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QtrNotes

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Quotes

Personal finance … is more personal than it is finance.

Tim Maurer

There are two times in a man's life when he should not speculate: when he can't afford it, and when he can.

Mark Twain

Money is the opposite of the weather. Nobody talks about it, but everybody does something about it.

Rebecca Johnson

Before you speak, listen.
Before you write, think.
Before you spend, earn.
Before you invest, investigate.
Before you criticize, wait.
Before you pray, forgive.
Before you quit, try.
Before you retire, save.
Before you die, give.

William Arthur Ward

The trees that are slow to grow bear the best fruit.

Molière

2024 at the Half: Interest Rates, the S&P 500, and AI Hype

As we reach the midpoint of 2024, the global financial markets have experienced a mix of optimism, volatility, and transformative trends. Here's a recap of the key factors shaping the stock and bond markets so far this year.

Index	6/30/2024	YTD
Dow Industrials	39,118.86	3.8%
S&P 500	5,460.48	14.5%
S&P Small-Cap	1,296.98	-0.7%
MSCI EAFE	2,314.63	3.5%
Bloomberg US Bond	2,146.63	-0.7%
US Treas 10-yr yld	4.4%	

The Federal Reserve and Interest Rates

The Federal Reserve's monetary policy has been a focal point, influencing market sentiment and economic forecasts worldwide. The year started with cautious optimism for early interest rate cuts, but so far, rates have been kept steady to combat persistent inflationary pressures.

The Fed has maintained a data-dependent approach, adjusting its stance by pushing its hoped-for cuts out to later in the year, possibly even to next year. Yet despite interest rates staying higher for longer than expected, equity markets have powered on.

The Big 5 and S&P 500 Concentration

The S&P 500 continued building on its strong start to 2024, closing up almost 15% through the second quarter. The newly redefined "Big 5" tech stocks – Microsoft, Alphabet (Google), Amazon, Meta (formerly Facebook), and Nvidia – have accounted for 60% of the S&P 500's return thus far. Even Apple and Tesla have struggled to keep up with this group.

Investor attention has remained fixated on these tech behemoths, driving index performance and shaping broader market trends and investor sentiment. But as the tech and AI hype continues, the growing concentration risk is concerning. Excluding the Big 5, the S&P's other 495 stocks are up only 6% collectively.

To put it simply, this is not a real bull market. It is a bull market in a very small group of stocks that influence the indexes disproportionately. In this type of narrow market, very few investors can outperform the indexes, because a diversified portfolio will inevitably underperform. We would like to see participation broaden out to the other 495 stocks in the S&P 500 before declaring that the economy will keep steaming forward.

AI Hype and Market Dynamics

Artificial intelligence has maintained its buzz as a potentially transformative force across industries, fueling innovation and market speculation. Companies leveraging AI technologies are enjoying heightened investor interest and valuations, reflecting optimism about future growth potential.

The adoption of AI within such sectors as health care, finance, marketing, transportation, and agriculture continues to reshape business models and investment strategies. As with the evolution of the internet, it will be exciting to watch how AI enhances business processes going forward.

Bond Market Resilience and Yield Dynamics

In contrast to equities, the bond market remains stagnant as it waits to get clearer direction from the Fed. The main bond indexes have struggled, while government bonds, particularly U.S. Treasuries, have maintained their role as safe-haven assets, attracting investors seeking stability amidst market volatility.

Yield curves fluctuated in response to economic data and central bank policies, influencing bond

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Safety in Numbers: Back to Basics

In the Good Old Days, just last year, the first red flag we could spot in most fraudulent emails was the bad writing -- weird punctuation, strange grammar, and misspelling. But one industry that has embraced AI with great effect is, unfortunately, cybercrime. The newest examples of phishing and malware emails are often well-written, correctly spelled and punctuated, with no obvious errors.

With our first and easiest line of self-defense gone, we have to go back to the basics to recognize fraudulent emails. Fortunately, the basics still work.

Stop. Is the email trying to alarm you (Account Suspension! Layoffs! Covid Alert!) or entice you (Claim Your Prize! Bonus!) or push you into immediate action? (Click here! Respond now!)

Question. Did you expect this email? Is that really the email address of your HR? Is your boss or child or mother actually traveling and likely to need wired funds?

Verify. Mouse over links in the email and see where they're actually going. Check the sender's address and the headers. Close the email and check its claims by another source. Log into your account on a different device. Text your contact. Call your HR department, or your colleague. Or your mother -- she'll be glad to hear from you.

2024 at the Half

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prices and investor strategies. The search for yield persisted, with corporate bonds and emerging market debt attracting attention despite periodic risk aversion.

As we look ahead to the second half of 2024, investors face evolving challenges and opportunities – which is the consistent story with investing. Navigating these dynamics requires vigilance and strategic planning, with a focus on diversified portfolios and risk management strategies. The interplay among monetary policy, technological innovation, and sectoral performance will continue to shape market narratives and investor outcomes in the months ahead.

Worrying About the Wrong Thing

The biggest risk for people in retirement is not volatility in the stock market. The biggest risk to retirees is that their investment portfolio might not grow fast enough to sustain increased living expenses over time and withdrawals from the portfolio. The costs of health care, long-term care, and housing have been rising faster than the overall rate of inflation, which means that the risk is growing.

When evaluating risk, investors and news outlets tend to focus on what we have no control over: stock market volatility and returns. When planning for retirement, we want to focus on what we can control. We have some control over where we work and for how long, how much we earn, and (to some extent) how long we live. What we can control, and therefore what we should focus on, is our asset allocation and spending behavior.

One of the first questions we address when we prepare a retirement plan is the level of spending necessary to maintain a retiree's lifestyle. A baseline can generally be established by looking at the cash in versus cash out of the primary bank account, assuming no significant increase in debt has occurred during this time. This amount can then be adjusted for expenses that change in retirement, since having extra time often leads to extra spending on travel, entertainment, and hobbies. Expenses for new cars, home improvements or modifications, relocations, and adjustments in health care costs must also be considered. Only after establishing a spending level and an expressed willingness to take some investment risk can we determine whether the assets accumulated are likely to be sufficient.

Treasuries, CDs, money market funds, and traditional savings accounts offer income, diversification, and stability – all important needs. But they do not keep up with inflation, which also affects retirees. Not investing in stocks, and therefore not keeping up with inflation, is arguably riskier to retirees than the volatility that comes with stock investing.

Politics and Investor Anxiety

The presidential election is just a few months away, and the whole world feels on edge. What do we make of the situation? For the last 70 years, the stock market has tended to have higher short-term volatility during election years, adding to the anxiety.

The results of this year's election will have material impacts on our nation and the world. Our political crystal ball offers no insights into who will occupy the White House this time next year. We have no insights on what future trade deals will look like, when the wars in Ukraine and Israel will end, how our nation will deal with our many domestic policy concerns. We don't know how long it will take our nation to heal and recover the ability for healthy bipartisan politics. We are concerned citizens, hoping for the best for our country.

What are investors to do? The short answer is: ignore it all, at least when making portfolio decisions. Acting on political concerns and fears can cause investors to shed exposure to stocks and bulk up on cash, which risks lowering long-term results.

Despite uncertainty and fear, we remain bullish investors. Stock investors own an equity stake in the profits and growth of the largest companies in the world. Commerce will continue and we remain aligned with the best companies powered by hard-working men and women, driven by professionally motivated management teams.