TRANSCRIPT: Q1 2024 Market Update

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Hi everyone. This is Steve Elwell, the Chief Investment Officer of Level Financial Advisors, and this is your first quarter 2024 commentary. The investment markets had a good quarter. The US stock market was up 10.02%. International stocks were up a little more than 5%. Emerging markets up a little more than two. Global real estate went down a little bit for the quarter and the US Bond market also went down for the quarter as interest rates moved a little bit back up here during the quarter, not because of any change from the Federal Reserve. They held interest rates at where they started for the quarter, but interest rates in the investment markets moved as some of the inflation numbers came in. That didn't ultimately show as much of a decline as the markets were hoping for. But big US stocks really pulled the market up during the first quarter, led by some of the same stocks that did really well in 2023 would've been coined.

The Magnificent seven stocks, which is mostly the big tech names that everyone's aware of. Nvidia and Apple and Amazon and Google and Microsoft and Meta otherwise known as Facebook. Those big companies had a really good quarter. There's still a lot of enthusiasm about the potential for artificial intelligence and the impact that might have on efficiency in the corporate environment and profitability in the corporate environment and just simply new ways to use that type of technology to further help innovate in a lot of different ways in terms of services and products. So the market had a relatively good quarter when you look at it from that perspective. So most people were pleased to see that. But when I think about the magnificent seven or all these tech stocks that have really had a good run over the last 14, 16 months, but also correspondingly had a really rough 2022, it sort of makes me think back to other companies that have had really dominant runs and dominated their industries like Nvidia does.

I mean Nvidia really is the company to go to when you're thinking of AI and the chips that are needed to get the computing power to be able to use AI to your advantage if you're a corporation. But when you think back about other companies that had that type of dominating share of a particular industry or product, there's no guarantee that those companies will continue to outperform. So we get that question quite often is why don't we allocate more money to whatever investment category is doing best? And that's a little bit like chasing your tail in terms of investment performance. There's a lot of pretty clear evidence that maybe that works in the short term, but in the long run, you're probably going to result in lower returns if you constantly try to go buy whatever has done really well looking backwards, that's sometimes we'll use the example that's like driving a car by looking in the rear view mirror.

That's obviously not how you want to drive a car unless you're backing up. That's not how you want to drive a car. You need to look forward and see what's in front of you. And you kind of see this in disclosures all over the place, right? That classic statement, past performances, no guarantee of future returns, that really couldn't be more true. And it doesn't necessarily mean that the companies that have done really, really well in the last 12 months don't continue to grow or continue to have positive returns. It just may mean that you should temper your expectations and that the most likely scenario actually is that at some point they start to cool off. But we actually like to point out to this visual and example that we have from our friends at Dimensional Fund Advisors, which points back actually to the old Blackberry story.

And Blackberry, for those that don't remember, was dominant in the phone business 15 years ago. And now this was before Androids and iPhones, but Blackberry went from dominating the industry to very quickly not dominating the industry as the iPhone came out and eventually Android phones came out from Google. And this is just one example. So you can see the visual of what happened to Blackberry's trailing 12 month sales and how they dropped off in a major way over the last 20 years. They were doing really well all the way until 2011, and then they came down quite a bit after that. But that's just one example. Those all sorts of examples throughout history of really large companies like top 10 stocks in the US companies that were doing amazing numbers, amazing returns, amazing profits, and then things changed very suddenly. AOL is a good example from the late nineties.

And actually if you go back to early 2003, the very earliest of social media days, some of you may remember MySpace, and then 2003 actually the most popular social media network was Friendster. And many of these things don't even exist anymore, let alone or anywhere close to the largest or most profitable or most dominant company in whatever industry they have. So it's not so much a knock, I'm not certainly not trying to knock the businesses of today's companies that are doing really well. I think it's just more of a reminder that just because something has done really well is no guarantee that it'll continue to do well or continue to dominate. None of us can really predict how future innovation, new startups, future economic challenges or changes, global changes, regulatory changes, how any of that may impact some of today's largest companies. And that really goes back to the whole underlying idea of diversification.

So we thought it would be useful to sort of walk through and remind people of some of those past examples. And it doesn't mean that we're changing our allocation to us large stocks in anymore anyway. It just means the case against increasing allocation there is that we don't want to chase our tail in terms of performance. That's generally a bad idea, but also that we should sort of temper our expectations about will that category continue to deliver the type of returns it has in the last 12 to 16 months. And the underlying reality is we should probably temper our expectations on that particular category. So to pivot a little bit, we wanted to also speak for a short period of time here about a common question that we get every two years, but even more so every four years, which is election years. So not only election years when you have midterms, which we get some questions on, but a ton of questions in presidential election years about should we change our strategy?

What if this party wins? What if that party wins? And let me be clear, no part of what I'm going to talk about now has to do anything with the particular candidates or policies or any of the moving parts there. All of that is very important for all of us. But from a investment perspective, should we consider doing something different with our strategy? Should we take more risk, less risk? Should we change the mix of what we're putting where? And I want to point to some of the visuals that we have on the history of stock market returns during democratic presidents and Republican presidents and mixed control in Congress versus Republican control versus democratic control. So to start from a big picture standpoint, if we zoom out over the approximate 97 years of quality stock market data, we have this visual shows how the stock market has performed over every president's reign throughout history.

And I think that the trend is pretty clear. The stock market for the most part is detached from who's president and which party's in control the stock market. There are so many variables that impact the stock market and so little impact that the president has on the stock market. I mean, I would argue, I don't want to say none, but pretty darn close to nothing thing because just try to even digest when we're talking about the stock market, the global stock market, you're talking like 10,000 companies, something like 3,500 of which are in the us. So a whole bunch outside the US that obviously don't have a huge effect on who's president in the us. But even the ones that are located here, there's just very limited impact that the president can have on those companies and the CEOs of those companies, rightfully so doing their job to try and navigate the regulatory and tax and legislative landscape that may impact their companies.

So they're going to work every day making decisions about how can they run their business best, whether that's trying to cut costs or trying to innovate or trying to increase their sales or increase their profit margins, whatever the case may be, they're going to do that no matter who's president. And that's going to have a bigger impact, much, much bigger the impact than who actually is president at any given moment. So the stock market trend is clear that over the long run, it does not make a material difference which party is in control of the White House and you shouldn't make investment decisions based on that. And then if I can take it one step deeper, when we talk about who's fully in control, when you look at the White House, the House and the Senate, that we have all sorts of different timeframes here on this visual, but the trend kind of still remains clear that the stock market is going to continue, its chug forward as companies continue to again try and increase profits, increase sales, cut costs, innovate, become more efficient.

That slow boring trend is the constant undercurrent of the stock market, and it's something that you don't hear about every day, you don't think about every day doesn't make the news. And why would it? Companies are doing it every day. It's expected to be done. And so that undercurrent continues no matter who's in charge of the White House or Congress. So that's kind of the leading principle in terms of our attitude that we should not change our investment strategy. We should not change the level of investment risk we take up or down just because it's an election year and just because one party wins or another party wins. But even beyond that, when we think of election years, generally election years tend to have fairly similar returns to any other year. If you look at what has happened in election years investment performance wise and what has happened in non-election years, the return differences are barely noticeable in any way.

Don't get me wrong, there might tend to be a little more volatility around the election, but generally, and this is no guarantee, but generally after the election is over, no matter who wins, there tends to be a little bit of a relief rally in the stock market particularly because that's just one less thing to worry about. One less thing to think about as to who's going to win once that part is over, it's not so much who won, it's just that it's over. And sometimes that can be sort of counterintuitive. But in terms of how the investment markets move, particularly stocks, stocks do not like uncertainty. And obviously an election is uncertainty. So once that's over, it makes sense that the markets might be relieved that we just don't have to think about that part anymore. We can go back to focusing on everything else.

And the things that ultimately do determine the movement of stock prices, which would be corporate profits. If Microsoft comes out and says they earned a lot more money than what everybody thought they were, that's going to move the price of Microsoft stock as it should. That's how it should work. So long story short, we know it's an election year. We know there'll be questions about it, we're always happy to discuss it and discuss your own portfolio and how your retirement projection is looking and how your financial situation is and how you are on pace to meet your financial goals. But in terms of should we do something different, almost certainly the answer is no unless there's some other variable that has changed in your personal financial situation. So with that, that's the investment market commentary. I would also add, since we

Are now done with tax season, for those who have filed by April 15th, if you haven't already, please send along a copy of your 2023 federal and state tax return, which is extremely useful for us to not only review for its accuracy to make sure that there's no issues there, but more importantly to make sure we're doing all the things that we can to help lower your taxes. There's no dollar saved, like a tax dollar, and so it can be one of the most valuable things we do is having your tax return, reviewing your tax return, and helping you with tax planning to figure out how to minimize the amount of taxes you owe. And so if you haven't sent us the returns, please send them along. As always, if you have any specific questions, then please feel free to give us a call or send your advisor an email and we'll be happy to answer those. Or if you'd like to schedule a review meeting, obviously just give us a call and we can get that scheduled. And with that, this is the first quarter 2024 commentary. I'm Steve Elwell and we'll talk to you next quarter.