



Semi-Annual Update

January 2026



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## Barbarous Relics and Other Forgotten Assets:

***"In truth, the gold standard is already a barbarous relic."***

***- John Maynard Keynes, 1923***

***"Gold gets dug out of the ground...then we melt it down, dig another hole, bury it again, and pay people to stand around guarding it."***

***- Warren Buffett, 2011***

Love it or hate it, few assets have performed as well as gold this past year. Its move has been one for the record books. Many investors (some prominent) do not believe in the utility of using gold as an investment, seeing it as a non-productive asset. The legendary Warren Buffett for one, was never a fan. We have been quite aligned with Mr. Buffett's strategies and thoughts over the years, so it has felt odd to disagree with him on something. Gold has been one such case.

Yet, other highly respected investors such as Ray Dalio, John Paulson, Paul Tudor Jones, and billionaire resource investor Rick Rule are big fans of the precious metal.

One cohort that you can squarely place in the "hate it" camp would be *politicians*. This is most likely because it cramps their style. More specifically, gold forces a comparison to their preferred form of money – paper (or the more technical term - *fiat* currency). In the past few years, when the price of gold (and most other "real" goods) have been on the move, most investors have come to realize just how flimsy the value of paper money can be. And just how easy it is to print more of it. This, of course, pushes the value of paper money down. Since the supply of paper money can be increased at will, its value can literally be "taken away."

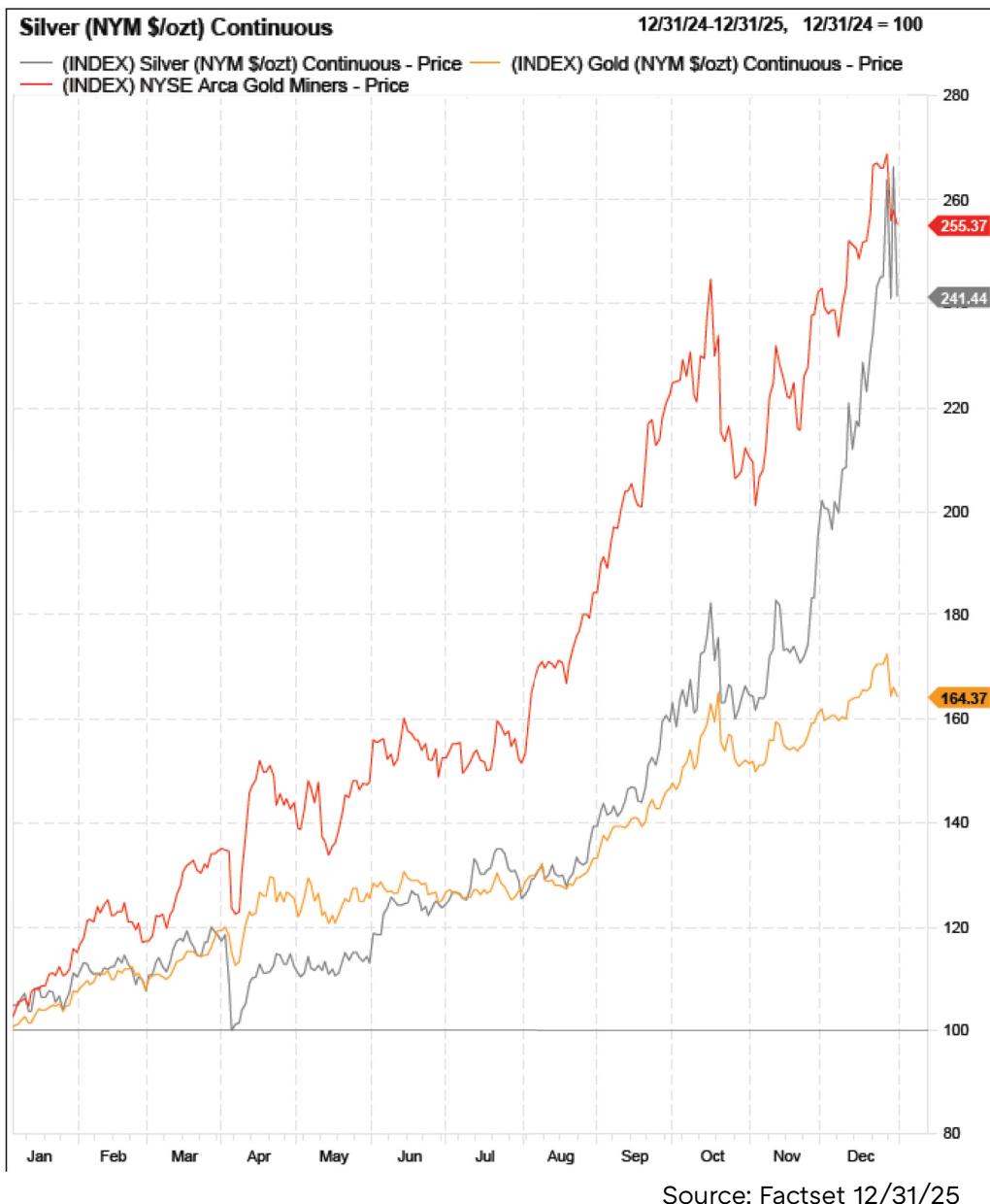
On the other hand, as Mr. Buffett has often said, gold is costly to mine and to store – this is his polite way of saying that it's a waste of resources. But I guess that's the point, is it not? Money (gold or paper) is simply a tool. And a very good tool at that. The barter system is a drag and any society that does not have a valid money system of some sort usually relegates itself to stagnation. Any trip to Home Depot will verify that tools are most definitely NOT free. All tools cost money and time to produce - gold is no exception. That, counterintuitively, is what makes it better than paper. Something that costs money and takes time and effort to produce cannot simply be created on a whim. And *that*, among other unique qualities, is what gives gold its value. Paper money is a tool as well – just not as good.

Throughout history, gold has stood witness as many paper/ fiat money systems have come and gone, all-the-while maintaining its purchasing power remarkably well. This is due to the fact that, historically, it has been seemingly impossible to increase the global gold supply by much more than about 1.5% per year on average. Don't get us wrong however - gold has its problems, and it has its own bear market drops – some quite dramatic.

2025 was NOT one of those times.

Last we spoke on gold, in our July 2025 Newsletter, we mentioned that “we hate to press our luck” by not selling any of our precious metal investments, “but...” we were holding on for now.

I will tell you, however, that we came VERY close to trimming some positions this fall when precious metal prices were correcting. Fortunately, we waited-out the moderate drop and kept our full positions. It was not an easy waiting period. Remember that my position here at Morgia Wealth Management is that of CPO: Chief Paranoia Officer. My specialty is to find fault with any and all investments – especially the ones we own.



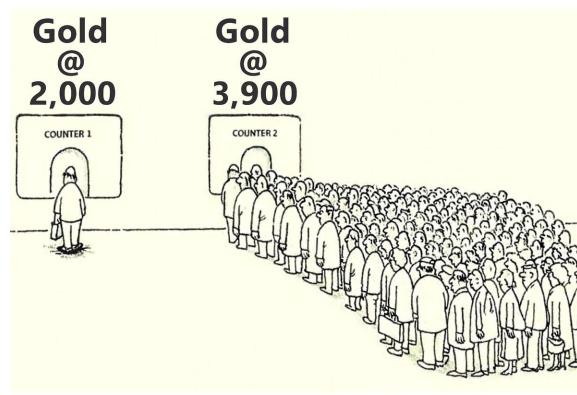
Since that autumn tempest has passed, it has been clear sailing for the metals. As I write this sentence, with less than two hours remaining for trading on the last day of the year, gold sits up 64% year-to-year. Silver is up an amazing 142% and gold mining stocks are up over 156%.<sup>1</sup>

We would have been quite happy with a being up 10%.

<sup>1</sup> FactSet 12/31/25

Of course, in every bull market there will be corrections. In the great 1970s gold bull market, the price of the yellow metal dropped almost 50% in the middle of that epic run before climbing another 700%! And, sadly, every bull market does eventually come to an end. We will be watching this one in the metals market closely. Also, we cannot expect the same kind of gains in gold going forward as we have seen over the last couple of years. It's possible for sure, but we should not bank on it. In fact, I have recently told many clients, regarding their Morgia precious metals accounts, to never expect this kind of gain in any one year again! That does not mean we won't try for a repeat however!

## Better late than never?



Macro Intelligence 2 Partners 10 10 25

Apparently, Morgan Stanley, among other financial entities, has recently joined the better-late-than-never camp. They recently changed their overall asset allocation recommendation from the traditional 60% stocks/40% bonds into 60% stocks/20% bonds/20% gold. While we here at MWM truly appreciate the added demand that this may create for an investment that we already own, we are doubtful that there's enough room to accommodate a 20% allocation for all of Morgan Stanley's customer base, let alone everyone. But by all means – please try!

I have heard gold experts say that the current gold allocation in this country sits around 0.5% for the “average” investor’s portfolio. This is relative to the long-term average of more like 2%. So just getting back to 2% would be a fourfold increase in the demand. For reference, we have been recommending at least 6% for the last few years, with many clients up in the 10% to 15% range.

Now, the total value of the U.S. bond market is somewhere around the \$55 trillion mark – some of that is owned by foreigners of course. Just for simple math let’s assume about \$40 trillion is owned by U.S. investors.<sup>2</sup> If the entire country followed Morgan Stanley’s advice and shifted half of their bond investments into gold, that would be a \$20 trillion shift. What’s the total value of all the gold in the world? Somewhere in \$30 trillion range.<sup>3</sup> Can you imagine if we all tried to squeeze another \$20 trillion into that market – the demand would vastly outstrip the supply. And this doesn’t count the demand from the rest of the world should they also decide 20% is the right gold target! It seems highly implausible to us that the average investor can get to 20% positions. It seems like they are a bit late to the party. But perhaps, just maybe, we might have been very early. Indeed, some believe the precious metals bull market is still in the early innings. We do agree that is a fair possibility.

Foreign central banks and, perhaps, the U.S. central bank were also very early. They bought over 2,000 tons of gold since 2022.<sup>4</sup> More recently in the 3rd quarter of 2025 another 220 tons were purchased, but mysteriously a full 66% went unreported as to which countries were actually doing the buying.<sup>5</sup> I’m sure we all could muster a guess or two. Perhaps viewing the global over-

<sup>2</sup> Are Foreign Investors Really “Dumping” US Treasury Bonds? 6/5/2025, State Street Investment Management

<sup>3</sup> Visualizing the World’s Total Supply of Gold, 11/20/25, Dorothy Neufeld

<sup>4</sup> Gold Buying by Central Banks, Q3 2025

<sup>5</sup> Secret Gold Buying Surges – Nearly 70% of Central Bank Purchases Go Unreported | Michelle Makori

indebtedness, the world's central bankers could see the handwriting on the wall regarding the dangers of paper money. Last week I heard someone say that these bankers saw the handwriting on the wall because they themselves wrote on the wall in the first place by being irresponsible with their nations' finances! Personally, I would cut them a little slack and say that they were simply trying to slap some band-aids on the mess that the global politicians have made over the last 40 years.

## Other Forgotten Assets

We definitely continue to like the idea of precious metals for the next few years, but we will be watching for opportunities to sell a bit if need be. There is currently a battle raging in the silver market. In one corner there are the buyers – manufacturing companies that *must* have the metal for production, as well as the silver investors who have been growing dramatically in numbers over the past few months. In the opposing corner are the bullion banks and the commodities exchanges, who have sold more silver contracts than they have silver to deliver. This is normally not a problem because few in the commodities market want to take physical delivery, preferring to settle up in cash at the contract's end. Since silver production has not been keeping up with demand and the vaults in NY and London seem to be running low on the metal, participants are getting nervous. They are asking to take delivery. But there is not enough silver to go around. The banks could be headed into financial danger if they have over-sold and can't come up with the goods. The rapidly rising price is only exacerbating the situation. This is normally good for owners of silver EXCEPT that when, in the past, the price move has been *too* good, the exchanges and the government have been known to change the rules to protect the banks as well as the manufacturing industries. Alas, no one cares about the poor investors!

We have zero expectation of being smart enough to sell at the ultimate highwater mark, but we also don't think that is a necessary requirement for success. Close will be close enough.

## The Little Engine that Could

The stock market, although nowhere near as successful as the precious metals space this past year, still posted a very respectable return for 2025. The main *engine* driving this current move seems to be none other than artificial intelligence (AI). This is an area that we have been writing about for the last few years.

It is the engine (literally and figuratively) currently moving *much* of the stock market, if not *all* of the stock market!

If you want to use AI, and you should...

You need to run large language model software on an inference engine.

You need data centers to run that engine.

You need servers to run the data centers.

You need semiconductors to run the servers.

You need equipment to make the semiconductor chips.

You need more electricity to power all of this.

You need more power plants and power facilities in order to produce that extra electricity.

You need more uranium, gas, coal, oil, solar panels, and wind turbines to fuel those plants and facilities.

You need heavy machinery to build the new energy facilities and to drill or mine the natural resources needed for those facilities.

You need more Burger Kings to feed the workers running the machinery.

Too far?? Yeah ok... you get the point. In short YOU NEED A LOT OF STUFF.

The good news is that all of this stuff must be produced by companies that employ a lot of workers and which will, in turn, drive economic activity. And, oh yeah, did I mention that all this activity results in a lot of corporate profits? And the stock market *loves* profits. At the end of the day, or more correctly: "at the end of the fiscal quarter," it's the stock *profits* that drive the stock *prices*.

Now picture in your mind each of these AI buildout pieces as a row of dominoes. Whatever you do - do not disrupt the first domino or they will all fall to the ground in sequence! That first domino is the proposed buildout of artificial intelligence over the next decade.

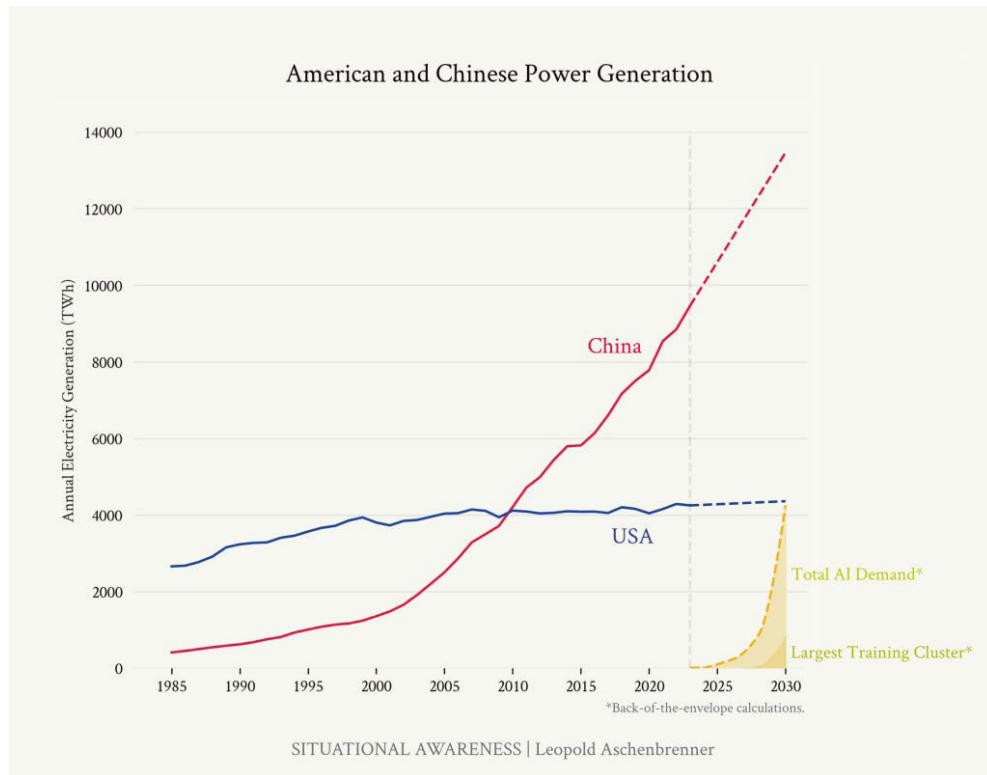
Lucky for us, that domino seems to be pretty robust. Most companies have an AI plan. Those that don't are in danger of falling hopelessly behind and becoming obsolete. The use cases for AI are truly mind-blowing, and if you haven't tried it yet, let me be clear – you *need* to soon. It has its quirks for sure, but it also has the ability to speed up your life and make things much more efficient, squeezing free-time apparently out of thin air. Now add in the promise of quantum computing, which could exponentially accelerate all the use cases for AI. The potential boost to world productivity might fundamentally change everything we think we know about everything we think we know! Amazing.

But do you know what else was amazing? The Internet in 1999. It too was a technological miracle that would go on to transform society in ways we could not even imagine at the time. Yet the technology stocks of that era were decimated over the following months with the Nasdaq dropping a full 80% by 2002. It did not return to breakeven for a full 16 years! This was all in spite of the fact that internet technology itself kept advancing.

Am I saying that the AI revolution is also in a bubble? Not necessarily. Am I saying that the AI revolution *isn't* in a bubble? Not necessarily.

To be sure, we like many of the AI stocks all along the domino chain so to speak. We have even taken positions in uranium and uranium mining companies, one reason being that AI will

necessitate much more energy production and consumption. The yellow line on the next graph is the estimated total AI energy demand. By 2030 it is estimated to equal the total U.S. electrical generating capacity.



As of today, our country has fallen dramatically behind China in our ability to “fire up” the engine so to speak. We must have more power, the “middle kingdom” has no hesitation in building new coal plants and nuclear capacity. China can construct a nuclear plant in under 7 years (with some recent builds completed in under 5 years).<sup>6</sup> In the U.S., the approval process *alone* can take over a decade. This is alarming. Expanding our electric infrastructure rapidly is going to necessitate a national mobilization reminiscent of the Moon program of the 1960’s.

So there is a LOT of business that needs to be accomplished in the next five to ten years. If it comes to pass, it will mean economic strength, good employment, and robust corporate profits. But... we have to be very, very cautious in assuming that the many companies participating in this great build-out will all see rising stock prices i.e. they may already be priced too high. It is tough to know for certain. Furthermore, any hiccup in one area could easily disrupt, or at least interrupt, the entire trend. *That* could cause a cascading effect for much of the economy. The dominoes would start to fall one by one, click click click click. And the stock market would not like that one bit. In fact, just a few weeks ago IBM’s CEO Arvind Krishna said that even a simple calculation would reveal that there is “no way” the tech companies’ massive data center investments make any sense. He thinks that the costs will be more than the profits. He is effectively saying that the “data center” domino in our analogy is wobbling. Ironically, his own words could actually set some of those little black squares into motion. There has also been much chatter concerning a questionable business practice prevalent during the .com era that has now resurfaced today in the

<sup>6</sup> Situational Awareness: The Decade Ahead, The Free World Must Prevail, June 2024, Leopold Aschenbrenner

AI space. So called “circular financing” is the practice by which company A invests money into company B who suddenly has enough money to buy more company A products. If it sounds a bit suspect, that’s because it is. The tech companies claim that is *not* the spirit of what they are doing. Regardless of *why* however, it *is* what is happening.

Not to belabor the point and extend the analogy too far, but if anything at all, anywhere along the chain gets disrupted, the entire sequence can fall apart. If we can’t get enough energy to make all these servers run, then everything else is moot. If the current silver shortage isn’t alleviated, that will be a problem for anything electronic – for everything! Pick any step in the sequence and cause it to fail – the whole trend fails. All the dominoes could fall.

We interrupt our normally scheduled skepticism to bring you an important message from our optimistic side. Things just might go *right*.

For every naysayer, there are countless AI evangelists who will tell us all to “just wait and see the economic miracle that will be unleashed!” And you know what? There’s a decent chance that *they* are correct. Also, from a national security standpoint, if China wins this race, our country is in big trouble. We don’t think the U.S. can afford to let that happen. At least not without a fight.

Eventually, quantum computing will likely be able to crack all existing encryption as we now know it – so this race is a must-win. We need quantum encryption in order to be able to prevent quantum hacking. Alarmingly, it has been reported that China has likely already stolen many critical files from companies and governments. Currently they cannot do anything with those files as they are encrypted – but eventually the “quantum” technology to crack the code will arrive. Even if companies start to deploy quantum encryption soon, they won’t be able to protect files that have *already* been pilfered – squirreled away in some nondescript building in downtown Beijing, just waiting for the day when quantum computers become operational. So we believe that the U.S. *must* try to help this buildup along – must protect the dominoes! But like we said earlier, that does not prevent the stocks from going down. Needless to say, we at MWM will be on sentry duty for the next couple of years, prepared to sound the alarm and re-maneuver should the need arise.

A Golden Age of Productivity? A bubble waiting to pop? Both? We will all find out eventually.

## The Story of the Three Bears

Exactly one year ago in our January 2025 Newsletter, we reminded everyone of our **Bull Market Rule #5: Start positioning yourself towards the exit door but don't leave too early. You'll miss the encore.** I’m sure you will remember a few months after that, in April of last year, the sharp but short lived mini-bear market sell-off. It was a quick 20% drop in stocks, followed by a quicker reversal back to the upside. As that was happening, we snuck out of the “door” (sold some stocks and raised cash) and avoided some pain. In keeping with our strategy however, we loitered around the exit for a while and sure enough, we heard the band come back for an encore. Needless to say, we quickly ran back in and continued to watch the show. Those investors who remained outside have missed one heck of a performance. It has been a very good year in spite of the April interruption.

What now? The show continues. The market continues its rise. The game plan stays the same. We stay invested. We stay alert.

As you all know, every now and then, the stock market has a downdraft – it enters what is called a “bear market.” Most of the time in a bear market, stocks can fall 20 to 30% or so, before rebounding. Most of the time those rebounds are not particularly drawn out. Although it always feels painful and protracted, the real problem is that investors are an impatient lot. Anything less than seeing their portfolio values at the highwater mark and agitation begins to set in. Now this is not an insult, it's just human nature. I too am in this same category.

So a drop of 20 to 30% is perfectly normal. But sometimes, rarely, the bear markets can be of the more serious type. The drawdown is deeper and the road back to breakeven is long and arduous.

Six months ago we said that we would use our next update to discuss some of these more serious bear markets and how we plan on dealing with one, should another one arise. Well, here we are six months later - time for some scary stories. Like we always say, it's better to prepare for negative contingencies while everything is going smoothly. Game plans are more rational when not made under duress. Now seems about as duress-less as it gets.

So have a seat and pour yourself a strong drink of your own choosing. It's time to plan for the next big bad bear market.

*“I’m learning to fly  
But I ain’t got wings  
Coming down  
Is the hardest thing”*

*- Tom Petty, Learning to Fly 1991*

**It was early 1966, mid-February.** The first Super Bowl had just been played the month prior. The Packers beat the Kansas City Chiefs (thank God). I was born. Of course I was thrilled to hear of the Packers’ victory! Just about that time, one of the great bull markets was peaking after a spectacular 24-year run, although no one knew it at the time. It would be 16 long years before stocks moved substantially higher than the level at which it stood on my very first day. It had absolutely *nothing* to do with my arrival – allegedly.

**Two years later in 1968**, our founder Tony Morgia was recruited into the investment business and began his career. Right out of the gate the stock market fell a nasty 35%, not bottoming until May of 1970. Welcome to Wall



Street, Mr. Morgia! Not to worry, right? These things always come back, right? And it did. Stocks climbed back over the next two and a half years right up to the old high and then a little bit more... just in time for the 1973 through 1974 wipeout. That one was what we call a *doozy*. A full 50% crash. It made perfect sense in hindsight. Stocks had been bid up far too high, culminating in what was called the Nifty-Fifty era. Fifty of the nation's top companies with stock prices so high they would asphyxiate a Sherpa. If you don't know, Sherpas are the Himalayan mountain guides famous for not needing oxygen while summiting Mount Everest. But I digress. A few of those high-flying stocks dropped a full 80-90% before it was all over.

On and on and on went the bear market. Cheaper and cheaper and cheaper became the stock prices. You remember the 70s? Vietnam, Nixon, gas lines, Iran hostage crisis, etc. Even after stocks healed a bit, the market never could really elevate much. So it drifted on and on in limbo until mid-1982. Tony, being the pragmatist that he was (and still is), stuck to buying high quality municipal bonds for clients during much of that time frame. He correctly figured that boredom was more palatable for clients than losing money. The lesson was two-fold: First - bear or bull markets can go on a **lot** longer than you might imagine. Second - investors are best off **not** fighting the "tape." Not fighting the trend and the flow of things. Don't be bullish in a bear market and vice versa.

**Fast forward to 1987.** Re-enter Mike Morgia to the stock market part of this story. It was a lovely fall day on the campus of LeMoyne College. Dr. Consler was captivating his Finance 301 class once again with a riveting tale of the efficient market hypothesis (EMH). He was interrupted, however, by someone that had come to the door to whisper something in his ear. A pale look came over his face. It might have been the news of the massive collapse in stock prices that was occurring at that very moment. It might have been the cognitive dissonance of lecturing on a financial subject matter that postulated stocks as "efficiently" priced - something that was becoming less plausible with each and every further downturn.



of the Dow Jones. "Class is cancelled" he uttered. Apparently, the market was getting wrecked, on its way to the worst one-day drop in the entire history of the stock exchange. Worse than after Pearl Harbor, worse than any single day during the Great Depression. A 22% drop in one day was supposed to be a statistical impossibility IF you were using the traditional risk models of the day. The famed investor and mathematician Nassim Taleb would argue this point 20 years later in his book, "*The Black Swan*." He said that using normal statistics would lead you to conclude that a 22% stock market drop in one day shouldn't even happen once in the entire lifetime of the universe; not once in 13.8 billion years. And as you might remember from your high school history class, the New York Stock Exchange has **not** been open for that long. So, something was

clearly amiss. Amiss with both the market itself and with some of the financial theories of that day. Investors learned a valuable lesson, which was that anything is possible in the stock market. Even the highly improbable is possible!

I had started interning the previous summer for Tony at Shearson Lehman Brothers and was worried about the extent of the pain the market drop was causing back at our branch office. While the other students headed to the Rathskeller for food and drink, I ran to the nearest payphone to call back to the office and see what the heck was going on. As you can imagine, there's little one can do during a disaster such as that. The safety precautions needed to mitigate damage had to be implemented *before* that day. This is doubly true when a given market day is posthumously labeled with the moniker "Black" in front of the day of the week. *Black Monday*, as October 19th, 1987 came to be known, was a train-wreck of a day. Starting out with almost a 9% drop in the first hour of trading, the market rebounded by 3.5% near lunchtime. As usual, that decent bounce brought out the emotion of *hope* to the panicking investors. It turned out to be pre-Halloween "trick" however, and soon stocks went into freefall.

Back in 1987, as now, our investment strategy was one of risk-control and caution. That caution worked out well for us that day, but of course almost no stock investor remained unscathed by the time the closing bell sounded at 4pm. For me, it was a lesson in preparation. Just like the Boy Scouts always said – be prepared. Emphasis on "pre!" This is precisely why post-paration is not a word. That's too late.

I was hired by Shearson Lehman the following year, and by that time, the stock market had worked itself halfway back to the old high point. Within one *more* year, the market was all the way back and then some. But my firsthand study of market crashes was just beginning. The 40-year Japanese stock market miracle crested by the start of 1990 and would soon be decimated. The Savings & Loan crisis rocked the bank stocks that same year. I witnessed the carnage, day after day, transfixed as almost every bank stock was summarily brought to its knees – many did not survive. At the local level I watched as the neighborhood Jefferson National Bank went down in flames, sunk by bad loans issued in brighter times. By October of 1990 that crisis was at its nadir. *What is it with October?* I wondered. I learned then that the answer to "how low can it possibly go" is always "more!" Once again, being careful ahead of time paid off.

Fast forward one last time to pick up our third bear's part of the story.

**It was the year 2000.** It was the dawn of the new century. The world had apparently survived the Y2K scare or as it was also known, the "Millennium Bug." The computer clocks had struck midnight, and the world's electronic and computer systems did NOT all crash as feared. Things were looking bright.



The September 1999 Cover of Time Magazine.

Right about that time, PJ had been convinced by Tony and me that a shift over to the investment business would be a great career move. And it was... eventually.

He had previously worked for IBM and at that time was on track for partner at a Syracuse accounting firm. We convinced him to change course. True to form however, right after his arrival, the stock-bull decided to buck. Apparently, this had become a *thing* whenever a partner joined our firm. Stocks had been on a rip-roaring ride for the previous decade, with the limelight shining squarely on the technology stocks and the Nasdaq. Tech was where all the fun was occurring. But not for long. It would be 16 long years before those particular stocks moved substantially higher than the level at which they stood on PJ's first day with us. It had absolutely *nothing* to do with his arrival – allegedly.

Just like the Japanese Nikkei back during my start, PJ's first bear event would witness the Nasdaq drop by a full 80% before the bottom was found. The stock market, in general, seems to find its down limit around -50%. However, most bear eras usually have some kind of poster-child of excess - some investment that happened to garner the most attention and speculation, and therefore, was most vulnerable for a real *whumping*. Those areas of excess have been known to keep on falling, sometimes down to the -80% level.

By now, the reader should be able to detect a subtle pattern. And by subtle, I mean slap-in-the-face subtle. New partner for Morgia = bear market for everyone. Thus, it should come as no shock that the word "careful" sits alongside "disciplined" in our company tag-line. It's why we sometimes twitch a bit and continually glance over our shoulders looking for trouble – metaphorically speaking (mostly). We trust few things completely in the financial markets. For me, I'm not even so sure about those "few things."

**"Sun comes up and  
Goes back down  
And fallin' feels like flyin'  
'Till you hit the ground"**

**- Chris Stapleton, Parachute 2015**

All three of Morgia Wealth's majority partners have had up-close and personal encounters with many bears. We survived by playing hard defense when it was necessary. As Tony likes to say – fear of the downside must be greater than the fear missing some upside. FOMO (fear of missing out) has no place in prudent investing.

Over the course of our careers, we have seen the same story play out multiple times. Something good gets pushed up in price. The movement attracts the investment crowd. The price of the stock or the asset class in question goes up to Lala land. But as always, gravity eventually bites and then drags it painfully back to down earth. Thus, being skeptical and mildly paranoid have become second nature in our firm.

Our experience with, and study of, bear markets has enabled us to develop defensive tactics that can be used to preserve capital and then deploy that capital when the true bargains arrive. It is no panacea of course, and trying to play defense comes with its own set of issues. None-the-less,

when the financial \$h#!# really hits the fan, every now and then, we are always grateful for our own cautious nature.

Our best investments have usually been purchased *during* those bleak bear-times. Bargains abound. But the question is - do you have the capital and the nerve to buy during a bear market? You need both. Without proper defense during the downdraft, you just might not have any capital left to deploy - you might be out of money! Your nerves might also be shot. Courage is not enough if you don't have the capacity to make a move.

## The Fluid Nature of Markets

The investment markets belong to a category called complex systems. Think earthquakes, weather systems, avalanches, and ocean wave patterns. In fact, we often view the market movements as wave patterns embedded in larger wave patterns. Like ripples on top of waves on top of tides. The day-to-day action is random noise many times - mere ripples on which you should not waste much time. We try to pay more attention to the patterns of substance - the waves if you will. What trends are forming and how are they developing. More important than even these "waves" is what we consider to be the market "tide." We think of the major bull markets as tides coming in - and the protracted bear markets, such as the ones we spoke of earlier, in the 1970s and the early 2000s, as the tides going out.

Sure, you can ride a temporary up-wave in the stock market during a bear market – it's just not as easy nor is it as safe. Viewing the markets this way helps us to conceptualize where we want to place our priorities. Investors should try to focus more on the bigger patterns, less on the minor movements.



Unfortunately, there is another oceanic-type of wave pattern that can hit the markets. The tsunami i.e. tidal wave. These calamitous type events only come around perhaps once in a generation. The 1830s had its "Long Depression," at which time the stock market dropped about 70% and took 60 years to permanently rise above the highwater mark of that period. But time moved on. Investors became complacent. Those complacent investors died off. One hundred years (or four generations) later, the new investors knew nothing of market tsunamis. The collective populous had forgotten - just in time for the next 100-year storm.

It was a few months before 1930 began, that the tsunami struck again. The stock market dropped 90% in the "Great Depression" and it took 25 years to return to breakeven. But time moved on...

We now find ourselves coming up on 100 years since that time. 1830, 1930, 2030? We don't mean to sound like alarmists, that is never productive. And such an event is far from a likely occurrence. Nevertheless, it behooves all investors to have a game plan just in case such an occurrence actually materializes. Sadly, few investors have given much thought to the subject, other than thinking "Man... I hope that doesn't happen ever again!" But hope is most definitely NOT a plan. In fact, it can be quite counterproductive.

We, on the other hand, have been thinking about this, and studying stock market history for a very long time. And although we have not lived through a depression, we have seen some pretty bad bear markets. Furthermore, the Japanese stock market experience throughout my *entire* 38 year investment career has given me the opportunity to witness just such a calamity from a safe distance. It came with rampant speculation and excess, followed by an 80% collapse. Decades of stagnant economic growth came afterwards, and it was a full 36-year trip back to breakeven for those unlucky enough to have bought in 1989.



It just arrived back this past year! We were not caught up in that crash, thankfully. Although, I did pitch an idea to Tony over lunch one day in 1990 before the carnage began. That idea was about buying a security for clients that would *rise* if the Japanese stock market crashed. He gave his blessing for "no more than a 2% position," but when I returned to work, the investment had jumped 12% in the 45 minutes I was gone! I was mad. I said *to heck with it* (ok... my actual choice of curse words might have been harsher). Over the course of the next year, what was a missed 12% start, turned into a missed 1,200% total move! It was an expensive lesson that I never forgot. Don't worry about missing the first inning of a 9-inning ball game!

So, we have a disaster plan in place - just in case. It was formulated using decades of experience navigating market calamities. It's a pretty good plan at that. Will it be enough? We can't know for sure, because we cannot foresee the future. But if past is a predictor, we should be able to mitigate a certain amount of damage depending on how this hypothetical situation plays out.

## **What if it doesn't happen? What if stocks continue to do well?**

Great! Hopefully, that happens of course. No one really knows how the economy and the market situation will unfold. If our future turns out to be a continuation of the bull market, we will continue to stay invested – assuming stock price don't get too expensive for our taste.

## **Why not just hold through the downdrafts like so many advisors recommend?**

That can work in normal bear markets (a down wave). And it can work in more sever downdrafts like 2000 and 2008 (falling tide). In the first type, it is *not* a fun experience. In the second type, it is extremely difficult to sit patiently while your stock portfolio gets hit 35 to 50%. Many people end up bailing out at just the wrong time. We think it best to play defense early and get ahead of the pain points a bit. Tsunami type markets are a whole other story. Who really thinks they can sit and wait 25 years or longer to get back to even?? Also, early defense lets you play offense when the time arrives. This is not an easy strategy to deploy however, so investors must be careful not to do more harm than good. We have been using just such a strategy for decades now. We think we have a good understanding of the **hows** and the **whens** as well as the **risks** and potential **rewards** of deploying such tactics.

## **Won't selling some stocks cause some extra capital gains taxes?**

Yes. Yes it will.

And, if we happen to move to *maximum* defense, in case of a very significant downturn, the gains we have enjoyed over the past several years will turn into a taxable event and a bill from the IRS. It's always a bonus in years like 2025 when our total gains are much larger than our realized taxable gains. Remember that a gain is not taxed until "realized" – meaning the investment was sold or closed out. Unfortunately, the reverse can materialize in some years. We may have a loss on the portfolios yet still have quite a bit of capital gains taxes to pay. That's never fun. No one likes paying taxes, and we try our best to defer gains for as long as possible.

Fun Fact: Do you know a surefire way to pay **no** capital gains taxes? Let your investments drop low enough that your gains became losses. No thanks.

Ok... that's way more than enough of the scary stories, at least for now. I truly hate to be a "downer" as I write this on New Year's Eve. It was truly a great year on so many counts for various investments. Contemplating such negative possibilities is always quite stressful, yet it's a healthy habit to get into. Play devil's advocate during bull markets and play angel's advocate during bear markets. In good times such as these, it is always tempting to just relax and enjoy the rising tide of inflowing money. For sure, we *should* enjoy the bull markets while we have the opportunity. It is wise to use the current "flow" to our advantage and not fight the current. But it cannot hurt

to stay open minded to the possibility of an unwelcome sea-change, and to keep an eye on the horizon for the telltale signs of one of those very large waves.



***" Empty your mind,  
Be formless, shapeless - like water.  
Now, water can flow, or it can crash.  
Be water my friend."***

***- Bruce Lee***



***" Only when the tide goes out,  
do you discover who has  
been swimming naked. "***

***- Warren Buffett***

Feel free to check out our video library on our website ([morgiawm.com](http://morgiawm.com)) or our YouTube channel or follow Morgia Wealth Management on LinkedIn. As always, please call or email with any questions and/or comments. On behalf of Tony, PJ and the rest of Morgia Wealth Management, thank you for your continued confidence.

Sincerely,

**Michael Morgia, CIMA®**

Managing Director, Partner

**Tony Morgia**

Managing Director, Partner

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