FOMO Is Not an Investing Strategy

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Liz Ann Sonders: I think so. I think you have until mid-January, maybe, until it's not.

Ed D'Agostino: I take the liberty right through to the end of January. Happy New Year. Before we start a market tour—I'd like to do a market tour with you because your command of the markets and what's going on in the economy, I would say, is unrivaled—but before we get there, just a couple of talking points.

You've written about this recently: how geopolitics and geopolitical events don't really typically affect the markets. We've got Maduro getting taken out in Venezuela, we've got protests in Iran, escalation in Ukraine, domestic unrest here on the home soil. Markets have just been shrugging it off so far. When do you pay attention? What makes you stop and think, "Hmm, maybe we should be looking at this"?

Liz Ann Sonders: If you look at history and you look at geopolitical crises—and the report that we put out in the immediate aftermath of the U.S. taking out Maduro, we did show a history of geopolitical crises that had kind of a military bent to them and looked at both the short-term market reaction and longer term—there does tend to be pretty consistent history in showing that even if you get a short-term reaction on the part of the market, a pop in volatility, it doesn't tend to be long lasting.

Unless it either turns into a World War II type military situation, or if it works its way sustainably and persistently through the energy markets, such that it becomes an economic dislocation problem.

But it's also the case that at times there's other things going on. One of the events that we put in this table in the report about the history of geopolitical crises was the start of the Afghanistan war in 2001, and it showed that a year later the market was still down about 25%. I probably don't have to remind anybody that's old enough to remember the period between 2000 and 2002, but I would argue it was maybe something else going on that was impacting markets aside from the war in Afghanistan. We were in the throes of the dot-com bubble burst and that bear market.

So it's also a function of what else is going on as a market driver. And the last thing I'd say is trying to anticipate when these events are going to happen and/or make a knee-jerk reaction change to your investment policy as a result of that—that is both impossible in the first case and not recommendable in the second case.

The Big Stories of 2026

Ed D'Agostino: So what do you think are going to be the big stories of 2026? Are we coming out of sort of the AI CapEx world? Is that going to continue? I know it's a crystal ball question.

Liz Ann Sonders: I've been thinking sometimes being in the position that we're in, where we write a lot and speak a lot, we want to every once in a while try to have either fun or try to come up with something catchy. So speaking of catchy, starting with A-C-I, I thought about the letter C in terms of the shift we're seeing as it relates to AI.

From kind of the "create" phase of AI—obviously the picks and the shovels and the inventors of AI and the hyperscalers—to then a sort of "catalyze" era, which is the build out of AI. That certainly became a theme in 2025 with data centers and energy needs. And now I think there's maybe not a complete shifting of attention, but at least as much focus on who is "cultivating" AI—the spread to every industry, every sector.

How are you using AI to your advantage? Analysts are sort of putting companies' feet to the fire: How is this benefiting you? What has it meant for labor costs? What has it meant for profit margins? And maybe most importantly, what has it meant for productivity? Given the aggregate productivity numbers that we just got and the knowledge that we're in a low hiring, low firing kind of backdrop, we are at the point now where we can put some meat on the bones in terms of the productivity side of this AI boom.

Ed D'Agostino: So you think AI continues—it's shifting, but it's still going to be one of, if not the dominant narratives of this year?

Liz Ann Sonders: Yeah. But I think the narrative lends itself to a broader swath of opportunities than was the case in the, call it, post-ChatGPT 2022 to really up until the first half of 2025. And then the shift really went underway toward a just a broader level of participation within the market, but AI themes within that broader participation as well.

Trade Dynamics and Economic Instability

Ed D'Agostino: What else do you see changing in the U.S. economy? One of the data points that just came out is the deficit dropped pretty significantly. The exports went up from the U.S., imports went down. What do you think's driving that, and does it have a bigger meaning?

Liz Ann Sonders: I'm not sure we have yet normalized the situation that unfolded in the post-April period of time last year when there was the 90-day delay announced in the so-called reciprocal tariffs, and that caused—that 90-day delay meant companies had an opportunity to front-run a tremendous amount of imports in advance of those higher tariffs taking place. And I still think that we are sort of normalizing the extremes, both on the upside and then the reversal of that on the downside. So I'm not sure we're at a point yet where we can really make a judgment about import-export trends, the longevity and consistency of them. So I think the jury is still out.

It's also the case that we can look at the math of tariffs and you can look at what the stated tariff rate is across the spectrum of targeted countries and various products. And then look at what the remittances to Treasury have been. And there's a disconnect between those two numbers, and there's a lot of facets to why there is that disconnect, including the ability for certainly larger companies to be more flexible to adjust their supply chain sourcing to the transshipments that are happening where, say, China creates a certain good and they're able to transship it through a country that has a lower tariff rate, and then ultimately it gets to the U.S. Plus there have been exceptions carved out. As we go further into 2026, the discussion of rebates kicking in.

So it's part of the reason why I've been using the word "unstable" as maybe a better descriptor of the environment relative to the word "uncertain," which is a more common term. I often giggle in my own head when I hear people say the market hates uncertainty as if it's ever certain. There's never certainty. I just think "unstable" is unique to this cycle, especially as it relates to policy decisions, how they're announced, the fits and starts and the delays and the exceptions.

That's certainly the case with tariff policy, and it just means a very different backdrop than one that is more linear in terms of the obvious pieces of uncertainty—economic data, Fed policy. There's just more instability now in how that information is getting out there into the public domain. Government shutdown had a component of that. We've got concerns about the threats to Fed independence, et cetera.

Ed D'Agostino: "Non-linear" is a good way to describe it. And I think it's going to continue this year heading into midterms. Policy—there's some interesting conversations happening, things being posted about. I saw something recently about—this was a future potential candidate for president saying, "We'd like to have the social policies of President Trump combined with the economic policies of Elizabeth Warren." And I just thought, for a Gen Xer, that just blows your head up.

Liz Ann Sonders: There's a lot that's going on in the world of politics too, and platforms that one party versus another had have that might seem to harken back to a period where the other party had that platform. So there seems to be a little bit of a melding happening here, and that's just another example of this instability.

I think it used to be a little bit more clearly defined what the right stood for and what the left stood for. Maybe I shouldn't even say right and left—what the Republican Party stood for and what the Democratic Party stood for. And that has become a little less stable, or maybe more fluid, let's put it that way. I don't mean to turn this into a political discussion.

Ed D'Agostino: I think even the parties don't know what—there's no consistency in their message. So there's a lot to be sorted out in the coming couple of election cycles, I think.

Liz Ann Sonders: And by the way, midterm election years, historically, if you look at the four-year election cycle in some very simple calendar-year terms, it has the lowest percent in terms of positive returns. It tends to be a flatter, choppier kind of backdrop. There are always exceptions—that is not a rule. Last year as the first post-election year was much stronger than the average of that four-year election cycle. So I'm by no means developing a base outlook solely on that. But to your point about what tends to happen around midterm elections, that tends to be a force that causes a bit more choppiness on average in that midterm year than other years.

Sector Rotation and Market Signals

Ed D'Agostino: Alright, let's jump into the markets. You posted a chart recently on X—I've called you the CEO of X in the past because you're just so good on it. This is a chart that shows the S&P 500 by sector and which percentage of stocks are at all-time highs over a 4, 8, 12, and 52-week period. And it's really interesting the sectors that are being rotated into pretty quickly—financials, industrials. What does that mean?

Liz Ann Sonders: Those are classically cyclical sectors in the economy. So to some degree it's the market's message that the economy is not just okay, but actually in pretty decent shape. That's one way to think about sector performance and what it might say about the macro backdrop.

To your point, Ed, it's also driven by just the natural forces of rotation that happen as investors look to rotate away from whatever prior leadership areas have been. Part of that decision tree is, well, what hasn't had strong performance?

You see a little bit of improvement, at least based on shorter-term averages, in a sector like energy. There, you can go to geopolitics and tie it directly to the events in Venezuela. You can look at utilities, which relative to the eight-week highs, 12-week highs, 52-week highs—you're talking about 0% of utilities trading at those highs. You still have a small percent trading at four-week highs. There again is a shift where utilities have become kind of one of the key AI plays in that "catalyze" phase of AI, in moving into the data center and the energy needs associated with that. So a shift away from that.

Also, there's been relative underperformance by defensive areas and utilities, notwithstanding the AI angle, are still a somewhat classically defensive area. And you look at other sort of poor breadth performers like consumer staples—that's very much in that defensives basket. And that's another way to think about what the macro message is coming from sector performance. Aside from just rapid fire, let's find the new shiny object on the part of shorter-term traders.

Ed D'Agostino: How much of it would you say is due to just start of the year and portfolio managers resetting their clock?

Liz Ann Sonders: Oh, I think that has a lot to do with it. Window dressing is a real phenomenon and it happens, and it's not just a year-end phenomenon. One thing that also happens is that even though our fund world is more primarily driven by exchange-traded funds, ETFs, relative to traditional mutual funds, a lot of funds, certainly of the traditional mutual fund variety, have quarterly rebalancing schedules. And it's the last week of every calendar quarter, so that tends to kick some things into gear in the latter part of each calendar quarter, which of course includes the year-end period. And it's why you tend to see, or you often see, some—I'll use a very technical term here—some "funky" behavior that happens during the rebalancing week and then in the immediate aftermath of that.

The Complexity of Growth vs. Value

Liz Ann Sonders: What's also interesting, and this is a bit tangential, but I think this is really important because I still think that there is too much simplicity that goes into the discussion around styles—and in particular the growth versus value discussion and how generic it often is.

I'll hear somebody, a talking head like I guess I am, talk about the attractiveness of growth versus value, whether they have an overweight to growth or an overweight to value, or they'll speak generically about one style outperforming the other. And always in my head is: what exactly are you talking about?

Because to me, I think there's three ways to think about growth and value. There's the actual characteristics—growth and value. That's that factor-based analysis. Does the stock have growth characteristics based on any number of metrics? Does the stock have value characteristics having nothing to do with what indexes they're housed in?

That's the second way to think about it: What indexes are they housed in? And understand the differences among those indexes.

Then there's also our preconceived notions about what are growth stocks and what are value stocks. So ask anybody what tech falls into—they'd say they're growth stocks. Or utilities—they're value stocks. Or energy—they're value stocks. Well, I remember in 2022, energy had the highest growth of all 11 sectors.

And in fact, here's the point I wanted to make about the timing of rebalancing. Russell are the most popular growth and value indexes. We've got Russell 1000 Growth and Value, Russell 2000 Growth and Value. So four indexes: large value, small value, large growth, small growth. Russell does their rebalancing, their index rebalancing, at the end of June every year.

S&P also has growth and value indexes. They have four as well, but they're separated a little bit differently. There's S&P Pure Growth and S&P Pure Value, and then regular S&P Growth and regular S&P Value. If you're in S&P Pure Growth, you don't overlap into a value index as well—you're only in growth. You might be in the Pure Growth and the regular Growth, but you don't overlap. If you're in the regular S&P Growth index, you can also be in the S&P Value index. Same with Russell—you can be in a Russell Growth index and a Russell Value index because there are plenty of stocks that have those dual characteristics. So S&P does their rebalancing in December of every year.

I'm gonna give you an example of why this is important. Back in December of 2022, when S&P did their rebalancing, at that time we had the Mega Cap Eight. It was before we narrowed it down, one stock, to the Magnificent Seven. It was the Mega Cap Eight, and Netflix was in the mix as well.

On December 18th, all eight of the "Great Eight," I just mentioned that as a fun name, were in the S&P Pure Growth Index. The next day, on December 19th, only one was left in Pure Growth. The other seven had moved into some combination of regular Growth and regular Value.

As a result, the technology sector had been 37% of S&P's Pure Growth index. At the day of the rebalancing, tech went from 37% of that index to 13% of that index. Energy became the number one sector in there, and healthcare became number two.

Now, Russell still didn't have their rebalancing until June of that year. So for that first six months of the year, it was a dramatic difference between what was going on in the S&P Growth index and what was going on in the Russell indexes. You ended up, I think, at one point having a 22 percentage point difference between S&P Pure Growth, which is basically a large-cap growth index, and Russell 1000 Growth, which is basically a large-cap growth index, simply because of the differential in timing and the fact that S&P, when they do the rebalancing, they do it based on the factors, based on the characteristics.

So we get into a generic mindset with growth and value, not understanding that there are differences in the construction of these indexes. What is one person's growth stock might be another person's value stock. The fact that stocks can have characteristics of both—so don't put blinders on when thinking about growth and value. I think of growth and value in characteristic terms: Does the stock or set of stocks have growth characteristics? Without caring so much about what indexes they're housed in.

Sector Concentration and ETF Awareness

Ed D'Agostino: Going back to your chart, a couple of other sectors—consumer discretionary looks pretty strong, and industrials look like they're getting a lot of interest lately.

Liz Ann Sonders: Keep in mind with consumer discretionary that it's—well, more I think than 50% of that index is accounted for by two stocks, which is Tesla and Amazon. You also have very, very heavy concentration of two stocks in the communication services sector as well, with Meta and Alphabet or Google.

So that's another, I think, important message to investors, especially if they like to focus on sectors and maybe they want to take a sector approach by investing in sector-based exchange-traded funds. Most sector ETFs have a restriction on how much they can hold of any one individual name, which is one of the reasons why, especially sectors like consumer discretionary and communication services, there's often a very big performance spread between what the sector ETF is doing versus the actual sector as measured by the S&P because it's cap weighted.

So that's another little tip for investors: understand that if you're making a so-called bet on those sectors, you better have a pretty optimistic view on the two dominant names because of just how weighty they are in those sectors.

Ed D'Agostino: And most people don't realize what is in the index, what is in the ETF that you're looking at buying. Emerging markets is another one. A lot of ETFs—I'll talk to people in my travels and they'll say, "I'm really interested in emerging markets, but I don't want to invest in China." And then they'll tell me about an ETF that they like. And you look it up, and it's 50% China. Which I'm not saying that's right or wrong—I'm just saying they don't know what they're buying. Many of them are weighted to what they represent in MSCI Emerging Markets and what they represent in the macro economic backdrop and total global market caps.

Liz Ann Sonders: Especially still with the popularity of passive-based investing: make sure you understand what you're investing in.

Equal Weight vs. Cap Weighted

Ed D'Agostino: Let's look at equal weight versus cap weighted. That's a whole tangential discussion. And then from there, the 493 versus the Mag Seven, because that's another way to look at the market.

Liz Ann Sonders: Equal weight has been doing quite well. But certainly on a year-to-date basis, in the latter part of last year, you really saw equal weight come on. If you look at the trailing one-month performance, equal weight is outperforming the cap-weighted S&P. On a quarter-to-date, which of course at this point in the year is the same as year-to-date because we're still in the first quarter, equal weight is handily outperforming the cap-weighted. On a one-year basis, the cap-weighted S&P still has the edge over equal weight, but it's that kind of turn.

I often say that better or worse matters more than good or bad. So catching inflection points is important as opposed to looking at any point in time and just looking at a snapshot.

And I think the equal weight story has legs. I'll use the "not in a linear fashion" descriptor again. That does not mean every day, every week, every month, you're going to see outperformance by equal weight. I think there's still plenty of money that wants to find its way into the mega-cap Mag Seven kind of names. But I think there are plenty of investors who are looking for opportunities in other areas, which we touched on with regard to that sector new-highs chart.

Contribution vs. Performance: The NVIDIA Example

Liz Ann Sonders: But here's another, I think, important message for especially individual investors. I think a lot of investors conflate, when thinking about the power of these stocks in the cap-weighted indexes like the S&P 500 and thinking about a cohort like the Mag Seven—they conflate contribution to returns and price performance.

So here's a specific example that I think illustrates this, and when I provide this example and when I'm in a live audience, and you can see the expression on people's faces, I get a lot of these "Oh my God, I didn't realize that." Or people come up to me and say, "I had no idea."

I'll use calendar year 2025 as just a reference point here for simplicity's sake. NVIDIA, the poster child of the Mag Seven and the AI story, last year was the number one contributor to S&P 500 returns, but that's by virtue of the multiplier of its cap size, which is massive. So your contribution rank is driven by your price performance times the size of the company.

NVIDIA: number one contributor to S&P returns. Seventy-fifth best performer in the S&P 500. So 74 stocks outperformed NVIDIA, even though it was the largest contributor. And what was interesting last year is the two best performers were kind of old, old, old school—SanDisk and Western Digital.

Ed D'Agostino: Really?

Liz Ann Sonders: The reason why I bring this up is that we sometimes, because there's so much noise and information, and so much attention and cuteness around monikers like the Mag Seven, we just assume, oh, they're all magnificent. Only two of the seven stocks outperformed the S&P last year. And again, NVIDIA as the number one contributor was only the 75th best-performing stock. It wasn't even in the top—I think 480th in terms of performance, price performance, in the

NASDAQ. So 400 and some odd stocks within the NASDAQ had better performance than the biggest contributor, NVIDIA.

So the reason why I bring this up is too often I hear someone anecdotally, from individual investors: "Well, aren't we at the mercy of the construction of the indexes? Don't we have to own, or shouldn't we own, those stocks in large size in order to do well?"

And I always say, "Well, define what you mean by 'do well.'" If you're a fund manager and you're benchmarked on a quarterly basis against the cap-weighted S&P 500, yes, you are at the mercy of the construction of that index, and you have performance issues if you don't have weightiness akin to what's in that index. That's not an individual investor problem.

There are plenty of opportunities and areas where you can make money in the market without that embedded concentration risk that comes from that monolithic "I need to just be in this small group of stocks in size." Again, when you go through the underperformance phase—which five of the seven stocks are in—you're sort of left holding a bigger bag when it's not necessary because you're not a fund manager being benchmarked.

Now, I do get clients who say, "Well, I do want to beat the S&P 500." And I find that that's often the case when the market's going up. But it's incredible how quickly your benchmark becomes a positive cash return when the S&P is going down. So it's sort of selective benchmarking that comes into play as well.

The Value of Long-Form Conversations

Ed D'Agostino: That's why I think these kinds of conversations are so important, where we can go longer form. I know you're on TV all the time in financial media, which is shorter.

Liz Ann Sonders: Exactly. Yeah, that's the point.

Ed D'Agostino: I think Tom Keene is the best financial interviewer, 100% on the planet. I love the guy.

Liz Ann Sonders: I do too. And as you well know, you also have to be on your toes being interviewed by Tom Keene. He knows this stuff. He's a walking encyclopedia. It is really extraordinary. But he works in an industry that—and I'm not knocking all of them—but the economics of financial media are very much the same as mainstream media. You've got to get eyeballs, you've got to get viewer count. And so you talk about Elon Musk, you talk about Jensen Huang, you talk about the sexy stories.

The things that actually matter are long-term disciplines: having a plan, the benefits of diversification across and within asset classes. You can hear it already, you know, people on the listening end of that: "Diversification across and within asset classes and periodic rebalancing." It's like, "This is boring." But it's what matters.

The Picture on the Box: Having a Plan

Liz Ann Sonders: I often say that I love doing jigsaw puzzles. It's one of my favorite things to do. I often do app-based jigsaw puzzles if I'm on a conference call not on camera, because it doesn't take brain power. It actually forces me to listen. It keeps me concentrated because I'm a multitasker.

But I often say to a live audience, I'll pose the question, "Based on the fact that I love jigsaw puzzles, what's the most important piece of a jigsaw puzzle?" And the hands go up or people shout out, and they often say, "the final piece" or "the corners" or "the side pieces." And then, pause for effect, I say, "No, it's the picture on the box." Because try doing a 1,500-piece jigsaw puzzle without looking at the picture on the box. It's impossible.

The picture on the box is the plan. That's actually what matters. Have a plan, have discipline around that plan, and for the most part, stick to it unless your circumstances change.

And the beautiful thing about the rebalancing process is that it forces us to do a version of what we know we're supposed to, which is—not so much "buy low, sell high," because that sometimes infers "get in, get out," which that's not investing—it's "add low, trim high."

And when left to our own devices, we often do the opposite. We either chase performance on the upside, or we let our winners run without rebalancing. And we either panic out of our losers or we shy away from them because they're the losers in the portfolio. Rebalancing keeps us in gear and forces discipline upon us, which I think is an important thing, especially in wild markets.

Ed D'Agostino: And it's hard to do. For everybody that's out there who is in gold or gold miners or silver or the precious metals that are just going bonkers—it's so hard to trim when you're up triple digits.

Liz Ann Sonders: But trimming is not selling. And you know what, Ed, it's about psychology.

A Lesson in Investment Psychology

Liz Ann Sonders: I had a fascinating conversation with a colleague of mine who in turn had just had a fascinating conversation with a client. And it was a current or former NVIDIA employee who had a ton of NVIDIA stock, and his Schwab consultant had been saying, "Why don't we set up a program where you're just trimming back a little bit?" And the most recent suggestion was to trim about 10% of a very large position.

And the client said, "I fought him and I fought him and I fought him, and I finally agreed to split the difference and I trimmed 5% of NVIDIA." And then the stock proceeded to go up 20%, and he said, "I'm not happy."

So to his credit, my colleague said to him, "Would you really have been more—would you have been happier if after trimming, the stock went down? Or should you have thought, 'The 95% of my NVIDIA position I own is now up another 20%'?" And to the client's credit, he said, "You're absolutely right. I just have to change my mindset."

It's just a discipline. It's not a gamble to pick the top, gamble to pick the bottom. There's too much gambling that has come into this world of what we call investing. And my tagline as it relates to that is: investing is owning; gambling is hoping. Those are two very different things, and we're trying to do our part to really differentiate between what is investing and what is gambling.

Ed D'Agostino: I have a few friends who had lifelong careers at GE, and they didn't have an advisor like the one you just mentioned. Basically, all of their net worth was in GE, and they regretted it. Two of them hung on. One of them did the ultimate mistake and sold at the absolute wrong time, unfortunately. But yeah, these are painful lessons to learn.

The Secret to Successful Investing

Liz Ann Sonders: It is. And we just have to remember that FOMO is not an investing strategy. HODL, or however we pronounce that one—"Hold On for Dear Life"—that's not an investing strategy. Panic is not an investment strategy. So sometimes we just have to repeat those things in our heads so that we don't end up with a yawning gap between our financial risk tolerance and our emotional risk tolerance.

Ed D'Agostino: Liz Ann, I have like ten more questions for you, but that was so great and such an important message that I'm just going to leave it there. I don't think we can top that.

Liz Ann Sonders: Well, thank you. I didn't mean to take it to sort of the philosophical side of things.

Ed D'Agostino: No, I love it. I don't think that's done enough. So I took advantage of your terrific, as always, line of questioning to go a little tangential into the side of, okay, what really matters. I very much appreciate it. And to your point, it isn't said enough. So thank you, YouTube, for giving us the forum to be able to do it.

Liz Ann, always great chatting with you. I hope to see you at our next Strategic Investment Conference.

Liz Ann Sonders: I believe that is getting put on my calendar. I always enjoy that. And please pass my regards onto John.

Ed D'Agostino: I will for sure. Thank you, Liz Ann.

Liz Ann Sonders: Thank you, Ed. Take care.

Ed D'Agostino: You can probably tell Liz Ann Sonders is one of my absolute favorite people in finance. I have nothing but respect for her. She has her own podcast with co-host Kathy Jones called "On Investing." It's excellent, and I've become a regular listener.