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Why Predictions Matter Less Than Portfolio Construction

Every sharp market move tempts even the most disciplined investor with the same thought: if I can just get the forecast right, I can protect my portfolio, or better yetâ??profit.

Are oil prices coming down? Will artificial intelligence drive productivityâ??or displace workers? Are geopolitical risks likely to derail markets?

These are fair questions for investors. But the real challenge isnâ??t predicting which headline will matter most next; itâ??s recognizing that the range of possible outcomes is widening and then building portfolios that can withstand many potential futures, not just one.

The Problem with Prediction

Markets donâ??t move in straight lines. Looking backward, itâ??s easy to connect the dots and convince yourself that recent outcomes were inevitable. But the last three years of strong market returns represent just one path among many that could have occurred. The next five, 10, or 20 years may offer even more possible paths, especially as technological change accelerates and the complexities facing global economies rise.

This creates what investors often mistake as risk, but it more closely reflects uncertainty. In both cases, outcomes are unknown. However, risk allows for the probability of potential outcomes to be estimated, whereas uncertainty does not. When uncertainty rises, forecasts become less reliable, and confidence in a single market narrative can be costly.

Prepare, Donâ??t Predict

Rather than trying to outguess the market, CAPTRUSTâ??s approach emphasizes preparation over prediction. That means acknowledging extremesâ??both optimistic and pessimisticâ??and building portfolios designed to function across them.

On one end of the spectrum lies a future where productivity gains from AI help offset demographic challenges and massive global debt, delivering growth without inflation. On the other end sits a more pessimistic scenario, where job displacement and rising geopolitical tensions stall growth and unsettle markets. The distance between these outcomes is vast, which makes positioning for any single one a gamble.

What investors *can* do is choose how their portfolios are constructed.

For example, imagine an investor puts $1,000 into a portfolio concentrated entirely in NASDAQâ??100 stocksâ??essentially a bet on large, innovation-driven companies. If the optimistic scenario materializes and technologies like AI meaningfully transform productivity and grow earnings, that $1,000 could grow to $5,000 over a few years. But the opposite outcome is also possible: if the heavy investment in AI fails to deliver on lofty expectations, that same $1,000 could fall to $300. The portfolioâ??s range of outcomes is just as wide as the set of circumstances.

By contrast, a broadly diversified mix of stocks, high-quality bonds, and other asset classes tends to produce more balanced results. In the positive scenario, the same $1,000 might grow to $2,000. This outcome is less dramatic, but still a solid return most investors would welcome. In the more challenging scenario, instead of severe losses, the portfolio might still rise modestly to $1,200, as diversification and bond exposure help cushion volatility. The trade-off is straightforward: concentrated portfolios offer higher potential upside, but at the cost of much greater potential downside, while diversified portfolios seek to preserve more consistent progress over time.

Diversification as Scenario Preparation

True diversification isnâ??t about owning more investments; itâ??s about owning exposure to different economic drivers. Over the past decade, portfolio returns have increasingly been driven by a narrow set of forces, particularly the largest U.S. technology companies. That concentration delivered strong results, but it also left portfolios more vulnerable as leadership began to shift.

A late-2025 market rotation highlighted why diversification matters. As parts of the technology sector came under pressure from rising capital expenditures and stretched valuations, capital moved into more cyclical sectors such as energy, infrastructure, and industrials, where valuations were more attractive. These shifts werenâ??t triggered by a single forecast coming true, but by markets constantly reassessing a broad set of possibilities.

A thoughtfully diversified portfolio is better positioned to adapt when leadership changes, without requiring wholesale reinvention every time sentiment shifts. At the same time, diversification does not mean standing still. Effective investors make incremental adjustments as new information emerges, evolving the portfolio at the margin while maintaining broad exposure to multiple scenarios.

Liquidity as a Stabilizer

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Another structural consideration is liquidity â?? the share of a portfolio that can be converted to cash quickly, without selling at a discount. In periods of uncertainty, liquidity creates optionality. It helps investors avoid being forced sellers during temporary market declines and preserves flexibility when opportunities emerge. Liquidity buys time to let the market heal itself.

For individuals, this means holding enough in cash and stable assets that short-term needs donâ??t force a sale of long-term holdings at the wrong time.

For employers and nonprofit leaders, the principle extends beyond investments to cashâ??flow planning and spending policies. Sound planning and portfolio structure reduces the pressure to react at exactly the wrong moment.

Accepting Tradeâ??Offs

Preparing for multiple futures isnâ??t about maximizing returns in a single scenario. A portfolio designed to handle uncertainty may not be optimized for any one outcomeâ??but that balance is intentional.

The goal isnâ??t to win one specific bet. Itâ??s to increase the probability of longâ??term success while reducing the risk of permanent loss.

Structure Outlasts Certainty

Forecasts and predictions will always be part of investing. They help frame conversations and test assumptions. But as uncertainty grows, their usefulness declines. What endures is portfolio construction: how assets work together, how risks are balanced, and how flexibility is preserved.

In a world where the future may arrive fasterâ??and look differentâ??than expected, getting the structure right may matter more than being right about the prediction.

Resource by the CAPTRUST Investment Committee.

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