Weekly Market Update

October 9, 2023

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"In the end,
what we regret most
are the chances we never took."

~Frasier Crane
(Kelsey Grammer) in "Frasier"

Market Watch

Week Ending Oct. 6, 2023

(Source: Briefing.com)

• DJIA: *2023 YTD 0.80%*	33,407.50	-100.00
• NASDAQ: *2023 YTD 28.30%*	13,431.30	212.00
• S&P 500: *2023 YTD 12.20%*	4,308.50	20.45
• Russell 2000: *2023 YTD -0.90%*	1,745.56	-39.54
• 10 Year Treasury:		4.78%

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Dave's Weekly Commentary

Good morning, everyone! Last week brought in some cooler weather, great football games, and a very well-executed Beavercreek High School reunion for me and many others who traveled from both near and afar. I enjoyed a little golf with a few of my classmates, as well as meeting up this past Friday evening with a few friends whom I have not seen in many years. One of those friends whom we lost contact with was in Nancy and my wedding some 35 years or so ago. All I can say is how fast time passes, as it seems just a short time ago, I was working at the IGA on North Fairfield Road (the owner's son and I reminisced at our reunion) and as a young man trying to figure out what life's journey had in store for me. I think of the lyrics of a song from musician Joe Walsh," Life's Been Good to Me So Far," as I reflect upon the journey.

Onto Earnings. We are approaching earning season, and as the saying goes, when one door closes, another one opens. The door to the third quarter closed a short time ago, which means the door to the fourth quarter has been opened. We cannot know with certainty what the fourth quarter will bring, but we do know with certainty that it will bring another earnings reporting period. It will be the third quarter earnings reporting period, and that period, in our estimation, starts officially with PepsiCo's report on October 10.

The earnings performance of the S&P 500 has not been good for a while now. In fact, earnings have declined on a year-over-year basis in each of the last three quarters. If keeping score at home, that is not a winning streak. The latter point notwithstanding, the S&P 500 has been on a winning streak for most of that time, which dates back roughly to the third week of January, thanks to the outperformance of the mega-cap stocks. The market-cap-weighted S&P 500 has increased approximately 8% over that span, yet the equal-weighted S&P 500 has been more in tune with the losing streak for S&P 500 earnings. Over the same period, it has declined approximately 6.0%.

The stock market has hit a rough patch in recent weeks. Since the end of July, the market-cap weighted S&P 500 and equal-weighted S&P 500 have declined 6.1% and 9.6%, respectively. That pullback has been part of a normal consolidation process after a big run, but it has been catalyzed in more recent weeks by the large jump in long-term rates.

With the start of the third quarter's earnings reporting period approaching, the market-cap-weighted S&P 500 trades at 17.8x forward 12-month earnings, which is slightly ahead of its 10-year average (17.5). The equally weighted S&P 500 trades at 14.1x forward 12-month earnings, which is nearly a 20% discount to its 10-year average (17.6). There has been multiple compression driven by rising interest rates that have stirred valuation angst and have posed a competitive headwind for stocks. That valuation angst is tied up in worries about future earnings growth and those worries have not registered in analysts' aggregate earnings estimates. This understanding is why the third quarter earnings reporting period holds added significance for any potential rebound effort. The reason is that third-quarter reports, in many cases, will contain guidance for the fourth quarter and maybe even for calendar 2024. It is those projections that will matter most, as they are the door to the market's assessment of whether current estimates will be revised higher or lower. If keeping score at home, higher is better than lower. We will see in the coming weeks.

Last week... The removal of Kevin McCarthy as Speaker of the House is likely to complicate the negotiations to avoid another government shutdown after November 17 since business in the House will be stalled until a new Speaker is elected. It is tragic that a small few can affect the many, and I'll leave it at that.

The first week of the new month brought somewhat mixed action for the stock market. The S&P 500 (+0.5%) and Nasdaq Composite (+1.6%) registered gains while the Dow Jones Industrial Average (-0.2%) and Russell 2000 (-2.2%) declined. Mega cap performance offered support to the broader market this week, as evidenced by a 2.5% gain in the Vanguard Mega Cap Growth ETF versus the 0.5% gain in the S&P 500. Meanwhile, the Invesco S&P 500 Equal Weight ETF fell 1.2%. Eight of the 11 S&P 500 sectors closed in the red this week. The energy (-5.4%), consumer staples (-3.1%), and utilities (-2.9%) sectors saw the steepest declines while the heavily weighted information technology (+3.1%) and communication services (+2.9%) sectors closed with the biggest gains. The energy sector fell alongside WTI crude oil futures, which declined 8.8% to $83.04/bbl. That weakness was partially attributed to concerns about weakening demand in a slower-growth environment influenced by higher interest rates. The 10-yr note yield rose another 20 basis points this week to 4.78% and the 2-yr note yield rose two basis points to 5.06%. The move in yields partially reflected a recalibration of rate hike expectations following Friday's stronger-than-expected September employment report. Nonfarm payrolls increased a much more strongly than expected 336,000 in September (Briefing.com consensus 158,000), and that news was accompanied by upward revisions to July and August data that summed to 119,000 more jobs than previously thought. At the same time, average hourly earnings growth moderated to 4.2% year-over-year from 4.3% in August. Source: Briefing.com

Have a great week, Dave

Newsletter continues on the next page.

Autumn Vibes

October means fall is officially here, and crisper days and autumn-themed activities are filling our calendars. One of your activities may include visiting a pumpkin patch in search of the perfect pumpkin. More than 800 million pumpkins will be ripe for picking this month in the United States and will be used as festive porch décor, baked into fall treats, and more.

October 4th was **National Golf Lover's Day.** Believed to have been invented during the 15th century in Scotland, golf has become one of the most popular sports worldwide. Last year, over 41 million Americans participated in a golf-related activity, from hitting the links to enjoying a night out at an indoor golf simulator or entertainment venue.

October 9th is Fire Prevention Day, which raises awareness of fire hazards and promotes safety through education. Fall is an excellent time of year to check your fire preparedness, such as testing your smoke alarm batteries, making an appointment with a professional to have your fireplace cleaned, and reviewing home evacuation plans with household members in case of an emergency.

Do you have an inspiring and supportive boss? Being the boss can be a demanding job with many responsibilities to shoulder and little appreciation shown. Express your gratitude to them on **National Boss's Day, October 16th,** with a heartfelt card, offer to buy lunch, or chip in with your workgroup to give a thoughtful gift.

If your sweet tooth can't wait until Halloween, satisfy your cravings on **October 28th in celebration of National Chocolate Day**. This day celebrates all things chocolate – from hot cocoa to candies to decadent desserts. If you're looking for inspiration on how you can observe this holiday, check out these enticing chocolate dessert recipes.

Wondering what to hand out to trick-or-treaters this year for Halloween? According to a recent survey, Reese's Peanut Butter Cups are Americans' favorite candy, followed by 2) Snickers, 3) Milky Way, 4) Candy Corn, and 5) Payday bars, to round out the top five. However, candy is not a safe option for every child. In recognition of those who have food allergies or intolerances, consider placing a teal pumpkin bucket on your doorstep with non-food items, such as toys or trinkets. The teal pumpkin is part of the Teal Pumpkin Project, which advocates for a safer Halloween for all trick-or-treaters.

October is also National Financial Planning Month, a topic near and dear to our hearts. As we approach the end of 2023, if you're considering changes to beneficiaries, have questions about investment choices, or need to adjust your plan to accommodate changes in your financial situation, we're here to help you. As always, please don't hesitate to reach out if you need anything.

Planning Points *This article was prepared by AdvisorStream and is legally licensed for use by AdvisorStream.*

What is the FIRE movement?

At a time when many people feel like they're working more than ever, some are going to great lengths to never lift a finger again. The FIRE movement, which stands for Financial Independence, Retire Early, is a lifestyle and financial strategy that aims to empower people to break free from the traditional career trajectory, to retire early and pursue their passions.

It's built on the foundation of disciplined saving, investing, and living frugally, with the ultimate goal of achieving financial independence at an early age, often in their 40s.

Those who embrace FIRE focus on accumulating sufficient assets to sustain their desired lifestyle without relying on traditional employment income.

Key principles are:
1. Accelerated saving: FIRE enthusiasts typically aim to save a significant portion of their income, often 50% or more. This aggressive savings approach allows them to accumulate wealth rapidly.
2. Frugal living: Living below one's means is a cornerstone of the FIRE movement. FIRE followers prioritise spending on what truly matters to them while cutting back on non-essential expenses. This can involve budgeting, minimising debt, and embracing a minimalist lifestyle.
3. Investing wisely: FIRE achievers understand the power of compound interest and often invest in a diversified portfolio of stocks, bonds, and other assets to grow their wealth over time.
4. Financial independence number: To determine when they can retire, FIRE adherents calculate their. Financial Independence Number (FIN). This is the amount of money needed to cover their desired annual expenses, typically using the '4% rule', which suggests that withdrawing 4% of your investments annually should be sustainable over the long term.
5. Side hustles and passive income: Many FIRE advocates explore side hustles or passive income streams to accelerate their journey. These additional sources of income can help them reach their financial goals faster.

History of the FIRE movement The FIRE movement can trace its roots to the 1992 book 'Your Money or Your Life' by Vicki Robin and Joe Dominguez. The book encouraged readers to question their spending habits and prioritise financial independence.

However, the movement gained widespread recognition through early FIRE bloggers and pioneers such as Pete Adeney, who blogged under the name Mr Money Mustache. They shared their personal stories of achieving financial freedom and offered practical advice for others looking to do the same.

Types of FIRE Within the FIRE movement, there are various approaches and strategies:
1. Lean FIRE: Lean FIRE adherents focus on the bare essentials and aim to retire with a minimalistic lifestyle. They prioritise frugality and often have lower financial independence numbers.
2. Fat FIRE: Fat FIRE enthusiasts, on the other hand, aim for a more comfortable and luxurious retirement. They may choose to work longer or accumulate more wealth before retiring to support their desired lifestyle.
3. Coast FIRE: Coast FIRE people have saved enough money in their early years, allowing them to 'coast' or work less in their later years while still achieving their financial goals.
4. Barista FIRE: Barista FIRE combines part time or flexible work (e.g., working as a barista) with financial independence to sustain a desired lifestyle.

What are the downsides? Although achieving FIRE has multiple benefits, the movement is certainly divisive.

Some people have accused it of encouraging workaholism and an 'all work and no play' mentality. After all, while the end-goal might be to never work again, most people have to do a lot of overtime to get to that point.

And if they want to achieve financial freedom because they dislike their job, they can end up putting themselves under incredible stress in the meantime. Some people consistently work 12 hours shifts, avoid socialising with friends and become obsessed with counting every penny.

It's wise to plan for the future, but a balance needs to be found. After all, tomorrow is not guaranteed.

Making FIRE work for you You can join the FIRE movement without following a strict set of rules.

Instead of copying other people's success, why not adapt the movement's key principles such as paying off debt, investing as much as possible and increasing your income in a way that suits you? Full financial independence doesn't have to be achieved. With careful planning and good financial advice, you can find a way to make the most of your life in the present while saving for the future.

You might not give up work completely, but financial security can give you more freedom and control than ever before.