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Navigating the Straight

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Recent events in the Middle East have once again placed the Strait of Hormuz at the center of global attention. A narrow waterway, critical to the flow of energy, becomes a focal point for markets, as oil prices gyrate in response to quickly shifting headlines.

The title suggests navigating is somehow straightforward, but markets rarely move that way. Periods like this tend to feel distinct in the moment. Markets react quickly to new information, volatility increases, and narratives take hold. Investors respond in familiar ways, seeking certainty, overreacting to recent price movements, and attempting to time the market to create an illusory sense of control.

The pattern is not new. Markets have always responded to uncertainty in this way, and investor behavior has been equally consistent across cycles. What matters most is not predicting what happens next, but whether portfolios are built to behave as intended when it does.

Volatility is not the problem, but simply the known price of long-term investing. The real challenge is how we respond, particularly the instinct to predict what comes next and trade our way through the inevitable turns. What feels urgent often looks different with context, which is why confidence in these periods should come not from foresight, but from knowing the portfolio is designed to withstand uncertainty and emerge on the other side.

The Problem Is Us

The challenge is not the market itself, but how we respond to it. Periods like this have a way of pulling us toward action. Declines trigger fear, and the instinct to do something becomes difficult to ignore. This is not a flaw unique to a subset of investors. It is how people are wired, and even experienced investors feel it. Fear tends to dominate when markets decline, while in stronger markets it is replaced by greed and a feeling of not wanting to miss out.

The consequences of that instinct are predictable. We become more cautious after losses and more confident after recoveries, allowing recent experience to drive decisions rather than long-term fundamentals. Attempts to move in and out of markets in response to these

shifts often create the very outcomes we are trying to avoid.

Left unchecked, this behavior can erode long-term results in ways that are difficult to reverse. Exiting during periods of stress and re-entering after recoveries interrupts compounding and can lead to permanent impairment of capital, not because the underlying investments failed, but because the timing of decisions did. Shifting allocations based on recent performance reinforces a cycle of buying strength and selling weakness that works directly against long-term objectives.

This is where portfolio construction becomes critical. A well-constructed portfolio, balanced and resilient by design, is not intended to eliminate volatility or discomfort, but to manage both in a way that allows investors to remain disciplined through them. The objective is not to reduce risk at the expense of return, but to structure the portfolio so it can preserve long-term compounding while limiting the types of drawdowns that undermine confidence and lead to poor decisions.

The instinct is to act, but as John Bogle put it, “Don’t just do something, stand there.” Confidence in these periods should not come from knowing what happens next, but from knowing the portfolio is built to withstand uncertainty and that discipline, not reaction, will ultimately determine results.

Contextualize

Periods of market volatility rarely look the same in real time as they do in hindsight. What feels urgent and destabilizing in the moment often proves to be more contained when viewed through a longer lens. Markets react quickly to headlines, but they are forward-looking and tend to distinguish between short-term disruption and longer-term fundamentals more effectively than it appears day-to-day.

This dynamic is visible in energy markets. Short-dated oil prices move sharply in response to geopolitical developments, reflecting immediate uncertainty and risk. Longer-dated prices tend to be far more measured, suggesting that while the near-term path is unclear, the longer-term outlook may be less affected. The signal is not in the volatility itself, but in how different parts of the market respond to it.

The pattern is familiar. Around this time last year, markets were disrupted by what became known as “Liberation Day,” when escalating tariff concerns drove fears of runaway inflation and a potential global recession. Volatility increased, markets declined, and sentiment deteriorated quickly. Many of those fears did not materialize, and equity markets are now meaningfully higher. The specifics change, but the pattern does not.

Context matters because short-term market movements are often driven by uncertainty, while long-term outcomes are driven by fundamentals that assert themselves over time. Without that perspective, it is easy to mistake temporary dislocations for something more permanent and to make decisions based on the moment rather than the underlying reality. For long-term investors, the objective is not to interpret every move, but to remain anchored to the forces that ultimately drive outcomes.

Designed to Behave

A portfolio is not just an investment structure, but a behavioral tool. It should be built with the expectation that periods like this will occur, not as exceptions, but as a normal part of the cycle. Each component should serve a clear purpose, whether driving long-term growth, providing stability, or offering protection in different economic environments. When that purpose is well defined, the portfolio is more likely to behave as intended and to support disciplined decision-making when it matters most.

Many portfolios are constructed to appear diversified, but that diversification often relies on simple asset class labels and relationships that are only stable in normal environments. As conditions deteriorate, correlations can rise quickly, causing assets that were expected to offset each other to move together. What looks balanced in calm markets can become a concentrated exposure to the same underlying risk in stress, leading to larger-than-expected drawdowns and undermining investor confidence. This is the illusion of diversification, where protection disappears when it is needed most. We approach portfolio construction differently by focusing on the role each investment plays. Our strategic purpose framework organizes capital around what it is meant to do, whether driving growth, reducing risk, or providing protection across different economic regimes. Exposures whose correlations tend to converge under stress are intentionally grouped and sized as a single risk rather than treated as independent sources of diversification.

Our approach leads to a portfolio we believe is balanced across economic regimes rather than dependent on correlations that may not hold when conditions change. Diversification is defined by function rather than asset category, reducing unintended concentration and improving the consistency of outcomes during periods of markets stress. The objective is not to avoid volatility, but to ensure the portfolio behaves in a way that allows investors to remain disciplined through it while preserving long-term compounding.

Opportunity in Dislocation

Volatility creates opportunity, but not in the way it is often described. Dislocations emerge when investors are forced to act. As fear takes hold, investors rush to sell, redemptions

increase, and managers are forced to sell assets to meet liquidity demands. Prices move away from underlying fundamentals, driven less by long-term prospects and more by the need for immediate liquidity. The challenge is that most investors are not positioned to take advantage of these moments.

We have seen this pattern repeatedly. We may be seeing it today in private credit, where redemption pressure is rising amid limited liquidity. We have been open about our skepticism toward the asset class, given our view of the risk and return trade-off, the taxable nature of the income, and the amount of capital that has flowed into the space. At the same time, investor behavior may be driving forced selling beyond what fundamentals justify, and we may see the full effects of that dynamic play out over the coming quarters.

The consequences of this behavior are well documented. Studies from DALBAR and Morningstar consistently show that the average equity investor earns materially less than the returns of the investments they own, often by 3 to 5 percentage points annually. Over time, that gap compounds into a significant shortfall. The difference is not the underlying investments, but the timing of decisions. Fear drives selling at the bottom, while FOMO pulls capital back in after the recovery has already begun. We believe this is the opposite of what good investment behavior requires.

There is another dimension that is often overlooked. It is not just how we behave, but who we are invested alongside. In pooled vehicles with more reactive capital, redemption pressure forces managers to sell at depressed prices, locking in losses for all investors, regardless of their own time horizon. Structure matters because it can either support long-term decision-making or work directly against it.

Managers who are able to invest through periods of dislocation, rather than be forced sellers, are best positioned to take advantage of mispriced assets created by others' need for liquidity. The best managers do not market, they select their investors for this very reason. Periods like these allow them to create career-defining outcomes built on the forced selling of other investors. These are the managers we seek for our clients and the types of investors we want alongside us through these periods.

Stay the Course

Markets will not move in a straight line. They never have, and periods like this will continue to test behavioral discipline as much as portfolios protection.

The objective is not to predict these moments, but to be prepared for them. For us, that means building portfolios that can withstand volatility, managing behavior when it matters

most, and maintaining the flexibility to act when others cannot. Periods of dislocation create opportunity, but only for those with prepared capital, aligned structures, and disciplined behavior, often alongside managers who are able to invest rather than be forced to sell.

This is the role we seek to play. To build portfolios designed for these environments, to support disciplined decision-making through them, and to be positioned with managers and capital that can act when others cannot.

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