Wealth Builder

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Tech Stocks Forever? By Dan Funderburk, CFP®, CKA®

The investing world loves to create catchy names and acronyms periodically. In 2010 (soon after I joined the industry), I attended a conference in Chicago. At the welcoming cocktail hour an advisor from Chicago asked me if we had our clients in the "bricks." Being extremely green and already a little uncomfortable being a 24-year-old kid at a financial conference, I tried to play it off like I knew what he was talking about. I soon came to learn he was referring to "BRICS" – meaning Brazil, Russia, India, China, South Africa, and few other countries. At that time, the economies in those countries were rapidly expanding, resulting in fantastic market gains. I had heard that emerging

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An Old Dog's Tried-and-True Tricks By Mike Berry, CFP®

Our dog, Riley, is coming up on his 10th birthday and I'm coming up on my 69th. That makes both of us "old dogs." Riley and I had a chat the other day, and we agreed that we will stick with what we know and not go running down some unknown rabbit paths. In Riley's case, morning walks, evening frisbee games and food with naps folded in are his game plan. For me, it's sticking with investment strategies that have worked for the past 38 years and longer. Let me share them with you one last time:

Never put all your eggs in one basket. This is as old as the hills, but it works. Just ask someone who had their entire retirement money in Enron stock. Or more recently, *Bed Bath and Beyond* or *Credit Suisse*. A well-diversified portfolio can provide you with

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markets were a good asset class, but I had no clue there was a fancy acronym for some of the leading countries.

Fast forward to 2013 – the beginning of the FANG era. Jim Cramer coined the phrase in 2013 while referring to a group of high-flying tech stocks: Facebook, Amazon, Netflix, and Google. Apple couldn't be held back for long, so acronym was updated to FAANG in 2017 to include our favorite phone maker.

2023 was the year of the "Magnificent 7." This group includes Apple, Amazon, Alphabet (previously Google), Meta (previously Facebook), Microsoft, Nvidia, and Tesla. Notice any similarities to the FAANG stocks?

These seven tech companies had gangbuster years in 2023. Their average return was 107%. As of December, these seven companies represented about 30% of the S&P 500's market value, and their market capitalization is larger than all the stocks in the U.K., China, France, and Japan combined[1]!

So, these massive tech companies were awarded their first acronym (FANG) in 2013, and the tech trend continues today, over 10-years later, with the Magnificent 7. They garner so much attention because they have performed much better than the overall market in recent years and have become true market behemoths. Since this has been a trend for so long, should we expect it to continue?

I would argue that these companies have performed so well and there is so much expectation built into their price and future earnings, that any sign of a slowdown or market shift could bring a substantial drop to the sector. Once that begins, often investors who have participated in the increase will sell their shares to lock gains before more drops occur. This only magnifies the selloff. Sure – this sector may have more room to run, but it seems like there is a decent amount of downside exposure as well.

My advice: stick with the investing principles that have worked over the last century. Maintain a diversified portfolio where you have some exposure to these high flying, acronym -inspiring tech stocks, but maintain positions in the more boring parts of the markets as well. After all, when the next recession inevitably comes, I would expect the sectors that have underperformed recently (consumer staples, utilities, energy) will be the shining stars of the index.

Nick Murray, a financial advisor and author, has one of my favorite quotes that drives home this point. "Diversification is the conscious choice not to make a killing, in return for the blessing of never getting killed."

I couldn't agree more.♦

[1]https://www.wsj.com/finance/stocks/its-the-magnificent-sevens-market-the-other-stocks-are-just-living-in-it-5d212f95

We've Found It! By Jeff Funderburk, CFP®

5.25% - 5.5%.

That is the current target range of the fed funds rate; the benchmark rate which sets the base amount of interest charged for loans such as mortgages, auto loans, and credit cards. Back in 2020 I wrote an article titled "Where's the Yield?" for our fall newsletter. At that time the benchmark target range was 0% - 0.25%.

The takeaway from that article is that savers were not getting paid, and if they had a priority of principal protection for their money that they just needed to accept the reality of such low rates and not chase higher yields in riskier assets. I also mentioned in that article that the Fed's new inflation target was an *average* of 2% and that they may let it run a little high for some time since it had been running below 2%.

Well - decades of low interest rates and high deficit spending finally let inflation out of the bag, and it came out running fast. The Consumer Price Index (CPI) peaked at a rate of 9.1% in June of 2022, well above what the Fed wanted. They made it a priority to reign it in and began raising the rate. Aggressively. Between March of 2022 and July of 2023, the Fed raised the benchmark rate target by 525 basis points (5.25%), making it the fastest rate-hiking cycle in four decades.

That led to a painful pullback in both stocks and bonds for 2022 as both asset classes had to re-adjust to the prospect of "higher-for-longer" rates. This cycle seems to be at an end, with the Fed signaling that they're done rising rates (for now). Although I wouldn't count on aggressively falling rates any time soon. The Fed seems content to sit tight for at least few more quarters.

In 2023 it was nice to see the market rebound as it reacted positively to this great "reset" in rates. The *process* of getting from 0% to 5.25% was painful in terms of returns, but the outlook for stocks and bonds is looking good as they've reacted to this new environment.

When the Fed eventually does begin lowering rates it should be a boon for stocks and bonds alike. For stocks due to higher growth expectations and cheaper debt. For bonds because existing bonds that we hold become more attractive than new bonds issued at lower rates.

And while we wait for that cycle to begin, we can kick back and collect yields on our savings that we haven't seen in two decades! Finally, savers can get decent returns without sacrificing safety. We've found the yield! Let's enjoy it while we can.♦

An Old Dog's Tried-and-True Tricks *Continued from p. 1*

solid returns and allow you to sleep at night. To quote Nick Murray, "Diversification is the conscious choice of not to make a killing in return for the blessing of never getting killed."

Don't invest in things that you don't understand. A good rule of thumb here is if you can't explain how an investment works to someone else, so that they understand it, then you shouldn't invest in it. That has kept me out of things like bitcoin, index annuities, and derivatives, none of which do I understand much less can I explain them to someone else.

Don't try to time the market. Successful investing requires a long-term perspective. Time in the market is more important than timing the market. I watch economic trends and market momentum; interest rates and consumer sentiment and I don't feel comfortable in trying to time the market. 38 years has shown me that even the professionals who are trying to time the market are generally out when they should be in and in when they should be out.

Don't let the headlines drive your investment decisions. A good investment will be a good investment regardless of who is elected President, or who is shooting whom in what region of the world. It's good to be informed, but McDonald's is still selling Big Mac's regardless of whether a republican or democrat sits in the White House.

Match your level of risk to the time you need the money. Stated another way, the closer you get to needing the money, the more conservative you should get with the investments. 1987 was a hot year for the stock market right up till the fall. People were so confident in making money in stocks that a lot of people put money they were going to need in a few weeks into stocks. I heard stories of people putting money they needed to close on a house into stocks only to have the market crash shortly after. The value of their portfolio was down 25% and they had no choice but to sell at a loss and scramble for the money they needed for closing. Unfortunately, that story is far too common, which brings me to the next foundational strategy:

Invest within your risk tolerance. Don't invest your money in ways that will keep you awake at night. We all have different definitions of risk and levels of risk that we can tolerate. It's much better to give up a little return and sleep well than to lay awake and worry.

These tricks to investing are nothing new, and that's a good thing because you can't teach an old dog new tricks.♦

We'd Love to Hear from You!

The topics of our articles are largely inspired by questions we get from clients, friends and family. Is there a financial concept that leaves you feeling stumped? Maybe a concern that keeps you up at night, or you wish you or someone close to you could understand better? What about something that your advisor has helped you with that you think would be beneficial for others to know?

You are welcome to email any ideas to info@legacywealthgj.com, and you may just see that topic in an upcoming newsletter or blog!

Please include "Topic for Article" in the subject line and note if you'd like your advisor to reach out to you regarding the topic or question.

In Other News...

- *Mike Berry has officially announced his retirement. His last day will be August 29th.*

We sincerely appreciate each of our clients and friends. Thank you for being a pleasure to work with. Your friends at Legacy Wealth Management,

Dan, Sondra, Jeff, Alyssa. Mike, and Amanda

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