

December 1, 2024

Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Bitcoin	Gold	Crude Oil
44,911	6,032	19,218	2,435	4.19%	97,200	\$2,683	\$68.59

Investment Strategy Report

Post Election, Stocks Move Higher Led By Small Caps. Bitcoin Surges.

Investor anxiety was high prior to the Nov. 5th election, and I'm sure that that feeling was shared by many of you. Now that the election is behind us, market volatility is down and market prices are up. Since Nov. 5th, the S&P 500 and the Nasdaq are each up over 4%, the Dow Jones has surged 6.4%, and the small cap Russell 2000 is leading the pack, up a very substantial 7.7%. Either the markets liked what they saw election night, or the removal of the uncertainty gave the markets a lift, or both. Either way, the uptrend that we have been in for the last 2 years continues, with no let up in sight.

One concern for stocks that has been allayed in the past few weeks has been the back up in interest rates. As I wrote last month, the yield on the 10 year Treasury note, which had dropped into the 3.6% to 3.7% range during the past few months, had risen to 4.31%. I continued by saying that based on the work of one of the analysts I follow, I expected that the rise in rates would not continue. The 10 year rate did peak about a week ago at 4.45% but has since come down, to its present level of 4.19%. What seemed like a head wind can very well turn into a tail wind if interest rates continue to behave themselves. I think that this will be the case as inflation continues to decline (or at least stabilize) and the excessive spending of the last few years comes to an end.

As I mentioned above, small caps are having a big month. For the month of November, they were up about 11%. I've been expecting a rebound for this sector for almost a year now. Despite some head fakes and false starts, they have had difficulty making their expected move, until now. While it's too early to tell whether this move is the real deal or another disappointment, their compelling valuations and superior earnings growth make them a bet worth taking. This is especially true in a market in which large caps are coming off 2 tremendous years of investment gains and in which the search for value might extend into a sector that has not experienced such large price increases. Another reason to consider small caps is that they very often behave opposite to, or at least are not highly correlated to, the movement of the rest of the market. This diversification means that adding them to an investment portfolio can have the double benefit of reducing overall risk while potentially increasing investment returns.

Tom Lee of Fundstrats (CNBC, 11/29) is a big fan of continued small cap outperformance. He also feels that the rest of the market can continue to do well with the incoming Trump administration. The market did well under the prior Trump term, he says, and he expects that a pro-business 2nd term will also bode well for the financial markets. He also quotes Wharton professor Jeremy Siegel as saying "Trump was the most stock market focused president ever".

Another bet that has proven financially rewarding recently has been that of crypto investing. As an example, Bitcoin is up over 40% since the election, as Trump is being seen as a more crypto-friendly President, with less regulatory intervention. Even with Bitcoin now approaching a price level of 100,000, Tom Lee thinks that the case for Bitcoin is even stronger now, with a lot more room to rise. This is because cryptocurrencies had been facing a highly regulatory, hostile government environment and will now face a much more friendly government environment, one which considers cryptocurrency a strategic sovereign asset. However, keep in mind that I do not directly invest in cryptocurrency for my clients due its highly volatile nature. For those who are looking for some exposure, you would need to let me know that you would like me to buy some for you.

One bet not worth taking, and one in which we haven't participated in, is investing in foreign markets. While just about every US sector has been rising the last few months, the only sectors down over that period are international and emerging markets. International investing has been a losing proposition for years now and there are no signs for any improvement any time soon. My strategy continues to be to avoid these areas until we see an indication of a turn around occurring.

IRA RMD Time (Continued) – There are still some of you who haven't taken your required IRA distributions (from traditional and inherited IRAs). The sooner you take care of this, the sooner that you (and I) can take this off your list of things to worry about. Thank you in advance 😊 *Jeff Feldman*