January 2, 2025

Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Bitcoin	Gold	Crude Oil
42,392	5,869	19,281	2,232	4.58%	96,929	$2,674	$73.20

Investment Strategy Report

After Another Banner Year, We Will Have To Be Nimbler in 2025

Stocks had another great year in 2024. The S&P 500 500 was up 25% last year, marking a second consecutive 20% plus annual performance. This is the first time we have seen consecutive 20% plus years since the late 1990's, when the S&P 500 was up over 20% for 4 consecutive years, 1995-1998. But don't think that everyone had such a good year in 2024. While the S&P 500 was strong, the Dow Jones was up only 14.8%. The S&P 500 value index was up only 16.0%. For those who thought that diversifying abroad was a good idea, European stocks were up only 4.3% and emerging markets were up only 6.9%.

What worked in 2024 was US growth, an investment strategy that you have heard me talk about for years now. The 4 growth funds that I have been using were up 35.9%, 35.8%, 34.9%, and 28.4% last year. The key to investing is that if you are looking to get higher returns by investing in equities, you want to make sure that you are rewarded when stocks do well. What good does it do to increase your portfolio risk by investing in stocks when you only earn 4% during a favorable stock market year?

Fund selection was also key when it came to bond funds last year. The Vanguard Total Bond Market Index fund was up only 1.1% in 2024, which would have been a significant drag on portfolio performance. The 3 bond funds that I have been using were up 5.4%, 5.3%, and 3.1% for an average return of 4.6%. This was pretty decent performance considering that the 10 year Treasury yield rose over 60 basis points last year (from 3.95% to 4.57%. Rising bond yields pose a headwind for bonds). With rates beginning this year substantially higher than last year, I anticipate that our bond funds can do even better in 2025.

Trying to forecast market returns for the new trading year is always a challenge. As I sit here midday into the first trading of the year, I feel like I'm swimming in an undertow, with cross currents all around me. The Nasdaq has had a range of 400 points and the S&P 500, 100 points, and we're only half way through the trading day. It's like runners in a race, jockeying for position, to see who will get off to the best start. But of course, one day of trading does not make a trend, especially when the markets always do their best to throw us off track. Also know that just because stocks did well for the last 2 years, doesn't mean that they can't continue with their winning ways. Imagine if you had sold stocks at the end of 1996. You would have missed out on 3 years of amazing returns.

The investment strategy that usually makes the most sense is to follow the trend. A trend in motion tends to stay in motion, unless acted on by some force (I defer to Newton's first law of motion). So until we see some change in trend, or some external force changing the market environment, staying the course is probably the best strategy. Will 2025 be the year of the small caps? They are outperforming today but let's see if this continues. I do feel that regardless of which US sector takes the lead, US stocks in general are poised for another good year. Tom Lee of Fundstrats (CNBC, 12/30) feels that we are heading into the new year having significant tailwinds. We are still in a bull market despite the year end bearishness (probably stemming from the hawkish Fed statement on 12/18). The new administration is seen as being pro-business, which should re-ignite animal spirits. He sees inflation worries as being misplaced, as housing costs and auto insurance costs are both cooling. He also feels that the Fed is signaling that wages, the main driver of inflation, should not be a concern.

My friend David Rosenberg (I met him at a conference) also does not see inflation as a threat (CNBC, 12/30). He sees deflation as being a more likely outcome this year. If true, this would lead to lower interest rates and a good year for bonds (and another reason to move from money market funds to bond funds. See below).

Schwab Money Market Yield – For those of you who have a significant amount of money in the Schwab Value Advantage money market fund, the yield has dropped to 4.27%, down from yields of over 5.3% earlier in 2024. I expect that we can get total returns of 5 to 6% this year in bond funds while taking only a small amount of risk. *Jeff Feldman*