WEALTH & WELLNESS
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# 2024: New Year Special Edition

The final month of 2023 provided quite the topper for markets this year. The Dow and S&P ended the month 3.4% and 4.5% higher respectively, while the Nasdaq notched a 6.7% gain.. Looking at annual performance for the year, the Dow ended up 13.5%, the S&P 500 returned a solid 24.2%, and the big winner was the Nasdaq's impressive 43.4% pop.

Putting 2023 into perspective, the big miss was the call for a recession that never happened. The big hit, on the other hand, was the boom in Artificial Intelligence or (AI). Not too surprisingly, both topics are back in the headlines for 2024. Some pundits are still calling for a recession, albeit a milder one. In terms of AI, you can find experts on both sides of it's future direction. The bears say it's run too far, too fast, and current valuations resemble the dotcom crash of 2000. The bulls suggest it's the next digital gold rush and the sector is drastically undervalued and poised for double digit growth again this year.

Crypto currencies found their way back into the spotlight in 2023 and the momentum has continued in early 2024. The big story line is that Wall Street anticipate SEC approval of new instruments that would make it easy for everyday Americans to own Bitcoin in their IRA or other brokerage account. Not to be outdone, geopolitical events continue to garner investor attention and concern as wars continue to rage on in Ukraine and the Gaza strip, not to mention the recent turmoil in the Red Sea.

We also can't ignore the political calendar here in the U.S., which is chalked full of "What-if's" including the presidential nominations (and election), Congresses ability to fund the government, and the Federal Reserve's anticipated actions on interest rates and inflation. All combined, it can feel like a lot to take in and sort through, which is exactly what we plan to do for you in this special edition. Let's start with some positive market data.

Historically speaking presential elections are typically good for markets. According to FactSet, election years dating back to World War II, the average return for the S&P 500 is 8.7%. This goes up to 9.1% when markets come off a positive return the year before. Additionally, when the last month of the year provides a positive return, January usually follows suit, producing an average return of 1.4%. While history has a tendency to repeat itself, there are always anomalies and market surprises, so we need more than a rear-view mirror perspective.

One interesting thing that few people are talking about is that despite the big equity run up in the S&P 500 for 2023, we are still short of its all-time closing high of 4,100. A level set 24 months ago in Jan of 2022. For us, that's a sign that there's more gas in the market's tank, meaning there's room for it to still grind higher from here and markets are fairly valued rather than overvalued. We don't necessarily anticipate 20%, 30%, or 40% returns again, but more so a goldilocks type economy that's not too hot or too cold.

## Trivia

1) How many ghosts chase Pac-Man at the start of each game? For extra credit, what are their names and associated colors?
2) Who was the first Disney princess?
3) What do you call it when a bowler makes three strikes in a row?

## Did You Know? "A Deck of Cards"

The A card deck contains: 10 cards Ace through 10 with three picture cards (Jack, Queen, and King).

The traditional deck of cards is a strikingly coherent form of a calendar.
52 weeks in the year (52 playing cards in a deck).
13 weeks in each season (13 cards in each suit).
4 seasons in a year (4 suits in the deck).
12 months in a year (12 court cards). (i.e. Jack, Queen, King in each suit.)
The red cards represent Day, while black cards represent the Night.

Jacks = 11, Queens = 12, and the Kings = 13, then add up all the sums of 1 + 2 + 3 + …to 13 = 91. Multiply this by 4, for the 4 suits, and 91 x 4 = 364.

Add 1 that is the Joker and you will arrive at 365 being the days in a year

The jack of spades, the jack of hearts, and the king of diamonds are drawn in profile. You can see one eye

The rest of the picture cards have their faces toward us and we see two eyes.

The king of hearts has a sword behind his head, and the one eyed king of diamonds has an ax behind his head. They're nicknamed the suicide kings.

Source: GetVisible.com

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Robert Laura, AAMS, CMFC, CRPC

Wealth & Wellness Group
690 Hope St., Suite B
Brighton MI 48116
(888) 267-1138
rl@robertlaura.com


## New Year Special Edition... Continued

A key part of this positive forecast evolves around the Federal Reserve cutting interest rates as soon as March. It's worth noting that the Fed isn't going to cut interest rates just because everyone is complaining about higher home and auto costs. But rather to encourage lending (and spending) to keep the economy moving along, even if its at a slower pace than recent data.

This is important because in all past recessions, they were preceded by a downturn in housing.  Fortunately for us, there is still a shortage of homes, and with mortgage rates already back below the 7% level even before any Fed cuts, we expect supply to remain constrained and for demand to rise.  Particularly for millennials who continue to enter a key stage of life that includes home ownership.  Thus reducing the likelihood of a near-term recession.

When it comes to headline factors like AI or Crypto currency, we see both near and long-term opportunities.  However, we don't feel the need to capitalize directly on the hype by adding Crypto to portfolio's or by trying to find the latest AI unicorn stock.  We prefer instead to have exposure with less risk by owning more established companies that have either invested heavily in the hardware or software used to power them, or have found ways to use AI to further their competitive advantages.

For example, new Deere (D) tractors are employing AI to recognize and spot treat weeds in fields rather than over spraying an entire area.  Likewise, IBM has invested heavily in the development of the blockchain which powers crypto currencies. However, the goal isn't to mine more Bitcoins but rather to find and monetize alternative uses for it within sectors like healthcare or banking.  In both cases, you get an approach that allows us to be "fast followers" and get exposure to these emerging industries and technologies while avoiding some of the risk that comes with being an all-in, early adopter.

With this in mind, we see opportunities in added diversification for client portfolios. You have likely heard of the magnificent seven, which are a group of the largest companies in the S&P 500.  They include Amazon, Apple, Microsoft, Meta, Google, Tesla, and Nvidia.  Their sheer size and weight in the index made them responsible for 58% of the S&P 500's market return in 2023.  In other words, these seven companies produced a 14% return for the index without any help from the other 493 companies in the index.

While that's impressive, it's what many people call a narrow or skinny market.  The good news and reason we see opportunities for broader diversification is because in the last couple months of the year, we've seen a widening of companies moving higher. Simply put, the latest market run up is lifting all boats not just the big guys and we feel this creates investment growth potential in areas like financials, industrials, and real estate.

Overall, it's an upbeat forecast that will come with some stormy weather throughout the year.  Inclement events that we have all become accustomed to over the last few years and that continue to lend themselves to portfolio reliance on large, financially sound companies with strategic advantages, high barriers to entry, and a proven track-record.

## Trivia Answers

1) Four ghosts. Extra Credit: Blinky (red), Pinky (pink), Inky (cyan), & Clyde (orange)
2) Snow White
3) A Turkey

Source: Pub Trivia