



2023 & BEYOND — MARKET DYNAMIC & STRATEGIC POSITIONING

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***Announcement:

Last year, we began publishing fresh, timely research and topical commentary on LinkedIn. Please [follow](#) us and share this content freely amongst your investor friends. In 2024, we will begin producing and publishing on our website short videos with market updates and timely insights that will make it easier to understand our distinctive investment approach and track its progress.

Above all, Happy New Year to all of you—we are grateful for your trust, collaboration, and friendship!

EXECUTIVE SUMMARY

Contrary to Wall Street's initial pessimistic outlook and recession concerns, 2023 marked a significant market upswing, particularly evident in growth-oriented portfolios such as our strategies. Throughout the year, our quarterly updates, accessible on our website, reassured investors that there was no basis for pessimism. They emphasized that neither the 2022 downturn nor the Q3 2023 correction had derailed the ongoing bullish market regime. While we believe market forecasts are futile, our strategies are entering 2024 with a growth-oriented lineup and the confidence that their proprietary trend-tracking tools will allow them to navigate the year with adaptability, risk vigilance, and tax awareness.

2023 The Year in Review

Wall Street broadly misinterpreted the 2022 market decline as a bearish slide ahead of a likely recession. Warnings were issued, guidance was lowered, and pessimism spread about a stormy 2023. It was a false alarm—a terrible misunderstanding of the market's dynamic.

From the outset, as avid readers of this series are aware, our perspective differed significantly (refer to our quarterly updates for that period, preserved unchanged on our [website](#)).

We asserted that the market orchestrated a carefully controlled correction to exert pressure on the Fed, urging it to curtail its harmful and ineffective interest rate campaign. Unlike the demand-driven inflation of the 70s/80s, the post-CoViD supply-driven inflation, we explained, could not be cured by monetary means. As detailed in our interim 2022 updates, the market was successfully navigating this confrontation, indicating a positive outlook for 2023. Our year-end 2022 retrospective and 2023 prospective concluded with the following [insight](#):

This is not a good time for pessimism (or blind optimism, for that matter), and realism dictates that the odds are still better than 2:1 for a fruitful mid-term resolution of the current correction stalemate and further progress in this market. Of course, proper navigation along the way is always a must.

This realistic analysis guided the positioning of our strategies throughout 2023, enabling them to maintain high exposure and focus on growth. By the end of 2023, our anticipated “fruitful resolution” materialized with the S&P 500 (SPX) surging by an impressive +24.23%, shattering most pundits’ initial targets that had averaged just 4,080 amongst 23 prominent Wall Street strategists. Additionally, the much-feared recession, forecast by 85% of Financial Times’ polled experts in Dec. 2022, never materialized.

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Since the central bank began its offensive in March (Fed hikes) and April (Fed balance sheet shrinkage) of 2022, we have contrasted our interpretation of a self-organizing and self-regulating market that pursues its own objectives by blocking and tackling the central bank against the 20th-century idea of a market that is the passive recipient of the Fed's interventions.

But by 2023, it appears the market has settled the dispute. The passive hypothesis cannot explain the market's rise over this nearly two-year cycle of sharp Fed interest rate increases (from 0.25% to 5.33%) and Fed balance sheet reductions (from over \$8.8 to 7\$.7 trillion), all while witnessing the 2nd (First Republic), the 3rd (Silicon Valley Bank), and the 4th (Signature Bank) largest bank collapses in history.

2024 – The Year Ahead

And how about 2024—what lies ahead?

The majority of the investment world relies on forecasts, with an army of highly-paid pundits generating countless predictions. However, historically, this has not been a successful endeavor, and we view it as a fundamentally futile exercise.

There are profound reasons why the market is not systematically forecastable. Nevertheless, this does not have to hinder astute and disciplined investors from being systematic success!

How is it feasible?

It is because, while the market is fundamentally unforecastable, it is also tractable with the right tools!

This series, along with the results of our strategies over the years, provide considerable evidence supporting this. While the market was still tracing a three-month correction that disheartened Wall Street, our Q3 Strategy and Market Update, written in late September and publicized in early October 2023, concluded in the executive [summary](#):

Currently, our strategies assess that the Market Regime remains healthy and investment-worthy and are positioned adaptively to capture the market opportunity while remaining risk-vigilant and tax-aware.

By the end of Q4, the broader market proxied by the S&P 500 index (SPX) had advanced by a whopping +11.24%, producing nearly half of its 2023 gains! These gains were not necessarily forecastable, but insightful investors tracking the market's vital signs were in position to understand that the summer correction hadn't derailed the market's ongoing bullish regime. Consequently, portfolios should have been positioned for growth, a directive which our strategies precisely followed.

And now, at the end of 2023, our research affirms that the market regime remains healthy and investment-worthy, with our strategies focused on growth in select areas of the market landscape.

As our investors know, our strategies defy static allocation models and do not adhere to fixed asset blends like a 60/40 or 80/20 stock/bond portfolio. Moreover, our strategies eschew the old-fashioned segmentation of the market into sectors, industries, or geographies. Instead, they primarily invest in **Factors**.

Factors are dynamic groups of securities that exhibit specific market behaviors, such as large/small capitalization tendencies, value/growth orientation, momentum, low/high volatility, or quality attributes. This differs significantly from the traditional approach.

Consider Tesla (TSLA) as an example. As a car manufacturer, it is held by traditional investment approaches in proportion to the anticipated prospects of the Industrial Sector, alongside names like Caterpillar or Boeing. Yet, our strategies invest in Tesla according to our preference for high-volatility, momentum-driven, large-cap stocks, aligning with other non-

Industrial Sector names such as Apple (Technology Sector), Amazon (Discretionary Sector), or Meta (Communications Sector).

Our strategies' starting lineup for 2024 emphasizes exposures to the Factors of Growth, Momentum, and Quality and is carefully balanced with a minority stake in Low Volatility and select defensive holdings. This lineup, carried over from the end of 2023, remains subject to dynamic adjustments based on unfolding market and economic data.

As a reminder, our strategies diverge from 20th-century fixed allocation portfolios tied to static risk profiles (conservative/ moderate/ aggressive) or fixed objectives (income/ growth). Instead, they aim to average a moderate risk profile over a full bull+bear market cycle by becoming assertive when our proprietary research shows that markets reward higher exposure and turning conservative (even going to 100% cash) when our strategies detect a bearish market regime shift.

LAST WORD

We invite you to spread the word about your investment experience within your circles of influence. The last five years have been challenging for most investors. They have been battered by the historic bond market fall and whipsawed in the steep downdraft of 2018, the crash of 2020, and the rolling turmoil since the start of 2022. And throughout the last fourteen years, they have been torn between the Scylla of speculation and greed and the Charybdis of worry and indecision. As our veteran clients have discovered, our strategies' adaptability and risk controls have been an excellent antidote to haphazard performance and a booster of investor confidence. Please assist us in spreading the word.

We remain grateful for your trust, loyalty, support, and friendship!

On behalf of GNH Capital Group's entire team with Henrik, Richard, Chad, and Isabel,

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Data Source: YCharts, FactSet, S&P Global.

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