INVESTOR'S EDGE

Year looks like another good one for equities

Investors should continue to hang onto the "Magnificent Seven" technology stocks.

"Be at war with your vices, at peace with your neighbors, and let each year find you a better man." *Benjamin Franklin*

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Guest columnist

What a difference a year makes.

The title of my January 2023 Investor's Edge column — "Markets Historically Offer the Best Returns When the Outlook is Poor" — said it all.

At the time, bearishness among investors was near an all-time high after a sharp market decline in 2022. Indeed, the vast majority of economists and market strategists were predicting a recession to unfold by midyear.

Yet, my rationale for being bullish was based on a few crucial historical patterns and trends. Specifically, I cited that markets very rarely double down on yearly declines, inflation would continue to fall and the Fed would eventually pause, the third year of the presidential election cycle is far and away the best year and that economists had consistently underestimated the underlying strength of the U.S. economy.

Check on all the above.

Great, you may be saying, but what should an Investors' Edge reader be doing in 2024?

First, stay long stocks. I believe 2024 will be another good year for equities. The economy remains resilient with continued wage gains, and real household income is getting better each month as inflation continues to cool. The earnings picture for the S&P 500 companies also looks healthy.

Another point — please do not underestimate the power of election cycles. You have to go all the way back to 1952 to find a presidential re-election year where the S&P 500 Index finished the year in the red. Furthermore, over the last 70 years, when a sitting president is up for re-election, the average return has been 12.8%.

In 2023, the majority of the gains in the broad stock market were driven by the "Magnificent Seven" mega-cap technology stocks. I am confident that we will see a bullish broadening out of market participation in the coming 12 months. So, for those with a 401k plan or self-managed investments, add or increase small and mid-cap stock exposure to your portfolio. They are selling at very attractive valuations relative to the mega-cap technology stocks and the S&P 500 Index as a whole.

To keep things simple, you should look no further than the i-Shares Small-Cap Core (IJR) and Mid-Cap Core (IJH). They are excellent buys right now and offer significant upside over the next three to five years.

As readers of this column know, I have consistently recommended a moderate weight in international stocks of about 5-10%. I continue to recommend owning international stocks, and they will benefit from a broadening out of market returns. Increasing your allocation here makes sense. Vanguard Total Interna tional Index (VXUS) and Vanguard High Dividend Yield (VYMI) are solid buys for diversification.

If you have followed my advice over the years, you probably have big gains in many of the aforementioned "Magnificent Seven" stocks such as Apple, Amazon, Meta, Google, and the like. Hang onto them. They are leaders in an increasingly technology-driven world. I've learned to never bet against American innovation and the explosion in 2023 of Artificial Intelligence is a classic example.

You will recognize that I have recommended many of these funds/stocks before. That is because I have high conviction, and I like to keep things simple. Simplicity equals profitability, I like to say. I only make serious recommendations to help my readers make money. And make money we have.

About bonds, you know I have never been a big fan. In fact, bonds have lost significant money relative to inflation over the last 10 years. On the coming year, however, interest rates will likely come down, at least somewhat, which will actually help underlying bond prices rise — for a change.

From a personal finance perspective — now is a good time to take inventory. Make sure you have a will in place, beneficiaries properly designated on your accounts, healthcare proxy assigned, and an estate plan in place, if needed.

I know some readers have commented that I always seem to be bullish. That may be true, but my reasoning is well grounded. After all, going back over a century, stocks are up about 75% of the time with an average return of 8-9%. So, it seems obvious to me that you should put the odds in your favor and generally stay bullish.

As the great investor, Seth Klarman, said: "The single greatest edge an investor can have is a long-term orientation."

In January of last year, the mood was dour and there were ripe opportunities because pessimism was priced in. Today, there is more optimism, so I don't expect a big up year in 2024, but rather higher single digit returns, say 7-9%, are more likely. And I'd take that.

Happy New Year friends.

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