January 2024 Mark(et) Rush Report
By
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Preface

Once again, it is time for my quarterly market review, when I examine world events and attempt to understand their implications on the markets. This report is my time to reflect on current events, portfolio performance, event scenarios, and their subsequent consequences on world equity markets and investment strategies.

It is my goal in life to have my money working for me instead of me working for my money.

Please remember that I am an *amateur* investor, and this document is a *hobby*. Any thoughts and concepts should be treated as such. Please consult a professional financial advisor before making any investment decisions regarding your investment ideas, goals, and strategies. Continue reading this document at your own risk…

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In plain English, I am NOT giving you investment, tax, or legal advice.

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Introduction

Greetings!

As we step into the new year, it's time for a renewed market strategy, guided by the expectation of a balanced economic climate, akin to the Goldilocks scenario — not too hot, not too cold, but "just right." This ideal state suggests steady economic growth, controlled inflation, and well-managed interest rates, fostering a stable investment environment.

In this 'just right' market, I anticipate sustained consumer spending and business investment without the risk of overheating. However, the unpredictability of the market means we must stay flexible and ready to adjust strategies in response to unexpected economic shifts.

My approach for the year is to navigate with a balanced outlook, capitalizing on potential stability while staying alert to signs of change. The aim is to harness the benefits of a stable market while being prepared for any unforeseen economic fluctuations.

All data for this report was gathered and compiled on the weekend of December 29th, . Prices, ratios, indices, and outlooks may have changed materially since that time.

For those seeking a concise version of this report, please refer to Chapter 6 and the updated investment ideas in the Appendices.

Mark

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Chapter 1
Considerations

Economy

The specter of a recession has been looming over the economy, yet it remains an event that has not materialized – at least, not as of now. This uncertain economic climate has led to varied predictions and speculations, but the prevailing consensus among experts and market analysts is that if a recession were to occur, it's likely to be a mild one. This perspective is grounded in several economic indicators and trends that suggest a downturn, if it happens, may not be as severe or prolonged as some past recessions.

One of the key factors supporting this view is the strength of various sectors of the economy. Despite challenges, certain industries have shown resilience and adaptability, contributing to a buffer against a full-scale recession. Moreover, employment rates have remained relatively stable, and consumer spending, while showing signs of fluctuation, has not plummeted to alarming levels indicating a balanced labor market. These elements indicate that the economy, though facing headwinds, has underlying strengths that could lessen the impact of a recession.

However, it's important to approach this outlook with caution. Economic predictions are notoriously difficult, and several external factors, such as geopolitical tensions or unexpected global events, can swiftly alter the landscape. Additionally, the effects of a mild recession would not be evenly distributed; certain industries and demographic groups might experience more significant challenges than others. Therefore, while the general anticipation is a mild downturn if a recession occurs, both individuals and businesses should prepare for a range of scenarios, maintaining flexibility in their financial planning and strategies to navigate potential economic challenges ahead.

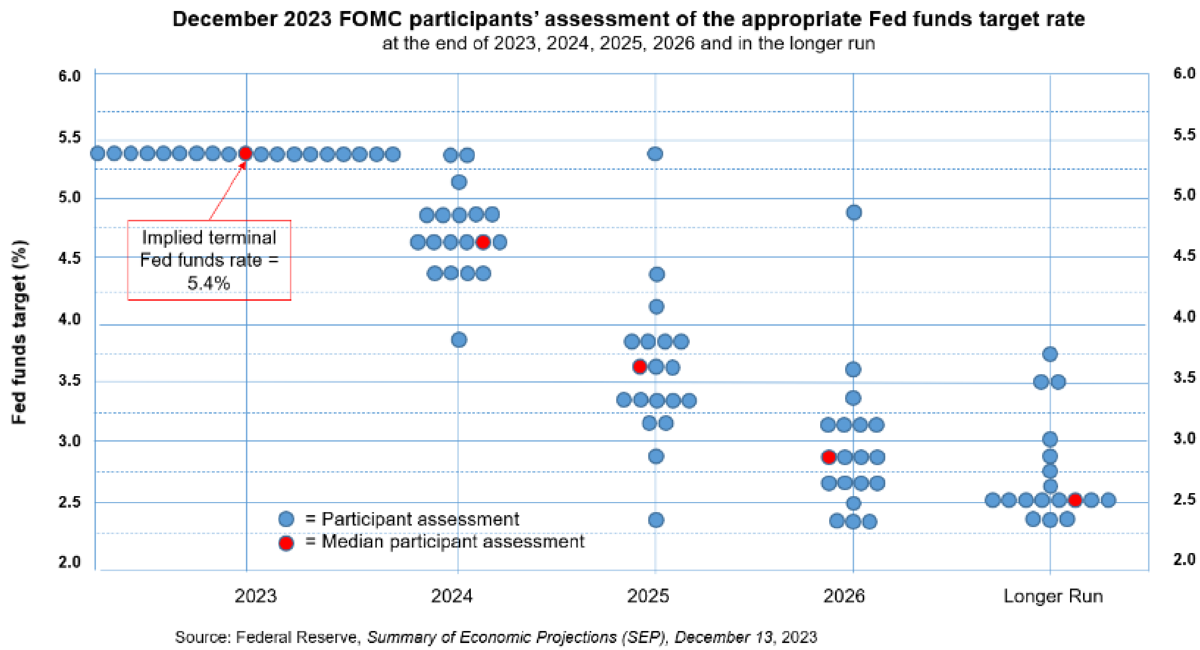
The expectation is for a soft landing or no recession.

Inflation, The Fed, and Interest Rates

The Federal Reserve's recent decision to pause interest rate hikes marks a significant moment in its ongoing efforts to manage inflation. Currently, with interest rates at 5.5% and inflation at around 3.67%, this pause is a strategic move, allowing time to assess the impact of their policies so far.

The central aim behind the Federal Reserve's rate hikes has been to temper inflationary pressures. This approach, which had its skeptics, including myself, seems to be showing positive results. If the current inflation rate stabilizes or continues to decline, it could validate the effectiveness of the Federal Reserve's strategy. These early indicators suggest that the proactive measures taken may be starting to align with their intended outcomes. However, it's important to maintain a cautious optimism, as economic conditions are subject to a numerous of influences and can shift unexpectedly.

While the current pause and the accompanying data provide some initial encouragement, it's only over time that we will be able to conclusively determine the long-term effectiveness of the Federal Reserve's rate hikes in controlling inflation.



Inflation has moderated, and the Fed has paused and indicated they are ready to cut rates.

National Debt

As we move forward without a finalized US budget for 2024, it becomes necessary to reflect on the fiscal details of the 2023 budget as a proxy, which offers significant insights into our financial management and challenges. In 2023, the revenue generated amounted to $4.439 trillion, a substantial figure by any standard. However, our expenditures surpassed this, reaching $6.134 trillion. This disparity between income and expenditure highlights a critical issue in fiscal planning: we spent $1.695 trillion more than what we managed to raise through various revenue streams.

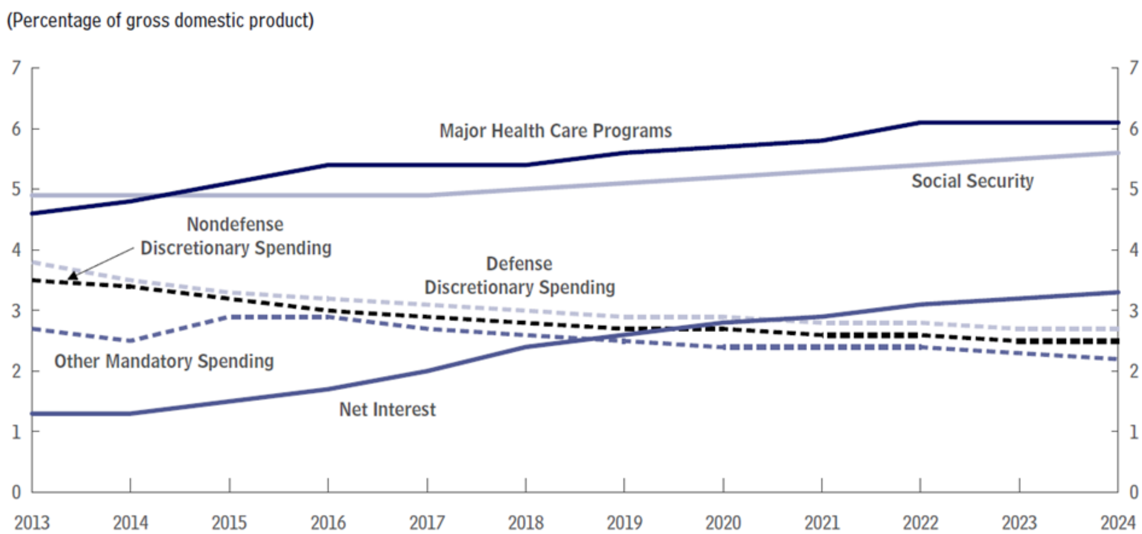
This overspending translates to a situation where only 72% of our total expenditures were covered by the revenue generated. To put this into perspective, for every $3 raised, we had to borrow slightly more than an additional dollar to meet our spending needs. This borrowing to supplement revenue underscores a significant gap in our budgetary process, where expenditure consistently outstrips income.

The implications of such a financial strategy are multifaceted. It raises concerns about the sustainability of such fiscal policies. Relying on borrowing to finance a considerable portion of the budget can lead to increased national debt and potential long-term economic repercussions.

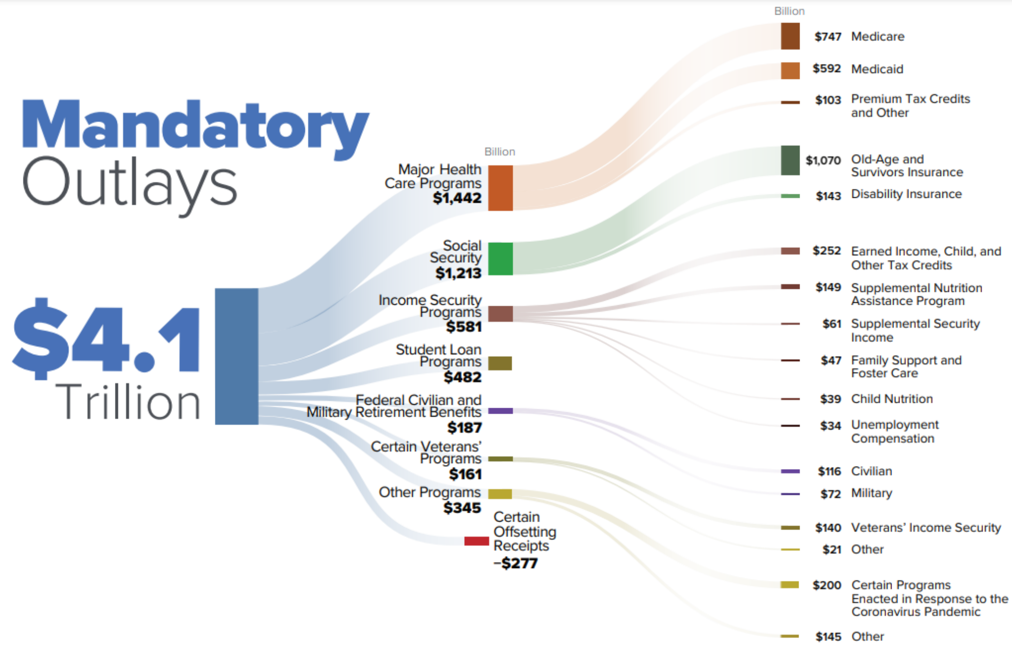
Going forward, this scenario presents a challenge for future budgetary considerations. It calls for a careful evaluation of spending priorities and potential revenue generation methods. The goal would be to strike a balance between fulfilling immediate fiscal responsibilities and ensuring long-term financial stability. As we await the 2024 budget, these considerations will be crucial in shaping a more sustainable fiscal approach, aiming to reduce the reliance on borrowed funds and moving towards a budget that aligns closer with the actual revenue.

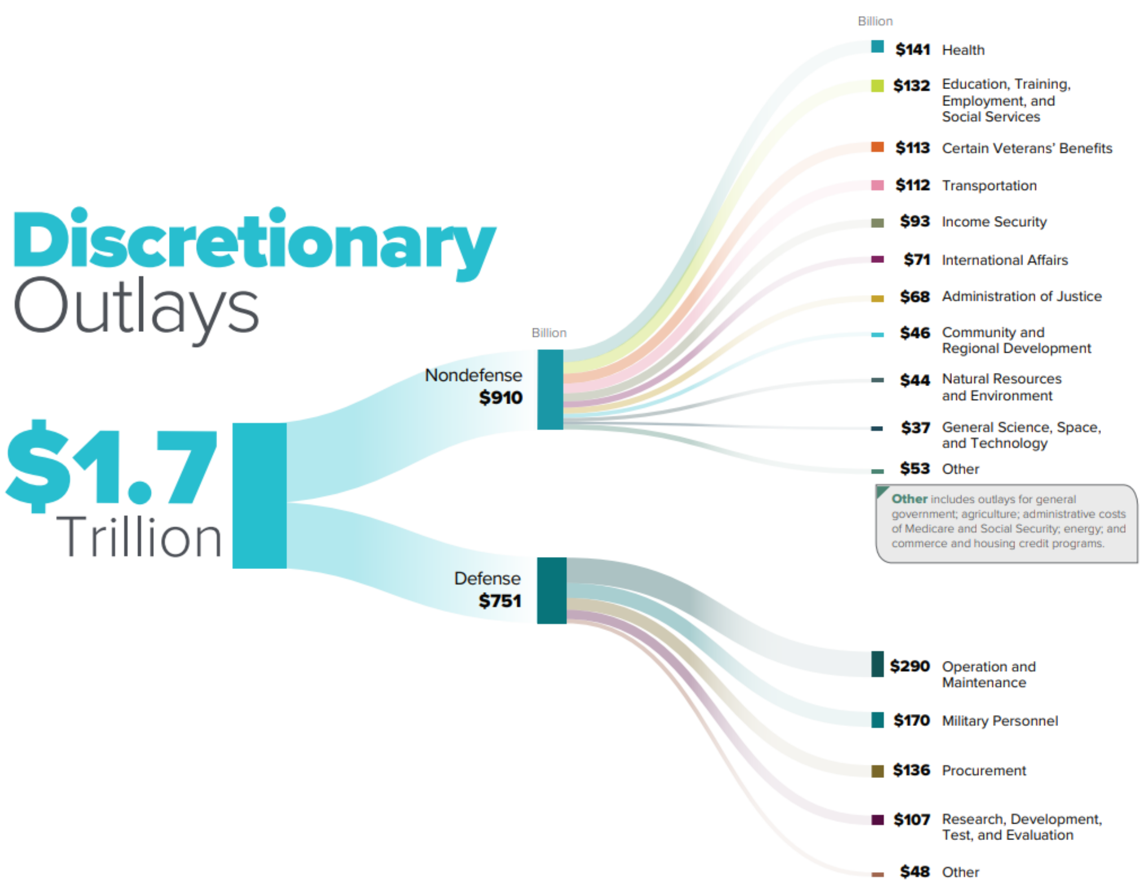
For those who believe just cutting the military will solve our budget woes, it might surprise them to find that only 12% of U.S. spending in on the miliary. Health care programs are number one followed by a close number with social security. Coming in third is, shockingly, interest on the debt. Then basically tied are the remaining three, defense, other mandatory spending, and other non-mandatory spending.

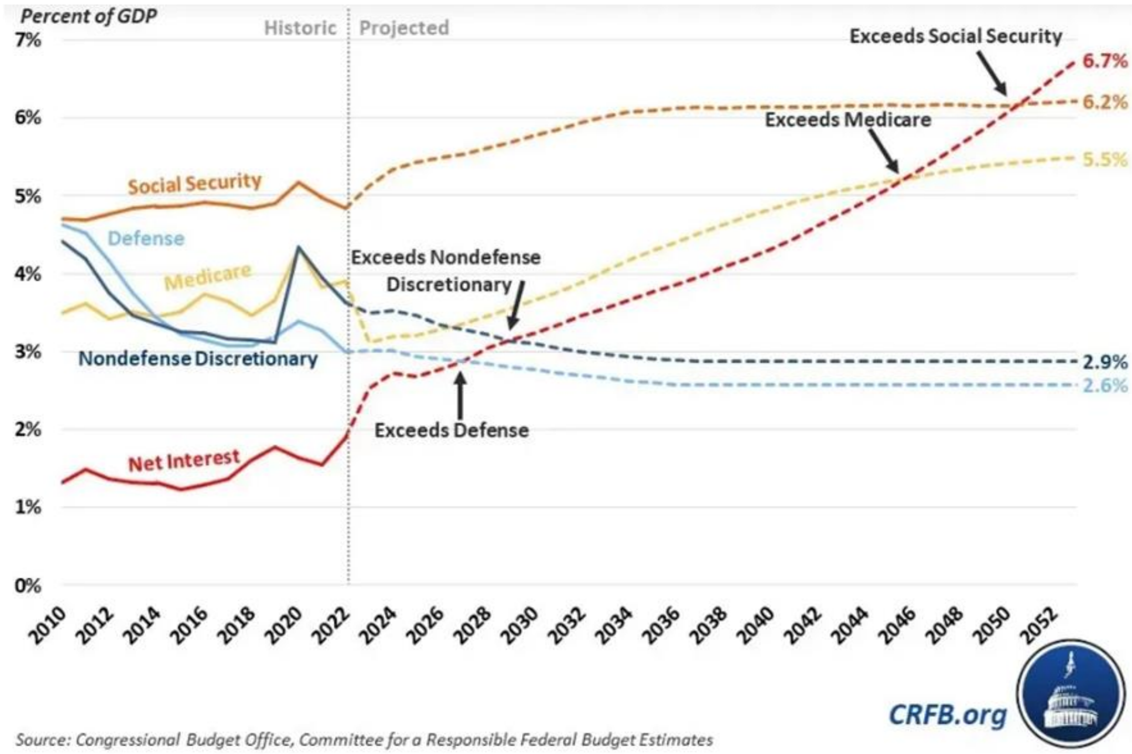
U.S. Federal Spending as Pct GDP



Source: Congressional Budget Office.


Mandatory Outlays
$4.1 Trillion
Billion
Major Health Care Programs $1,442
Social Security $1,213
Income Security Programs $581
Student Loan Programs $482
Federal Civilian and Military Retirement Benefits $187
Certain Veterans' Programs $161
Other Programs $345
Certain Offsetting Receipts –$277
Billion
$747 Medicare
$592 Medicaid
$103 Premium Tax Credits and Other
$1,070 Old-Age and Survivors Insurance
$143 Disability Insurance
$252 Earned Income, Child, and Other Tax Credits
$149 Supplemental Nutrition Assistance Program
$61 Supplemental Security Income
$47 Family Support and Foster Care
$39 Child Nutrition
$34 Unemployment Compensation
$116 Civilian
$72 Military
$140 Veterans' Income Security
$21 Other
$200 Certain Programs Enacted in Response to the Coronavirus Pandemic
$145 Other


Discretionary Outlays
$1.7 Trillion
Billion
Nondefense $910
Defense $751
Billion
$141 Health
$132 Education, Training, Employment, and Social Services
$113 Certain Veterans' Benefits
$112 Transportation
$93 Income Security
$71 International Affairs
$68 Administration of Justice
$46 Community and Regional Development
$44 Natural Resources and Environment
$37 General Science, Space, and Technology
$53 Other
Other includes outlays for general government; agriculture; administrative costs of Medicare and Social Security; energy; and commerce and housing credit programs.
$290 Operation and Maintenance
$170 Military Personnel
$136 Procurement
$107 Research, Development, Test, and Evaluation
$48 Other



By 2033, the trust fund that supplements Social Security payments is projected to be depleted. This fund currently accounts for approximately 23% of the benefits received by Social Security beneficiaries.

The debt spiral has begun.

Long Term Inflation

Debt-induced inflation, a phenomenon where rising debt levels lead to increased inflation, presents significant long-term implications for economies. Historically, this has been observed in various scenarios, where excessive borrowing, especially by governments, fuels inflationary pressures. One notable example is the Weimar Republic in Germany post-World War I, where the government printed money to pay off war debts, leading to hyperinflation. Prices skyrocketed, and the value of the currency plummeted, severely disrupting the economy, and contributing to social and political upheaval.

In more recent times, countries like Zimbabwe and Venezuela have also experienced debt-induced hyperinflation. Zimbabwe in the late 2000s saw its government printing money to pay off debts and finance a budget deficit, resulting in inflation reaching an astronomical rate, rendering the Zimbabwean dollar virtually worthless. Similarly, Venezuela's economic crisis in the 2010s was partly attributed to massive government spending and debt accumulation, compounded by a drop in oil prices, leading to hyperinflation and economic collapse.

The long-term implications of debt-induced inflation are far-reaching. Firstly, it erodes the purchasing power of consumers, as the value of the currency diminishes. This scenario can lead to a decrease in real income and savings, adversely affecting the standard of living. In severe cases, it can push large segments of the population into poverty.

Secondly, debt-induced inflation can undermine investor confidence, both domestically and internationally. As the value of the currency falls, foreign investors may withdraw their investments, fearing losses due to currency devaluation. This withdrawal can lead to a decrease in foreign direct investment, critical for many economies. Domestically, the uncertainty caused by inflation can lead to reduced business investment, slowing economic growth.

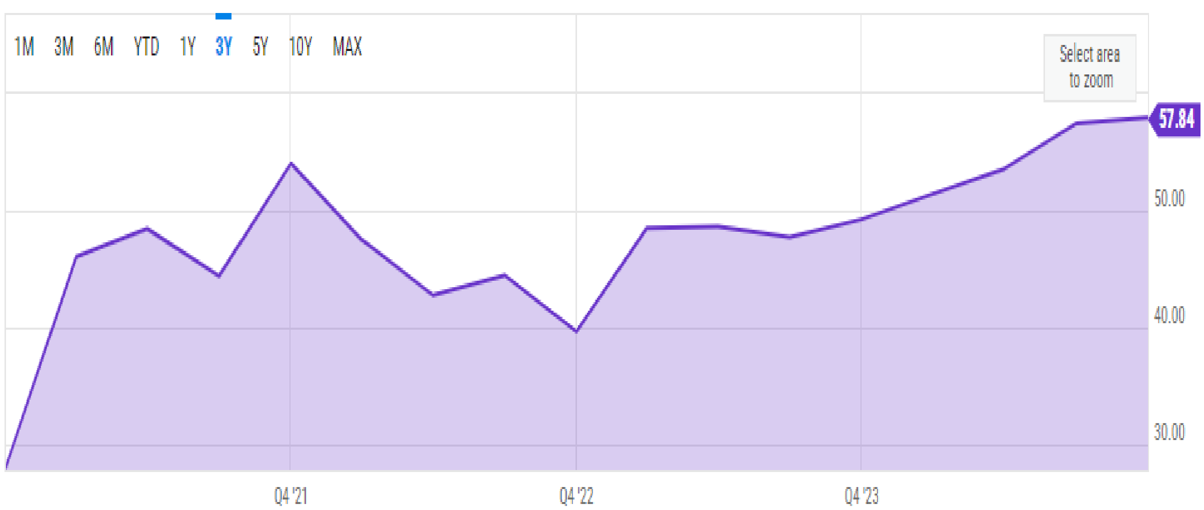
Lastly, debt-induced inflation can lead to socio-political instability. As seen in historical examples, prolonged periods of hyperinflation can cause public discontent, leading to social unrest and political upheaval. It challenges the government's ability to provide essential services and maintain order, often necessitating austerity measures that can further exacerbate public dissatisfaction.

Long term devaluation of the dollar is unavoidable.

S&P 500 Earnings

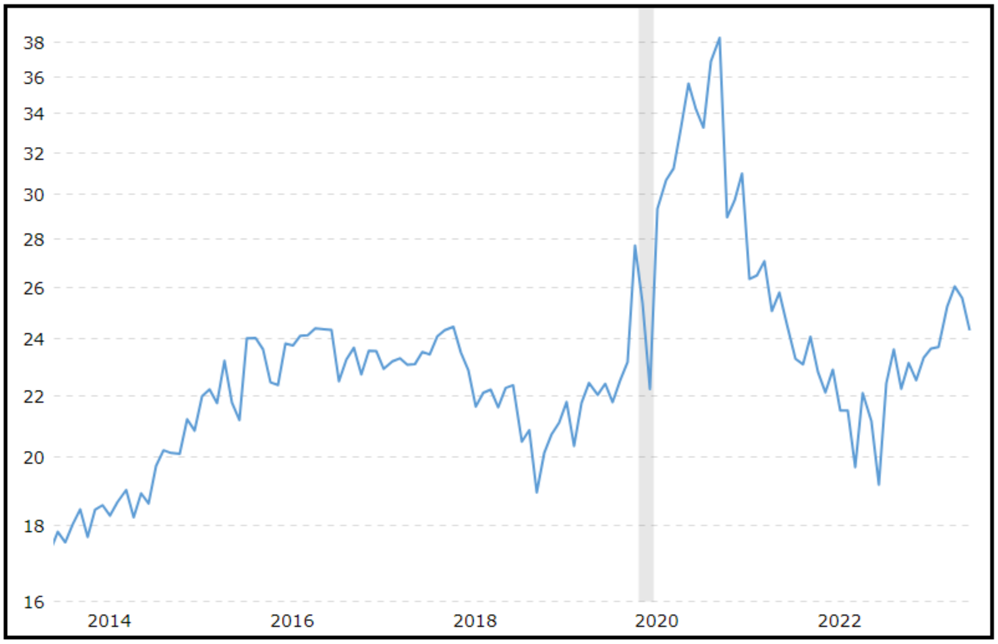
At the outset of a new year, earnings forecasts tend to be on the optimistic side, reflecting the general sentiment and expectations of growth in the business environment. For this year, the projection stands at a solid 14% growth in earnings by year-end. While such figures are often subject to revision as the year progresses, they provide a baseline for anticipating market performance. Even with a cautious approach, applying a discount of one-third to these projections to account for unforeseen market variables and economic shifts, I still anticipate a robust growth rate of around 9%. Let’s call it somewhere 7.5-15% earnings growth expectation to put a bracket around it.

S&P 500 Earning Quarterly Projections



Looking specifically at the S&P 500, the expectations are set for it to achieve $220.79 in earnings this year. However, when we translate these earnings into market yield based on a current value of 4,769.83 , we're looking at an anticipated forward market yield of only 4.6%. This yield, when translated to a price-to-earnings (P/E) ratio of 21.6, suggests a market fairly value if not slightly overvalued. It's not crazy high but its higher than I would like.

S&P 500 Historical Trailing Price/Earnings Ratio



This valuation suggests that investors are counting on future growth and may be overlooking potential risks or overvaluing future earnings potential. This scenario warrants a cautious approach for investors, as such high valuations can lead to increased market volatility and corrections if the actual earnings do not live up to the optimistic projections.

One more interesting note, the P/E ratios in the top 20% of the market suggest a highly overvalued market while the bottom 20% a highly undervalued market.

My call for the S&P 500 at the end of 2024 is 5150 for an 8% price appreciation, while the optimist case may go as high as 5500.

S&P 500 Earnings expectation are up.

Volatility Harvesting: Navigating the ETF Landscape (Landmines)

The realm of volatility harvesting ETFs has undergone a notable evolution in recent times, characterized by increasingly bold investment strategies. With over a decade of experience in this sector, I have observed its transition from a comparatively straightforward market to a complex and competitive landscape. Successfully navigating this arena as an individual demands a keen understanding of various operational challenges, including managing bid-ask spreads and commissions, so these ETFs do offer some efficiencies in regards to time, economy of scale, and information.

Well-known funds like QYLD, JEPI, and NUSI, which I have previously covered in my reports, are seeing a surge in popularity. Their core strategy involves selling near-the-money monthly calls and distributing the options premium as dividends. While they typically offer dividend yields of 10-12%, this approach can lead to missed opportunities for stock growth, particularly in strong market conditions. This year, the performance of these funds lagged behind their underlying assets, notably during the substantial year-end rally.

An emerging and more assertive trend in this sector is the advent of higher-risk volatility harvesting ETFs. These funds concentrate on individual stocks, inherently more volatile than indices, and often manage weekly calls, moving away from traditional monthly options. They also utilize off-exchange financial instruments for cost efficiency but introducing new counterparty risks.

For instance, the YieldMax TSLA Option Income Strategy ETF (TSLY) experienced an 11% drop in stock price in 2023 but still managed a remarkable overall gain of around 57%, bolstered by a 68% dividend yield. This performance, however, was overshadowed by the 109.7% increase in its underlying asset, Tesla Stock. Such funds typically absorb the full impact of downturns in their underlying assets and underperform in bullish markets, though they fare better in sideways or slightly down markets.

The growing interest in these ETFs, especially from less informed investors, is concerning. The increasing volume of volatility selling, driven by this surge in capital, could significantly reduce volatility pricing and impact fund performance. Identifying the saturation point, where market over participation starts diminishing returns, is a critical challenge. While we may not be at that point yet, the influx of funds continues unabated.

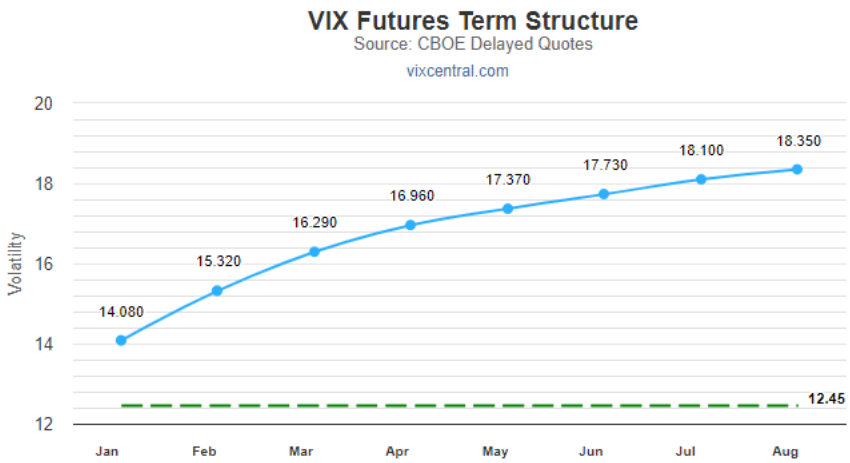
Reflecting on my extensive experience in volatility trading, I've noted that substantial capital inflows can adversely affect the risk-reward balance, potentially leading to severe consequences for some funds. The market downturn in 2020 exemplifies this, where excessive VIX short selling and rapid market declines led to the collapse of several funds, leaving many investors with significant losses.

My analysis for 2023, utilizing hypothetical weekly options pricing from year-end, indicated that buying weekly options was more beneficial than selling them. This outcome, however, is tied to the unique market conditions of the past year, including extraordinary market gains and currently low volatility.

Although tens of billions are invested in these strategies, their impact on the vast US and global markets is still likely relatively limited. However, they do influence overall market volatility, generally leading to a decrease, which in turn prompts more aggressive stock investments. For average investors, understanding options for hedging is now advisable, as lower market volatility can offer opportunities for cost-effective insurance strategies like put options due to the massive selling of volatility.

Currently, investors can completely protect their S&P 500 investments with protective puts, costing about 5% of the ETF's value. This strategy mitigates losses while recouping some of the expense. Less expensive options with lower levels of protection are available, which I will discuss in greater detail in Chapter 6.

To conclude, the accompanying chart shows projected Volatility Index (VIX) values for the coming months. The VIX typically rises with increasing market uncertainty, indicating a risk premium. In a robust market, the VIX tends to decrease, while in a declining market, it increases. Present trends appear on the low side but normal, but it's crucial to keep a watchful eye on this indicator.



Here is the 10-year chart of the Vix (S&P 500 Volatility Index), where the median Vix value stands at 16, usually fluctuating within a 12 to 20 range. Historically, we observe a spike in the Vix approximately every three years.

A persistently and sustained lower Vix will be good for the market, until it isn't.

Housing

The current state of the housing market, with its notably low inventory despite higher mortgage rates, can be largely attributed to a combination of several critical factors. These include low vacancy rates, steady immigration, and a significant number of homeowners who have secured mortgages at interest rates below 4%. With the prevailing interest rates now around 6%, those with existing lower-rate mortgages are showing a reluctance to move. This hesitance is a key factor in keeping housing inventory low.

Immigration has a substantial impact, particularly on the lower end of the housing market. Border patrol data indicates approximately 2.5 million crossings in 2023. Extrapolating from this, over the past five years, there's potentially a need to accommodate up to 10 million new people. This steady influx of new residents due to immigration ensures a consistent demand for housing, which helps counterbalance the effects of rising mortgage rates.

Moreover, the widespread occurrence of low-interest mortgages among current homeowners plays a crucial role. Many homeowners are currently benefiting from mortgages with rates below 4%, and the increase in interest rates to about 6% has dampened their motivation to enter the higher-rate market. This advantage of lower-rate mortgages is a significant factor leading to reduced turnover in the housing market. As a result, the number of homes on the market remains limited, contributing to the overall stability and resilience of the housing sector in the face of higher mortgage rates.

Housing should be stable with lower rates.

Commercial real estate

The commercial real estate sector in the U.S. is set to continue facing persistent challenges in 2024, reflecting the complex interplay of various economic and societal trends. One of the primary issues is the tightening of credit, a consequence of the Federal Reserve's rate hikes aimed at controlling inflation. These rate hikes have led banks to adopt more stringent lending standards, making it more challenging for businesses and investors to secure financing for commercial real estate projects. This tightening of credit is especially impactful in a sector where development and acquisition often rely heavily on borrowed capital.

Additionally, the ongoing trend of work-from-home arrangements, accelerated by the COVID-19 pandemic, poses a significant challenge to the commercial real estate market, particularly in the office space segment. As more companies adopt flexible work policies, the demand for traditional office spaces has decreased, leading to higher vacancy rates and a reevaluation of the value and utility of these properties. Furthermore, the potential for a recession looms over the market, adding another layer of uncertainty. Businesses may become more cautious in their expansion plans, further dampening demand for commercial spaces.

Inflation, too, adds to the costs of construction and maintenance, squeezing margins in an already pressured market.

However, it's not all bleak for commercial real estate. There are notable bright spots, particularly in the areas of cell towers and server farms. The relentless expansion of digital connectivity and the increasing reliance on cloud computing and data storage have propelled the growth of these sectors. Cell towers are crucial infrastructure for the ongoing rollout of 5G technology, while server farms are essential for supporting the massive data needs of modern businesses and consumers. These areas are likely to see continued investment and growth, offering lucrative opportunities within the broader challenges of the commercial real estate market. Their resilience and growth potential make them attractive options for investors looking to navigate the complexities of the current economic landscape.

This is one of the bigger headwinds this year.

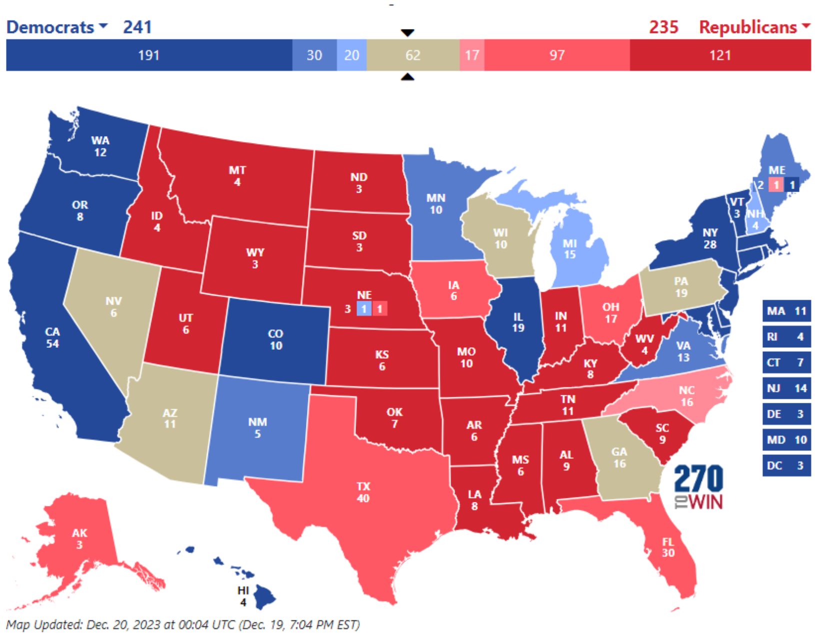
Election

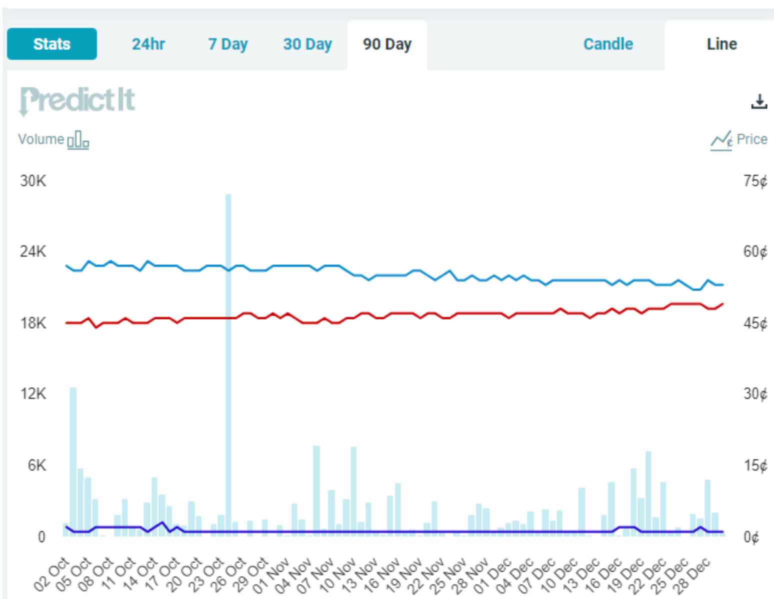
The impending Presidential election is expected to moderately impact the markets, despite the contentious nature of the race. A potential rematch between Trump and Biden adds uncertainty, influencing market volatility as investors anticipate shifts in economic policy and regulation based on the election's outcome.

Concerns about post-election unrest also play a role in shaping market dynamics. The possibility of violence could prompt cautious investment strategies, with the market showing increased sensitivity to political developments. Additionally, the age and health of the candidates, both among the oldest in presidential history, bring an element of unpredictability that could affect market sentiment.

Policy implications of the election are significant, particularly for sectors like healthcare, energy, and technology, which are sensitive to changes in regulation, taxation, and government spending. Investors and businesses are bracing for these potential shifts, adjusting their strategies accordingly.

In terms of market reaction, a Trump victory might lead to a bullish market, while a Biden win could cause a mild, short-term market retreat as it adjusts to the shift. Current market sentiment seems to favor a Biden victory, adding to the complexity of investment decision-making during this election cycle.





The election is neutral to positive.

The Ukraine War

The conflict in Ukraine has reached what seems to be a deadlock, with indications of a stalemate on the battlefield. The winter season is likely to bring a decrease in active fighting, offering both sides a chance to regroup. While provocations continue from both parties, it's notable that one side possesses a significant nuclear arsenal of 5,977 weapons.

Recently, there's been a perceptible decline in Western allies' support for Ukraine, particularly since the onset of the conflict in Israel. In a strategic move, Russia has heightened tensions by deploying tactical nuclear weapons to Belarus and responding to military attacks on its own territory. This expansion of the conflict's scope beyond Ukraine's borders is a worrying development.

The increasing international aid to Ukraine is exerting substantial pressure on Russia. Beyond the immediate financial and military challenges, Russia faces a more profound threat: the potential of this conflict escalating into a long-standing, existential crisis. With its resources and national prestige at stake, Russia confronts significant geopolitical risks.

The global community's approach appears to be driving Russia into a defensive stance. While this might be intended to curb further Russian aggression, the wider consequences must be considered. Exerting pressure on a nation, particularly one with extensive nuclear capabilities, heightens global security risks. The prospect of a nuclear confrontation becomes more pronounced as tensions rise. In this increasingly fraught situation, the urgency for diplomatic engagement and solutions is paramount to prevent further escalation.

Things may have stabilized, the lines are being drawn, all sides are getting tired of this war.

China

China's economic performance has heavily relied on investment growth, particularly since the 2008 global financial crisis. This growth, largely driven by the public sector and an inefficient banking system, contributed to two-thirds of GDP growth in 2009–10. While China's low capital-to-labor ratio justifies more investment, the concentration of bank credit in state-owned enterprises has often resulted in poor returns on these investments. The government's recent efforts towards rebalancing the economy involve shifting from investment-heavy growth to boosting household consumption and services sector growth. This shift has made progress, with household consumption now being a primary growth driver and the services sector overtaking manufacturing in economic contribution.

However, the real estate sector, a significant contributor to economic stability, presents vulnerabilities, especially with the increase in household debt driven by easy mortgage access. While China's debt accumulation is largely financed by domestic savings, reducing the risk of a financial crisis, the inefficiencies in capital allocation pose challenges. Major property developers facing financial troubles due to high debt and fragile balance sheets exemplify these inefficiencies. The government's control over major banks provides a safety net, preventing systemic financial meltdowns, but this also delays addressing underlying issues.

China's financial reforms have primarily focused on the financial sector and capital markets, leaving state enterprises and institutional frameworks relatively untouched. The need for broader reforms is clear to better manage risks and allocate capital effectively. The government's balancing act between market confidence and self-regulation has often led to increased market volatility. Transparent policymaking, improved corporate governance, and greater operational independence for regulatory authorities are needed to complement market-oriented reforms.

China's approach to economic growth and stability faces a delicate balance between market liberalization and government intervention. While the state has the resources to manage transitional risks, its direct interventions in markets could heighten volatility and lead to long-term issues. Clear communication of policy intentions and comprehensive reforms across various sectors are crucial for sustainable economic stability and growth.

China’s Housing market is unsustainable.

The Future Impact of AI on Corporate Profits and the Global Economy (repeat)

The integration of Artificial Intelligence (AI) into the global economy is accelerating, positioning it as a key driver of economic growth and innovation. AI's ability to enhance operational efficiency, streamline supply chains, and accurately predict market trends has the potential to significantly elevate global GDP. By improving decision-making processes, automating repetitive tasks, and fostering innovative approaches, AI is poised to boost productivity and expand market opportunities for businesses around the world. The adoption of AI across various sectors is expected to lead to a significant increase in output and efficiency, thus propelling economies forward and contributing to extraordinary growth rates.

AI's role in reshaping the economic landscape extends to transforming traditional business practices. Industries such as retail, healthcare, and finance are leveraging AI for personalized customer experiences, advanced diagnostic tools, and sophisticated risk assessment models, respectively. This integration is not only enhancing the quality of products and services but also creating new business models and revenue streams. The advent of AI-driven technologies like machine learning, natural language processing, and robotics is opening up possibilities for groundbreaking applications, from autonomous vehicles to advanced research and development.

However, the sweeping changes brought by AI also present significant challenges, particularly in the labor market. As AI and automation become increasingly prevalent, certain job sectors may experience a decline. Roles in manufacturing, data entry, customer service, and aspects of financial analysis are at risk of being automated, leading to job displacement. The rapid advancement of AI necessitates a workforce that is agile, capable of adapting to new technologies, and willing to engage in continuous learning and skill development. While AI is expected to generate new employment opportunities and industries, the transition may pose difficulties for workers in positions susceptible to automation.

In conclusion, Kill all humans!!!

Chapter 2
The Charts

A picture may be worth a thousand words, but sometimes, as in my case, a few dozen words can be just as revealing. Let's dig into the charts to understand past trends and anticipate future developments.

S&P 500 (4769.83)

Reflecting on the past year, our trajectory aligned closely with the seasonal chart outlined in Chapter 6, although with some discrepancies. January typically experiences a modest downturn, followed by a volatile February. Given last year's performance, a period of consolidation seems likely. I anticipate the S&P 500 to maintain above 4600, barring any major upheavals. Any January retracement to the 4600 level could present a strategic buying opportunity.

The chart appears to be bullish even if we rest in January

U.S. 10-Year Bond Rates

As soon as it became anticipated that the Federal Reserve might cease its interest rate increases, the 10-year Treasury yield experienced a significant adjustment. This shift saw the yield decrease by more than 1%, falling from close to 5% to under 4%. With this change, I am inclined to invest if the rates stay within a long-term range of 4% to 3.5%. Rates significantly above this range could suggest a resurgence of inflation, while substantially lower rates might indicate the market's expectation of a more severe economic slowdown.

Rates are going up as if there is more inflation around the corner.

TIPS

The yield of this financial instrument is closely tied to the inflation rate, meaning a further reduction in inflation could lead to a corresponding decrease in its yield. The recent break from the long-term trend line indicates that the market is expecting inflation to be moderate. Considering this, it would be prudent to closely monitor Treasury Inflation-Protected Securities (TIPS) for any signs of inflationary changes. The TIPs have witnessed a downturn, currently standing at 10% below its recent high. Nonetheless, its yield of 4% offers some buffer against this decline. Presently, the market appears to be suggesting that inflation is reaching a point of stabilization. There are hints that this trend might have bottomed out, potentially setting the stage for a new upward trajectory.

This chart shows a drop in inflation expectations

Crude Oil

Oil serves as a crucial indicator for predicting economic trends, especially in terms of potential downturns, and thus requires vigilant monitoring. Its current pricing trends are indicative of an anticipated strong global economic growth. In my view, an oil price below $78 is considered acceptable, although a price falling much below $65 could signal economic weakness. An exception to this would be if there's a resolution to the Ukraine war, allowing Russia better access to the market and a keen interest in acquiring hard currency.

Lower oil is good for the economy.

Copper

The trend is sideways… but stable.

They say Dr. Copper has a Ph.D. in economics… copper has been stable.

U.S. Dollar

Another unexpected breakout that needs watching.

The dollar has weakened, and now need to be watch to see if it gets too weak.

Conclusions:

S&P 500: Up
Rates: Down
Tips: Down, inflation under control
Oil: Down
Copper: Stable
U.S. Dollar: Lower

Conditions are good, they need to be watched for any changes.

Chapter 3
The Fundamental Indicators

Economic Projections

The *headline numbers were my predictions at the beginning of 2023;* *these predictions may now be laughably wrong.The Second headline is my prediction for 2024*

US Gross National Product (GDP) > 1.0% by the end of 2023 (Actual 2.4%)
US Gross National Product (GDP) > 1.5% by the end of 2024

Current forecasts suggest that the US GDP growth will be relatively modest, around 1.0%. This slower rate of expansion highlights the specific economic challenges and conditions within the United States, such as potential policy changes, market dynamics, and domestic economic factors.

In contrast, the projection for Global GDP is more robust, with an anticipated growth rate of around 3.0%. This higher rate of growth for the global economy suggests a broader recovery and expansion across various regions and countries. It indicates that, on a global scale, economies might be experiencing a stronger rebound from previous economic downturns, benefiting from international trade, diverse economic policies, and emerging market growth.

The GDP projections are stable, but a recession is possible later this year

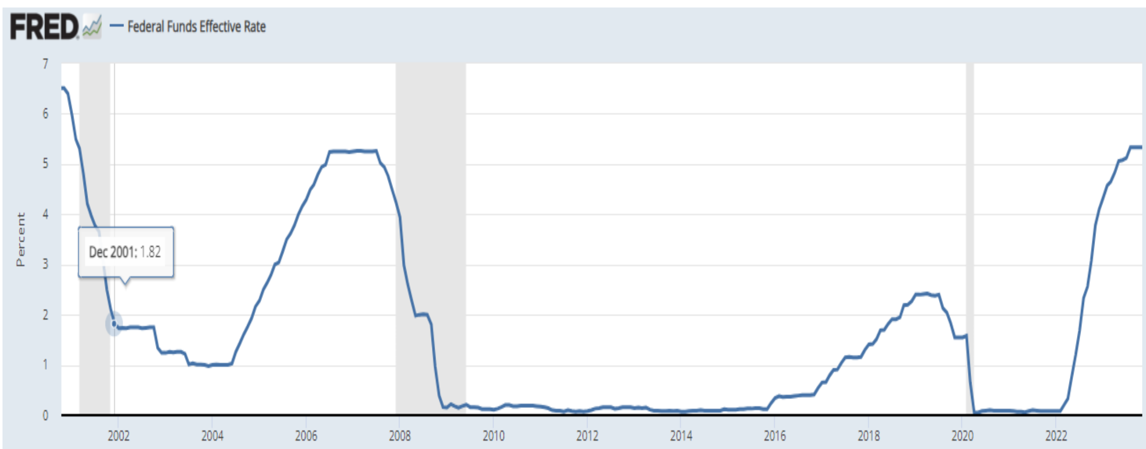
Unemployment will be > 4.0% by the end of 2023 (Actual 3.7%)
Unemployment will be > 4.0% by the end of 2024

The official unemployment rate has demonstrated remarkable stability in recent times, maintaining a steady figure of 3.7% in November, which is consistent with its position at the end of the previous year. This consistency in the unemployment rate indicates a certain level of resilience and steadiness in the job market, suggesting that the economy is managing to sustain its employment levels despite various external challenges. The steadiness at 3.7% reflects not just the recovery phase following any economic downturns but also points to the effectiveness of employment policies and the adaptability of the workforce.

Unemployment currently is beneficial

Federal Reserve rates will be < 5.00% by the end of 2023 (Actual 5.5%)
Federal Reserve rates will be > 4.00% by the end of 2024

Currently, the Federal Reserve's interest rate stands at 5.25% to 5.50%, reflecting the ongoing efforts to balance economic growth and inflation. Market projections are anticipating as many as six rate cuts within the year, aiming to bring the short-term rates down to approximately 4% from the current level of 5.5%. However, my perspective is grounded in the expectation of a more robust economy, leading me to believe that the frequency of rate cuts will be less than what the market currently anticipates. This prediction stems from a confidence in the underlying strength of the economy, which may not necessitate such aggressive monetary easing. The expectation of fewer rate cuts assumes that the economy will demonstrate better than expected growth, thereby reducing the need for the Federal Reserve to intervene as frequently as predicted by current market expectations.



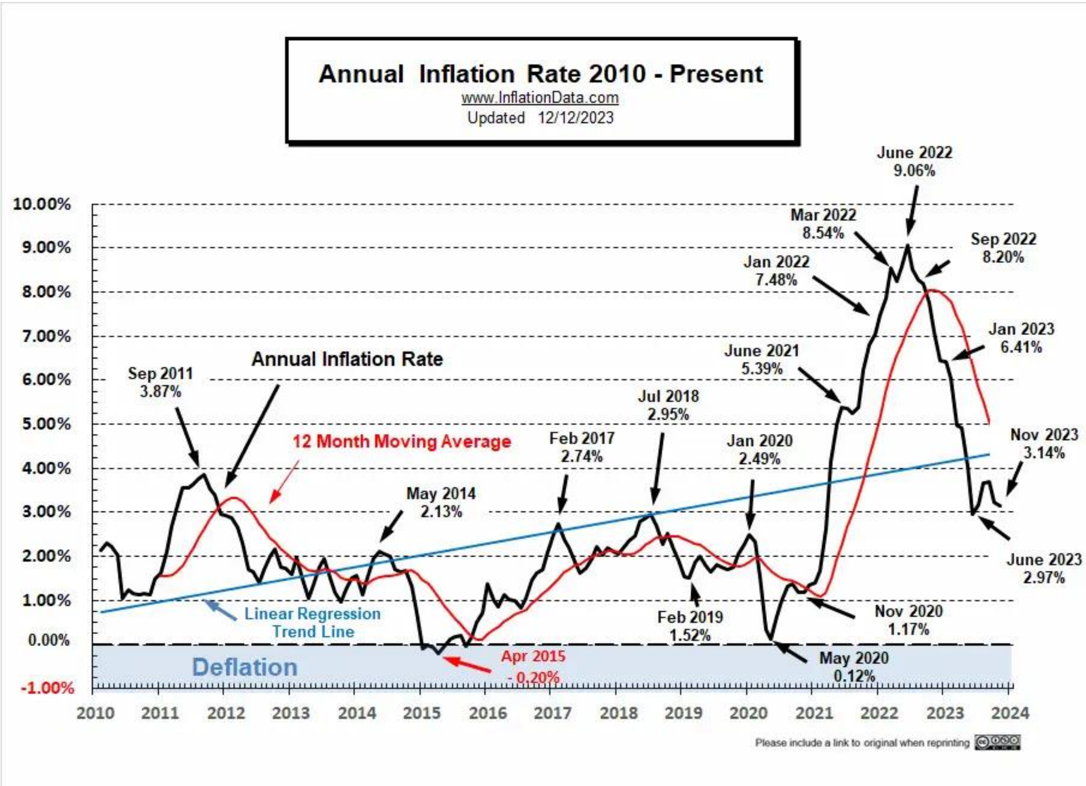
Shaded areas indicate recessions

I believe the Federal Reserve is done raising rates

Inflation < 4.0% in 2023 (Actual 3.14%)
Inflation >3.5% in 2024

The most recent inflation data shows an annual rate of 3.67%. Given the likelihood that we've reached the saturation point of the money supply, I anticipate that inflation will remain above 3% this year. A range of 3-5% could become the new norm, largely due to the excessive debt levels in the U.S.

Although the corresponding chart is quite detailed, it's worth examining and comprehending to fully understand these trends.



Current inflation is high; but trending down…

S&P 500 index > 4000 at the end of 2023 (Actual 4769.83)
S&P 500 index > 5150 at the end of 2024

The S&P 500 index commenced 2023 at 3,839.50 and has since risen to 4,769.83, registering a notable increase of 24.3% over the last year.

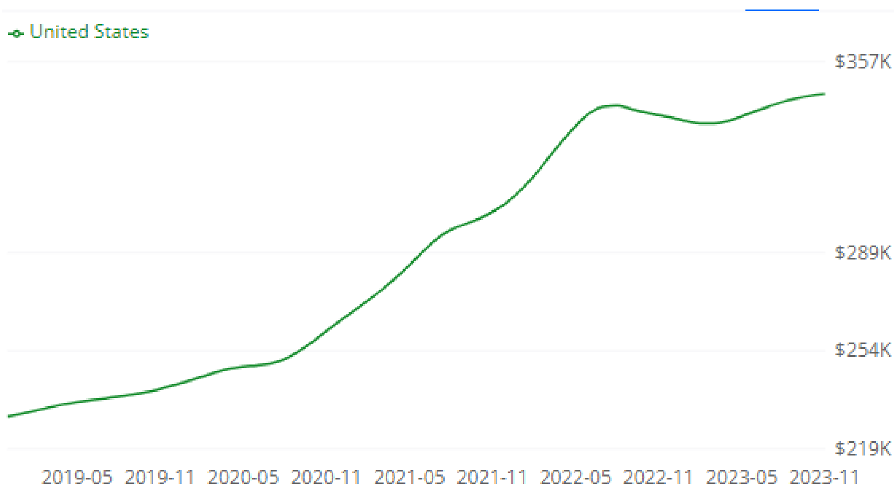
The markets are trending up but may be due for a pause.

Real Estate Average Home <$325k in 2023 (Actual $346K)
Real Estate Average Home >$370k in 2024

As of 2023, housing prices began at $343.9k and have risen to $346.0k. In the same period, there's been a notable increase in the 30-year mortgage rate, escalating from 3.02% at the beginning of 2022 to about 6.32%, although it's down from the 7.20% peak seen last quarter. This shift in housing prices and mortgage rates over the last few years has significantly impacted the average mortgage payment. With a 20% down payment, the average monthly mortgage payment, which was $1,070 in 2022, currently stands at $1,717. Consequently, due to the heightened mortgage costs and additional taxes incurred from increased income, an individual now needs to earn an extra $3.75 per hour after taxes to keep up with these expenses.

National Average Mortgage Rates

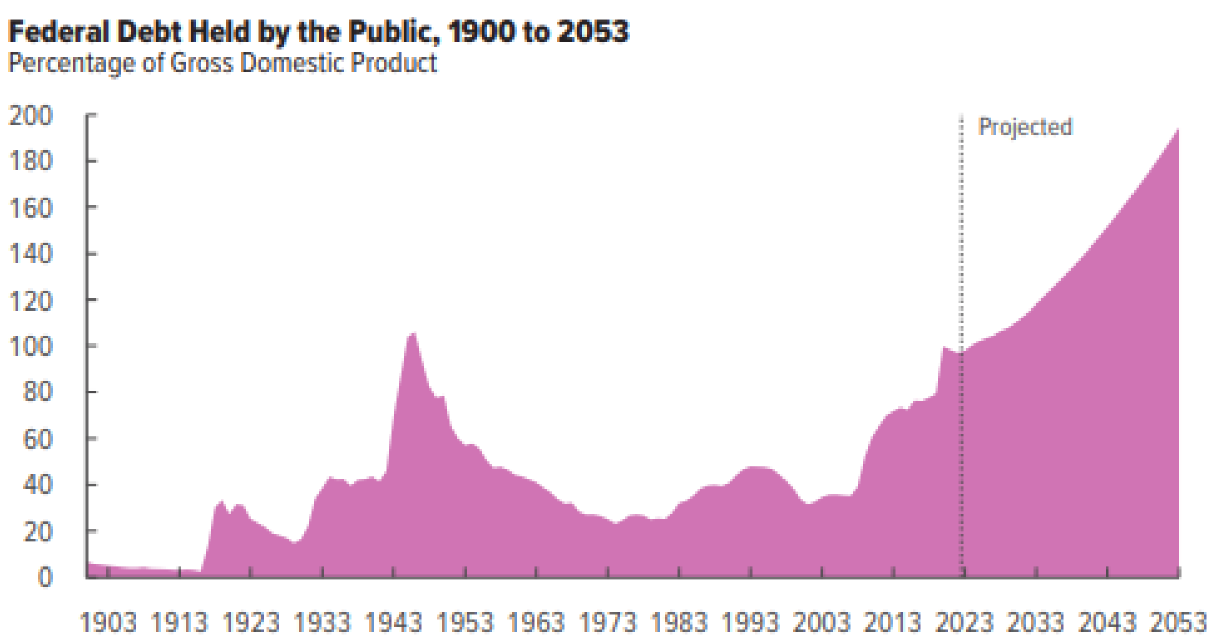
Housing price projections



The rise in rates and home prices may have paused, but it is still too high

>1.2 trillion Dollar Budget deficit for F.Y. 2023 (Actual $1.7 Trillion)
>2.0 trillion Dollar Budget deficit for F.Y. 2024

The projected budget deficit for this year has escalated to $1.850 trillion, a significant increase even in the absence of an officially approved budget. This surge in the deficit reflects the gap between the government's anticipated revenues and expenditures. The lack of a formal budget for the year adds a layer of complexity to fiscal planning and economic forecasting, as it leaves uncertainties around government spending and resource allocation.



The debt spiral had already begun. We will be unable to maintain the value of the dollar sometime around 2035.

Chapter 4
The Technical Indicators

Technical analysis attempts to forecast the future direction of prices by studying past market data. I use Barchart (http://www.barchart.com/) to develop an investment's final "objective" opinion. Its primary ability (flaw) is to predict the future by extrapolating past performance. One phrase does come to mind, "Past performance is not an indication of future results," although this is precisely what these calculations try to do.

Model Portfolio and other technical indicators (+100% = strong buy; -100% = strong sell)

U.S. ETFs	1/1/23	6/1/23	12/29/23	Link
SPY	-72%	+100%	+100%	http://www.barchart.com/opinions/etf/SPY
QQQ	-100%	+100%	+100%	http://www.barchart.com/opinions/etf/QQQ
IWM	-88%	+56%	+40%	http://www.barchart.com/opinions/etf/IWM
International				
EFA	+56%	+56%	+56%	https://www.barchart.com/etfs-funds/quotes/EFA/opinion
EEM	-24%	+72%	+56%	http://www.barchart.com/opinions/etf/EEM

Bonds	1/1/23	6/1/23	12/29/23	Link
TLT	-72%	-72%	+24%	http://www.barchart.com/opinions/etf/TLT
SHY	-56%	-56%	+88%	http://www.barchart.com/opinions/etf/SHY

Gold/Oil/Dollar Index/Euro/Yen				
GLD	+56%	+8%	+88%	http://www.barchart.com/opinions/etf/GLD
USO	-72%	-88%	-72%	http://www.barchart.com/opinions/etf/USO
UUP	-56%	+56%	-56%	http://www.barchart.com/opinions/etf/UUP
FXE	+72%	+88%	+56%	http://www.barchart.com/opinions/etf/FXE
FXY	+56%	-88%	+24%	http://www.barchart.com/opinions/etf/FXY

Volatility Index (a positive number is bad for the markets)

VIX Index	-100%	-100%	-100%	http://www.barchart.com/opinions/stocks/$VIX

Volatility

Volatility Chart (market fear index)

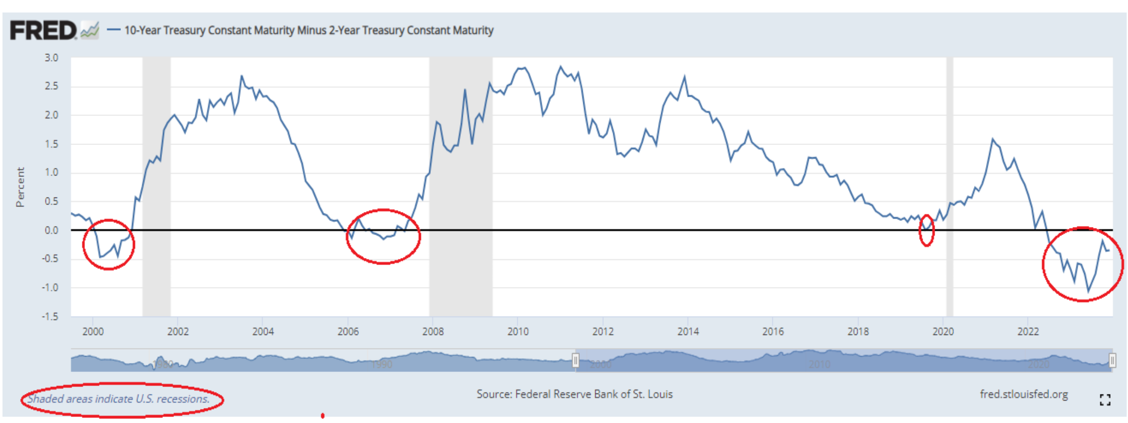
The Volatility Index (VIX) is often referred to as the "fear gauge" of the S&P 500 stock index and is used as a proxy for the general U.S. stock market. A lower VIX indicates reduced market anxiety, which typically correlates with increased investor confidence and, consequently, higher stock prices. Conversely, a higher VIX suggests elevated fear, signaling potential caution or uncertainty in the market.

If we stay below 18, I believe the market is in good shape. We are now at 12.45 which is on the very low end of the scale.

The VIX is very subdued for now

Ten’s minus Two’s

The '10s minus 2s' spread, which is the difference between the U.S. 10-Year Treasury Yield and the 2-Year Treasury Yield, serves as a trusted indicator of potential recessions. The accompanying chart offers a 20-year historical perspective, with grey areas marking periods of recession. It's observed that historically, this spread often turns negative, indicating an inverted yield curve, several months prior to the beginning of a recession. This pattern underscores the spread's predictive value in signaling economic downturns.



Traditionally, such a trend often signals a looming recession. While it is not always a definitive indicator, it usually points in that direction. Note that we have dipped below that threshold once more. From the previous level of -1.06, we have moved up to -0.35.

The 10's minus 2's spread is flashing a recession warning

Technical Summary…

In the current technical landscape, the market is predominantly signaling strong buying opportunities across various sectors, with a few notable exceptions. While the broader market sentiment is positive, indicating potential for growth and profitable investments, the dynamics of the US dollar and oil markets present a different picture.

Interestingly, a declining trend in the US dollar is generally favorable for stocks. A weaker dollar can boost the competitiveness of US exports, potentially increasing corporate revenues, especially for companies with significant international business. This can lead to an overall positive impact on stock prices.

Similarly, a decrease in oil prices is typically beneficial for the stock market. Lower oil prices can reduce operational costs for businesses and leave more disposable income with consumers, potentially leading to increased spending and investment. This can create a conducive environment for stock market growth.

Therefore, while the broader market is ripe with buying opportunities, the movements in the US dollar and oil markets need to be considered in this context. A falling dollar and decreasing oil prices could further bolster the positive outlook for stocks, contributing to the current bullish sentiment in the market.

The indicators are "Risk-On" overall.

Chapter 5
Mark's Model ETF Portfolios

Asset Allocation

I have constructed four portfolios, each with varying levels of riskiness from lower to higher risk, just by using a combination of 12 (or fewer) Exchange Traded Funds. The results (next page) include fund fees but not broker transactions or money manager fees.

U.S. large-company funds:	**Stock Market Symbol**
S&P 500 fund	**SPY**
Nasdaq 100 (Tech) fund	**QQQ**
Dow Jones Industrial Average fund	**DIA**
Vanguard value fund	**VTV**
U.S. small-company fund:	
Russell 2000 small U.S. company fund	**IWM**
International company funds:	
Europe, Australasia, and Far East	**EFA**
Emerging Markets Fund	**EEM**
Fixed Income (Bond) funds:	
20+ Year U.S. Treasury Bonds	**TLT**
7-10 Year U.S. Treasury Bonds	**IEF**
US Aggregate Corporate Bonds	**AGG**
Investment Grade Corporate Bonds	**LQD**
Short bond term fund (cash):	
iShares 1-3 Year U.S. Treasury Bonds	**SHY**

Allocation of Portfolio by Risk Level

	Low	Balanced	Growth	Aggressive
SPY	5%	7.5%	10%	7.5%
QQQQ	5%	7.5%	10%	7.5%
DIA	5%	7.5%	10%	7.5%
VTV	5%	7.5%	10%	7.5%
IWM	10%	10%	20%	30%
EFA	5%	10%	15%	20%
EEM:	5%	10%	15%	20%
TLT	12.5%	8.75%	2.5%	0%
IEF	12.5%	8.75%	2.5%	0%
AGG	12.5%	8.75%	2.5%	0%
LQD	12.5%	8.75%	2.5%	0%
SHY	10%	5%	0%	0%

Model Portfolio Results

Name	Symbol	12/31/22 Price	12/29/23 price	Yield Rate (Est.)	2023 Gain w/ Dividend
S&P 500 fund	SPY	$382.43	$475.31	1.40%	**26.02%**
Nasdaq 100 (Tech) fund	QQQ	$266.28	$409.52	0.62%	**54.75%**
Dow Jones Industrial Average fund	DIA	$331.33	$376.87	1.81%	15.80%
Vanguard Value fund	VTV	$140.37	$149.50	2.46%	9.12%
Russell 2000 Small-Cap fund	IWM	$174.36	$200.71	1.35%	16.66%
Europe, Australasia, and Far East fund	EFA	$65.64	$75.35	2.98%	18.21%
Emerging Markets fund	EEM	$37.90	$40.21	2.63%	8.89%
20+ Year U.S. Treasury Bond fund	TLT	$99.56	$98.88	3.38%	2.67%
7-10 Year U.S. Treasury Bond fund	IEF	$95.78	$96.39	2.92%	3.57%
U.S. Aggregate Corporate Bond fund	AGG	$96.99	$99.25	3.13%	5.53%
Investment Grade Corporate Bonds	LQD	$105.43	$110.66	3.99%	9.15%
1-3 Year U.S. Treasury Bond fund	SHY	$81.17	$82.04	2.99%	4.09%

RESULTS	Low Risk	Balanced	Growth	Aggressive
'23 Return	11.33%	14.34%	18.49%	18.34%
'22 Return	-16.80%	-16.95%	-17.23%	-17.59%
'21 Return	5.46%	8.89%	14.06%	13.63%
'20 Return	13.13%	14.37%	16.39%	16.47%
'19 Return	16.75%	19.79%	24.18%	24.53%
'18 Return	-3.6%	-5.29%	-7.97%	-10.06%
'17 Return	12.10%	16.88%	22.60%	24.16%
'16 Return	6.92%	8.34%	11.58%	12.73%
'15 Return	-0.91%	-1.48%	-2.47%	-3.96%
'14 Return	9.16%	8.31%	6.71%	4.25%
'13 Return	8.34%	13.31%	22.72%	24.75%
'12 Return	8.97%	11.56%	15.30%	16.86%
'11 Return	7.02%	3.30%	-2.52%	-6.51%
'10 Return	11.17%	12.45%	15.53%	16.91%
'09 Return	11.14%	19.65%	31.48%	36.54%
'08 Return	-8.18%	-18.66%	-33.90%	-39.60%
'07 Return	7.82%	9.40%	10.04%	10.45%
'06 Return	9.72%	13.63%	19.09%	21.83%
'05 Return	5.49%	7.55%	9.73%	11.77%
Average annual return	5.66%	6.74%	8.20%	8.05%

Many pension funds and endowments would have paid handsomely for this performance. Yet, here they are offered up to anyone…. for free.

Chapter 6
The Plan

Every trader reserves the right to make a more intelligent decision today than he made yesterday. - Sheldon Natenberg

The Good

- Innovations and efficiencies create new real wealth every day.
- AI will foster economic efficiencies, reducing costs and increasing production.
- The Fed seems to have entered the lowering of rates phase of its interest rate policies.
- Lower interest rates.
- Resilient global GDP growth.
- Likely stabilization in housing market due to lower rates.

The Bad

- Potential underground nuclear "test" by Russia within its borders.
- "Ten minus twos" signaling a looming recession.
- Commercial real estate concerns.
- Deepening partisan politics.
- Another contentious Presidential election.
- Known unknowns.

The Ugly

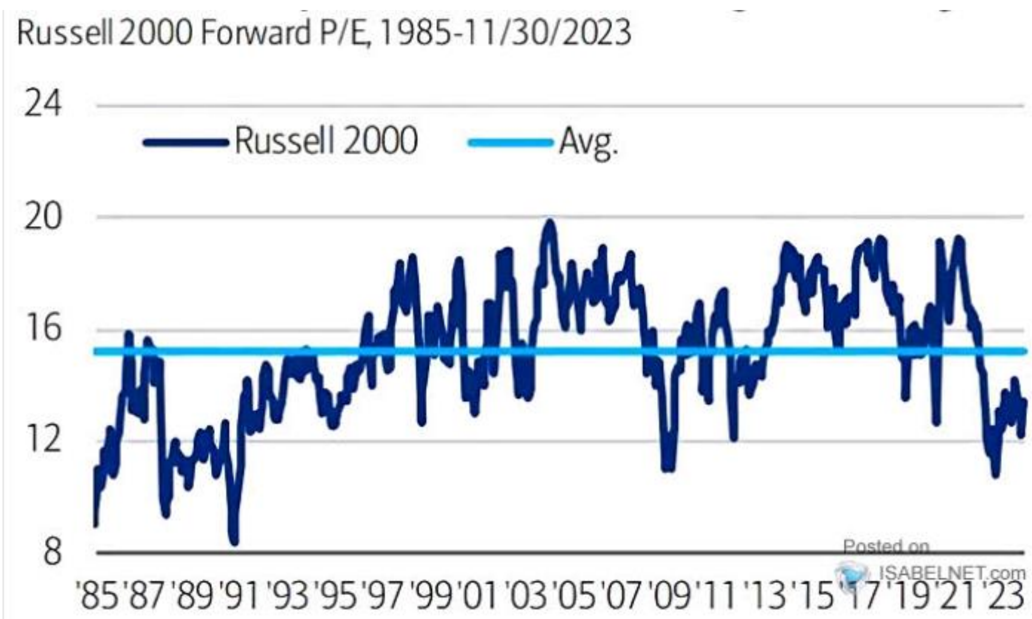
- AI's potential to soon displace a large portion of skilled workers.
- Escalating federal, state, and local debt levels reaching unsustainable heights.
- China may invade Taiwan.
- Possibility of an above-ground nuclear "test" by Russia outside its borders.
- A populace unaware of the intricate system that provides for all their wants and needs.
- Leadership that seems incapable of foreseeing the repercussions of their decisions.
- Unknown unknowns, the kind that blindsides you at 4 p.m. on some idle Tuesday.

S&P 500 Valuation

The discussion of the S&P 500 Earnings in Chapter 1 suggests that the S&P 500 is near fair value, assuming earnings remain stable. However, due to recent market advances, it might be slightly overvalued. The October decline brought it closer to a more rational valuation, but this adjustment was short-lived. In the context of the current high interest rates, a forward Price/Earnings ratio of 21.6, which equates to a 4.6% market yield, may not appear very attractive against a 5.25% risk-free rate. Yet, market expectations predict a decrease in these rates to 3.75%, and the Federal Reserve anticipates around 4.5%. Factoring in some optimism for 2025, investing in this area doesn't seem unfavorable.

On another note, the Russell 2000's performance is intriguing. Despite a respectable 17% gain, it trailed behind the S&P 500's 26% and the Nasdaq's impressive 55% gains. The accompanying chart shows the Russell 2000 lagging its historical average P/E ratio.

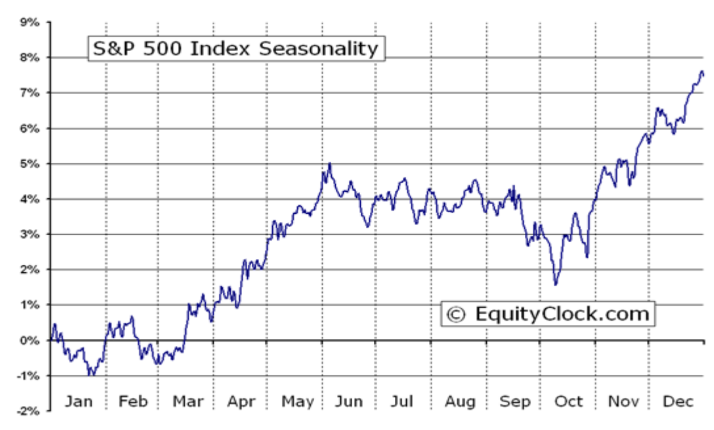
Considering a potential economic rebound accompanied by lower interest rates, smaller companies, like those in the Russell 2000, are likely to experience quicker growth compared to larger firms. Moreover, in adverse economic conditions, this group might not face as steep a decline as it hasn't risen as sharply as its larger counterparts. This dynamic makes the Russell 2000 an interesting segment to watch in the evolving economic landscape.



My back-of-the-envelope math suggests a 10% normal growth, coupled with an additional 15% from P/E multiple expansion. My base case predicts a 25% gain in the Russell 2000 this year, which could potentially reach 35% with a stronger economy. The question is, will this occur in 2024, or will we need to wait until 2025 or 2026?
\
The Russell 2000 is poised to do well in the next two years.

Seasonality

We are currently in a period where the market often dips, reaching its lowest point over the next few weeks, before making a rebound. Based solely on seasonality, I anticipate some volatility in the next few weeks but overall bullish. Historically, late February has been a more favorable month to enter the market, but it is worth noting that this indicator is not always foolproof.



The markets have historically gone sideway at the beginning of each year with gains starting in March.

The plan (subject to change without notification):

Let us review my new assumptions before digging into the plan.

My market assumptions:

- Anticipate a slowdown to a very moderate recession in 2024.
- Expect inflation to stabilize within the 3-5% range.
- Foresee a pause in the Ukrainian war or a ceasefire.
- Believe the Fed will start cutting rates.
- Assume bonds yields have peaked in 2023.
- Expect labor market tightness to ease, but with unemployment staying low.
- The impact of AI will start to show in the economy later this year, especially in tech companies dependent on efficient or innovative software.
- The 2024 Presidential elections will have little unexpected drama.
- China stabilizes.
- China does not invade Taiwan.

I foresee 2024 as a year of relative calm in the markets, though I remain cautious that any significant global upheaval or new conflict could substantially shift my perspective. A major deviation from my current assumptions would necessitate a reevaluation of my investment strategy.

Successfully steering through these challenges, especially considering the ongoing geopolitical tensions and inflationary environment, could set the stage for a strong and resilient portfolio.

The labor and commodities markets are showing signs of easing, indicating that inflation might moderate in the near term. Nevertheless, looking ahead, I expect an inflation rate of approximately 3-5% to become the norm over the next decade. As Artificial Intelligence increasingly impacts the economy, we could see a phase where restrained inflation coexists with a rise in unemployment in the months and years ahead.

In the short term, I anticipate some fluctuations in the market over the next 4-10 weeks, largely due to seasonal patterns and as the market adjusts to last year's gains. However, these expected shifts are unlikely to alter my long-term outlook.

With the prospect of lower interest rates, I am considering revisiting high-yield investment opportunities that I previously set aside, such as pipelines and REITs. These investments could benefit from the anticipated lower rates, offering the potential for above-average income and gains.

- I suspect support at 4550 (-5%) and very strong support at 4450 (-7%)
- If we do get a mini selloff, I believe it’s a buying opportunity.
- I expect tech to continue up for the foreseeable future.

Currently, I'm holding about 50% of my portfolio in cash and intend to distribute these funds across four primary investment categories over the coming 10 weeks. My strategy involves allocating an additional 5% of my portfolio every Thursday for this duration, irrespective of the prevailing market conditions.

My big buckets for this year.

The Russell 2000 will be my core investment instead of S&P 500 ETF (SPY)
Aggressive Tech: Nvidia, SMH, QQQ
Growth like LLY, BKNG, ARKK, and Amazon
Value is ARLP and EPD
High Yield such as AGNC, MORT, BSM, ET
Limited use of exotics such as TSLY,VXX, SVXY, SVOL, ETHE, and GBTC
With an aggressive portfolio and cheap options, I will buy a lot of hedges.

While I offer this forecast, I advise exercising caution and not overly relying on it. My perspective is dynamic, subject to change almost daily. In a rapidly evolving environment where information and conditions are constantly shifting, the accuracy of this projection is far from certain. It simply reflects my current expectations based on the latest available data.

<u>The safe play…</u>

Navigating the financial markets, with their inherent volatility and uncertainties, poses a significant challenge, particularly in the face of potential downturns and a myriad of both known and unknown factors. In this context, how should one approach investing in the coming months? Given the yield's recent drop to 3.55%, investing in certain instruments could be advantageous in the event of a severe recession, provided one is comfortable with yields below 4%. However, if inflation resurges, these instruments could face depreciation.

This consideration leads to the next option: a modest allocation in Treasury Inflation-Protected Securities (TIPs) offering around 3%. These could increase in value if inflation rises but may suffer if inflation declines.

A balanced approach might involve diversifying with a mix of these bonds, particularly if the goal is to secure some of the gains from the previous year. I believe that inflation will likely be kept in check in the short term, making bonds a viable option for a safety net against unexpected economic shocks. While U.S. Government Bond portfolios may not offer the most exciting returns, they provide low risk and the potential for steady, albeit modest, gains. But it may be time to look at corporate bonds once again with more clarity on the rate front and their higher yields.

For additional security, focusing on U.S. government bonds or corporate bond funds could be a wise choice.. The main concern with bonds continues to be the risk of uncontrolled inflation, even considering the Federal Reserve's recent measures.

Preparing for Black Swan Events (BSE)

In the current unpredictable environment, it's wise to prepare for Black Swan Events (BSE) – those highly improbable but significantly impactful occurrences. Over the next nine months, we could potentially face scenarios such as:

- The deployment or testing of nuclear weapons by or near Russia.
- A severe downturn in the U.S. economy.
- A collapse in China's real estate market.
- An invasion of Taiwan by China.

Any one of these events could trigger a market downturn of 10-50% in a matter of days or weeks. Here's my strategy for hedging my portfolio against such possibilities:

Given the high prices and low volatility, I've evaluated options premiums and found them relatively affordable. My considerations for hedges in SPY include:

- Timing: June seems to be an optimal month for hedging right now, with a plan to roll it over every three months and keeping some time value always in the hedges.
- Cost: For about 3% of the portfolio, this strategy could prevent losses for 6 months in the S&P 500, amounting to a 6% cost annually against an expected 8% gain. However, bonds might be preferable for those more risk-averse.
- Alternative Strategy: Accepting a 10% loss threshold, the cost of insurance (put options) would be about 1% of the portfolio for 6 months, or 2% annually.
- Another option is buying a down 10% put while selling a down 20% put, offering protection for losses between 10-20%. This approach incurs losses up to 10%, then provides protection, resuming losses beyond a 20% market drop. The cost is just over 0.5% for six months of protection.

For my core investment in the Russell 2000 (IWM), similar considerations apply, but the cost of hedging is about double that of SPY. This difference is partly due to the Russell Volatility Index being higher than that of the S&P 500 and Nasdaq 100, indicating greater volatility in the Russell 2000. While hedging the IWM will be more expensive and require careful planning, I will initially use SPY as an interim dirty hedge.

Regarding the potential invasion of Taiwan by China, one approach is to purchase the $60 January ’26 put on Taiwan Semiconductor (TSM), currently priced at about $1.40, offering two years of protection. This option becomes viable with a drop of over 40% in price, and at $0.70 per year, it's a cost-effective hedge against the risk of the facilities being destroyed or nationalized in the event of a Chinese invasion.

This is what I expect to evolve my portfolio into over the next 10 weeks.

- Core/Value (35%)
    - Russell 2000 (IWM)

- Growth (20%)
    - Nvidia (NVDA)
    - Chip sector (SOXX)
    - Nasdaq (QQQ)
    - Amazon (AMZN)
    - Booking (BKNG
    - Eli Lilly (LLY)

- High Yield (25%)
    - AGNC Investment Corp (AGNC)
    - VanEck Mortgage REIT Income (MORT)
    - Black Stone Minerals (BSM)
    - Energy Transfer (ET)
    - Alliance Resource Partners (ARLP)
    - Enterprise Products Partners (EPD)

- Speculative (10%)
    - Simplify Volatility Premium ETF (SVOL)
    - ProShares Short VIX Short-Term Futures (SVXY)
    - iPath Series B S&P 500 VIX Short-Term Futures (VXX)
    - YieldMax TSLA Option Income Strategy ETF (TSLY)
    - ARK Innovation ETF (ARKK)
    - Grayscale Bitcoin Trust (GBTC)
    - Grayscale Ethereum Trust (ETHE)

- Safety/Cash (3%/7%)
    - Cash
    - Buy put or put spreads on SPY for a Black Swan Event (BSE)
    - Buy call spreads on VXX corresponding to 25+ VIX for BSE
    - Hedges on TSM

To-Do List

Be ready for a mild sell-off in the next few weeks, spend the next 10 weeks using 10% of my cash each week to buy positions each Thursday.

Watch…

- Watch for the S&P 500 break below 4450 for 2-3 days
- China’s economy
- Ukraine
- VIX above 18
- Dr. Copper
- IWM

How I can (will) be wrong

- Russian escalation.
- Renewed inflation.
- A softer economy.
- Economic meltdown in China.
- Iran becoming more aggressive — F-22 vs F-14s (my money is on the former).
- Known unknowns.
- Unknown unknowns.
- Anything and everything.
- Odds are I will be…

Final Thoughts

Greater clarity on the market's direction should emerge after the forthcoming report, especially once we navigate through the upcoming weeks, which are historically known for erratic market behavior. I plan to capitalize on any dips during this period, provided there is no significant economic collapse or the outbreak of a new war.

Anticipate my next report around April 2nd, 2025. At that time, I will once again attempt to entertain you with my updates, opinions, reflections, lousy grammar, and exceptionally bad poofreading. 😉 – Mark

Appendix 1
Value Stocks

This is a short list of some cheap stocks I like. I also show the expected earnings yield for next year, what it is expected to earn in '24 versus its current stock price (i.e., return on investment), and for those who prefer P/E ratios, I have included those also.

Stock	**Symbol**	**Dividend Yield**	**Est. Earnings Yield (Earnings/Price)**	**Forward ('24) P/E**
Alliance Resources	ARLP	**13.5%**	**23.0%**	4.35
Precision Drilling	PDS	-	22.7%	4.41
AGNC Investment Corp	AGNC	**14.3%**	22.4%	4.46
General Motors	GM	1.0%	19.2%	5.21
Vale S.A.	VALE	**8.0%**	15.9%	6.29
BP	BP	4.7%	14.8%	6.73
Devon Energy Corporation	DVN	6.3%	13.3%	7.54
Diamondback Energy	FANG	5.2%	12.9%	7.73
Toll Brothers, Inc	TOL	0.8%	12.4%	8.04
Black Stone Minerals	BSM	**12.0%**	11.2%	8.92
American International Grp	AIG	2.1%	11.2%	8.96
Enterprise Products	EPD	7.6%	10.1%	9.94
The Carlyle Group	CG	3.4%	9.5%	10.49

ARLP is a high reward for moderate risk, but I would call it speculative, and EPD has a good yield for a modest-risk stock.

Most of these are energy, banking, or insurance. If the economy stalls oil will fall, also banks and insurance. These need to be watched closely with current conditions.

Appendix 2
High Yield

High yield is a precarious investment by nature. Here is a short list of a few of the high-yield investments I like, along with the current market yield.

Stock	Symbol	Yield
Simplify Volatility Premium	SVOL	**17.0%**
AGNC Investment Corp	AGNC	14.3%
Alliance Resources	**ARLP**	**13.5%**
Kimbell Royalty Partners, LP	KRP	13.4%
VanEck Mortgage REIT	**MORT**	**13.3%**
Global X SuperDividend	SDIV	12.6%
Black Stone Minerals	BSM	12.0%
Global X NASDAQ Covered Call	QYLD	11.9%
Ares Capital Corporation	ARCC	9.5%
MPLX LP	MPLX	9.3%
Energy Transfer LP	**ET**	**9.1%**
JPMorgan Equity Income	JEPI	9.1%
Starwood Property Trust	STWD	9.0%
Alerian MLP ETF	AMLP	7.6%
Enterprise Products Partners	EPD	7.6%
iShares Preferred and Income	PFF	7.0%

Many high-yield investments held up despite rising interest rates. If rates were to go down, these instruments would see price appreciation.

In my subjective view, I highlighted the most interesting based on risk vs. reward. Altria (MO) for long-term stable high yield for those willing to own it. The lazy trade is buying the AMLP and paying the fees for a basket with several decent names.

Most of these investments are not regular stocks and typically do not qualify for special tax treatment under U.S. capital gains rules. Most of these investments are a Trust, Real Estate Investment Trust (REIT), Bond fund, Master Limited Liability Partnership (LLP), Master Limited Liability Partnership (MLP), or other tax landmines. I put these instruments in my IRA rollover to avoid most of these tax headaches, but even that potentially creates some tax burden. Be sure you and your investment (tax) advisor know what you may be getting into before investing and getting a crazy high tax bill at the end of the year.

Appendix 3
Growth

Here is my short list of high-growth investments and the current projected year-on-year growth, forward price-to-earnings ratio, and analyst annual growth projections for the next five years.

Many more stocks had good growth, but their charts could have been better. Last year's sell-off was brutal to all growth stocks; these names may have bottomed.

Stock	Symbol	'24 growth	Forward P/E	5 Yr. Growth
Eli Lilly	**LLY**	**86.4%**	47.1	29%
Nvidia Corporation	**NVDA**	**66.8%**	**24.2**	**100%**
Block, Inc.	SQ	56.9%	**25.3**	**69%**
AMD	AMD	40.4%	43.7	12%
Amazon	**AMZN**	34.3%	46.8	**78%**
Netflix, Inc.	NFLX	30.8%	33.9	22%
Meta	META	22.1%	**22.3**	29%
ServiceNow, Inc.	NOW	21.6%	55.5	27%
Chipotle Mexican Grill	CMG	20.3%	43.0	26%
Booking Holdings Inc.	**BKNG**	19.2%	**20.1**	27%

Eli Lilly offers the best year-over-year growth but my **pick for this year is Nvidia**, despite all the hype and recent spectacular price appreciation. The combinations of exceptional Growth, low P/E, and astounding projected long-term growth for a core investment. For a non-tech play, Eli Lilly is my pick but its valuation is very high, and would need to hold these growth rates for 2-3 years to make it reasonable. Lower on the list is Chipotle Mexican Grill and Booking Holdings Inc but solid for those who want growth without being so heavily weight in tech. Nvidia Corporation, Block, Inc., Meta, and Booking Holdings Inc. all have very reasonable, if not cheap, P/E ratios. Nvidia, Amazon, and Block are the kings as far as the projected growth rates for the 5 years.

If Nvidia were to hold that growth rate for the next 5 years, it should be worth around 16,000 a share, obviously I do not believe that projection, but even a quarter of that would spectacular.

* Indicates stocks that I own at the time of this publication.

Appendix 4
Country ETFs

The yields shown below are ’23 total returns, including dividends. I only update this section at the beginning of each year.

Country	ETF symbol	2023 Total Return
Australia	EWA	15.6%
Argentina	**ARGT**	**54.0%**
Brazil	EWZ	**33.3%**
Canada	EWC	14.8%
Chile	ECH	8.5%
China	FXI	-12.9%
EU	VGK	20.1%
France	EWQ	21.6%
Germany	EWG	23.2%
Greece	GREK	**42.7%**
India	INDA	17.7%
Indonesia	EIDO	2.2%
Israel	ISRA	0.3%
Italy	EWI	**30.6%**
Japan	EWJ	20.1%
Mexico	EWW	**40.6%**
South Africa	EZA	-0.6%
South Korea	EWY	19.9%
Spain	EWP	**30.1%**
Sweden	EWD	**26.0%**
Switzerland	EWL	16.7%
Turkey	TUR	-9.2%
UK	EWU	12.4%
USA	SPY	**26.6%**

The big winner was Argentina, with a respectable 54.0% gain last year.

My To-Do-List for Printing (Q1/24)

Watch

- S&P 500 break below 4450 for 2-3 days
- China's economy
- Ukraine
- VIX above 18
- Dr. Copper
- IWM

Implement: 10% of cash each week for 10 weeks on Thursdays:
(1/4) (1/11) (1/18) (1/25) (2/1) (2/8) (2/15) (2/22) (2/29) (3/7)

- Core/Value (35%)
    - Russell 2000 (IWM)

- Growth (20%)
    - Nvidia (NVDA)
    - Chip sector (SOXX)
    - Nasdaq (QQQ)
    - Amazon (AMZN)
    - Booking (BKNG
    - Eli Lilly (LLY)

- High Yield (25%)
    - AGNC Investment Corp (AGNC)
    - VanEck Mortgage REIT Income (MORT)
    - Black Stone Minerals (BSM)
    - Energy Transfer (ET)
    - Alliance Resource Partners (ARLP)
    - Enterprise Products Partners (EPD)

- Speculative (10%)
    - Simplify Volatility Premium ETF (SVOL)
    - ProShares Short VIX Short-Term Futures (SVXY)
    - iPath Series B S&P 500 VIX Short-Term Futures (VXX)
    - YieldMax TSLA Option Income Strategy ETF (TSLY)
    - ARK Innovation ETF (ARKK)
    - Grayscale Bitcoin Trust (GBTC)
    - Grayscale Ethereum Trust (ETHE)

- Safety/Cash (3%/7%)
    - Cash
    - Buy put or put spreads on SPY for a Black Swan Event (BSE)
    - Buy call spreads on VXX corresponding to 25+ VIX for BSE
    - Hedges on TSM