IPMG

INVESTMENT PLANNING AND MANAGEMENT GROUP OF

RAYMOND JAMES®

Dear Clients and Friends,

ENCLOSED IS OUR ANNUAL NEWSLETTER, THE BIG PICTURE FOR 2024. In it, as we have done for the last two years, we attempt to discuss what might be called THE GOOD, THE BAD, AND THE UGLY. There is still plenty of each to cover in 2024, and we will start with the GOOD. As best we can, we will once again conclude that way. Much of this year's *cover* letter will remain unchanged from last year's. Some of our following 2022 observations have become more apparent during 2023. Some are moving closer to fulfillment.

OUR COUNTRY REMAINS DIVIDED. Such is our enemies' intention, as it is much to their benefit. The last two year's list of divisive issues included: racial accusations, vax questions, pharma's plans and priorities, officials election validity issues, the effectiveness of a coordinated news media narrative, U.S. military agenda, elected officials campaign funding sources, billionaire and elite perspectives, concentrated farmland accumulation, farm land and meat industry damage, cyber threats, security issues, wars and threats of wars, climate change, water availability, air quality, fuel and food supplies and distribution challenges, as well as the effects of masking, social distancing and lockdown isolation, especially on our youth. Some readers of this letter may ask, "Who is coming across the borders? What are they carrying? Where are they going? What's the intent?"

ADDITIONAL UPCOMING ISSUES will be U.S. and global digital currencies, improved and mandatory ID and vax passports (signed by the President in Dec. '22), and social scoring. Will any of these be perhaps integrated with enhanced "terrorist identification tracking"? The division between the two camps that are forming seems to be hardening. One camp seems to have loyally formed itself around the narrative rolled out in the media. In the other camp are those concerned about the message of overpopulation, and the proposition that oil and gas production should be quickly replaced with alternative renewable energy sources. Those in the second camp feel these proposed changes are really not about the environment, economics, health, or politics. They are rather a revolutionary call or rally to upend the entire present order and then "Build Back Better" with a "Great Reset".

FOR MOST OF US, THE ABOVE CONTINUES TO BE A LOT TO CONSIDER. Many have tuned out the media, even pondered not voting, perhaps even decided to lay low and observe for a while. General Michael Flynn stated that during the American Revolution, 3% were "minute men", 30% were sympathetic to the British, and the rest were perhaps in the "Just don't touch my plot or pantry, home or horse" mode. We again are beginning to hear a few Paul Reveres shouting, "The enemy is coming."

WHAT ARE YOU GOING TO DO WITH YOUR MONEY? 1) Cash with now a 5% yield? For sure some. 2) Gold has had an average of 5.6% annual return over the last year 48 years. Maybe some of that too. 3) Bonds that will go up in market value if interest rates go down. From 3/20 thru 10/23, long term government bonds declined -57%. More on this in our '24 Letter. 4) Or company equity with earnings that can increase with inflation over time and might eventually push the company equity price higher? If so, we have several researched lists that we feel could qualify.

AS I REVISIT MY YEARS OF EXPERIENCE IN THE MARKETS, I recall that in December 1974, the Dow Jones 30 industrials stocks were around the low of $577. Last December of 2022, the Dow 30 were worth over $33,577. This December '23 , its above 37,000 . That's a return of 65X or 11% annually. After inflation the 50-year return is net 7%. 35 of the 50 years were up. So, 15 years were down (source: dqydj.com).

Although past performance may not repeat, and certain factors and risks (as partially outlined above) could alter such performance, similar returns of another 65X the recent $37,000 over the next 50 years would suggest just shy of $2,400,000 on the DJIA. So that you don't feel we have overdosed on the market "Kool-Aid," we wanted to make you aware that we are also aware that "All may not be right", and "This time it might actually be different." We feel it is more a matter of "timing the market" than just "time in the market".

ENCLOSED IS OUR NEWSLETTER where we once again mostly quote investment professionals whose opinions and research we have followed over the years. We consider their outlooks but follow our proprietary IPMG system for our portfolio allocation. We will continue this close monitoring of markets and events as we move forward in 2024 and beyond. We believe in a good standby defensive strategy, and we will invest as our signals suggest. We are on watch as we begin the New Year and continue to consider interest rate moves, corporate earnings, sector strength, market momentum and individual stock price action.

And of course, as much as ever, we will try to respond quickly to your personal needs and questions.

UNTIL OUR NEXT 2024 UPDATE, PLEASE FEEL FREE TO CONTINUE CALLING OR EMAILING US AT ANY TIME.

WISHING YOU AND YOURS A WONDERFUL 2024!

Martin

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PS. OUR GROUP WOULD LIKE TO DEDICATE THIS YEAR'S BIG PICTURE TO SAMANTHA MAYBURY, "the 56-year honeymoon partner" of Richard Maybury, who died very suddenly of cancer in September of '23. Rick (editor of Early Warning Report) and Sam came to our home in 2000 as we were holding our annual Atlanta Investment Conference. They stayed a few days after with us and we subsequently visited with them in their west coast home. They were truly a wonderful team and Rick plans to write a book revealing how they did it and others can, whether newlyweds or have been together for decades.

WE LOOK FORWARD TO READING ALL ABOUT IT. They truly were a together couple. She will certainly live on thru her continuing influence on Rick.

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THE BIG PICTURE-2024

THE GOOD:

WE BELIEVE THAT THE AGENDA IN WASHINGTON IS TO PRODUCE A GOOD STOCK MARKET GOING into this year's election. According to Alkeon Management, here is how that can be accomplished:

YEAR OVER YEAR INFLATION NUMBERS SHOULD BE DOWN SHARPLY in '24 strictly based on higher numbers one year ago. Inflation could decline by over half from last year's high.

LONGER TERM DISINFLATIONARY forces such as (technological) Disruption, Debt and Demographics (sometimes referred to as the three "Ds) are likely to persist. The precent of business planning to raise prices has dropped precipitously in the past year.

WE BELIEVE THE CREDIT MARKET TIGHTNESS and inability for many companies to get loans will give us an official recession. The actual recession may already be in progress. That can also reduce inflation pressure.

2023 EPS GROWTH FOR THE S&P 500 WAS NEGATIVE. For 2024 some analysts expect a robust 10.4 percent growth, and the year after that, an 8.91 percent increase. *(1)*

ONE THING IS CLEAR TO US: The *earnings* recession is likely over. Corporate profits declined for three consecutive quarters, starting in the fourth quarter of 2022. But with most of the S&P 500 index having reported, it looks like earnings were finally growing again in the fourth quarter of '23.

WHILE MOST INVESTORS ARE DEBATING whether the US has or will fall into a recession (hard landing) or something else (soft landing), our view is that the US is now slipping into an expansion. *(1)*

AFTER THE MARKET ADJUSTMENT in the fall of '23 (a 10% decline from 7/31/2023-10/31/2023), many investors used that as a reason to buy stocks. Reportedly, there is still over $5 TRILLION in money market funds. If only $1 trillion of that goes into stocks, it would start another up-move sometime in 2024. The AI (artificial intelligence) mania could help boost that appetite for stocks.

THERE HAVE BEEN VERY FEW YEARS IN WHICH BOTH STOCKS AND BONDS FELL and among those years, 2022 produced the worst combined investment returns in more than ninety years. *(3)*

AS OF OCTOBER 2023, almost half of Nasdaq stocks were down 50% or more from their 2021 highs.

THE FASTEST GROWING STOCKS CORRECTED MORE than 69% from their 2021 peak through October of '23, erasing all 2019 and 2020 relative gains. In fact, erasing all relative gains since 2017!

SEVERE CORRECTIONS IN HIGH-GROWTH STOCKS CAN CREATE ATTRACTIVE OPPORTUNITIES to buy high quality, classic growth compounders with depressed relative multiples. *(1)*

JEFF SAUT'S COMMENTS THIS YEAR ARE "I think stocks will be higher by Nov 24' and that has typically been the correct market stance ever since I came into this biz in 1970."

AS FOR THE NEW YEAR, I EXPECT STOCKS TO BOUNCE AROUND BUT STILL END THE YEAR HIGHER. Saut continues: if you want a guess at a percentage gain for next year, I will give you the average percentage return that has historically occurred over the years of 10.2%.

HISTORY SHOWS THAT SECULAR BULL MARKETS TEND TO LAST 15-20 years (sometimes longer). Take the 1949-1966 bull market, or the 1982-2000 affair, both of those "runs" lasted a long time. I don't think this secular bull market will be any different.

IN SUM: THE ROAD MAY BE BUMPBY, BUT WE DO EXPECT EQUITIES TO CLIMB over the next 12 months after the 10/21 thru 10/23 bear market (which approached two years in length). We recommend using weakness in 2024 as opportunity. *(2)*

"THERE HAVE BEEN FOUR MAJOR HISTORICAL ERAS defined by the way we work. The Hunter-Gatherer Age lasted several million years. And then the Agricultural Age lasted several thousand years. The Industrial Age lasted a couple of centuries. Now the Information Age has lasted just a few decades. And today, we're on the cusp of our next great era as a species." Maurice Conti, Director of Applied Research & Innovation, Autodesk

"WE'RE IN A NEW DIGITAL WORLD: in an all-digital world. The past is gone, it's not coming back. We need to rebuild our companies, our organizations, and ultimately, we need to rebuild ourselves to be successful in this new digital future." Marc Benioff, Salesforce CEO

IT IS IMPORTANT TO NOTE THAT THE AI REVOLUTION IS AT ITS VERY EARLY STAGES as only in late 2022 did AI go mainstream with the introduction of ChatGPT.

THE EFFECT OF AI PRODUCTIVITY GROWTH is expected to be very significant. AI is likely to create a productivity boost we have only seen a few times in the past 100 years.

IN SUMMARY we believe we are at the early stages of potentially the most disruptive innovation cycle in technology ever: An AI-driven revolution that by 2030 has the potential to contribute up to $15.7 trillion to the global economy. *(1)*

INVESTORS SHOULD ALSO KNOW THAT CENTRAL BANKS will turn on the printing machine at the slightest problem. Global money supply reached a peak in March 2022 at US $105 trillion, according to Bloomberg. It was supposed to fall rapidly to $95 trillion, with central banks unwinding their balance sheet by at least $10 trillion. It hasn't happened. Global money supply continues above $101 trillion and rose significantly with the 2023 banking crises. *(6)*

THE ENSUING BOUT OF INFLATION COULD BE BULLISH FOR STOCK PRICES as they become an inflation hedge, just as we saw in the late 1970's. Massive, record money injections may initially *not* go into economic activity but instead could go into crazy investments as we saw after the 2020 Covid crash. *(1)*

IN SHORT, WE CURRENTLY BELIEVE THERE ARE SIGNIFICANT OPPORTUNITIES in high quality growth compounders at attractive multiples. Additionally, given more recently elevated valuations for the broader equities market, particularly in the U.S., we also seek to remain highly selective in our stock picking. *(2)*

THE BAD AND UGLY

THE ISM PURCHASING MANAGERS INDEX (PMI) for November showed no change from the previous month, remaining at 46.7. Remember, anything below 50 means a "contraction" in manufacturing, which suggests the economy has already slowed. *(4)*

THIS MARKS THE 13TH CONSECUTIVE MONTH THE ISM HAS COME IN BELOW 50 since August 2000 to July 2022, which is the longest period in contraction territory. *(4)*

SINCE JANUARY OF 2020 'TIL NOW it would have taken an increase in income of 34% just to stay even with prices (purchasing power), according to Charles Smith. Those who didn't have that increase in their income now have less to spend on essentials. That is what can create recessions. *(4)*

ANALYSTS ARE NOW TALKING ABOUT "DEFLATION" INSTEAD OF "INFLATION" here in the US. Our view is that we will have both, but at different times. *(4)*

NEXT YEAR WE WILL LIKELY SEE AN UNPRECENDENTED FLOOD OF TREASURY DEBT coming to market. Who will buy it? The Fed must buy the Treasury debt that the Treasury cannot find buyers for. The Fed, as the "buyer of last resort," may have to create a lot of money to pick up any unsold debt. According to Wolf Richter, there was $4.7 Trillion of Treasury Securities added since March 2020. Whatever the private sector doesn't buy will be bought by the Fed with freshly created money. That could come out to more than HALF a TRILLIION DOLLARS PER MONTH.

FED ASSETS EXPANDED FROM $4 TRILLION to nearly $9 TRILLION from 02/20 to 11/23. The debt maturing in 2024, which must be replaced with new debt is an enormous $7.6 TRILLION. The Fed now holds a record of 19.7% of the rapidly spiking US National Debt as of February 2023. *(5)*

THE VALUE OF THE US T-BOND MARKET plunged an incredible 57% over three years from 3/20-10/23. Europe and other bond markets have had much larger declines, especially the countries that made the incomprehensible mistake of having bond yields below zero percent. This had never been done in the entire known history of the world.

I BELIEVE THIS CAUSED THE WORST PROBLEM FACING THE GLOBAL FINANCIAL SYSTEM WITH massive unrealized losses for banks, pension plans, and mutual funds in their long-term bond portfolios. *(4)*

*****THE ATLANTIC COUNCIL, A NON-PROFIT THINK TANK that focuses on international affairs, reported that more than 100 nations, representing 95% of global GDP are exploring or have already implemented CBDC's (Central Bank Digital Currency).

THE U.S. CENTRAL BANK HAS COME UNDER PRESSURE FROM WASHINTON to keep up with these nations that have digitized their currencies, particularly China. The White House has claimed that CBDC "has the potential to offer significant benefits."

THE FEDERAL RESERVE BANK OF NEW YORK RECENTLY launched a 12-week pilot program with nine major financial institutions to experiment with a CBDC and a proof-of-concept digital money platform called the Regulated Liability Network.

CRITICS ARE WORRIED THAT THE INCREASING ADOPTION OF CBDCs MIGHT TRIGGER LIBERTY AND PRIVACY concerns, as there's no limit to the extent of control the government could have over its citizens.

"AHEAD COULD BE WORSE DICTATORIAL MOVES, such as removing control of your money away from YOU via CBDC's (to be controlled by the fed) and making you say thank you". (5)

*****"THE U.S CONSTITUTION IS FIRST AND FOREMOST known for the God-given rights and freedoms it protects. I believe these freedoms are now coming under attack from a very unexpected side: the World Health Organization (WHO)", says military historian Victor David Hanson

THE UPCOMING POLICY CHANGES AT THE **WHO** could have a significant impact on our society, more than all other events that are currently flooding the news channels. What's at stake? One person, the director-general of the WHO could be given the authority to take away the freedoms granted to us via the U.S. Constitution. How did we get into this miserable situation?

I BELIEVE IT'S A STRATEGIC PARTNERSHIP between two ambitious countries that are in the pursuit of power and global dominance. Specific content of the new **IHR** (International Health Regulations) amendments and the Pandemic Prevention Treaty could be aimed at securing a power structure rather than serving the health of the people.

THE AMENDMENTS INCLUDE THE POWER to define and control "disinformation". This is a risky measure. If the decision-making power over what is (true) information and disinformation lies only in the hands of the WHO staff, then open scientific dialogue is in jeopardy, and classifying a statement as disinformation could become censorship: Censorship runs counter to freedom of speech.

THE DIRECTOR-GENERAL OF THE WHO, has already adopted the COVID-19 digital certificate, saying that "the WHO uses it as a global standard to facilitate mobility in times of health threats."

I FEEL THIS IS CLASSIC ORWELLIAN DOUBLE SPEAK, where the words mean the exact opposite of how they sound. I believe the purpose of the digital certificates and the digital identity, which are soon to follow isn't to add to people's freedom, but to restrict it. These digital identifications will include a driver's license and personal and medical information, and it will act as a passport as well. Building a global digital infrastructure will facilitate global governance with speed and accuracy over every person on earth.

THE WHO PROMOTED NEW TREATY being discussed by its governing body is aimed at centralizing its control over health emergencies which will have force under international law. It gives the WHO power to demand lockdowns, mandate vaccines for you and your family, and prevent you from traveling. "Health emergencies," in this context, are any potential risk that the director general determines might cause a significant problem to health. This could be a viral variant somewhere, an outbreak of information that he or she disagrees with, or even changing weather. The current director-general has already insisted that all of these are major and growing threats. He even declared a Public Health Emergency of International Concern after five people in the world died of monkeypox.

PEOPLE WHOSE WEALTH HAS MADE THEM VERY POWERFUL may see great gain in having the WHO and the U.N. act in this way. These people may have also invested heavily in the media and politics to ensure broad support. Staff of the WHO and the U.N. who fight this from within are hardly going to enhance their career prospects.

IN REALITY, LARGE ORGANIZATIONS work for those who fund them. Most of their staff just do what they are told and accept their paychecks. A few courageous ones tend to leave or get pushed out; many who lack the courage of their convictions hide behind the organization hoping that others will step up first; and some are a bit clueless and cannot really figure out what is going on. An unfortunate few genuinely feel trapped into submission due to difficult personal circumstance. *(5)*

*****THOUSANDS OF UNVETTED ILLEGAL MIGRANTS are coming across our border EVERY DAY. In fact, the latest is that now up to *14,000 coming across the border in one day*. Estimates are that 2 million cross the southern border every year.

"LAST MONTH AN INCREDIBLE 260,000 CAME INTO THE US, according to officials. And I feel that no one does anything to prevent the radicals from destroying our country. How many of these are part of a well-planned invasion force into the US?" *(5)*

*****RECENTLY, A COALITION OF TECHNOLOGY LEADERS SUCH as X owner Elon Musk and Apple CEO Tim Cook, among others, called for a total shutdown of AI research and development. This followed the release of ChatGPT 4, an extremely powerful artificial intelligence chatbot that has, among other milestones, completed the bar exam in the 90th percentile and passed the SAT.

THE RELEASE OF CHATGPT4, easily the most powerful consumer AI on the market, prompted fears that AI was getting much more intelligent much more quickly than expected. U.S. House representative Jay Obernolte said, “Right now, it’s very clear that we do not have a good understanding of what the dangers are.” *(5)*

*****THE LONGER-TERM POTENTIAL DISASTER IS THE DERIVATIVE MARKETS. It is estimated that there are over $200 QUADRILIION of derivatives outstanding. Jamie Dimon, CEO of JPMorgan Chase, recently said, “this may be the most dangerous time the world has seen in decades.”

CONCLUSION: I don’t believe money in the bank is a solution. Congress passed a law after the last crises that depositor’s money, over $250,000 can be used to “bail in” the bank. In other words, your money becomes the banks money. *(4)*

SUMMARY

2023 WAS OBVIOUSLY AN IMPROVEMENT OVER 2022 FOR MOST, yet I continue to believe the new environment playbook is the one we should be using, says Andrew Adams of Staut Strategy. Such a playbook entails, among other actions:

- *Being more tactical*, with shorter expected holding periods. I think this is a time for traders more so than investors given the increased volatility and dearer valuations after almost 15 years of generally rising stock prices.
- *Being more skeptical and cautious of unprofitable companies* that previously relied upon low interest rates and several rounds of new capital raises to grow and survive.
- *Giving commodities and commodity*-related stocks more emphasis in portfolios.
- Putting increased emphasis on dividends and also yield now that such returns are more attractive.
- *Avoiding traditional bond funds* that could get killed in a possible further rising rate environment as government debts are funded.

WHAT HAS HAPPENED**:**

- THE *TOP TEN* STOCKS OF THE RUSSELL 1000 GROWTH INDEX comprised 53% of that index in 2023 and the top 5 stocks comprised of 41%. The weightings of these two categories were less than half of that a decade ago.
- THE LAST 10 YEARS, 5 stocks accounted for nearly *45% of the R1000 Growth index return,* while for the last year 5 stocks accounted for *60% of the return*. By indexing, you’re betting that 5 companies will continue the trend of dramatic outperformance. Indexing is giving way to potential volatility in portfolios.
- AS A RESULT, “PERFORMANCE LEADERSHIP HAS NARROWED”. *Passive (index)* investors are essentially betting on the future success of a small subset of companies.
- THE HEIGHTNED CONCENTRATION ENVIRONMENT IS SIMILAR TO THE LATE 1990’s at the peak of the dot-com era. The ensuing period proved to be strong for *active* management.
- ONE GUEST ANALYST on CNBC mentioned that last year, thru 10/31/23, 96% of the gains in the stock market were due to just 10 stocks. If an investor did not have those 10 stocks, their portfolios probably had losses. The big gains of those 10 stocks are advertised as “gains of the entire stock market.” Totally false!
- THE INCREASED CONCENTRATION IS MASSIVE, but history shows we go through periods of increasing concentration then *followed by periods of decreasing concentration*.
- FOLLOWING THE TECH BUBBLE, of the 1990’s we had a 7-year period of “decreasing concentration” of the top 5 holdings. The result? The Russell 1000 growth index significantly underperformed the median manager of the large cap growth universe. *(2)*

From Tom Lee, head of F.S. Insight Research:

In 2023, the S&P 500 gained 24% yet most investors sat on the sidelines as many expected the U.S. economy to slip into a recession. As we move into 2024, investor skepticism has diminished but investors are generally still wary. We are overall positive on equities. Here are some potential high-level takeaways:

- Fed shifts from "inflation war" to "business cycle management" = rate cuts likely
- Pent-up demand suggests we are more early cycle, not late cycle.
- P/E multiples likely expand given falling interest rates and pent-up demand.
- Investors allocate into equities, particularly individual investors who withdrew $240 billion in 2023.

We expect equities to surprise consensus to the upside in 2024. Thirty-year mortgage rate drop likely as spreads normalizes vs the declining 10-yr treasury rate.

-**BEST CASE**: inflation will track below consensus leading to faster than expected easing of financial conditions. No recession but probably weaker job market in first half of 2024. This is a far better macro backdrop than 2023.
-EPS: We see 2024/2025 EPS growth of 11.3%/8.3% to $240/$260 driven by cyclical EPS recovery

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(1) Alkeon Investments *(2) Staut Strategies* *(3) Barrons* *(4) Wellington Letter*

(5) EPOCH Times *(6) EPOCH Insight* *(7) Tom Lee, F.S. Insight*