



## Newsletter Summary

- Markets Have a "Reversal of Fortunes" in 2023
- Stock Market Rallies on Fed "Pivot", Soft Landing
- Magnificent Seven, Remembering Charlie Munger

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The S&P 500 climbed to a 26% total return in 2023, more than double its historical average return over the last 50 years. Stock market gains accelerated in November and December, rising nearly 17% in the final two months of the year.

### Think Long-Term

2023 emphasized the need to think long-term and stay the course when times are tough. The chart below shows that there was "no place to hide" in 2022, with negative returns across the board. The reverse was true in 2023, as all of the categories shown below finished in positive territory.

2022 was unusual. Stocks and bonds both declined over the calendar year for the first time since 1969. In comparison, 2023 was the 39th time that stocks and bonds both rose at the same time over a calendar year (based on the S&P 500 stock index and Bloomberg US Aggregate Bond index).

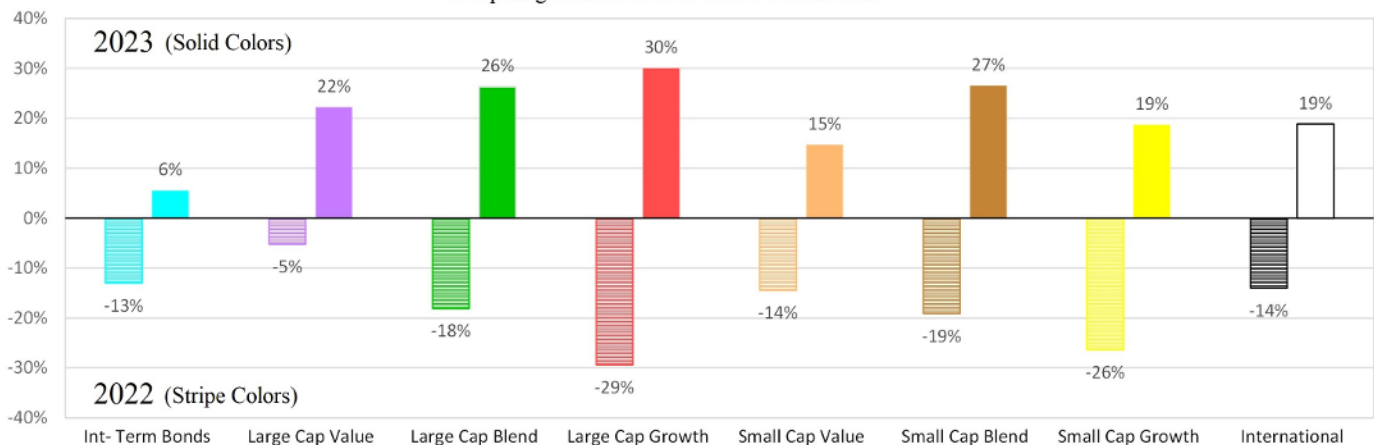
### Bumps Along the Way

Even within the overall rally for 2023 there were bumps along the way. The S&P 500 had a 7% pullback in spring as two regional bank failures raised concern. Heading into fall, long-term interest rates rose to levels not seen in over 15 years, pushing the S&P 500 into a 10% correction. In spite of those pullbacks, the index still managed to finish with a 26% return for the year.

The reaction is often to sell when stocks are down and buy when stocks are up. Often it's the opposite that proves to be more fruitful. As always, we suggest sticking with a long-term strategy rather than trying to time the markets. Find a target mix of stocks and bonds that works for you and make small adjustments along the way.

### Reversal of Fortunes: Markets Rebound in 2023

Comparing 2022 vs 2023 Calendar Year Returns



Total returns, including dividends. Each category is represented by an index, for example, S&P 500 returns are shown to represent large cap blend. See important disclosures on page 4.

## Pivot!

Since spring of 2022, the Federal Reserve has been in a mode of interest rate hikes. In December 2023, Fed members made a "pivot" from discussing further rate hikes toward eventual rate cuts. Although nothing is set in stone, the shift in discussion alone contributed to the year-end rally in stocks and bonds.

Most Federal Reserve members expect three 0.25% interest rate cuts over the course of 2024. That would bring the short-term Fed Funds rate to around 4.6%. The long-term Fed expectation is for the Fed Funds rate to land at around 2.5% some time after 2026.

## Soft Landing

After the series of sharp interest rate increases in 2022, many thought a recession was inevitable. That pessimism contributed to declines across the market in 2022. The mood is much brighter now. The charts to the right show inflation has cooled and the labor market is coming into balance without a substantial increase in unemployment. The shift in tone at the Fed toward rate cuts adds to hope for a "soft landing".

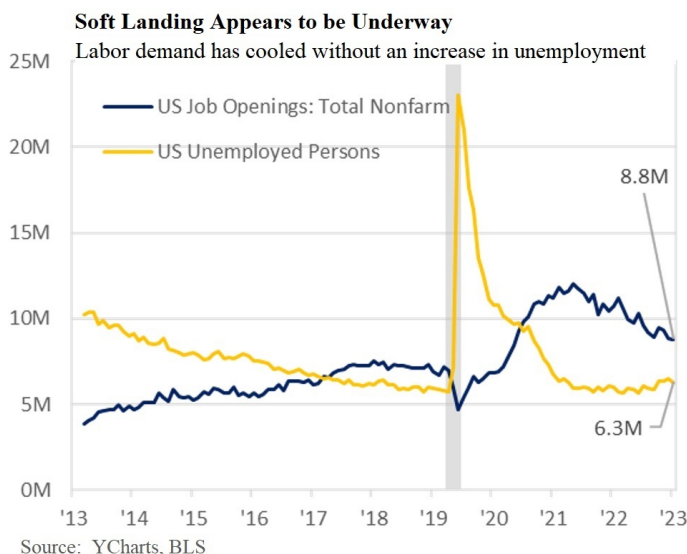
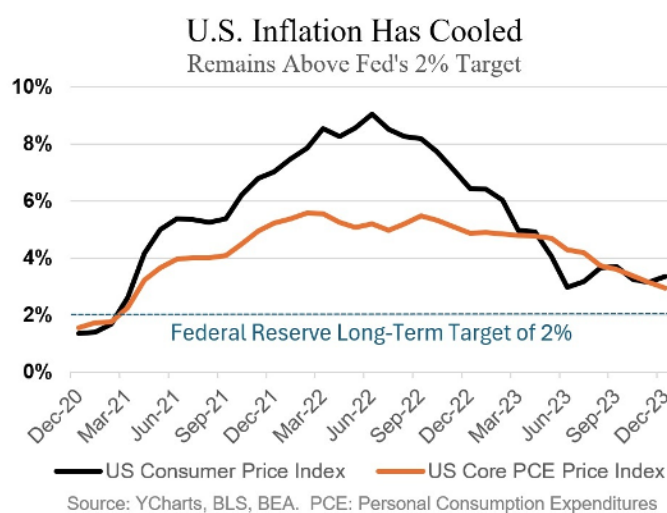
Wharton Professor Jeremy Seigel said the U.S. economy is growing at a "goldilocks pace". It is not growing fast enough to scare the Federal Reserve into further interest rate increases, but it is growing fast enough to expand corporate earnings, which should benefit stocks. According to FactSet, earnings for S&P 500 companies are expected to grow 11% in 2024 (FactSet Earnings Insight, Jan. 26, 2024).

However, Professor Seigel said too many rate cuts could indicate a real economic slowdown, which may be problematic for stocks. A reminder that the outlook is much improved but risks remain elevated.

## 2-0-2-4

Dr. David Kelly, Chief Global Strategist from JPMorgan summarized his forecast as "2-0-2-4": 2% economic growth, 0 - no recession, a return to 2% inflation, and 4% unemployment. Overall, he thinks that should be a good environment for stocks and bonds.

| Markets Expect Fed Will Have Cut Interest Rates at Least Once by June 2024 |                          |
|----------------------------------------------------------------------------|--------------------------|
| Fed Meeting Dates                                                          | Chance of First Rate Cut |
| March 20, 2024                                                             | 36%                      |
| May 1, 2024                                                                | 91%                      |
| June 12, 2024                                                              | 100%                     |
| Source: CME FedWatch Tool, 1/31/24                                         |                          |



### What is a "soft landing"?

Generally referring to an economic slowdown that avoids a recession and avoids significant job losses.

## AI & the Magnificent Seven

Artificial intelligence (AI) was a big buzz in 2023. In part it was due to widespread early adoption of programs like ChatGPT, but in the bigger picture it was about long-term opportunity. Tech stocks in general were some of the hardest hit in 2022. The combination of beat up stock prices and a quick shift toward long-term optimism surrounding AI led to powerful gains for seven stocks in particular that became known as "the Magnificent Seven".

As the chart below shows, the rest of the S&P 500 (or "S&P 493") was mostly flat up until the rally over the final two months of the year.

The Magnificent Seven stocks made up the top seven holdings in the S&P 500 at year-end. They are: Apple, Microsoft, Alphabet (Google), Amazon, NVIDIA, Meta (Facebook), and Tesla. These seven stocks made up 28% of the S&P 500 as of 12/31/23. As a point of interest and reference, Warren Buffett's company Berkshire Hathaway is the 8th largest company in the S&P 500.



## Remembering Charlie Munger

Charlie Munger, Warren Buffett's business partner at Berkshire Hathaway for nearly 50 years died at the age of 99 on November 28, 2023, one day before our American Tailwind book launch. He was one of the few people on the planet who could tell Warren Buffett "no!". Charlie, who would have turned 100 on January 1, 2024 appeared his usual "sharp, witty self" until the very last days of his life.

There was little movement in the price of Berkshire Hathaway stock after his death according to Kiplinger (2/24). Munger always stressed two major investment philosophies: Investment in wonderful companies at fair prices vs fair companies at great prices. He also said that "Big money is not in the buying and selling, but in the waiting" in other words, patience.

For more on Warren Buffett and Charlie Munger you can go to [theamericantailwind.com](http://theamericantailwind.com). Jonathan and James Marshall along with Katy Pavon spent the last four years writing our book [The American Tailwind](#). We are thankful for all those who attended our book launch. We have sold nearly 600 books in two months.

As Warren and Charlie would say with few exceptions "Stay the Course" and believe in the American Tailwind and the Resilience of America.

Magnificent Seven Lead the Recovery



Source: YCharts, above returns do not include dividends.

## Vote with Your Ballot, Not Your Portfolio

You're going to hear that a lot from us this year with it being a Presidential election year. We started this newsletter reminding you to think long-term; avoid letting your emotions drive your investment decisions. Typically that's most applicable when markets are down, but it can also apply during election seasons.



# Spectrum Investor® Update

As of December 31, 2023

| Morningstar Category Averages | 4th Qtr | 1 Year | 3 Year |
|-------------------------------|---------|--------|--------|
| Intermediate-Core Bond        | 6.47%   | 5.59%  | -3.27% |
| Moderate Allocation           | 8.60%   | 13.78% | 3.43%  |
| Large Cap Value               | 9.68%   | 11.63% | 9.74%  |
| Large Cap Blend               | 11.25%  | 22.32% | 8.83%  |
| Large Cap Growth              | 13.83%  | 36.74% | 4.68%  |
| Mid Cap Value                 | 11.38%  | 13.94% | 10.44% |
| Mid Cap Blend                 | 11.48%  | 16.00% | 6.83%  |
| Mid Cap Growth                | 12.38%  | 21.37% | -0.86% |
| Small Cap Value               | 12.93%  | 16.86% | 11.29% |
| Small Cap Blend               | 12.75%  | 16.18% | 6.32%  |
| Small Cap Growth              | 11.49%  | 16.68% | -2.29% |
| Foreign Large Cap Blend       | 9.81%   | 16.25% | 2.43%  |
| Real Estate                   | 15.71%  | 12.03% | 4.63%  |
| Natural Resources             | 5.01%   | 7.61%  | 10.99% |

Source: Morningstar. 3 yr return is annualized. Morningstar classifies categories by underlying holdings and then calculates the average performance of the category. Past performance is not an indication of future results. Returns in Blue = Best, Returns in Red = Worst. Please see Benchmark Disclosures below.

In closing, we always encourage investors to think long-term. The chart to the left shows most categories are still up over the last three years despite the downturn in 2022. For those of you who wish to revisit your portfolio, please contact us at 800-242-4735. For more on the markets, click on the resources tab on our website [www.spectruminvestor.com](http://www.spectruminvestor.com).

Data as of 12/31/23 unless otherwise noted. The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors. The S&P 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. Barrel of Oil: West Texas Intermediate. Inflation Rate: CPI. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index. Indices cannot be invested into directly.

To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

As of December 31, 2023

DOW: 37,689

10 Yr T-Note: 3.88%

NASDAQ: 15,011

Inflation Rate: 3.1% (November)

S&P 500: 4,769

Unemployment Rate: 3.7% (November)

Barrel of Oil: \$71.65

Source: Yahoo Finance, bls.gov, eia.gov



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Benchmark Disclosures: Morningstar Category Averages: Morningstar classifies mutual funds into peer groups based on their holdings. The Category Average calculates the average return of mutual funds that fall within the category during the given time period. The following indexes and their definitions provide an approximate description of the type of investments held by mutual funds in each respective Morningstar Category. One cannot invest directly in an index or category average. Index returns do not reflect trading, advisory and other fees and expenses which are incurred in your actual investment accounts and would reduce your returns. Intermediate-Term Bonds: Bloomberg US Agg Bond Index—Measures the performance of investment grade, US dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS, ABS and CMBS. Allocation 50%-70% Equity—These funds invest in both stocks and bonds and maintain a relatively higher position in stocks. These funds typically have 50%-70% of assets in equities and the remainder in fixed income and cash. Large Cap Value: S&P 500 Value Index—Measures the performance of value stocks of the S&P 500 index by dividing into growth and value segments by using three factors: sales growth, the ratio of earnings change to price and momentum. Large Cap Blend: S&P 500 Index—A market capitalization-weighted index composed of the 500 most widely held stocks whose assets and/or revenue are based in the US. Large Cap Growth: S&P 500 Growth Index—Measures the performance of growth stocks drawn from the S&P 500 index by dividing it into growth and value segments by using three factors: sales growth, the ratio of earnings change to price and momentum. Mid Cap Value/Mid Cap Growth: S&P MidCap 400 Index—A market cap weighted index that covers the complete market cap for the S&P 400 Index. All S&P 400 index stocks are represented in both and/or each Growth and Value index. Mid Cap Blend: S&P MidCap 400 Index—Measures the performance of mid-sized US companies, reflecting the distinctive risk and return characteristics of this market segment. Small Cap Value: Russell 2000 Value Index—Measures the performance of small-cap value segment of Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. Small Cap Blend: Russell 2000 Index—Measures the performance of the small-cap segment of the US equity universe. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. Foreign Large Cap Blend: MSCI EAFE NR Index—This Europe, Australasia, and Far East index is a market-capitalization-weighted index of 21 non-US, developed country indexes. Small Cap Growth: Russell 2000 Growth Index—Measures the performance of small-cap growth segment of Russell 2000 companies with higher price-to-value ratios and higher forecasted growth values. Real Estate: DJ US Select REIT Index—Measures the performance of publicly traded real estate trusts (REITs) and REIT-like securities to serve as proxy for direct real estate investment. Natural Resources: S&P North American Natural Resources Index— Measures the performance of US traded securities classified by the Global Industry Classification Standard (GICS) as energy and materials excluding the chemicals industry and steel but including energy companies, forestry services, producers of pulp and paper and plantations. Past performance is no guarantee of future results. This report is for informational purposes only and should not be construed as a recommendation or solicitation to buy or sell any security, policy or investment. PE Ratio is the measure of the share price relative to the annual net income earned by the firm per share.