Special Year-End Edition!

WEALTH & WELLNESS GROUP

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Portfolio Plans and Strategies for 2025

November was another good month in what has been a great year. The S&P 500 was up 5.7%, for the month which is the least impressive of the major indexes. The Nasdaq jumped 6.2%, while the Dow popped 7.5%. Yet, the big winner was the small cap Russell 2000 which climbed an impressive 10.8%.

U.S. stocks have been hitting fresh record highs in this final leg of 2024, with investors getting a second wind from promises of deregulation, tax cuts, and tariffs from a second Trump administration. As a result, the stock market is headed into December poised to log its second straight year of stellar returns.

In 2023, the S&P 500 finished up 24% and it's currently on course for a 20+% gain this year. If that holds, it will be just the fourth time in the past 100 years the index logged 20% plus returns two years in a row.

Risks Remain

While seasonal tailwinds are expected to carry us through the year-end, it won't be a risk-free journey. To start, there hasn't been a stock market correction, or a pullback of 10% or more, in the S&P 500 this year. Since 1928, the S&P 500 has averaged a correction once every 346 days, almost once a year.

This latest run has also pushed market valuations into a territory that resembles the late 1990s. The S&P 500 is currently trading at about 38 times cyclically-adjusted earnings (CAPE) which is below the 1999 peak of more than 43, but overall, you could say it's still a historically expensive market.

Combined with a stronger dollar (which makes U.S. exports more expensive to foreign buyers and therefore problematic for US companies that rely on international trade), along with not knowing the extent of Trump's aggressiveness on tariffs or immigration, I don't think anyone would be surprised to see a pull back early in the New Year.

That may feel unnerving to some, but pull backs are common and usually represent buying opportunities. As mentioned above, if stocks are expensive at the current levels, it's nice to get a 5%, 10% or even 20% discount to build bigger positions in strong companies.

Base Case or Crystal Ball

Trump's "shock and awe" style will create volatility in first quarter of 2025 (and likely first half of the year). Late night tweets on everything from tariffs to interest rates are expected to create 400-500 point sell-offs that may last for a couple days, only to be followed by 2-3 days of markets ripping higher at similar levels.

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Trivia:

1) What animal is known for its ability to regenerate lost limbs?
2) What kind of tree do acorns come from?
3) What letter is not included in any of the 50 US state names?
4) Which planet spins clockwise in our solar system?

Did You Know? Dental Health

The first toothbrush was invented by a dentist in China using tufts of wild boar bristles.

In 1905, dental assistant Irene Newman was trained to clean teeth. She became the first dental hygienist.

George Washington's dentures were not made of wood. He possessed four sets of dentures with materials such as gold, ivory, lead, and a blend of human, donkey, and hippo teeth.

The most valuable tooth belonged to Sir Isaac Newton. In 1816 one of his teeth was sold in London for $3,633, or in today's terms $35,700.

In a lifetime, the average American spends about 38.5 total days brushing their teeth.

Tooth enamel is the hardest material in the human body.

The first introduction of commercial floss was in 1882 by Codman and Shurtleff and was later acquired by Johnson and Johnson in 1965.

Americans buy more than 14 million gallons of toothpaste every year.

Roughly 25% of American adults have no teeth.

It takes 43 muscles to frown but only 17 to smile.

Source: TodaysDental.com

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Portfolio Plans and Strategies... Continued

As a result, we suggest ignoring the noise and letting things normalize in the near-term. Politicians don't dictate what happens to the economy, consumers do. As markets settle into the new administration, trends and opportunities will emerge. This means that upfront we don't have to spend a lot of time trying to guess correctly which policies will play out and which won't. Instead, we can be fast followers and capitalize on trends as they emerge.

Therefore, we suggest positioning portfolios more broadly in sectors and market cap weighted ETFs that can advantage of the current environment and expected year-end, grind higher as well as be easily re-allocated in the future.

As we look at specific investment strategies, it's worth noting that a strong US dollar and Tariff's (or taxes on foreign goods) in any form will hurt international markets, particularly in the first half of the year. This makes domestic stocks much more appealing now, however, we expect to see future opportunities outside of the US based on declining valuations. Until then, we are reducing holdings related to international and emerging markets.

On another front, we see signs of a slowdown ahead for the healthcare industry. Simply questioning the role of big pharma and government programs is expected to cause the industry to underperform the broader market so we are reducing exposure to big pharm and health care in general

As mentioned above, the America first policy positions domestic stocks much better than those outside of the US. Additionally, Large-cap U.S. stocks have outperformed virtually everything else over the past 15 years. The term "TINA," which stands for "there is no alternative" is being used to describe the perception that U.S. stocks are the best game in town. This is a big reason why we are and will continue to be overweight domestic large cap equities with a slant towards value over growth

We also see less regulation and potential corporate tax cuts as positive catalysts for small business. This creates opportunities to increase holdings in small cap and mid-cap equities. The prospects of less regulation also provides opportunities for the banking / financial industry that we want to be a part of.

Finally, interest rates are expected to gradually decrease next year, however, it is still unknown if tariffs combined with a stronger US dollar will be inflationary or not. So until we get a better direction on rates we plan to maintain positions in short to mid-term bonds.

Overall, we remain optimistic on markets for the end of 2024 and the full year of 2025.

Happy Holidays from us to you*—Bob Laura & Drumm Osborn*

Trivia Answers

1) A Starfish
2) An Oak Tree
3) The letter "Q"
4) Venus

Source: ReadersDigest