Weekly Market Update

October 2, 2023

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*"Unless someone like you
cares a whole awful lot,
nothing is going to get better.
It's not."*

~ Theodor Seuss Geisel

Market Watch

Week Ending Sept. 29, 2023

(Source: Briefing.com)

• DJIA: *2023 YTD 1.10%*	33,507.50	-456.30
• NASDAQ: *2023 YTD 26.30%*	13,219.30	7.50
• S&P 500: *2023 YTD 11.70%*	4,288.05	-32.01
• Russell 2000: *2023 YTD 1.40%*	1,785.10	8.60
• 10 Year Treasury:		4.57%

Dave's Weekly Commentary

Good morning, everyone. Hopefully you all had a pleasant week and weekend. It was a calm and relaxing weekend for the Smith family. Besides writing this newsletter, I was caught up on most work-related tasks heading into the weekend. That was a big plus, we did not have set plans for the weekend and that doesn't happen very often.

After a very contentious and last-minute vote on Saturday, I guess Congress has 45 days to figure out what the budget should look like. The annual budget covers three spending areas:

1. Mandatory spending - funding for Social Security, Medicare, veterans benefits, and other spending required by law. This typically uses over half of all funding.
2. Discretionary spending - federal agency funding. Congress sets funding levels for these each year. This usually accounts for around a third of all funding.
3. Interest on the debt - this usually uses less than 10 percent of all funding.

The area of contention is usually over how discretionary spending is allocated, as mandatory spending and interest on the national debt are items which are mandated by law, or in the case of interest on the national debt needs to be paid. Hopeful the adults in the room will prevail and work out a compromise in November and not hold the American people hostage. Enough said.

So, this past week we also ended the third quarter of 2023, and while it began on a positive note, it certainly did not end that way, with September taking out all the gains that were garnered in July. So we are now rounding the corner and heading to close out the fourth quarter of 2023 on a positive note. This is the quarter we need to get out all those IRA RMDs out for those of you who have yet to take them for 2023.

Let's spend some time on this past quarter. The month of September has come to an end and so has the 3rd quarter of 2023. Sadly, it lived up to its reputation of being the worst month historically, on average, for the S&P 500, which was down 4.9% for the month, and turned the 3rd quarter from a positive quarter to a negative quarter, being down 3.65%.

As written in an earlier newsletter we felt the market was somewhat due for a consolidation period as it had gone a long way in a short amount of time. What surprised many as a catalyst for the September fallback was the rapid rise in interest rates. The yield on the benchmark 10-yr Treasury note, which had gone as high as 4.68%, had risen .48% this month to 4.57%, reaching its highest level since 2007, and month over month over an 11% increase.

What's next? There is supposed to be a soft landing for the U.S. economy. There still might be. The way long-term rates have behaved this month, though, one would have good reason to think that the economy isn't coming in for a soft landing, but, instead, is getting ready for take-off. The Atlanta Fed GDPNow model estimates for real GDP growth of 4.9% in the third quarter and if it is correct, one can rightfully say that the economy was flying high from July-September. What comes next is a source of great debate.

There are certainly some "issues" that could support the view that things should be slowing down:

- Student loan payments are set to resume October 1.
- Oil prices are high; and we could be faced with high gas prices.
- The U.S. government seemingly looks headed for a shutdown.
- The disinflation momentum has slowed.
- The UAW is about to enter its third strike week against the Big Three automakers.
- The Fed, ECB, Bank of England, and many other central banks all seem inclined to keep rates higher for longer.
- The lag effect of prior rate hikes has yet to show up in a meaningful way in a broad sense.

The higher rates what we have outlined above do not necessarily have to be bad for the stock market, especially if they are associated with stronger economic activity that could lead to higher earnings prospects. Higher rates, however, can become more problematic for the stock market, when they become the basis for safety in an uncertain environment. As an example, a 3-month T-bill now yields nearly 5.5%. The stock market historically has done better than that -- in the long term. It is the near term that is in question, and the elevated period of uncertainty were are now facing as investors. Stay tuned, and rest assured we will continue to keep on top of this situation and focus on continuing to help all of you reach your goals.

Last week's markets... The stock market settled the week mixed at the index level. Some rebound attempts throughout the week left the Nasdaq and Russell 2000 with slim gains while the Dow Jones Industrial Average and S&P 500 declined 1.3% and 0.7%, respectively. Market participants received some economic data this week, including a weaker than expected August new home sales report, a low level of weekly jobless claims, and some pleasing inflation data in the form of the core-PCE Price Index for August. WTI crude oil futures jumped more than $7.00/bbl this month. The S&P 500 utilities sector saw the largest decline this week by a decent margin, falling 7.0%. The next worst performer was the consumer staples sector (-2.1%). Only the energy (+1.3%) and materials (+0.2%) sectors registered gains on the week. Source: Briefing.com

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529 Savings Plan 101 – A Primer On Saving For Your Child's Education

In the US, the average tuition cost at state colleges is $9,970 for state residents, and $25,620 for everyone else. Private non-profit colleges carry a heftier tab at $34,740, according to student support organization College Board.

But the price tag comes with a benefit. Research from organizations like the OECD and the National Bureau of Economic Research, has shown that people with a post-secondary education often out-earn, and outperform peers without some form of post-secondary education.

For many parents the question is not if you should save for your child's education but how?

The 529 Savings Plan I often point to the 529 Savings Plan as a vital tool for many parents looking to save for their kid's education. Introduced in 1996, 529 plans are state savings programs that are not taxed federally when used for "qualified education expenses" which also includes computers and, as of 2017, up to $10,000 towards K-12 tuition.

Contribution for 529 plans vary from state to state but can run as high as $380,000. However, I always try to remind clients that each individual in the US can give away up to $14,000 annually ($28,000 for married couples) without facing a gift tax. 529 plans have a special rule allowing you to contribute up to five years' worth of gifts ($140,000 per married couple) at once.

What state can I invest in? Given that each 529 plan is tied to a state, it can be confusing deciding which one to invest in. It's worth pointing out that you can invest in any state 529 plan, your child doesn't need to go to school in that state and it doesn't have to be your own state. However, the majority of states offer a state income tax deduction or credit for residents who contribute to their own state's plans. With that being said, different state 529 plans perform differently, which is why we work together to set up a plan that meets your educational saving strategy.

Other things to think about Most 529 plans offer several investment options. You're often allowed to change your investment twice per calendar year and rollover your funds to another 529 plan once per 12-month period. In addition to a general college savings plan, there's also a prepaid option where you can purchase credits or units at certain colleges or universities at discounted prices. Fees and expenses associated with the different 529 plans are certainly something you should consider as well.

The good news is, you don't have to navigate the world of 529 plans on your own. Let's discuss your education savings options and how to achieve the goals that will help support your child's future.

Planning Points *By John Dorfman, Contributor. This Forbes article was legally licensed through AdvisorStream.*

Why October Is A Special Month In The Stock Market

We are coming up on a seasonal turning point in the stock market.

October is special for three reasons:

1. It is the month when history's most spectacular market crashes have occurred, most famously in 1929 and 1987.
2. Yet it is actually, on average, a pretty good month.
3. Based on historical price patterns, stocks are likely to chug ahead in the fourth quarter.

Let's look at this a little more closely.

Crashes Few people alive today remember the crash of 1929, but we all learned about it in school or from studying market history. The Dow Jones Industrial Average lost 12.8% on Monday, October 28, 1929, and another 11.7% the next day. The Great Depression followed.

Fast forward 58 years to October 19, 1987. The industrial average lost 22.6% in a single day, the worst one-day crash ever. Those were the three worst October crashes, but not the only ones. Seven of the Dow's ten worst days occurred in October.

October Performance Despite October's fearsome reputation for being crash-prone, it is usually not a bad month. It has averaged a 0.6% price gain from 1928 through 2022, according to Yardeni Research. Annualize that and you get 7.2%. That's the same as March or August, and about middle-of-the-back.

The four best months are July (20.5% annualized), April (16.8%), December (15.6%) and January (14.4%).

Three months have averaged negative returns. September is the worst, annualizing to negative 13.2%. February and May average negative 1.2% annualized.

Oh and if you must know, the returns for the remaining months are 9.2% annualized for June, and 10.8% for November.

Bear in mind that these are just averages, or tendencies. They are not even within a stone's throw of being guarantees.

Fresh Worries Will this October follow the typical pattern and end up with a moderate gain?

Pessimists can point to a number of special factors that could poison the market's performance this month. (1) The United Auto Workers are striking against General Motors GM , Ford and Stellantis. (2) A government shutdown looks likely. (3) Interest payments on student loans resume in October.

Then, too, interest rates are fairly high, and the Fed thinks it may ratchet them up one more notch this year.

So will this October be poor? No one knows, but I hear my mentor David Dreman's words ringing in my ear: "Bet on the base case, not the rate case." By that he meant that the general pattern (the base case) often holds, despite special circumstances (the rate case).

Historical Patterns Ned Davis Research annually produces a "Cycle Composite," which is an equal-weighted melding of three separate cycles, the one-year cycle, the four-year Presidential Cycle, and the 10-year cycle. This year, the model suggests a fourth-quarter rally, accelerating toward the end of the year. Also, the firm notes that the vast majority of the stock market's gains occur in November through April.

A $10,000 investment made in 1950 in the Standard & Poor's 500 Index would have appreciated only to $14,590 by year-end 2022 if invested only in May through October. But if invested from November through April, it would have appreciated to $928,356.

This seems to bear out the old saw, "Sell in May and go away." But this seasonality phenomenon has weakened in recent years.