SAM NEWS

3rd Quarter Report
October 2023

Stock Recovery Stalls

Government Shutdown Avoided

Stocks climbed to one-year highs in late July, with the S&P 500 reaching the 4,600 level. By the end of the quarter, stocks had given up all of the quarterly gains- finishing down around 3.5% for the 3rd quarter period. Overall, U.S. stocks are still up 13% for 2023. After three straight quarters of negative earnings-per-share (EPS) growth, S&P 500 companies' earnings may have finally bottomed. According to FactSet, analysts are forecasting positive earnings growth for the final two quarters of the year and robust 12.2% earnings growth for calendar year 2024.

Heading into the 4th quarter, there are still many uncertainties that are weighing on investors. These include the fear of continued higher inflation and higher-for-longer interest rates, government funding, political uncertainty, weakening consumer spending, rising oil prices, continued war in Ukraine, labor strikes, etc. As the old saying goes, the stock market tends to climb a wall of worry and this time may be no different. The 4th quarter is seasonally the strongest period for the equity markets and we remain optimistic that a full recovery to new all-time highs for stocks could still occur this year or early 2024.

3rd QUARTER 2023 INVESTMENT REPORT

Both stocks and bonds declined during the quarter. As measured by the S&P 500, U.S. stocks declined 3.3% and bonds as measured by the Barclays Aggregate Bond Index lost 3.2%. The Nasdaq Composite is still up 26.3% for 2023, but shed 4.1% during the quarter. International stocks (MSCI EAFE) also gave up 4.7%. The small company Russell 2000 Index lost 5.1%. Gold declined 3.8% and Bitcoin swooned 11.5%. 30-year mortgage interest rates rose to a 23-year high (7.41%), and demand for mortgage loans is at a 27-year low.

INVESTMENT INDICES

All numbers listed below are total returns (including dividends) and are percentage gains or losses.

	YTD	3rd Quarter	2022
Dow 30	**3.1%**	**-2.1%**	**-6.9%**
S&P 500	**13.1%**	**-3.3%**	**-18.1%**
Nasdaq Composite	**26.3%**	**-4.1%**	**-33.1%**
Russell 2000	**2.5%**	**-5.1%**	**-20.4%**
MSCI EAFE (International Stocks)	**4.5%**	**-4.7%**	**-16.8%**
Bloomberg Aggregate (Bonds)	**-1.2%**	**-3.2%**	**-13.0%**

These are not the rates of return for SAM accounts, but are shown as a historical benchmark for various asset classes. SAM does not guarantee account performance. Accounts may lose value. Information taken from sources believed to be reliable, but its accuracy cannot be guaranteed.

SAM Outlook & SAM Strategy on the following page

TIME FOR TAX PLANNING

It's Less Than 90 Days To Year-End! Time to start thinking about…

Tax planning: Schedule an appointment with your CPA or tax preparer.

IRA and retirement plan contributions: Be sure to fund by the IRS deadlines.

Gifting Appreciated Securities

With stock prices recovering from last year's losses, now may be a great time to consider donating appreciated securities from your non-IRA brokerage accounts to charity. There are major advantages in donating appreciated securities instead of cash. When you donate an appreciated security, you don't have to pay capital gains tax on the gain, and generally you get a tax deduction for the full value of the security on the day it is donated. Giving appreciated securities instead of cash can save you hundreds or even thousands of dollars versus a cash gift. Contact our office or see your tax preparer to find out if you should take advantage of this unique way of giving.

RMD's (Required Minimum Distributions) for IRA's:

Charles Schwab will notify clients who have required minimum distribution requirements in 2023 of their Required Minimum Distribution (RMD) from all types of IRA accounts. The RMD must be taken this year in order to avoid severe penalties. If you have any taxable account with us, we can arrange to have the RMD amount directly transferred from your IRA to your after tax account- no hassle! We will be reaching out this month, or just call our office at 559-658-5193, toll-free 1-877-658-5193.

SIERRA ASSET MANAGEMENT

Serving Central California

40312 Junction Drive
PO Box 2389
Oakhurst, CA 93644

PH: 559-658-5193
www.SierraAM.com
Email: info@SierraAM.com

SAM OUTLOOK

We have remained positive on the outlook for the U.S. economy and the stock market and in previous SAM newsletters we have been in the “soft landing” or “no landing” camp when it comes to our recession forecasts. Despite widespread recession expectations coming into 2023, the U.S. economy expanded in the first two quarters and may actually be accelerating. The latest growth estimate from the Federal Reserve Bank of Atlanta’s GDP Now third quarter forecast is a whopping 4.9%. The U.S. economy has added more than 1.8 million jobs in the first eight months of the year, averaging 225,000 each month. The unemployment rate of 3.8% remains near a 50-year low.

After a tremendous rally in stocks so far in 2023, a 5-10% pullback is not unusual. From the July highs, stocks have declined by around 7%. Stocks are now reasonably valued on a price to earnings (P/E) ratio basis of around 18. If you exclude the seven mega-cap technology stocks that dominate the indices from the equation, the P/E ratio of the S&P 500 is measurably lower at around 14. Corporate earnings appear to be troughing and we anticipate higher earnings going into 2024- corporate earnings ultimately drive stock prices.

Interest rates continued to rise during the quarter, which caused bond prices to decline. The 10-year U.S. Treasury rate rose to a 15-year high of nearly 4.7% and this specific rate impacts mortgages, credit cards, auto loans, CDs, etc. Earlier this month, the Federal Reserve said that it expects to hike rates another quarter point this year and warned that borrowing costs will stay higher for longer. The goal of the Federal Reserve is to slow the economy to cool inflation and they have made great progress by reducing inflation from over 9% in June, 2022 to around 4% today. Unfortunately, these higher rates have temporarily impacted the value of our bond holdings in our portfolios.

SAM STRATEGY

Our overall investment strategy did not change during the quarter. We view the recent 7% stock market decline as a normal correction within a continued up-trend. The 4th quarter is statistically the best for stocks, so we plan to remain fully invested within the limitations of each of our investment strategies. The recent decline has presented an opportunity to buy stocks on the dip and any new money added to accounts could benefit from buying low. If you are considering adding to your Schwab account(s), now may be an opportune time to do so. Stocks could still reach new all-time highs by the end of this year or early next year.

The bond portion of our client accounts also declined along with stocks during the quarter. The “higher for longer” interest rate sentiment has caused rates to rise and bond prices to fall. We did increase our holdings in longer-term bonds back in June to take advantage of lower bond prices and the 15-year highs in bond yields. Our longer-term core bond fund has declined since purchase, but all of our other bond holdings are solidly positive year-to-date. At some point, interest rates will peak, then eventually decline. Historically, the Federal Reserve has over-tightened and has had to reduce interest rates and we believe that this time will be no exception. When rates eventually decline, bond prices will go back up and we will be rewarded for our patience. In the meantime, all of our client accounts that hold bonds and other fixed income will enjoy some of the highest yields in many years.

Interesting Facts

HELP DESPERATELY WANTED

The NFIB’s latest survey of small business sentiment for July showed that quality of labor retook the lead over inflation as small businesses’ most important problem. 42% of small business owners reported having trouble filling job openings, and of the 61% of firms that were hiring, 92% said there were few to no qualified applicants. (SOURCE: NFIB)

US MORTGAGES

The average rate on a 30-year US fixed mortgage reached 7.23% this week, the highest level since 2001, according to Freddie Mac. Meanwhile, the Mortgage Bankers Association reported that applications for new loans fell to their lowest level since 1995. With inventories of unsold homes near record lows and existing homeowners reluctant to part with low mortgage rates in order to trade up, buyers are increasingly turning to new homes, the sales of which rose 4.4% in July.

Upcoming Stock Market Holidays

Thanksgiving Day, November 23rd
SAM Closed Friday, November 24th
Christmas, December 25th
New Year’s, January 1st

"Gold gets dug out of the ground in Africa, or someplace. Then we melt it down, dig another hole, bury it again and pay people to stand around guarding it. It has no utility. Anyone watching from Mars would be scratching their head."- Warren Buffett

We sincerely appreciate your continued trust and confidence. If you know of someone who may benefit from our service, please pass along our contact information. As always, there is no cost for an initial consultation.