March 3, 2024

Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Bitcoin	Gold	Crude Oil
39,087	5,137	16,275	2,076	4.18%	61,955	$2,092	$79.81

Investment Strategy Report

Stocks Hit Record Highs As All Asset Classes Make Gains

It's tough being an investor these days, which might seem strange for me to say since we closed this past Friday at record highs. 2022, you would argue, that was a tough year for investors, as stocks kept on falling as the Fed kept on raising rates. But the Dow and S&P 500 have already erased the 2022 losses and have climbed to new highs. The Nasdaq, which from its 11/15/21 peak of 16,057, fell to a 12/28/22 low of 10,213, a 36.4% drop, has now climbed almost 60% to surpass its 2021 high, and now sits at a new record high of 16,275. Even the lagging small cap Russell 2000 has seen a recent spurt higher, as it has gained 8.5% from its mid January low. And I'd be remiss if I didn't mention the exponential move higher for Bitcoin, as it has exploded 44% higher just in the last month alone!

So why do I say that it's tough sledding for investors as we sit at record highs? Because investors are always fearful that what goes up, must come down. The ideal investment is to buy after a steep decline, get in at the bottom, and then watch it climb higher. But once we've seen huge gains, how much higher can prices go? In this week's Barron's, Ben Levisohn's column is titled "Sure, It looks Like A Bubble. What If It's Just a Bull Market?" He writes that "Searches on Google for the words "stock bubbles" have reached their highest level since January 2022". And "strategists are fielding questions from worried clients on just how frothy the stock market is". He goes on to list more reasons why investors are worried: 1) Stock valuations are too high, 2) the Fed isn't going to cut interest rates as many times as previously thought, 3) a large percentage of stock gains are attributable to only a small group of stocks, the "magnificent 7", etc. He quotes BofA's Savita Subramanian who says that fund managers are also bearish, that they are hedged against everything except for a positive market outcome. He then states that "It's time to stop worrying", and then goes on to say that the economy is doing well and inflation is coming down. "Instead of expecting the worst, investors should just accept that the bull market that began in October 2022 is only half over, at least based on history".

Of course, I've been optimistic about the stock market for quite a while now (I know what you're thinking, but you can check my letters in the Archives section of my website's Monthly Newsletter page). In my January letter (written 12/31), I titled it "Stocks Are Poised For Double Digit Returns in 2024". Already in 2024, the S&P 500 is up 8.0% and my 4 growth funds that I use in our portfolios are up 10.6%, 12.9%, 13.6%, and 14.5%. And despite the fact that the overall market has almost hit the double digit market barely 2 months into the year, the analysts I follow still see more gains ahead. Chris Verrone from Strategas cites (CNBC on 2/26) that the market is not worried about rising interest rates because interest rate sensitive sectors like small cap biotech are doing well. He added that the market strength is broadening out with 75% of the S&P 500 above the 200 day moving average and the equal weight S&P 500 is making 2 ½ year highs. He also said we are in the middle of a global break out, with stocks hitting new highs in Europe as well.

I have relied on the optimism of Fundstrat's Tom Lee over the past year to help formulate my views, and he is still bullish. He feels that there is still "a lot of gas in the tank" as large amounts of cash are still on the sidelines. This coupled with the fact that there is still a lot of negativity out there means that good news is still not price in. "There are no signs of a top near term."

And the analysts at Sentimentrader.com are still finding reasons to remain invested. On 2/26, Jason Goepfert wrote "Several technical warning signs have been popping up over the past month or so, yet the indexes continue to recover quickly from even the slightest pullback. This is classic bull market behavior". On March 1st, Dean Christians wrote "the Nasdaq Composite closed at a new record high, signaling a robust resurgence in the tech-heavy index, underscoring broad market strength".

Money Market Fund – In last month's letter, I expressed concern about the Schwab Value Advantage money market fund, saying that it appeared that its yield had dropped from about 5.2% to 2.6%. My mistake. What happened was that for the month of January, half of the dividend was paid out in December and only half paid in January, making it appear that the fund's yield had dropped. The actual yield of the fund has stayed high, currently at 5.18%. My apologies for the confusion.
Jeff Feldman