The Habits of Great Investors: Reports of the Death of Equities are Greatly Exaggerated

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"This time is different."

- The Swan Song of the Failed Investor

Hello, great investors! I hope you're enjoying the early days of summer and a nice recovery in your stock portfolios. Today, I want to discuss a familiar doomsday scenario that's rearing its head again and why I find it a little silly. I also want to talk about how great investors should approach the financial media.

The dollar as the world's reserve currency

First, let's talk about the U.S. dollar and its status as the world's reserve currency. For technical reasons I won't delve into, the dollar has long held this position, which is the primary source of our prosperity and quality of life in America. It drives our economic growth and keeps credit inexpensive. Every so often, a popular narrative emerges that the dollar is losing its reserve status, soon to be replaced by another currency. This is often tied to the idea that American society, politics, and economics are in decline, and when the world recognizes this, they'll pull their capital out, causing the dollar to implode.

The BRICS challenge and recent decline

The latest version of this narrative, recently touted by the media, suggests that the Chinese yuan or a new common currency from the BRICS nations — Brazil, Russia, India, China, and South Africa — will challenge the dollar. This plays into the recent tariff tantrum, which caused a significant decline in the dollar. The dollar index is down about 9% this year, with articles like one from MarketWatch titled, "The Dollar Just Had Its Weakest Start to the Year on Record and Why This Might Be Doomed to Fall Even Further." Most of these articles blame President Trump's tariff policies, suggesting they'll deter foreign investment, weaken the dollar overseas, and undermine U.S. global exceptionalism.

The real reason behind the dollar's drop

The dollar has been strengthening over the last five years, not weakening, and remains at a historically elevated level, comprising a dominant 57.8% of global foreign exchange reserves. No other currency comes close. So, what explains this year's 10% drop? I have a theory that gets little media attention but makes sense. There's been a huge surge in the U.S. trade deficit this year as importers front-run the tariffs. After Trump announced future tariffs, importers stocked up, causing the trade deficit to jump from a $70 billion monthly average in 2024 to $98 billion in December, $131 billion in January, $123 billion in February, and $140 billion in March. In four months, the U.S. sent an extra $212 billion overseas, flooding international markets with dollars and lowering their value. This explains the dollar's decline.

Why the dollar will rebound

Since this surge is due to front-running, it can't last forever. When it ends, I believe the trend will reverse, and the dollar will strengthen. The idea that the dollar could lose its reserve status is, in my opinion, ridiculous. History shows two key factors for reserve currency status: a fundamental belief in personal property rights and the muscle to protect them. The U.S. easily leads in both. No one would store wealth in a nation where the government could easily confiscate it. The U.S. offers the greatest legal protection for property rights and has the strongest military, making it the best place to store capital.

In contrast, nations like China or the BRICS countries can't rival the dollar. Their citizens show this by moving capital to the U.S. In 2024, China saw a net outflow of over 15,000 high-net-worth individuals, while the U.S. gained nearly 4,000. Half of the top 10 countries with the largest outflows of wealthy individuals were BRICS nations. How can a country that can't retain its productive citizens gain global confidence in its currency? The economic and geopolitical realities confirm that the dollar's dominance remains robust.

How great investors view financial media

Now, let's discuss how great investors view financial media. My favorite piece of financial media was BusinessWeek's 1979 cover story, "The Death of Equities: How Inflation Is Destroying the Stock Market," published during a bear market and stagflation. It claimed the U.S. economy and stock market were fundamentally broken, never to recover. Ironically, it was published just before the greatest bull market in history began. Over the next four decades, the S&P 500 returned to over 8,000%, with its dividend yield rising from $6 to $56, tripling the rate of inflation. This article marked one of the greatest low points in stock market history.

The media's business model is to sell sensationalism, fear, and negativity to sell clicks. As the saying goes, "If it bleeds, it reads." Occasionally, this goes overboard, promoting what I call the "this time is different" fallacy: the idea that the U.S. economy or stock market is permanently broken. I've seen this during the tech bubble burst, the 2008 financial crisis, 9/11, and COVID. The tariff tantrum was no exception. Articles in the New York Times, like "Ride Out the Market Turmoil, Not These Investors," and the Wall Street Journal's "Market Turmoil Shatters Long-Held Beliefs on Investing," claimed tariffs caused an irrecoverable economic shift.

Panic selling and the tariff tantrum

One article by Evan Cooper in Wealth Management, titled "Why I Didn't Stay the Course This Time," stood out. Cooper, a seasoned investor, sold his holdings after 40 years of staying calm through market downdrafts, citing a lack of coherent U.S. economic policy and claiming the nation was no longer serious. Published on April 17, when the S&P 500 was at 5,200, this article preceded a rise to 6,000. These articles are the closest thing to a bell ringing at the market's bottom.

The tariff tantrum saw the S&P 500 peak at 6,144 on February 19, followed by a 21.3% drop by April 7 after Trump's tariff announcement. This instant bear market was one of the sharpest declines, rivaling COVID, the Lehman bankruptcy, and Black Monday in 1987. Yet, within six weeks, the trillions in tariff-related losses were fully recovered. The cycle of panic is nearly complete, and when the S&P 500 hits a new all-time high, those who sold in panic will face financial regret, while those who bought during the fear will see their fortunes grow. Bear markets transfer stocks to their rightful owners, those who stay invested.

Final thoughts

I hope you found this helpful. I have two favors: first, please share your comments or questions on social media. Second, someone you know may have panicked during the tariff tantrum and needs this perspective — share this video or have them contact me.

Thanks, and have a great summer!

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