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Monthly Market Commentary
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I've heard from several clients recently who have observed that the markets have risen a lot (breaking records), yet account performance may be more muted by comparison. I wanted to share three observations that may help explain what I believe is transpiring.

Commentary Summary

- Like 2023, markets are hitting records because of a few very large companies, particularly Nvidia. This means there is less depth to the markets, and this has impacted performance for clients who are diversified. It also means clients should be mindful of emotions and chasing past performance.
- Client accounts are diversified. Owning many asset classes historically helps smooth performance and provides ballast during volatile markets. This can lead to perceived "under-performance" when a few companies are doing well whereas the broader market is more muted. This is the benefit and drawback to diversification, and investors usually can't have it both ways.
- Market performance in 2023 and 2024 has been heavily influenced by projected interest rate conditions. The debate over interest rate policy is what caused most of 2023 to tread sideways, only to jump dramatically in the fourth quarter as investors bet on rate reductions having a positive impact to the markets. This year, the Fed's nuanced messages and investors guessing about interest rates have kept stock market generally range bound. Like trying to time the stock market, most investors are also terrible at predicting the Fed and interest rates, and in my view, it will lead to yet more uncertainty.

This is Nvidia's market, we're just living in it.

Artificial Intelligence mania has been driving these markets, in my view. If you're not an AI beneficiary, you're probably wondering where the party is. Nvidia is at the forefront of the Artificial Intelligence movement because they may have a monopoly on the most important AI chips. The recent stock increase of 239% in 2023 and 77% in 2024 has raised eybrows.[1] Nvidia is having its "market moment". I've seen this before: some companies maintained their allure, yet others later cratered or are now bankrupt. Past examples include the "nifty fifty", the 2000 – 2002 internet stocks, the 2007 bubble, and 2020-2021 COVID stay-at home stocks. We don't know if Nvidia will re-write an industry or ultimately something less dramatic. I would like to focus less on the company and more on Nvidia's recent impact to markets and the potential emotional pitfalls.

- A client asked recently why we don't own Nvidia in our strategies. They were surprised to learn that we do. The majority of clients own the S&P 500 Index either as an ETF or mutual fund and the NASDAQ 100 as an ETF.[4] Most accounts are indirectly benefiting from Nvidia's dramatic rise, because the stock now makes up 4.6% of the S&P 500 and 6% of the NASDAQ 100. Most clients do own Nvidia, but not in a concentrated position, because we don't feel that owning a concentrated position in any company is prudent. Plus, Nvidia is expensive in my view. The Forward Price to Earnings ratio is 74 meaning that the stock price reflects 74 years of potential earnings in today's price.[2] For context the S&P 500 Price to Earnings Ratio is 27.8, which is more expensive than average.[2]
- Watching Nvidia's rapid increase relative to the broader markets can trigger emotions like regret, fear of missing out (FOMO), or anxiety, but it's equally important to remember the mistakes we've avoided. clients should also commend themselves for mistakes they've avoided. I discussed this in November, but owning growth stocks like Nvidia can be exciting yet also deliver gut-wrenching volatility. I feel like markets have forgotten that Nvidia fell 50% in 2022. Looking further back, for those who owned Nvidia on January 1 of 2021, the stock certainly increased but it also had enough volatility such that the stock price ultimately ended up flat until August of 2022 when it began its current march upward.[2]
- Any FOMO emotion is based on what *has* happened, not what *may* happen. In my view, it's an unhappy way to invest if you're kicking yourself for not buying the hottest stock instead of being grateful for owning a diversified array of many companies, thereby potentially avoiding a lot of anguish from chasing hunches and headlines.

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Diversification can cause agony and joy, but rarely both.

The S&P 500 and Nasdaq are hitting records because they're being pulled upwards by Nvidia and a handful of other stocks. The broader market isn't performing nearly as well.

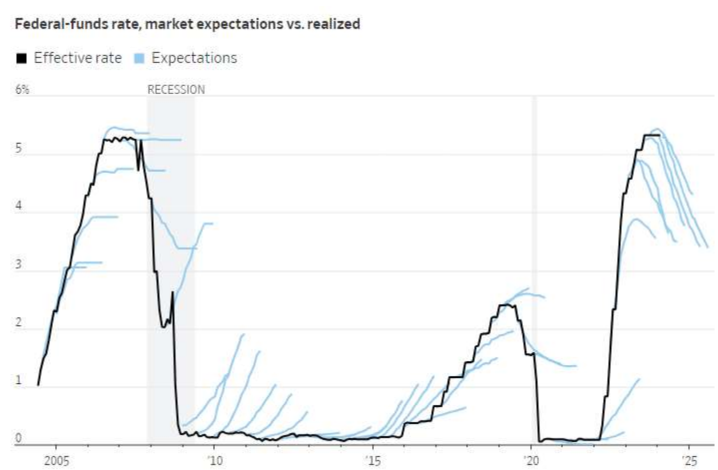
- The depth in index performance that was lacking in 2023 has continued in 2024. Last year the "Magnificent Seven" carried the broader market for almost the entire year. Nvidia's stock now makes up 4.6% of the S&P 500 which is huge by historical standards, and Nvidia's market cap alone is bigger than the Chinese stock market.[3] If you include Apple, Microsoft to Nvidia (the 3 biggest companies in the S&P 500), this is a whopping 18% of the total index. If these companies do well, the markets will likely follow. Revisiting an analysis from the last newsletter, the S&P 500 stocks are weighted by market cap: the bigger the company, the more it will influence the market. When compared to an equally weighted scenario, you can see the impact of a few very large companies in a market that lacks depth and diversity.

	2023[1,2]	2024 YTD[1,2]
S&P 500 Traditional Weight	26.1%	7.8%
S&P 500 Equal Weight	13.7%	4.1%

Diversification means owning lots of different asset classes to benefit from different types of companies, industries, and geographic regions. This can help to smooth performance and reduce volatility. Stated differently, if you don't invest in only the S&P 500, your accounts will perform differently! Below is a generic illustration of a 60% stock/40% bond strategy. The S&P 500 may be up 7.2% and "hitting records" but this account has only increased by 2% because the bond market, smaller US companies, and international companies are presently not enjoying the same upside as the larger markets. Until the markets rose dramatically in the final quarter of 2023, the same trend occurred in Q1 through Q3.

Index	Description	Weight	YTD_%CHG()
S&P 500	US Large Companies	20%	7.2%
S&P 400	US Medium Companies	15%	6.0%
S&P 600	US Small Companies	10%	-0.9%
Int'l Developed	International Developed	10%	2.5%
Emerging Markets	Emerging Markets	5%	1.0%
Bonds	Bloomberg Barclays Aggregate US Bond Market	40%	-1.3%
Source: Factset, market close on 03/06/2024.		100%	2.0%

Investors are terrible at predicting the Federal Reserve and Interest Rate Policy



Interest rates are important because they represent the cost of money. Rising rates are generally restrictive to markets and economies while falling rates are accommodative and often precipitate a rising stock market. It is commonly accepted that the Federal Reserve rate hikes are over, so the markets are now obsessed with when the Federal Reserve will cut rates and by how much. Timing interest rates and Fed Policy, like timing the markets, is incredibly difficult, and investors almost never get it right.
The black line tracks the path of Federal Reserve rates while blue lines track what investors *thought* would happen at various times. The greater the number of blue lines that deviate from the black line, the more

incorrect investor predictions were. The blue lines were directionally correct from 2015 to 2017, but, otherwise, they've departed dramatically from the black line.

This is important because it is influencing the general direction of stocks in 2024 much like it did in 2023. Starting in Q4 of 2023 through now, the futures markets showed that investors expected the Fed to cut rates several times in 2024. In reality, the Federal Reserve has delayed rate cuts well into 2024. As a result, the stock market performance has been more muted (with the exception of anything exposed to Artificial Intelligence). This is yet another reason why the performance of a diversified portfolio of index-tracking ETFs isn't generating the same fireworks.

Conclusion

I feel that clients understand that diversification matters because the diversification that helps weather diverse economic conditions and manage volatility especially when put up against COVID stocks, crypto assets, and artificial intelligence that may or may not withstand the test of time while likely exhibiting significant volatility along the way. I personally think that this will continue for some time. This is part of investing, and we still stand by our thesis and strategies.

Regardless of market trends and prevailing conditions, we follow the evidence and experience that shows the best client outcomes come from being patient, having a longer-term time horizon, having a plan (and sticking to the plan), and never allowing emotions to impact investing.

Questions and comments are welcome.

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Sources & Disclosures

[1] *Factset, Bloomberg. 2024 figures through market close on Thursday, March 18, 2024.*
[2] *Morningstar, Factset.*
[3] *Factset, Wall Street Journal.*
[4] *For illustrative purposes only. Client accounts may or may not own these specific securities and performance may vary. Not an offer to buy, sell, or hold any specific security, implied or otherwise.*

The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the Index proportionate to its market value.

The S&P Midcap 400 Index is a capitalization-weighted index measuring the performance of the mid-range sector of the U.S. stock market, and represents approximately 7% of the total market value of U.S. equities. Companies in the Index fall between the S&P 500 Index and the S&P SmallCap 600 Index in size: between $1-4 billion.

The S&P SmallCap 600 Index consists of 600 domestic stocks chosen for market size, liquidity (bid-asked spread, ownership, share turnover and number of no trade days) and industry group representation. It is a market value-weighted index (stock price times the number of shares outstanding), with each stock's weight in the index proportionate to its market value.

The MSCI Europe Index currently consists of the following 16 developed market countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and United Kingdom. The Index is designed to broadly and fairly represent the full diversity of business activities in the markets detailed above. Source: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed or produced by MSCI.

The MSCI Emerging Markets Index is designed to represent the performance of large- and mid-cap securities in 24 Emerging Markets.

Bloomberg U.S. Aggregate Bond Index is a broad-based measure of the investment grade, US dollar-denominated, fixed-rate taxable bond market.

US Treasury bonds are guaranteed by the full faith and credit of the U.S. Government for the timely payment of interest and principal if held to maturity.

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