

Client's Corner

The Liberating Potential of Chaos

IN THE FIRST SEVENTY DAYS OF THIS YEAR, THERE occurred—in no particular order—the following:

- The U.S. military extracted the President of Venezuela from his palace; he is currently being held in Brooklyn.
- The President of the United States broached, with apparent seriousness, the possibility of acquiring Greenland.
- The Supreme Court struck down the administration's IEEPA tariffs.
- The price of Bitcoin completed the process, begun the previous autumn, of halving.
- The first primary contests in what will be the midterm elections kicked off, possibly signaling a change in control of one or both houses of Congress in November.
- There was a well-nigh tectonic rotation in the stock market from growth to value, as AI morphed in the mind of the market from technological miracle to Frankenstein's monster.
- Federal agents shot to death two protesters in Minneapolis under bitterly disputed circumstances.
- A research paper from a hitherto little-known source posited a scenario in which unemployment might rise to 10% and the stock market decline nearly 40% by 2028. That the writer was not actually *predicting* this outcome was a distinction totally lost on the stock market, which experienced a brief but total moment of existential panic.
- The price of silver went parabolic, culminating in a one-day 31% decline—the largest since March 27, 1980, the day the Hunt brothers' attempt to corner the silver market collapsed.
- The United States and Israel decapitated the leadership of Iran, effectively closing the Strait of Hormuz and causing oil prices to spike; said spike is ongoing at this writing, with—as financial journalism loves to cry—"no end in sight."
- In February, the U.S. economy shed 92,000 jobs, a somewhat ominous development that had been forecast by precisely nobody. (The consensus forecast had been a gain of 55,000 jobs.)

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There was some other stuff—the above is a curated rather than an encyclopedic list—but you get the point. Which is simply that we find ourselves in a moment of near-perfect economic, financial, political and geopolitical chaos. It's a Jackson Pollock splatter painting.

Now, there's always a crisis or three brewing somewhere, but a confluence like the current maelstrom is rare, and of inestimable potential value to investors and their advisors. We must not waste it, but rather allow it to teach us what it's trying so desperately to do. Which is, simply stated, that ***we can never make rational long-term investment policy out of current events.***

This is a terribly difficult idea for many people to take on board. Whenever there's a headline crisis du jour—the highly anticipated Recession of 2023, for example, which (in case one had forgotten) never actually happened—it is natural for investors to fixate on it. Not least of all because journalism pounds away at it day after day. Until the poor benighted investor cries out to their advisor, "Mustn't we alter our portfolio strategy to protect ourselves from this? Surely we need to do ***something.***" Human nature defaults to this response; it's not even a conscious process.

I proceed, in these little essays, on the assumption that your advisor will have made a comprehensive analysis of your goals. He or she will have derived a long-term plan for the achievement of those goals, and funded that plan with a well-diversified portfolio whose historic returns—including the historic incidence of bear markets—would get you where you need to go in the time allotted.

Thereafter the challenge is simply to execute that plan

over time with patience and discipline, looking neither to the right nor to the left (and **never** at the television).

But then crisis (real or imagined) strikes, and the equity market experiences another of its quite frequent corrections. If and as prices fall even further, journalism's coverage becomes ever more shrill and apocalyptic. Human nature pleads for relief from the pain...even as the crisis comes closer and closer to being ameliorated, and the market falls closer and closer to a level where it's fairly valued if not actually undervalued. Thus the emotional cycle hurtles toward its tragic conclusion.

Your financial advisor has no more idea how the current situation(s) will be resolved than you and I do. What they **do** know is that it's impossible to achieve your long-term financial goals by reacting episodically to the never-ending succession of current events crises.

Moreover, they know that, as a general statement, the economy can't be consistently forecast nor the equity market consistently timed. Thus they'll will be encouraging you, at moments of maximum uncertainty like this, to tune out the noise and stand by your plan. All of history and logic confirm that in the long run, this has turned out to be the best advice.

Meanwhile, one can only hope that today's prevailing chaos may finally liberate investors from the toxic illusion that long-term, goal-focused, planning-driven investing should ever be affected by current events. It should not, and indeed must not.

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