

Fall 2024

Thanksgiving, a cherished American tradition, traces its roots to the 17th century. In 1621, the Pilgrims, after a harsh winter, shared a harvest feast with the Wampanoag Native American tribe. This communal celebration of gratitude for survival and abundance marked the beginning of what would evolve into a national holiday. Over time, Thanksgiving expanded beyond its religious origins, becoming a secular occasion for families and friends to gather, reflect on blessings, and enjoy a bountiful meal. Today, Thanksgiving continues to hold significance. While the historical context has shifted, the spirit of gratitude remains central. It's a time to acknowledge the positive aspects of our lives, from health and loved ones to opportunities and achievements. As we gather around the table, let us remember the historical roots of Thanksgiving and honor the tradition of gratitude, carrying it forward into the future.

Let's take a look at the numbers.

Major Stock Indexes	(As of 10/31/24)
Dow Jones Industrials	+ 13.28 %
S&P 500 Index	+ 21.46 %
NASDAQ Composite	+ 22.21 %
Russell 2000	+ 10.23 %
MSCI EAFE Index	+ 7.50 %
MSCI Emerging Markets	+ 12.45 %
 Major Bond Indexes & Rates	 (As of 10/31/24)
Bloomberg U.S. Aggregate Bond	+ 1.40 %
Bloomberg 1-5 Yr Government Index	+ 4.50 %
Fed Funds Rate	4.50 – 4.75 %
30-year fixed mortgage	7.23 %

Source: The Wall Street Journal and Barron's

*Inclusion of these unmanaged indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

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FINANCIAL AND INVESTMENT PLANNING

The election is over and now in the rearview mirror. We recognize politics can be emotional. It is our job to remove this emotion as we focus on the economy and the fundamentals. Historically, election outcomes have a marginal impact on the economy and markets (as evidenced in our prior newsletter). Equity markets have consistently moved higher over the long term regardless of what party is in the White House. The direction of earnings, interest rates, inflation, consumer spending, valuations, monetary and fiscal policy are much bigger drivers of the economy and markets than politics.

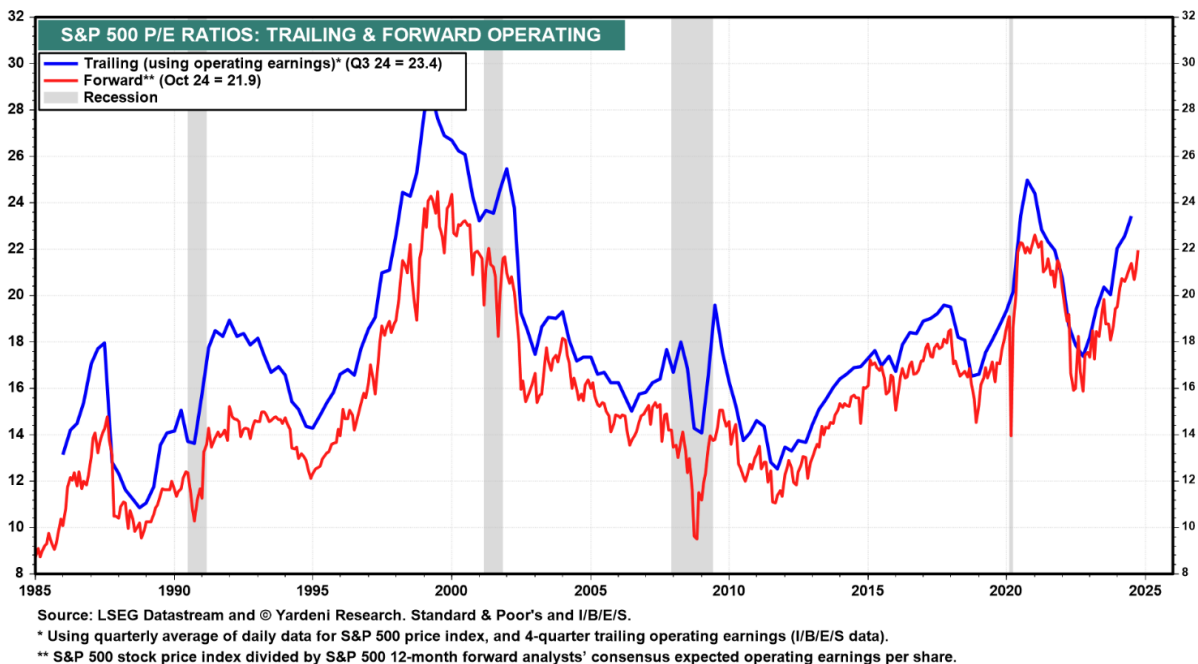
Due to the strong equity market performance YTD and elevated valuations, it wouldn't surprise us to see a pullback in the stock market early next year. Whenever the next pullback occurs, remember it's temporary. Looking longer term, we remain optimistic. Earnings growth in corporate America is estimated to grow above the historic trend line. Next year, earnings growth is estimated to be between 10 – 13%. Inflation, as measured by the Consumer Price Index (CPI), has come down and seems to be moderating between 2 - 3%. The Fed will likely continue down their path of cutting interest rates. Historically, when not in a recession, economic activity accelerates when the cost of capital drops (i.e., lower interest rates on mortgages and small business loans).

Another potential future catalyst is the record amount of cash investors have in money market accounts. The latest ICI data shows that money market fund balances reached a new high of \$6.7 trillion last week, compared to \$6.3 trillion on September 18. However, despite the Fed's recent rate cuts, the total Assets Under Management (AUM) in money market funds has continued to increase. This trend mirrors previous Fed easing cycles, where investors hesitated to move cash from low-risk investments until policy rates reached their lowest point. Since the Fed is not aggressively cutting rates, the current high cash yields (above 4.5%) are appealing to investors who prioritize liquidity. But, as yields continue their downward path over the coming years, many will look to invest those dollars elsewhere, like the stock market. Innovation and entrepreneurship will continue to attract and grow capital. Many blue-chip companies continue to increase their dividends and share buybacks. Despite the growing US national debt exceeding \$36 trillion, foreign investors continue to show strong interest in US Treasury bonds. The latest Treasury International Capital (TIC) report indicated that foreign holdings of US debt reached a record \$8.7 trillion in September, a significant increase of \$1.1 trillion over the past year. This data suggests that demand for US Treasuries remains robust among key foreign buyers, even as the Fed reduces its purchases.

Looking to the current economic data, according to the U.S. Bureau of Labor Statistics, the unemployment rate is still very low at 4.1%, and the number of unemployed people is 7.0 million. The current number of job openings stands at 7.4 million. One year ago, we had 6.4 million unemployed people and 9.3 million job openings. The CPI increased 2.6% over the previous 12 months. Productivity, as measured by nonfarm business sector labor productivity, increased 2.2% in the third quarter of 2024. Compared to the same quarter last year, it increased 2.0%. Looking at wages, average hourly earnings have increased 4.0% over the previous 12 months. The Federal Reserve has lowered the Fed Funds Rate by 75 basis points to 4.50% - 4.75%, down from 5.25% - 5.50% in just the last two months.

The United States isn't the only country lowering interest rates. There is a global easing cycle underway around the world. Historically, this has been very supportive for equity performance. In the last two months, the European Central Bank (ECB), The Peoples Bank of China (PBOC), Swiss National Bank (SNB) and Sweden's Central Bank (Riksbank) all followed the Fed's footsteps in lowering rates. After China lowered their interest rates, they announced a \$1.4 trillion stimulus package to help offset deflationary pressures and weak growth. Their stock market jumped 25% in a week, but have cooled since.

We mentioned the equity market has elevated valuations, but when you dig a little deeper, it's not as concerning as some headlines make it out to be. The P/E ratio (price/earnings) is a common metric used to assess if stocks are cheap or expensive. The below chart illustrates the forward P/E for the S&P 500 is 21.9. We have to go back to the bear market during the COVID pandemic and dot-com bear market to find similar valuations.



On the surface, a 21.9 forward P/E is definitely on the higher side. However, when we analyze companies' growth rates, you get a different picture. The PEG ratio (price-to-earnings growth ratio) tells a more complete story because it takes growth into account. The chart below shows the current S&P 500 PEG ratio of 1.25 is actually lower than where it's been on average since 1995.



As we look to year-end, the National Retail Federation released its 2024 holiday shopping forecast, and consistent with the forecasts at Deloitte and PwC, it expects consumer spending to hit a record high of \$985 billion. While the underlying economy continues to surprise many to the upside, we know there will be bouts of volatility that can be unsettling. In those moments, we are reminded of Tony DeSpirito, Blackrock Global Chief Investment Officer, commenting about the importance of patience for long-term investors, “Since 1974, the stock market has endured a presidential resignation, the collapse of the “Nifty Fifty” blue-chip stocks, raging stagflation, the 1987 stock market crash, the rise and bursting of the dot-com bubble, three wars in the Middle East, the Global Financial Crisis and COVID-19 pandemic. And over those 50 years, \$5,000 invested in the S&P 500 would have grown to be worth \$1.3 million today.”

- Past performance is not a guarantee of future results. Individuals cannot invest in an index directly.
- The Dow Jones Industrial Average (DJIA), commonly known as “The Dow”, is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal.
- The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material accurate or complete.
- The S&P 500 is an unmanaged index of 500 widely held stocks that’s generally considered representative of the U.S. stock market.
- The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market and includes over 3,000 companies.
- Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. Bonds are subject to credit and interest rate risk. Timely payments of interest and principal payments are based on the financial condition of the issuer. Yield and market value will fluctuate with changes in market conditions. There is an inverse relationship between interest movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise. Diversification does not insure a profit or a guarantee against a loss. Investing involves risk and you may incur a profit or loss regardless of strategy selected. Please note that international investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility.

PERSONAL

The alarm sounded at 3:00 a.m. on a Sunday in late August. It was time for Kris to wake up Kora and Macy. When he walked into the living room, the sisters were dressed and had their backpacks, hiking poles and snacks ready to go. That was a first... the excited girls were ready to leave before their dad. They left the house shortly thereafter and arrived at the trailhead a couple of hours later. With their headlamps on, Kris and his daughters began their ascent up the 14,043-foot mountain, Mt. Sherman. The early morning sun soon made an appearance and began to warm the cold mountain air. The headlamps were removed, but the hats and gloves remained. Once they made the ridge, the family was welcomed by incredible wind. They passed a nervous hiker that was down on all fours. As they made their way to the summit, the wind subsided and the hungry hikers found some rocks to sit behind. Macy and Kora devoured their peanut butter and jelly sandwiches and turkey wraps in record time. The best friends have now hiked six 14ers with their dad!

September means the kids are in school and the start of volleyball season. Angie and Kris also celebrated their anniversary. This year, they decided to do an eight-mile hike along the Chicago Lakes Trail (outside of Evergreen). It was a perfect time of year to see the aspen trees in their full autumn glory (around 11,000 feet). The lucky couple also saw a moose about 20 feet off the trail feeding on some leaves. Angie and Kris are blessed to have met each other in a Mexican restaurant in 2005.

To top off the fall season, Kris’ brother, Steve, competed in arguably the hardest mountain bike race in the country. The Vapor Trail 125 is a gnarly singletrack race that covers 125 miles at extreme elevations in the Colorado backcountry. The hardest part of the race and most technical is done in the dark of the night. Cyclists start at 10:00 pm and have 24 hours to finish. The riders climb over 17,000 feet during the race and reach 12,600 feet of elevation at the highest point. The old school trails (not fast and

flowy) present a challenge throughout the course. There were 95 highly skilled racers at the start and 59 were able to finish. Steve's incredible training paid off as he was one of those finishers!



After their exhilarating cross-country road trip in June, Garry and Emily decided to slow down and enjoy the summer close to home. Their San Diego abode became a hub of activity as they hosted a steady stream of visitors. Garry's family from Florida flew in for a much-anticipated reunion, while close friends from Phoenix and Chicago made the journey to experience the city's coastal charm. Days were filled with beach outings, kids playing games in the pool, exploring local markets, and savoring delicious meals at waterfront eateries. Evenings were spent sharing stories and laughter. It was a summer filled with cherished moments and strengthened bonds.

In early September, Garry organized the annual trip for 60+ dads and kids to Two Harbors, Catalina Island. Once on the island, the group set up camp, a sea of tents dotting the landscape. Days were woven with cliff jumping, kayaking and paddleboarding around the harbor, and snorkeling amidst vibrant marine life. Bonfires lit up the nights, casting a warm glow on the faces of storytellers and laughter-filled conversations. The dads, united by their shared passion for the outdoors and their love for their children, created lasting memories that would be cherished for years to come.

This year's softball Fall Ball league whizzed by. It's a great way for young softball players to continue developing their skills and have fun during the off-season. Emily's coaching prowess was on display as Ava's 12U (under 12 years old) team showed much progress throughout the season. Ava played well as the starting pitcher. In the final tournament of the season, Elle's team made it to the Great Eight (out of 23 teams). Our nine-year-old showed lots of heart, often playing against much bigger opponents in her first 10U stretch.

In addition to a busy softball season, Ava tried hand at basketball. Despite having zero experience, the head coach was enthused about her positive attitude, quality listening skills and general athleticism. Ava made the middle school team and showed much improvement throughout the season.

A late summer family reunion in Corte Madera, CA, was an unforgettable experience. Nestled in the heart of Marin County's breathtaking natural beauty, the clan spent quality time reconnecting with Emily's dad's side of the family. A highlight of the trip was our front-row seat on the "beer boat" during the thrilling Sail GP World Championships. Witnessing the high-speed action up close and celebrating with the teams afterward created lasting memories. From exploring the charming town to enjoying the stunning scenery, the time in Corte Madera was a perfect blend of family, fun, and exhilarating sport.



Thank you for your trust, confidence and friendship.

" Sometimes the tide is with us, and sometimes against. But we keep swimming either way."

~ Charlie Munger

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