February 4, 2024

Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Bitcoin	Gold	Crude Oil
38,654	4,959	15,629	1,963	4.05%	42,918	$2,045	$72.41

Investment Strategy Report

Stocks Continue Their Sprint Higher Despite Hawkish Fed

Stocks have continued their run higher in 2024, adding to their substantial gains in 2023. When I titled last month's newsletter with the forecast of double digit returns for this year, little did I figure that we would come close to reaching that target barely 5 weeks into the new year. While the S&P 500 and Nasdaq are up about 4% thus far in 2024, our top performing growth funds have begun the year with gains of from 7 to 9%! What makes this stellar start even more impressive is that these gains have come despite a hawkish Federal Reserve that is bent on throwing cold water on the US economy.

Coming into this past Wednesday's Federal Reserve meeting (1/31), the market was pricing in a Fed rate cut by March. But Fed Chairman Jerome Powell squelched those hope on Wed. during his post meeting comments. The Fed continues to adopt its restrictive monetary stance despite the fact that the Fed Funds rate, currently at about 5.4%, is about 140 basis points above the yield on the 10 year Treasury note. In addition, these high interest rates are causing stress in the regional banking system, as evidenced by the recent 50% drop in the share price of New York Community Bancorp. While the Fed chairman's comments sent stocks scrambling at first, they have since recovered and ended last week with a surge higher. It seems like market forces are able to overcome the decisions of a bunch of Ph.D. economists.

For those of you who think that a rising stock market means that it's time to take profits, listen to my sad story. Back in October, when Meta (Facebook) had dropped to about $288 a share, I thought that it would be a good time to buy some shares (with my play money). Less than 2 months later, it hit $342 a share, and I decided to lock in my near 20% profit (after all, how much higher could it go). Here we are, 6 weeks later and Meta shares closed on Friday at $475 a share, after an 80 point one day gain. Lesson learned. Trying to time the market is tougher than it seems. Investing in the stock market is a long term proposition. And a rising stock market is never a reason to sell.

Even with an uncooperative Fed, the stock and bond markets still represent sound long term opportunities. Inflation is coming down, earnings growth continues to be strong, and the long anticipated recession still is no where to be seen. On 1/29, Tom Lee of FundStrats stated on CNBC that the stock market is getting stronger. As an example, he pointed out that during the previous week, the price of Tesla stock dropped 11%, yet the S&P 500 and the Nasdaq finished the week higher. Dean Christians of Sentimentrader.com (1/5/24) wrote that "economically sensitive high-yield bonds flash a green light for stocks". "Market breadth for high-yield bonds suggests broad upside participation, and that's a good thing for stocks, … with an annualized return of 14.7% [projected]".

The one soft spot in stock prices has been the underperformance of small cap stocks. They have lagged the performance of large cap stocks for years now and currently sit at a historic level of undervaluation compared to their large cap peers. They showed signs of life in last year's 4th quarter, and seem poised to take off. Tom Lee predicted in his 2024 forecast that small caps could rise 50% this year. In the Jan. 29th issue of Barron's, Jacob Sonenshine stated that "after the recent decline, it's time to buy small caps". "With small caps that cheap (13.7 PE ratio vs. 19.8 for the S&P 500), it won't take much to lift them higher". "Cheap valuations? Solid growth? It's time to buy the little guys". The only thing holding them back is the Fed's restrictive policy, since there is a large percentage of financials in the small cap index. However, the Fed will begin cutting rates at some point this year, and the huge potential that small caps have can soon be realized.

Money Market Funds - For the past year, we have been taking advantage of the rise in short term yields to invest in the Schwab Value Advantage fund. After years of near 0% yields, the yield in this enhanced money market fund rose to 5.2% in early 2023. For those of you who wanted to park some cash in a safe investment, while wanting to avoid any exposure to the stock and bond markets, this option proved to be a viable alternative. However, while the Schwab website currently lists the yield on this fund as 5.21%, the actual return over the past month for those of you with this fund has been closer to 2.6%. Short term interest rates have been dropping since they topped out at over 5% this past October. I will look into this further and determine what the actual yield on this fund is. But for those of you with substantial amounts in this fund, consider that our ultra conservative short term bond fund is up about 7% over the past 12 months. *Jeff Feldman*