Weekly Market Update

January 15, 2024

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"And you asked me
what I want this year.
And I try to make this kind and clear-
just a chance
that maybe we'll find better days."

~ Goo Goo Dolls, "Better Days"

Market Watch

Week Ending Jan. 12, 2024

(Source: Briefing.com)

- **DJIA:** 37,592.98 126.87
  2024 1st QTR -0.30%
- **NASDAQ:** 14,972.20 448.63
  2024 1st QTR -0.30%
- **S&P 500:** 4,7,83.83 86.59
  2024 1st QTR -0.30%
- **Russell 2000:** 1,950.96 -0.18
  2024 1st QTR -3.80%
- **10 Year Treasury:** 3.95%

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Dave's Weekly Commentary

Happy Monday! What a chilly weekend. Last week we kicked off the first full week at the office and the SMC team was geared up for 2024. We expect interest rates to start to level out and potentially decline, which will help those of you who are thinking about buying or refinancing your homes and other financing needs. We are looking at the impact of the potential impact of the resetting or sunsetting by the end of 2025 of lower income tax rates and higher standard deduction. Politics being as they are, planning for the sunsetting of the tax cuts seems to be the most prudent course of action to plan for.

On the home front, Nancy, and I for the most part stayed at home, and with a little spousal encouragement decided to spend some time purging some items we moved more than one time. Years ago, I enjoyed going to auctions with my father and have collected art pottery from the 1920's, depression glass and other assorted antiques. Knowing that our children and others have other interests, it seemed like an opportunity start letting some of those boxes of stuff go, while still keeping the memories.

While our office is open today, the financial markets are closed for the Martin Luther King Jr. holiday.

Market observations... It is a new year, and a new year in the stock market always starts with a look back at the fourth quarter. That would be fourth quarter earnings, which are going to start trickling out in a steady fashion starting Friday, January 12, and continuing, yes, through March. This earnings season gets dragged out with fiscal year-end reporting, so much so that the first quarter earnings season starts almost as soon as the fourth quarter reporting period ends.

Every earnings reporting period is a look back, but the market is more interested in the look ahead. Many companies don't provide guidance, but the market makes its inferences nonetheless from the qualitative remarks about business conditions and the tone CEOs and CFOs adopt on their earnings conference calls. That will be true of the banks, which get things rolling in the early portion of the reporting season. These reports will have extra importance this period, because the market has a lot riding on the U.S. economy achieving a soft landing -- or no landing at all. The banks have a front row seat to economic activity. In fact, they do the driving in many respects as the issuers of credit, the purveyors of capital, and the stewards of assets. The focal point will likely be comments about credit quality since that will be looked at as a harbinger of economic conditions. If there is a concerning commentary about a deterioration in credit quality, concerns will build about the economy possibly being headed for a hard landing. If the commentary sounds nonplussed about the credit situation, then market participants could continue to embrace the soft-landing view.

On another note, there isn't much earnings growth expected for the fourth quarter. The blended growth rate for the S&P 500 sits at just 0.4%, according to FactSet, down from 8.0% on September 30. What this suggests is that analysts were slashing their earnings estimates during the quarter -- a quarter that saw stock prices surge amid expectations that inflation will continue to come down, that the economy will enjoy a soft landing, and that the Fed will soon be cutting rates. Of course, when earnings estimates go down and stock prices go up, you get multiple expansion. The forward 12-month P/E ratio for the S&P 500 went from 18.0 on September 29 to 19.6 on December 29. The five-year average is 18.9 and the 10-year average is 17.6, according to FactSet.

The stock market's road ahead could be paved with good intentions. There is a good inflation outlook; there is a good economic outlook; and there is a great policy outlook in the market's mind that includes six rate cuts by the end of 2024. The stock market's behavior at the end of 2023 certainly made it appear as if those rate cuts will not be happening for deleterious economic reasons that would undermine the current earnings outlook. No, they will presumably happen on the back of a smooth glide path for inflation driven by a further easing in supply chain pressures.

It is an optimistic view, and all can hope for is that it is right. We'll soon have a line on that thinking when the fourth quarter earnings results trickle in and the quantitative and qualitative earnings guidance starts flowing out.

Last week's Markets... The stock market closed higher, which marks its tenth week of gains in 11 weeks. The S&P 500, which briefly traded above its all-time high closed on Friday, recovered last week's losses, leaving the index up 0.3% for the year. Strength in mega cap stocks had an outsized impact on index performance. The Vanguard Mega Cap Growth ETF climbed 3.9% and the Nasdaq Composite logged a 3.1%. Meanwhile, the S&P 500 gained 1.8% this week versus a 0.2% gain in the Invesco S&P 500 Equal Weight ETF. The best performing S&P 500 sectors all house mega cap constituents. The information technology (+4.9%), communication services (+3.4%), and consumer discretionary (+1.5%) sectors saw the largest gains on the week. Meanwhile, the energy sector logged the steepest decline (-2.4%). The financial sector was another underperformer, closing down 0.5% for the week. The price action in the Treasury market reflected this recalibration. Source: Briefing.com

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How To Make Small Changes For Big Impacts

The theory of marginal gains is a concept made famous by British cycling coach Dave Brailsford in 2010. He believed that if you improved every area related to cycling by just 1%, those small gains would add up to remarkable improvements over time…and it worked!

By applying this concept, Brailsford was able to take his team from being virtually winless to winning 16 gold medals in the Beijing Olympics, while also producing two Tour de France winners in less than five years! But why stop at cycling? I believe that if you apply this concept to every area of your life, especially your finances, you can achieve the financial and overall wellness of your dreams!

How Does This Work?

The aggregation of marginal gains is all about making small incremental changes that significantly impact your life over time. Every positive action that you take or negative action you avoid is like earning compound interest towards your future self. This works because these small changes don't drastically change your day-to-day, but over time, they add up to create much more significant changes that become part of your new normal and positively impact your future you! In just two steps:

Step 1: Avoid the Marginal Losses – Improvement by Subtraction

Marginal change comes in two forms: gains or losses. The beauty and danger of making marginal changes is that small changes seem almost imperceptible at any given moment but can have a massive effect over the long term. Improvement by subtraction is a way to reduce marginal losses by focusing on doing less of what does not work. The great thing is that addition by subtraction is proven to be more of an accessible and practical first step to take, compared to improvement by addition.

For example, let's take the concept of "Lifestyle Creep." This is where we tend to slowly and steadily spend more as income increases. Instead of sticking to our savings or debt pay-off plans, we opt to eat out a little more or get that nicer car, phone, or shoes. These small choices do not seem to impact us much initially. However, these choices add up and begin reinforcing behaviors that run counter to achieving our financial goals.

Left unchecked, this type of behavior and resulting micro decisions can creep into virtually every aspect of our lives and slowly wreak havoc. This is where addition by subtraction comes in! The idea is to become aware of the habits that detract from your goals and gradually eliminate them one action at a time. Here are some examples of how to apply the concept of avoiding marginal losses to improve your finances and other areas of your life:

Finances: Think about your current spending habits, whether it's Amazon, eating out, or subscriptions, and consider the following if it pertains to you:
- Eat out one less time a week and redirect savings to your financial goals.
- Make one less Amazon purchase a week and redirect savings to your financial goals.
- Buy one less drink out a week and redirect savings into your financial goals.

Use a calculator to see how these incremental savings can add up for you over the long term.

Health: Think about your current health habits and start with the patterns not currently aligned with your goals. You could try the following:
- Have one less high calorie drink a week (soda, alcohol, etc.) and replace it with water.
- Spend 15 minutes less a day on your phone and replace it with a nap or a walk.
- Replace one unhealthy meal a week with an easy, delicious, and healthy one.

Relationships: Think about your current relationship habits and consider the following marginal changes and the way they could help over time:
- Spend 10 minutes less a day on social media and redirect them to being present with your loved ones.
- Make one less derogatory comment, insult, or belittling remark.
- Let go of and forgive one past transgression and commit to growing from it.

Professional/Personal Growth: Think about the habits that impact your personal or professional growth. Which of the following actions might help?
- Spend 10 minutes less a day scrolling on social media and redirect them to learning something new.
- Eliminate one toxic friendship, relationship, or encounter from your life.
- Complain one less time a day.

Try implementing just one of these or one in each area. Remember, the key is to make it incremental to be sustainable and then build from there!

Article continues next week.