Investments Group

October 23, 2024 at 1:30PM

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Zoom Meeting Only This Month

Market Update – U.S. Equities

Index/Market/Stock	YTD 9/30/24	1-yr	2023	2022	2021
Total US Stock Market	20.6%	35.2%	26.0%	-19.5%	25.7%
S&P 500	22.0%	36.4%	26.3%	-18.2%	28.7%
S&P 500 Equal Weight	14.7%	28.2%	13.8%	-11.5%	29.6%
NASDAQ 100	21.2%	37.0%	54.4%	-32.4%	26.9%
Russell 2000	11.2%	26.8%	15.1%	-21.5%	13.6%
S&P 500 Value Index	15.4%	31.1%	22.2%	-5.2%	24.9%
S&P 500 Growth Index	28.2%	39.9%	30.0%	-29.4%	32.0%

Note: returns/data from outside sources presumed to be reliable

Market Update – International Equities

Index/Market/Stock	YTD 9/30/24	1-yr	2023	2022	2021
Total International Stk Mkt (MSCI ACWI ex-USA)	14.0%	25.2%	15.6%	-16.0%	7.8%
China (CSI 300)	21.0%	16.4%	-12.3%	-25.7%	-3.3%
India (Nifty 50)	22.0%	32.0%	17.4%	1.9%	22.4%
Europe (STOXX 600)	9.2%	26.1%	11.3%	-11.8%	22.3%
Japan (NIKKEI 225)	15.0%	23.0%	28.0%	-9.4%	22.6%

Note: returns/data from outside sources presumed to be reliable

Market Update – Topical/Commodities

Index/Market/Stock	YTD 9/30/24	1-yr	2023	2022	2021
Magnificent Seven (equal weighted)	43.0%	55.0%	111.0%	-45.0%	
Nvidia	147.0%	175.0%	239.0%	-50.0%	125.0%
Bitcoin	38.0%	118.0%	164.3%	-64.9%	63.3%
Gold (COMEX)	27.1%	41.8%	13.3%	0.6%	
PCE (at end of period)	2.2%		4.9%	5.3%	
Oil (WTI)	-5.0%	-25.0%	0.0%	0.0%	53.0%
Natural Gas (NYMEX near-month futures)	-29.0%	-25.0%	-60%	22%	90%

Note: returns/data from outside sources presumed to be reliable

Market Update - Fixed Income

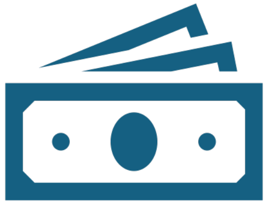
Index/Market/Stock	YTD 9/30/24	1-yr	2023	2022	2021
US T Bond 10 year return	3.6%	10.7%	3.9%	-17.8%	
Bond Agg Index return	4.4%	11.5%	5.7%	-13.0%	-1.8%
Intermediate Term Tax-Exempt (Bloomberg Muni 1-15)	2.0%	8.5%			
Cash (3 mo T-bill) return	4.0%		5.1%	2.2%	
10 yr T yield (end of period)	3.8%		3.9%	3.9%	1.5%
2 yr T yield (end of period)	3.6%		4.2%	4.4%	0.73%
Fed Funds (end of period)	4.9%		5.3%	4.3%	0.07%

Note: returns/data from outside sources presumed to be reliable

Some Topics Raised at Previous Meetings

Fed unwinding fixed income portfolio

(John at January meeting)



Valuation methods for stocks

(TBA)

Portfolio rebalancing

(see next pages)

Portfolio Rebalancing – Why?

Vanguard Website:

Why rebalance?

- Vanguard believes that the asset allocation decision-which takes into account an investor's risk tolerance, time horizon, and financial goals-is the most important decision in the portfolio-construction process.
- The primary function of portfolio rebalancing is to keep portfolio risk in alignment with the investor's risk tolerance.
- Absent rebalancing, portfolio allocations will drift from their intended target as the returns of its assets diverge, leading to much higher portfolio risk. For instance, a portfolio with 60% equities and 40% fixed income at the end of 1989, if never rebalanced, would have had 80% in equities at the end of 2021.

Portfolio Rebalancing - Determining Asset Allocation

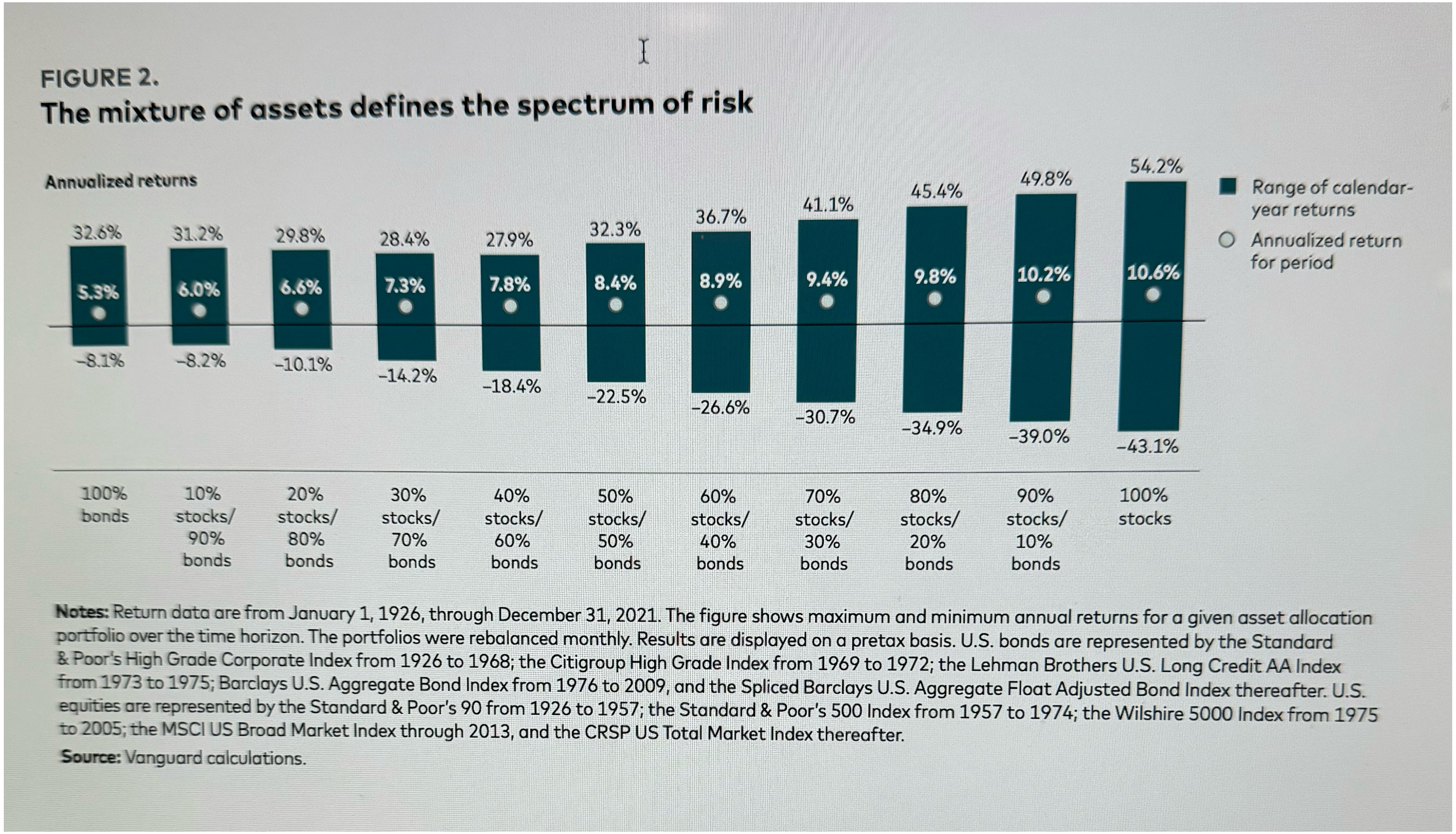


FIGURE 2.

The mixture of assets defines the spectrum of risk

Notes: Return data are from January 1, 1926, through December 31, 2021. The figure shows maximum and minimum annual returns for a given asset allocation portfolio over the time horizon. The portfolios were rebalanced monthly. Results are displayed on a pretax basis. U.S. bonds are represented by the Standard & Poor's High Grade Corporate Index from 1926 to 1968; the Citigroup High Grade Index from 1969 to 1972; the Lehman Brothers U.S. Long Credit AA Index from 1973 to 1975; Barclays U.S. Aggregate Bond Index from 1976 to 2009, and the Spliced Barclays U.S. Aggregate Float Adjusted Bond Index thereafter. U.S. equities are represented by the Standard & Poor's 90 from 1926 to 1957; the Standard & Poor's 500 Index from 1957 to 1974; the Wilshire 5000 Index from 1975 to 2005; the MSCI US Broad Market Index through 2013, and the CRSP US Total Market Index thereafter.

Source: Vanguard calculations.

Portfolio Rebalancing - Implementation

Rebalancing allows you to manage risk and emotion

- Every investor's goal is to buy low and sell high. But the purpose of rebalancing is to manage risk, not maximize returns. Rebalancing isn't about market-timing; it's about sticking to Vanguard's principles for investing success and creating a strategy to stay in sync with your long-term goals.
- For many investors, implementing an annual rebalance is optimal.

Be mindful to costs

- To minimize transaction costs and taxes, you could opt to partially rebalance your portfolio to its target asset allocation. Focusing primarily on shares with a higher cost basis (in taxable accounts) or on asset classes that are extremely overweighted or underweighted will limit both taxes and transaction costs associated with rebalancing.

Rebalance with portfolio cash flows

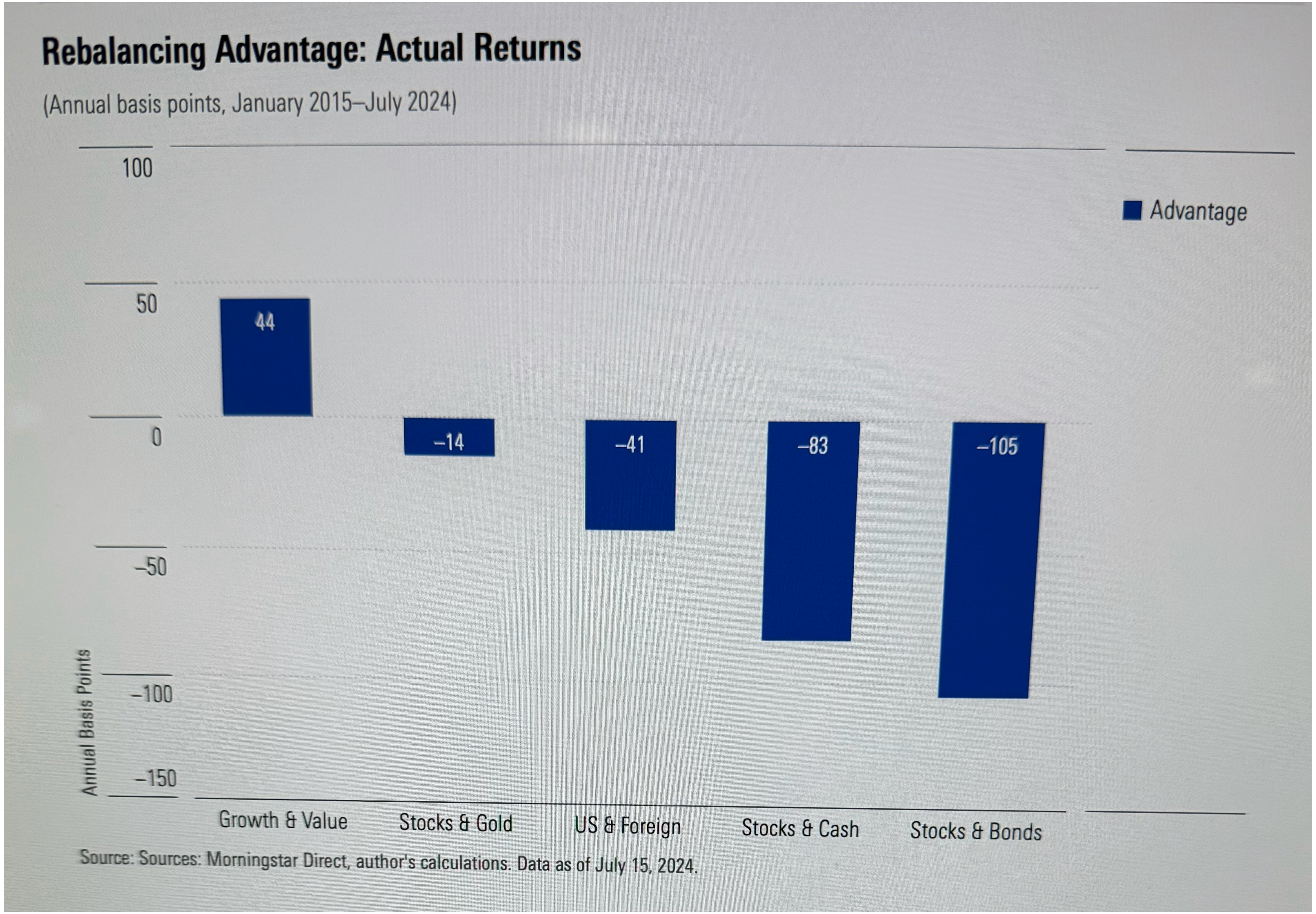
- Instead of buying or selling investments to rebalance, move dividends and interest to your portfolio's underweighted asset classes. When you withdraw money from your portfolio, start with your overweighted asset classes.

Portfolio Rebalancing – Trade-Offs

Morningstar July '24 article:

- This column aims neither to praise nor bury rebalancing. Its goal instead is to clarify the assumptions that underlie the practice. Assuming no transaction costs—tax considerations are another matter—rebalancing is ideally suited for investments that dance to different beats but which are likely to end up in similar positions. The leading example consists of growth and value stocks. Rebalancing between US and foreign stocks also makes sense, unless one believes that the former will continue to post substantially superior returns.
- The case for rebalancing between stocks and less-lucrative assets is less clear. Rebalancing under such conditions is not a mistake. The rebalanced portfolio may forgo some gains, but it will not surrender its relative safety. Consequently, the risk/return trade-off remains intact. That said, there may, in fact, be a trade-off, rather than an unambiguous benefit. Rebalancing can provide a free lunch—but, as this column has shown, it does not always do so.

Portfolio Rebalancing - Impact



Methodology: Annual rebalancing maintains equal weight for each asset

Interesting Articles - Broadening

The Stock Market Isn't All About AI Anymore. (WSJ 9/30/24)

- H1 2024 was all about AI passion; Q3 has brought about a new order. Lower interest rates and overall signs of economic strength have broadened the rally.
- Analysts/investors are asking will companies make any money with all this AI spending. Most people say yes but think the timetable may be longer than current equity prices suggest. The AI story may have gotten ahead of itself.
- Also, declining rates have helped traditional corners of the market: namely utilities and real estate.
- Analysts also note the yield curve is no longer inverted – an historic sign of a potential recession.
- Although investors remain optimistic, others remain concerned and note that the consumer may be in worse shape than generally thought pointing out Dollar General's weak results; deals at restaurants to lure consumer back.
- The question is –has enough deterioration been priced into stock prices?

Interesting Articles - Valuations

The Market Has Been Fabulous. Maybe Excessively So. (NYT 10/13/24)

- S&P 500 is 20% above Wall Street Consensus – even with wars, catastrophic storms, and uncertain geopolitics. Momentum, Fed easing, corporate profits suggest no recession on the horizon.
- But, at some point ….
    - 1990's bubble popped in March 2000. S&P had a negative return for the next decade.
    - S&P 500 is up 34% for the last year – 3X average annual return going back to 1926.
    - The rally is not just Nvidia and AI; utilities are up (Vistra + 200%; Constellation Energy +130%) due to expected increased energy requirements for data. Nuclear power is having a day.
    - Where is this headed – no one knows. Buy and hold strategy allows an investor to keep some distance and ride out volatility.

Interesting Articles - Valuations

Investors Are In a Love-Hate Relationship With The Stock Market. (WSJ 9/4/24)

- Everything has performed great, yet nothing seems worth buying, even asset allocators have seen all sectors perform positively.
- AI has powered tech infrastructure spending – is it sustainable? See Cisco post 1999.
- More expensive P/E's have also made it difficult to see value in cyclicals.
- Political turmoil has returned to Europe; Japan has performed well, rates there are climbing and the Yen is strengthening. Gold may be overstretched.
- What are wealthy investors doing? Some are doing nothing; others are in alternatives – especially private debt.
- No silver bullets here, but investors are realizing that the Fed will not always bail them out – progress.

Interesting Articles - China

Don’t Chase China’s FOMO Rally. (WSJ 10/16/24)

- MSCI China up 20% in last three weeks, the result of announced measures to boost the economy and the inflows due to previously underweighted positions
- Market had been beset by an implosion of the housing market and regulatory crackdowns on its leading tech companies.
  - Even with recent gains, MSCI China still down about 50% from 2021 peak.
- Many questions remain on the exact stimulus and their impact on the economy

Interesting Articles - Topical

Retirement: It's Time To Give Yourself a Raise. (Barron's 9/19/24)

- It may be acceptable to increase from 4% to 5% withdrawal rate in first year of retirement, with increases annually based upon inflation (per PGIM, JPM).
- U.S. Stock market overvalued? Cyclically Adjusted Price Earnings Ratio (CAPE) is 32% above Vanguard's Fair Value CAPE (adjusts for interest rates and inflation).
- Consider bucket approach to investing in retirement:
  - Bucket 1: two years of living expenses
  - Bucket 2: fixed income and high-quality equities
  - Bucket 3: growth
    - As one spends out of Bucket 1, income from Bucket 2 and gains from Bucket 3 replenish Bucket 1.

Interesting Articles - Bonds

A Guide to Why You Should Buy Bonds (and Why You Shouldn't). (WSJ 9/9/24)

- Buy bonds for the income, not the potential for appreciation
- 60/40 split delivered negative annual returns only 23% of the time between 1872 and 2023, compared with 27% for the S&P 500.
    - Also shortened lengthy stretches of negative returns
    - However, high inflation levels lead to positive correlation between bonds and stocks
    - Best bond returns are when yields are above 3% or when the curve becomes un-inverted

Interesting Articles - Bond Funds

Bond Funds Aren’t Like Stock Funds. They Often Beat the Indexes. (Barron’s 10/8/24)

- During the last 12 months, 2/3rds of actively managed bond funds have beat their respective index.
- Loner term, Morningstar reports that 46% beat. These levels compare to 15% for active stock funds.
- How/Why: Bonds are fundamentally more complex instruments than equities. Companies have multiple issues/structures – so relative analysis can provide an advantage. Lastly Indices are generally market-weighted – so government issues and their lower yields tend to dampen index returns.

Interesting Articles – Lower Rates

Preparing For Lower Yields After the Rate Cut. (Barron's 9/23/24)

- Fed is confident that it can get Fed Funds rate down to 3.4% in 2025, from 4.75-5% now
- Citi rep: "Short but not too short is the sweet spot now"
  - iShares 3-7 Year Treasury Bond ETF offers exposure to that part of the yield curve

Interesting Articles – New Investment Products

Investment Industry Loves Active ETFs. You Probably Shouldn't. (WSJ 10/7/24)

- Over the past decade, assets in ETFs grew from $1.5T to more than $10T.
    - Active ETFs oversee less than $1T
        - Have under-performed the broader market over the last 15 years (about 100 bps per year vs. passive) and have higher fees than passive ETFs (average 31 bps vs. 7 bps)
        - Largest:
            - JPMorgan Equity Premium Income ETF (sells covered calls to reduce volatility)
            - Dimensional Fund's U.S. Core Equity 2 (bias toward small caps)

Interesting Articles – New Investment Products

These ETFs Can Guard Against Downturns. It's What They Do Otherwise That Hurts. (Barron's 9/18/24)

- Low-volatility ETFs (i.e. minimum volatility)
  - Use "smart-beta" strategies to rejigger market-cap-weighted indexes
    - Theory is avoid some of the downside and give up some of the upside
    - Various strategies performed by asset managers to try to accomplish this goal
    - Investor needs to be disciplined and not sell when under-performing a bull market
    - Largest ETFs:
      - iShares MSCI USA Min Vol Factor
      - Invesco S&P 500 Low Volatility

Interesting Articles – 401-k's

What Should You Do with your 401-k When You Retire? (WSJ 8/10/24)

- Generally, there are two options – Roll it into an IRA or maintain it at your employer.

Advantages to IRA's include:

- More investment options including precious metals and real estate
- Allow the streamlining of one's financial life by combining accounts – helpful for potential heirs
- Payout options are more flexible and quite easy to annuitize assets

401-k's:

- Usually favor mutual funds
- Generally lower cost due to scale of employer/employee participation
- Legally protected from bankruptcy
- Employer has a Fiduciary standard to meet for investment options
- Can lead to better diversification for less sophisticated investors
- Lastly, each have different rules when the owner passes.

Please check beneficiary designations.

Q&A/General Discussion

- Open forum

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