

"All journeys
have secret destinations
of which the traveler is unaware."

~ Martin Buber

Market Watch

Week Ending Feb. 9, 2024

(Source: Briefing.com)

• DJIA:	38,671.69	17.27
2024 1st QTR 2.60%		
• NASDAQ:	15,990.66	361.71
2024 1st QTR 6.50%		
• S&P 500:	5,026.61	68.00
2024 1st QTR 5.40%		
• Russell 2000:	2,009.99	47.26
2024 1st QTR -0.80%		
• 10 Year Treasury:		4.19%



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Dave's Weekly Commentary



Happy Monday and Pura Vita. Nancy and I are back from our warm weather vacation with some sun on our faces and well-rested. We enjoyed spending time with great friends, sharing wonderful meals and outside activities. I admire those who work in the airline industry who help all of us to arrive safely to those designations of choice. We arrived home late Saturday evening to get ready for the upcoming week (stopping by the office, writing this newsletter, opening mail, and reviewing this week's meetings, ...). We also picked up our other family member, Simba, (our black lab) so he could spend some time with us before we headed into a very busy week. Rather than talk about the Super Bowl, let's discuss the markets.

Coming off another good week in the markets, let's talk about valuations. This conversation often revolves around mega-cap stocks and how they keep increasing amid some seemingly ongoing buying interest that, to be fair, has been catalyzed by some seemingly incessant, good fundamental news. Their gains have carried the market, not only in terms of price and valuation, but also in terms of sentiment that has helped other growth stocks. This is why you also often hear the term "concentration risk" these days, which is to say everyone owns the same companies. If these stocks are sold in masse for whatever reason, the market -- defined as the market-cap weighted S&P 500 -- is going to have some big problems unless the rest of the market benefits at their expense. There could be room for the rest of the market to benefit at their expense, assuming the fundamental news doesn't turn against the entire market.

A Top-Heavy Market Now the market-cap weighted S&P 500 is trading at 20.4x forward 12-month earnings. That is a 16% premium to its 10-year average, which, as we have said in the past, has been established in a lower interest rate environment than the one seen today. The equal-weighted S&P 500, meanwhile, is trading at 16.4x forward 12-month earnings. That is in-line with its 10-year average, according to FactSet.

It's Not 1999 A popular refrain (which many of us lived through) is that the market is acting like 1999 (i.e., the irrationally exuberant stretch that culminated in the start of the dot-com crash in March 2000). The market isn't in 1999, but some stocks arguably are. In any case certainly not in terms of valuation for the S&P 500 information technology sector and here are some reasons why:

1. The technology sector trades at 28.4x forward 12-month earnings today. That is not cheap, as the chart also shows, but it's not even half the peak multiple seen in 1999.
2. The closer parallel in terms of valuation is 2022, which proved to be a very bad year for the tech sector, because of the Fed's aggressive rate-hike campaign.
3. We are now hearing from the Fed that it is likely at the peak of its tightening cycle and is eyeing the possibility of cutting rates later this year.
4. We didn't hear much about AI in 2022. The AI investment theme really got moving in 2023 and has served as the rationale that possible why the sector warrants a premium valuation.
5. The market will continue to decide if that's the case, but the general view is that returns on investment are generally lower when buying at a high valuation.

It Isn't a Stretch This leads us to the rest of the market, which lead to which needed to be seen for the sake of argument and it will be seen that valuations in most instances are not as stretched, relative to historical averages, as the valuation for "the market." All are stated in forward looking 12 month earnings of S&P 500 other non-tech sectors. Financials are trading at 14.9x, health care sector is trading at 19.2x, consumer discretionary sector is trading at 25.6x, communication services sector is trading at 18.5x, consumer staples sector is trading at 19.7x, real estate sector is trading at 17.1x, materials sector is trading at 19.3x, and the utilities sector is trading at 15.0x.

To make a point it is a big market out there, but the performance of the market's biggest stocks has skewed "the market's" valuation. Therefore, the market isn't necessarily overvalued like the market-cap weighted S&P 500. While investors have been slow to embrace the equal-weight S&P 500 is anyone's guess. Returns on investment are generally higher when buying at a low valuation. Everyone loves a winner, though, and the mega-cap stocks, in general, have kept winning. The point here is that they are crowd pleasers, which is why it can be a real problem if the crowd turns against them and doesn't find anywhere else to turn. That is the risk that confronts this remarkable "market" sporting a premium valuation.

Last week's markets It was another winning week for the stock market. Small cap stocks saw some rebound action after underperforming to start the year. The Russell 2000 jumped 2.4% this week. The S&P 500 closed above 5,000 for the first time. Many stocks participated, though, in a relatively broad advance. The equal-weight S&P 500 gained 0.5% this week. There still has not been any concerted selling interest despite reports that the market is overbought in the short term, which has acted as its own upside catalyst. Treasuries started last week in response to ongoing strength in economic data of late that has the market repricing rate cut expectations. Also, the annual CPI revisions were released this week, garnering added attention due to potential implications for the Fed's rate cut path. Source: Briefing.com

Have a good week and Happy Valentine's Day. Dave

Newsletter continues on the next page.

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2. Sign up for electronic bill pay and switch your magazine subscriptions to digital.

3. Get a preview of the mail you're getting that day by registering for [Informed Delivery by USPS](#). With some recent mail theft issues, it's nice knowing what's arriving right away if you're missing something. You simply get a daily email that let's you know what's coming that day. You can also use Informed Delivery to track USPS packages, leave delivery instructions, and reschedule missed deliveries (and it's all free).

4. Package related items can be tracked by registering with [FedEx](#) and [UPS My Choice](#) (also free!) to take control of your FedEx and UPS deliveries. Once registered you're notified when a FedEx or UPS package is coming your way and when it's expected to arrive, you can sign for a package online instead of having to reschedule a delivery and you can even provide preferences on where you want your packages placed. It's especially nice to have these notifications when you're on vacation so a package doesn't sit outside your house without you knowing about it.

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Planning Points By Jamie Johnson, Feb. 2, 2024. This Business Insider article was legally licensed by AdvisorStream. For more helpful articles, visit our blog at <https://www.smithmosesandcozad.com/blog>

Why do I owe taxes this year? 5 reasons you may not get a refund

Filing your taxes is a task that few people enjoy. But the frustration is worth it once you receive a refund. This year, however, many financial experts are warning that refunds will be smaller. You may even find yourself owing money instead of getting some back.

According to Logan Allec, an accountant and owner of tax debt relief company Choice Tax Relief, there are multiple reasons you may not get a refund. Let's look at five common reasons some people could owe money to the IRS.

1. You earned \$400 or more from a side hustle Increasingly, many people are earning money from a side hustle in addition to their full-time jobs. If your side hustle brought in more than \$400 in 2023 and you received that income through an app like Venmo or PayPal, you'll receive Form 1099-K from the payment platform in January.

Prior to 2022, you wouldn't receive a 1099-K unless you had received more than \$20,000 in payments or completed over 200 transactions with that payment processor, according to Allec.

But for the 2023 tax year, payment processors have to issue 1099-Ks to anyone who received more than \$400 in payments for goods and services, even if it was only one transaction.

2. You're self-employed If you're self-employed, you're responsible for paying your own quarterly taxes. Your estimated quarterly payments for 2024 are due on: April 15; June 17; September 16; and January 15, 2025.

If you underpay your quarterly taxes — or fail to pay them — you could owe money at the end of the year. And since you're obligated to make estimated quarterly payments, the IRS could charge you additional penalties and interest.

But you're not just paying income taxes. An employer must pay half of your Social Security and Medicare taxes when you have a job. If you're self-employed, you have to foot the entire bill yourself. However, you can deduct the employer-equivalent portion of that when figuring your adjusted gross income.

Quick tip: If you're self-employed, it's a good idea to work with an accountant. A knowledgeable accountant will determine how much you owe for your quarterly tax payments and can give you tips for lowering your tax bill.

3. You changed jobs If you've transitioned into a new job in the past year, this can have tax implications. "Changing jobs midway through the year will affect your tax liability if your income changed between the two jobs," Allec explains.

If your new job pays more and moves you into a higher tax bracket, you'll naturally end up owing more come tax season. But Allec says that changing jobs can affect your expected refund for reasons other than the change in tax liability.

"Let's say that halfway through the year, you go from a job making \$25,000 per year to a job making \$12,000 per year. Unless you prepare your Form W-4 in a specific way, that second job may not withhold any federal income tax from your paycheck because your \$12,000 expected total annual earnings are less than your standard deduction," he explains.

So while you paid your federal income taxes on the \$12,500 you earned during the first half of the year, you didn't pay any on the \$6,000 you made during the remainder of the year. This could cause you to owe money come tax time because you'll have to pay taxes on that \$6,000 since none were withheld during the year.

4. You collected unemployment Unemployment benefits are taxable, but most states don't automatically withhold your taxes. Benefit recipients can usually choose whether to pay taxes through withholding or by making estimated payments.

If you received unemployment benefits in 2023, you should receive Form 1099-G by the end of January so you can report the amount on your federal tax return. If you haven't paid any income taxes on the benefits you received, you may owe money when you file.

Quick tip: Make sure you file your taxes on time, even if you're worried you can't pay the full amount you owe, as the penalty for late filing is 10 times the penalty for late payment. The IRS offers various payment plans, which may help you avoid additional interest charges and penalties.

5. You sold stock or cryptocurrency Finally, if you sell investments in a non-retirement account and earn a profit, you could be on the hook for capital gains taxes. These investments include things like stocks, cryptocurrency, mutual funds, and exchange-traded funds (ETFs).

Any stock or crypto gains should be reported on your tax return. You'll be taxed on the difference between your basis (usually your purchase price, but sometimes that includes an adjustment) and the proceeds from the sale. The amount you're taxed will depend on how long you owned the investment before selling it and your total income for the year.

While taxpayers usually have to pay capital gains taxes on profits received from investments, Allec says there are exceptions, like if you have capital losses that equal or exceed your capital gains for the year. "If this is the case, you'll owe no capital gains taxes on your stock or crypto you sold at a gain because your capital losses will have wiped them out," he says.