average year really, kind of across the board. Or not kind of, but essentially across the board. US markets, international developed markets, even emerging markets had almost all double-digit returns. Emerging markets just under double-digit returns. International developed, US markets producing, let's call it, high double-digit returns, high teens and then low twenties in the US here. It was a phenomenal year. Which is a drastic difference from, again, to your point, what people were pounding the table in some cases in early, let's call it, January, end of 2022, that things were not set up to look well or to pan out well, inflation was a concern, interest rates were being jacked up quite substantially. All of these interesting dynamics that were still in place through better part of, call it, the first half of this year, if you will, have changed almost a 180 through the end of the year. And it's been a very solid year really across the board.

Brandon Averill ([06:41](https://www.rev.com/transcript-editor/shared/0KQilCXEd1jg1XrzB66NoN5fEObdOGTKipGgR8GN4eS4EQFPgm1qavFq_G_vAp5dGKKbSEXNZYhBkvpXhIQBacgwvk4?loadFrom=DocumentDeeplink&ts=401.55)):

And I think we all know the impact of missing a year like this is just catastrophic for your overall financial life. You need to take a long-term perspective because you have to be able to participate in the years like this, avoiding those big down years. Yes, that would be amazing if you could actually figure out how to do it. But just as catastrophic is if you miss these up years to your overall success. And I think the other thing that I'm always reminded about when I think about equity markets specifically is what a powerful machine this is. All the events that happened this year, war in Ukraine, war in Israel, interest rate changes, you name it, there's a litany of different things that happen this year, banks failing, First Republic going under. And yet the market just takes that information, digests it so efficiently and so effectively that to rely on our human brains to try to out guess that is a pretty interesting argument.

([07:45](https://www.rev.com/transcript-editor/shared/FdkUtYK8V0m_C3Vrv7zND6QD5i9vLjEuWf01JiT8V-Udivj6P3xR4uQXadAEq3Zuo9uWSc3DW3zoE74wxasn9PkLYGA?loadFrom=DocumentDeeplink&ts=465.21)):

And I think on the surface, if you actually sat down and thought about it logically, that's a tough thing to do. And the proof just continues to come out in the data. Shifting a little bit. I mean, this caused turbulent markets on the private side as well. We're active in the private markets and we believe there is return to be had, especially in the early stage venture markets. But I'd love, Justin, maybe just touch on a little bit here for people that we don't talk publicly about the private markets, et cetera, but what did you see in 2023 for those that did participate or even those that haven't participated but might in the future? How did that differ a little bit in 2023?

Justin Dyer ([08:26](https://www.rev.com/transcript-editor/shared/CUUY4S8qb2D08IaOazS0WUAYbKdg-kMxsmsqyygfgb3XKuMk4kZFiea2ZoQpEF4PTku55C8c2C4j22oSCpFH5aGwxr8?loadFrom=DocumentDeeplink&ts=506.85)):

Well, I'll start with the banking crisis. I mean, it's easy to forget about that. You mentioned it and I was like, "Oh gosh, that really did happen in 2023." It happened in early 2023, I think it was March of this year where Silicon Valley Bank, First Republic, there was essentially a run on those banks. And they're very active, very integral to the venture capital ecosystem, both for companies and venture capital funds. And so there was almost a identity crisis moment or what will this do to the innovation economy early on? What will this do to startups and existing companies, all of that? And it was a very contentious or tenuous moment within the venture capital ecosystem. Fast-forward to today, luckily that infrastructural problem has been solved for the most part with very limited repercussions or ramifications. But the marketplace overall, to your question, is it's still finding a footing, I guess is the simplest way to say it.

([09:34](https://www.rev.com/transcript-editor/shared/7rVa6WgNecrK3mruCXMj2MvOcObmj_hlFpqupqHCf2rsvi_UxWSXB4vOtRgy29ARm-DVZBOvfILNboS1_w-jeYqyauU?loadFrom=DocumentDeeplink&ts=574.47)):

That's a very broad comment for a pretty diverse and dependent ecosystem. It depends a little bit if you're talking about early stage venture versus later stage, private equity or let's call it growth equity versus real traditional venture capital. And so there's still a little bit of a hangover, call it, from 2022 where prices are still trying to find what equilibrium or what fairness or fair market value is in certain circumstances. The early stage part of the market is a little bit more advanced or farther along that progression, if you will. Where valuations are steady, in some cases they're actually inching up quite a bit. AI is generally that area. There's a lot of hype that's going on there. And then a lot of investors that traditionally played in the later stage markets or private equity, growth equity have gone a little bit earlier stage because they got burned a little bit in the 2020 to 2022 timeframe.

([10:47](https://www.rev.com/transcript-editor/shared/gC4mgaRbtmUWjMl1_GUgHGWWVEeeQ50Jq_w6TBoK5srPpGHeyMzgoXlZW4a_3ROHsCCQJdY3MaK1qV2t4MQ5v013MiY?loadFrom=DocumentDeeplink&ts=647.43)):

So there's a little bit still to work through the system, I'd say, overall within venture. It still is an asset class we believe and love very strongly. And we're prepared, going back to my earlier comment, don't try and predict be prepared. A long-term allocation to an asset class should be prepared for times like this where there's a little bit of disruption that's happening. I think we're on the tail end of that disruption. When we look at our portfolio investments, and we won't go into details at all, you're starting to see some, either you want to call it green shoots or the M&A market or IPO market starting to see a little bit of life. It's probably taken a little bit longer than overall market participants would've wanted. But in general, I think we're coming to ideally a place of better health in those marketplaces.

Brandon Averill ([11:43](https://www.rev.com/transcript-editor/shared/KEGhiJyU2Ux4hqQkTl2--xDkiincnDc0sQCB6Gv1oLBxnh44U33KnFcVL_hBPdEJ1i37yjxCEyh-pvT81eEZbFFHFZk?loadFrom=DocumentDeeplink&ts=703.2)):

And I think it just reminds me, it's such a good reason for why we take the approach we take in the private markets. It's being systematic, it's being long-term. And I think at the end of the day, this is successful investing overall is really doing the best to take a decade long approach and not a short-term, day-to-day approach, checking your account all the time. That just fuels this anxiety that unfortunately leads to a bad investing experience. And really, if you think about, I want to use money as a tool, I want it to accomplish my priorities, taking that really long-term approach is always going to be a more successful way to go about it. And really just remembering that it's anxiety, it's the media, et cetera, that's trying to drive those short-term changes in you because that is where the profit comes on their side of the coin, but not necessarily your side of the coin.

([12:35](https://www.rev.com/transcript-editor/shared/4YzNNE2WGqYJNtZzycpzdPEPNQGfmnRMiCPJCI4qLuZJvYsYjhMoG4zJ8h9iK3fbHxesiaoZNz5aN40nJ9tIJizFeBI?loadFrom=DocumentDeeplink&ts=755.58)):

So just remembering that, developing a plan you can stick to long-term, having that decade long approach, really understanding your financial structure is so important. And David Booth, the founder of Dimensional Fund Advisors, talks about this a lot, but people have memories and work behaviorally impacted, but markets don't. And so I think the more that we can really look at things and take that longer term control what you can control perspective, better off we're going to be. We know things are going to happen. AI is going to change our lives. Don't know how, but probably going to change our lives in some way.

([13:15](https://www.rev.com/transcript-editor/shared/8_PbI6ZDm3HgY8fEL9A3cICIn2y-vYfkgSbVhxLHbM_zib-BL3uTa7v2iCb5uvK3Uj8F7y_CnKfAfBau_Cd5tdijOCE?loadFrom=DocumentDeeplink&ts=795.9)):

Interest rates are going to change in the future. We will have recessions at some point. The good news about all this stuff is we don't have to figure out when all of that is going to happen to have a really good investing experience. So long as we put the fundamentals first and really focus on that. So hopefully today was helpful, just a little bit of a rundown 2023, what we saw, why we didn't have to predict it to have a successful year. And really just how we think about navigating these things as we head into 2024 as well. So until next time, own your wealth, make an impact and always be a pro.