May 2023

Here are selected year to date return numbers through the end of April

**Stock Indexes**

**(As of 04/30/23)\***

Dow Jones Industrials 7.63%

S&P 500 Index 8.60%

NASDAQ Composite 16.80%

MSCI ACWI All Cap (Net Div) 8.25%

(**As of 04/30/23)\***

Russell 1000 Growth Index 15.49%

Russell 1000 Value Index 2.53%

**(As of 04/30/23)\***

Russell 2000 Index 0.89%

Russell 2000 Growth Index 4.84%

Russell 2000 Value Index -3.13%

**Bond Index (As of 04/30/23)\***

Bloomberg U.S. Aggregate Bond Index 3.59%

**(Source: The Wall Street Journal & Russell Investments websites)**

\*Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot

invest directly in any index, and index performance does not include transaction costs or other fees,

which will affect actual investment performance. Individual investor’s results will vary. Past

performance does not guarantee future results.

**FINANCIAL AND INVESTMENT PLANNING**

This month I have three topics I want to share with you.

1. My mistake and a teaching/learning moment
2. Federal Reserve policy, the pivot and U.S. Treasury rates
3. The debt ceiling debate and the under reported story

**I. My Mistake**

Please go back and look at the first page. You will note that the April 30, 2023, year to date return for the Dow Jones Industrial Average (DJIA) was 7.63%. This is incorrect. And not slightly incorrect. The correct number is 2.9%.

How could someone of my limited intelligence make such an egregious error?

When my colleague gave me various index return numbers, and the DJIA was 2.9%, I said this cannot be accurate. She pointed out that 2.9% was precisely what the Wall Street Journal published.

I said this must be a mistake. How could the Dow be up less than 3% when the S&P 500 was up over 8% and the NASDAQ was up over 16%.

Obviously, the Wall Street Journal must be mistaken. So, I went to Morningstar and found an Exchange Traded Fund titled Dow Index, symbol IYY. It was up 7.63%. And since that fit my bias, I instructed my colleague to use the higher number.

I was wrong.

The Dow Jones Industrial Average was in fact up only 2.9% for the calendar year through April.

While the Dow is famous in the financial world, it is only made up of 30 stocks which are chosen by Dow Jones. And while the index is very old and well known, its mathematical construction gives weights to company stocks based upon their market price.

Thus United Healthcare, having a higher stock price, has more impact than the world’s most valuable company, Apple. That value is determined by the price of Apple stock multiplied by the number of shares. This is its market capitalization.

The Standard & Poor’s Index value is calculated based on the market cap of each company.

The NASDAQ Composite Index is calculated by taking the total value of the share weight of all the stocks in the exchange multiplied by each security’s closing price. **Source: Corporate Finance Institute**

Hence, the differences in the ways in which equities indexes are calculated can lead to big differences in their returns during the same time period.

What is an investor to make of all this? Perhaps very little.

Every month I publish a variety of year to date index returns. If you choose, you can select appropriate benchmarks against which you can measure your investment performance.

This exercise can be educational and perhaps even useful. However, the more thoughtful and important question is this. “How am I doing and am I making progress towards my goals and objectives?” This is easy to ask, but not necessarily so easy to answer.

**II. The Fed Pivot**

What the heck does the Fed pivot mean? I know what pivot means in basketball.

The Fed pivot is when, at some time in the indeterminate future, the Federal Reserve will stop raising the Fed Funds rate and begin to lower rates.

And while white papers galore and market commentaries are replete with pivot speculation, no one knows. And I suspect that includes Federal Reserve Chair Jerome Powell. He has stated the pivot decision will be “data driven.”

This reminds me of the Supreme Court justice, who when asked what legally defines pornography, famously said, “I will know it when I see it.”

And while the point at which the Fed does in fact pivot to lowering the Fed funds rate is important, it does not necessarily mean bond investors should await the event, as if it were like when you were told by the lifeguard you could get back into the pool.

I came across this interesting information about falling interest rates and the Fed cutting rates.

**US Treasury rates historically start falling PRIOR to Fed cutting rates**

*Last 30 years*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **UST Treasury** | **Rates begin falling prior to 1st Fed cut** | **Avg drop in rates prior to 1st Fed cut** | **Range of # months** | **Range of drop in rates** |
| 2 yrs UST | 10 months | 1.5% | 8-15 months | 1.0%-2.1% |
| 5 yrs UST | 11 months | 1.4% | 8-15 months | 0.9%-1.9% |
| 10 yrs UST | 10 months | 1.2% | 6-15 months | 0.6%-1.6% |
| 30 yrs UST | 11 months | 0.9% | 8-16 months | 0.4%-1.2% |

**UST rates won’t wait for the Fed to cut before they fall**

**Source: Bloomberg as of 1/31/23. BLOOMBERG\* is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively “Bloomberg”). Blomberg or Bloomberg’s licensors own all proprietary rights in the Bloomberg indices. Bloomberg neither approves or endorses this material or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.**

Based upon these numbers, waiting may not be the best strategy.

**III. The debt ceiling debate and the untold story**

For all I know, by the time you read this commentary, the debt ceiling negotiations between President Biden and Speaker McCarthy may be over.

Or maybe not.

I am very frustrated with the media coverage of this whole drama.

I have read/watched many articles on the truly horrible consequences of what is often called default. As I understand it, federal tax revenues far exceed the amount to service federal debt. By definition this means no default.

However, here is what really gets me.

Please go back and take a look at the return numbers on the first page.

Financial markets represent the sum total opinions of global investors. Do the positive year to date numbers represent Armageddon?

They do not.

Could stock and bond prices fall if no agreement is reached? Of course they could. But as I write this letter, the lack of volatility and lower prices should at least lead us to ask why, if the outlook is so dire, are the markets so sanguine?

We would all be better off if this question and possible answers discussed by thoughtful experienced experts were part of our public conversation.

Oh well.

Thank you for taking the time to read the newsletter and for listening to Money Talk.

Warm regards,



Carl W. Stuart

Financial Advisor

* **Past performance is not indicative of future results.**
* The Dow Jones Industrials is an index of 30 stocks that is considered representative of the overall market.
* The S&P 500 is an unmanaged index of 500 widely held stocks that’s generally considered representative

of the U.S. stock market.

* The NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system.
* The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
* The Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.
* The Russell 2000 Index is an unmanaged index of small cap securities which generally involve greater risks.
* The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equities.
* The Russell 2000 Value Index measures the performance of the small-cap value segment of the U.S. equities.
* The Barclays Capital U.S. Aggregate Index is an unmanaged market value weighted performance benchmark for investment-grade fixed rate debt issues, including government, corporate, asset backed, mortgage backed securities with a maturity of at least 1 year.
* All investing involves some degree of risk, investors may incur a profit or loss regardless of the strategy or strategies employed.

Investments mentioned may not be suitable for all investors.