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FROM THE DESK OF
KEN SOUTH

Our team adheres to a set of principles designed to provide an exemplary client experience.

We believe the trust of our clients is earned over time and remains our most important asset.

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We take great pride in the professional quality of our work. Exceptional client service that is proactive, thoughtful, and customized.

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Competitive investment returns with a focus on risk management.

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Sophisticated financial planning — an essential pillar in the development of your customized investment strategy.

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We believe in continuous improvement. As our clients' needs change, we learn and adapt.

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We stress teamwork in everything we do and remain accountable for our responsibilities.

—

Integrity and honesty are at the heart of our business. Integrity: we do what we say we're going to do, full disclosure and no surprises.

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Honesty means we give it to you straight, even if means having a difficult conversation

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We regularly receive confidential information as part of our normal client relationship. It is our responsibility to protect against the unauthorized disclosure of this information.

March, 08, 2023

Up Early After Down Year Suggests 'Buy-The-Dip' March, April

To follow our short calendar for the year 2023 so far, the S&P 500 ended February down ~2% and the weakness has given fuel to the media to espouse that many investors have returned to full "bear" mode. The fact that investors are so quick to flip to the cautious is a sign that sentiment is still quite fearful. The Ides of March, this year on March 15th, is a full moon. Don't ask me why, but for some reason, emotions can run spectral during full moons.

"Ides" simply refers to the first full moon in the lunar calendar, typically falling between the 13th & 15th. Historically, this was often a time of celebration and rejoicing. Reflecting on this past month, if investors were constructive, the narrative would be "buy the dip." Instead, however, the drumbeats are pounding hard once again for higher interest rates due to stickier inflation and a deeper expected recession as a result.

Many investors equate investing the same as being about to walk into boiling oil with conviction based upon the "hot" inflation and the exceptionally strong January labor report. But as I've noted on many occasions, there are reasons to view January 2023's strength in inflation as a countertrend. Moreover, February was set to be a *Payback Month.* There's good news, the setup for March is entirely different.

PAYBACK (aka Calendar): February = Payback. March + April = Fire

As you know, we are using the composite of the "rule of 1st 5 days" as the template for 2023 — this is a calendar template. February is a "payback" month:

- Of the seven precedent instances, February was up only 57% of the time, which is the worst of any calendar month.
- February returns a median gain of +0.2%, the worst of any month.
- Many investors consider February a month they, arguably, won't experience gains.
- February 2023 validates this template is still valid.

But let's take a look at the calendar statistics once again and what it says about "Payback February."

Rule of 1st 5 Days: Feb is payback month

Returns for all years with first 5D >1.4% and neg prior year
Since 1950. N = 7. Average, median, and win ratio excluding 2023

ALL YEARS SINCE 1950 WITH NEG PRIOR YEARS & >1.4% FIRST 5 DAYS

Monthly Performance

	Day 5 --> Jan End	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1958	1.7%	-2.1%	3.1%	3.2%	1.5%	2.6%	4.3%	1.2%	4.8%	2.5%	2.2%	5.2%
1963	2.3%	-2.9%	3.5%	4.9%	1.4%	-2.0%	-0.3%	4.9%	-1.1%	3.2%	-1.1%	2.4%
1967	4.6%	0.2%	3.9%	4.2%	-5.2%	1.8%	4.5%	-1.2%	3.3%	-2.9%	0.1%	2.6%
1975	9.9%	6.0%	2.2%	4.7%	4.4%	4.4%	-6.8%	-2.1%	-3.5%	6.2%	2.5%	-1.2%
2003	-6.0%	-1.7%	0.8%	8.1%	5.1%	1.1%	1.6%	1.8%	-1.2%	5.5%	0.7%	5.1%
2012	2.5%	4.1%	3.1%	-0.7%	-6.3%	4.0%	1.3%	2.0%	2.4%	-2.0%	0.3%	0.7%
2019	5.0%	3.0%	1.8%	3.9%	-6.6%	6.9%	1.3%	-1.8%	1.7%	2.0%	3.4%	2.9%
Average	2.9%	0.9%	2.6%	4.0%	-0.8%	2.7%	0.8%	0.7%	0.9%	2.1%	1.2%	2.5%
Median	2.5%	0.2%	3.1%	4.2%	1.4%	2.6%	1.3%	1.2%	1.7%	2.5%	0.7%	2.6%
Win Ratio	86%	57%	100%	86%	57%	86%	71%	57%	57%	71%	86%	86%
2023	4.7%	-	-	-	-	-	-	-	-	-	-	-

Feb = payback = ouch

Source: Fundstrat, Bloomberg

With February in the rear-view mirror and the rest of the statistics still firmly in place, we can make some judgments about what comes next.

The next eight weeks is a time for "buying the dip," as far as historical data is concerned. This statement does not account for the Fed's current tilt and the still overabundance of capital sloshing around. But this same template says March + April should be very good months for stocks:

- 7-of-7 times March is a gain (Win-rate is 100%).
- The median gain of March and April is the strongest.
- Even stronger than January.

Hence, we think the next eight weeks is a period of "buy the dip."

In the table below I have put a red box around the normal March / April period expectations, again, going back to 1950:

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Rule of 1st 5 Days: March + April = Fire

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1975	9.9%	6.0%	2.2%	4.7%	4.4%	4.4%	-6.8%	-2.1%	-3.5%	6.2%	2.5%	-1.2%
2003	-6.0%	-1.7%	0.8%	8.1%	5.1%	1.1%	1.6%	1.8%	-1.2%	5.5%	0.7%	5.1%
2012	2.5%	4.1%	3.1%	-0.7%	-6.3%	4.0%	1.3%	2.0%	2.4%	-2.0%	0.3%	0.7%
2019	5.0%	3.0%	1.8%	3.9%	-6.6%	6.9%	1.3%	-1.8%	1.7%	2.0%	3.4%	2.9%
Average	2.9%	0.9%	2.6%	4.0%	-0.8%	2.7%	0.8%	0.7%	0.9%	2.1%	1.2%	2.5%
Median	2.5%	0.2%	3.1%	4.2%	1.4%	2.6%	1.3%	1.2%	1.7%	2.5%	0.7%	2.6%
Win Ratio	86%	57%	100%	86%	57%	86%	71%	57%	57%	71%	86%	86%
2023	4.7%	-	-	-	-					-	-	-

March + April = Fire

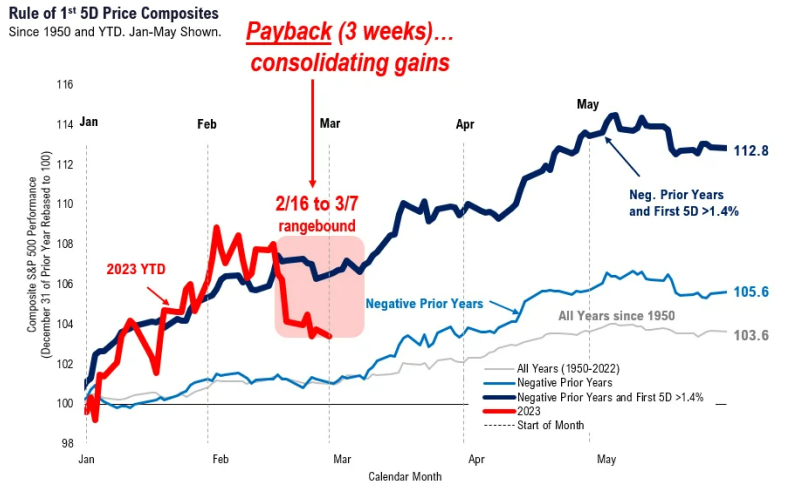
Source: Fundstrat, Bloomberg

Just to be even more pointed for those tactically focused, this composite below shows March 7 is the ideal window.

This coincides with Mark Newton, *Head of Technical Strategy at FundStrat,* who sees markets chopping here near term until this period, but this softness is a buy-the-dip moment, as the next eight weeks should be among the strongest

Again, I have put a box around the digestive period we are in the midst of and then, historically, what could happen next.

PAYBACK: Rule of "1st 5 days" says around March 7… coincides with NFP



Source: Fundstrat, Bloomberg

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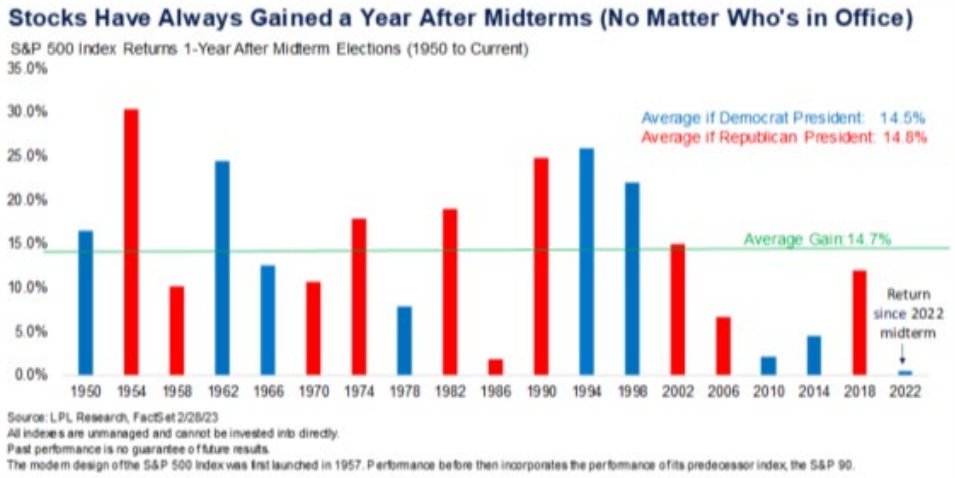
I have focused thus far this year on calendar expectations. This is not taking into account the current economic and monetary cards we have been dealt, but I feel it is important to recognize these statistics when they are compelling. Also, the markets are a discounting mechanism. This means that the current prices are reflective of what the expectations are, not what has happened based on the economic reports that are being reported.

I am not ignoring that the Fed still has its foot firmly on the brake and that the Fed is not one that it makes sense to fight with, but at times markets, sectors, and individual names decline to an extent that value appears to have been forgotten as fear has become so all-consuming. I believe that many are still so used to the continued upward moves in the market that they are struggling to understand that markets do go through periods of digestion. These periods have proven, historically, to be periods to take advantage of, not periods to fear.

As I highlighted at the end of last week's letter, illustrated that before the midterm election last year, a favorable historic longer-term trend for stocks could ensue, and looking at returns a year after the midterm election could be profitable. Since 1950, stocks have had a positive return one year after the midterm election every single time, with an impressive average of almost 15%. So far, since the midterm election, stock returns are positive, just by 0.5%, but there is still a long way to go to November.



Another positive sign from the current stage of the presidential cycle is that we have moved into the stage where historic trends have been a tailwind for stocks. Under new presidents, markets historically struggled in the second year coming into the midterms, as they did last year, before seeing strong returns in the second half of the presidential cycle. In data going back to 1950, year three of a new president's term has seen the best annual returns of the periods studied—posting an average gain of over 20%.

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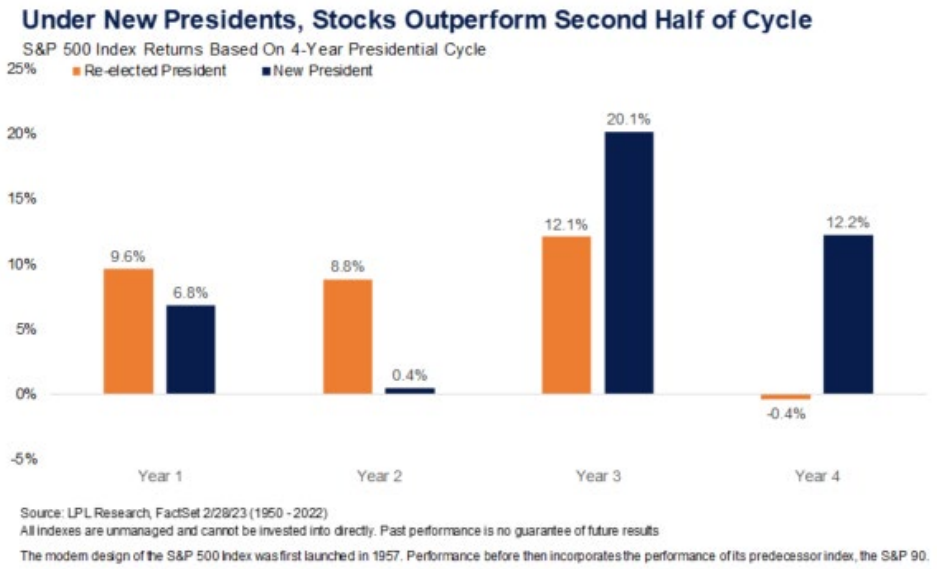

In summary, the immediate seasonal picture for March is mixed, but longer-term data around the stage of the presidential cycle is more positive, as are the strong returns that late March & April often brings.

I maintain a positive but cautious view on equities, as markets could remain volatile as the Federal Reserve tries to break the back of inflation without a deep and/or prolonged recession. Such a recession is not our base case, and we see a return to a lower volatility environment as likely, but based on current economic data, investors will probably have to wait until later this year for clarity on the ultimate destination of interest rates.

Meanwhile, besides flare-ups, international conflicts, counter-trend economic indicators, and prolonged debt-ceiling debates may cause flare-ups in volatility in the very short term.

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Important Disclosures:

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial professional prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

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Investing involves risks including possible loss of principal.

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors.

The Nasdaq-100 is a large-cap growth index. It includes 100 of the largest domestic and international non-financial companies listed on the Nasdaq Stock Market based on market capitalization.

The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

This information is not intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax advisor.

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