INVESTOR'S EDGE

Be bullish, but cautious, about the new year

Expect a reversion from the crypto boom with a return to dividends, quality and growth.

"It will fluctuate." — J.P. Morgan's answer when asked what the market will do

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Guest columnist

I want to express my sincere gratitude to the many readers of this column who voted for us as CNY's Readers' Choice "Best Investment Firm" in Syracuse. We were honored to win the award, and I will continue to work hard in this column to provide high-quality guidance and investment advice in the years ahead. Thank you.

Now, onto the markets. We have had back-to-back 20%+ year returns in the S&P 500 Index. This is rare and fantastic news for readers who followed my advice and have remained fully invested.

For 2025, I remain bullish, but I am a cautious bull. There is an elevated level of froth and speculation in various segments of the financial markets. As an example, there are now literally dozens of cryptocurrencies — beyond Bitcoin — that have market caps in excess of $1 billion. To put that in perspective, these billion-dollar cryptocurrencies have a larger market value than 75% of U.S. listed stocks! Furthermore, there are a number of unprofitable companies that generated spectacular returns in 2024.

In a market where having no earnings or dividends seemed to actually help a company's stock price, I believe in 2025 we will see a reversion away from the speculative technology/cryptocurrency boom and a "back to the basics" theme of investing in quality, income, and defensive growth. Here are some of my thoughts and ideas for 2025:

Dividends will work: As far as I'm concerned, dividends are always in vogue. Beyond the Vanguard Dividend Appreciation ETF, symbol VIG, which I have recommended a few times in this column, take a look at the JP Morgan Premium Income ETF, symbol JEPI. This is a solid, relatively low-risk dividend-producing fund that yields 7.1%. The fund, which began in 2020, invests in blue chip stocks and "covered calls," which are used to boost the yield. I own this fund personally, and I believe it is a fine addition to any portfolio.

Well-known health care stocks are a buy: Health care stocks have lagged the broad market for more than two years now, because of populist political concerns and the simple fact that investors have sought more speculative fare. Merck, Abbvie, and Johnson and Johnson all yield mroe than 3% and generate solid earnings growth of about 5% per year. These stocks offer the rare combination of solid growth and defensive positioning if equities take a nasty turn. With the market at or near all-time highs, I believe these health care stocks are a bargain.

Take the contrarian view: Until the last 10 or so years, international stocks were an excellent diversifier for any portfolio and generated comparable results to the U.S. stock market.

Foreign equities, however, have dramatically lagged U.S. stocks for quite some time.

As any great investor will tell you, the best time to buy a quality asset is when no one wants it.

In the financial media today, everyone seems to believe that U.S. stocks will be the only game in town. This is the overwhelming consensus view and is probably a good contrarian signal that international equities may be primed to surprise and shine in 2025.

I continue to recommend Vanguard International High Dividend Yield (symbol VYMI) which pays 4.1%, and holds some of the leading, dividend-paying global equities.

A trader works on the floor at the New York Stock Exchange in New York City's Financial District on Thursday. *Seth Wenig, Associated Press*

The Magnificent Seven? At some point or another over the last six years, I have recommended for readers to buy the mega-cap technology stocks, otherwise known as the "Magnificent Seven." Assuming you've purchased at least a few of them, I would continue to hold them, as I have done.

If a stock becomes over say 12% of your portfolio, you may consider trimming back below that level, especially in tax-advantaged accounts.

But in my view, these are the very best, highest-quality growth stocks in the world.

In fact, when markets have had weak periods, investors actually flock to these names because of their low debt and incredible cash flow generation.

Continue to hold, but if you don't own any of them, look for pullbacks to buy. These are great companies.

Keep politics out of your portfolio: November was a great month for stocks, up more than 5% following the uncontested election of Donald Trump.

Making investments based on political trends or proposals, however, should be avoided.

No question, deregulation and generally lower taxes is a boon for equity investors — higher tariffs less so.

Keep in mind, however, that stocks, overall, have been excellent wealth creators over the last three administrations — all of which have had very divergent political philosophies.

In my column last January, I was bullish, but bullish enough, forecasting a 7-9% total return.

So, rather than forecasting — guessing — returns for this year, I will instead encourage our readers to focus on investing in profitable companies with rising dividend streams.

This is no time to join the speculative crowd.

As Warren Buffet would say "Be fearful when others are greedy and greedy when others are fearful."

Caveat emptor.

Jim Burns, a chartered financial analyst, is president of J.W. Burns & Co. The opinions expressed here are his and do not necessarily reflect those of The Post-Standard. Readers should do research before deciding on an investment. Contact him at jburns@jwburns.com

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