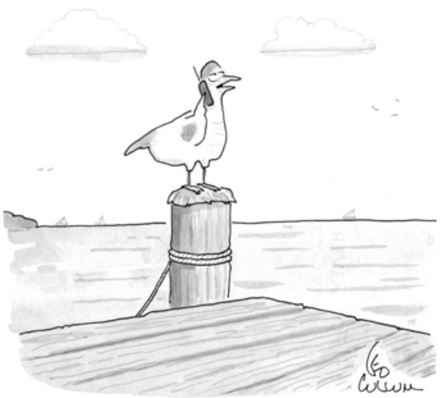
MONTAG

CELEBRATING 40 YEARS 1982-2022

Viewpoints

SECOND QUARTER 2023



"Oh, ...you know, ...Sittin' on the dock of the bay, ...wastin' time."

Leo Cullum/CartoonStock—Used by permission

WELCOME

As we write this message, it's the week of the summer solstice—which falls on June 21st, to be specific. That's the day each year with the longest daylight, and correspondingly the shortest night. The days, which have been getting longer ever since the winter solstice last December, are reaching their zenith. We count June 21st as the official first day of summer in the northern hemisphere. Then begins the "re-tilting" as the earth's revolutions begin their six-month journey as the southern hemisphere begins to get more sun exposure at the expense of the northern one.

What's that, you thought summer began back at the end of May? It's true — our American culture gets a little ahead of itself, marking Memorial Day as the unofficial start of summer. School for the kids has been out for a month or so, graduation ceremonies have wrapped up, and we've honored both Mothers and Fathers already with their respective celebrations.

By the time you read this edition of *Viewpoints,* we will have already celebrated America's birthday on July 4th... how time flies. Just be assured that MONTAG is hard at work for our clients EVERY season, and — hat tip to the late Otis Redding — we've got no time to waste!

Inside This Issue

MONTAG *Viewpoints* is published quarterly by MONTAG Wealth

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July 6, 2023

MARKET OBSERVATIONS — *Chris Guinther, Senior Investment Strategist*

Let's begin by noting the 2023 second quarter's market numbers, as of the quarter's close of June 30th.

	Q2 2023	YTD 2023
S&P 500	8.7%	16.9%
DJIA	4.0%	4.9%
NASDAQ	13.0%	32.3%

An especially revealing statistic was the FANG+ index (Facebook, Apple, Netflix, Google and other tech/growth bellwethers) which was up over 70% for the first 2 quarters. In general, then, it seemed like a great half year for risk investors. Looking a little closer though, most investors will be disappointed in their returns relative to those major indices because the 'average stock' as measured by an ETF we watch, the RSP, was only up 6%. RSP (Invesco S&P 500 Equal Weight ETF) is a better measure and more realistic view of 'how are stocks doing' as it equally weighs the largest 500 companies in the U.S. so as to not be too influenced by the mega-caps companies like Microsoft, Apple and Amazon. A look at the Russell 2000, a broad index of all small caps working across all industries in the U.S. was up just 7.3%. What has happened was the mega cap technology firms like AMZN, MSFT, TSLA, NVDA, META are so large now that they really carry and influence the performance of the S&P 500 index that is so closely watched. Even the Dow Jones Industrial Average was up just 4.9% YTD. Putting all of this into perspective is a key to understanding individual returns relative to the real dynamics of the markets. This is all explained in more depth in the accompanying article by CEO Ned Montag, *"Lessons from Mark Twain"* (page 2).

We have not seen a meaningful move higher in corporate expected earnings which is a necessary ingredient for sustainable stock price moves. What we have seen is an increase in valuations (PE's) without notable improvements in forward looking indicators of the economy. Artificial Intelligence (AI) excitement seemed to contribute to some of the mega-cap stocks extreme upward moves that significantly contributed to the major index gains as well. How the 2nd half of the year performs will depend on whether a US recession starts later in the year as the lag

Continued on page 2

effect of aggressively tighter monetary policy (higher interest rates and tighter bank lending policies) that were instituted over the last year or so. Economists agree that it takes 12-18 months before the moves designed to slow demand/curb inflation are felt, so we continue to monitor and adjust our thinking as the data presents itself.

Historically, we have rarely experienced a time when the FED was tightening with such vigor that they haven't over done it and caused a recession. Combine the FED risk with very tight bank lending policies that are in place now, add to that excessively low unemployment and we arrive with an informed opinion that risks are high that the U.S. enters a recession towards the end of this year. It's of course possible that the FED's campaign to end inflation accomplishes just enough cuts in spending and demand by consumers that the economy gets back to perfect balance, but only time will tell. At MONTAG, we want to err on the side of caution to minimize exposure to large drawdowns. The fixed income allocation of our portfolios provide a level of stability while we allow the dynamics of the FED's policies to work their way into the system.

We believe a world of "higher for longer" interest rates and slower growth than the last four years is much more likely than a return to the abnormally low interest rate environment when high growth stocks dominate and high valuations were the norm.

In general, we continue to position client accounts conservatively to allow for a wide range of possible outcomes given the unprecedented inflation and withdrawal of stimulus that is occurring worldwide. M

In general, it was a great half year for risk investors

Chris Guinther is Senior Investment Strategist & Portfolio Manager

LESSONS FROM MARK TWAIN — *Ned Montag, CEO*

Mark Twain has many great quotes. Among them is: *"There are lies, damn lies and statistics."* Twain knew that mathematically accurate numbers could give false impressions, either on their own or by a clever soul with an agenda. A great example is found with today's S&P 500 Index. The index can be weighted multiple ways, but the most common method is usually as "capitalization weighted."

The "cap weighted" Standard and Poor's 500 Index is ubiquitous in our field and across the globe, constantly used by news sources and investors of all types. Most of the time, the calculation, either up or down, reasonably corresponds to what most investors will experience in their own portfolios. **But, for the fifth time in the past 50 years, that pattern has been broken.**

The "cap weighted" S&P 500 calculation, by definition, gives far greater computational weight to the most highly valued companies in the index. Generally, those companies perform roughly in line with the many smaller members of the index, and the index value corresponds to trends in the broad stock market. But when, like now, a few of the largest companies massively outperform the smaller index members, the index calculation can vastly overstate any gains being made in the broader market. And this can distort investor experience.

Currently, five of the largest S&P 500 components are Apple, Microsoft, Amazon, Alphabet (Google), and NVIDIA. Those five, particularly NVIDIA, have risen far more than the other 495 members of the index. As a result, by the end of June, these five big gainers (only 1% of the 500 stocks) represented approximately one quarter (25%) of the total value of the 500-stock index. Apple alone is worth 7.5% and is now valued at $3 Trillion. In fact, by the end of May, only 25% of the 500 stocks in the index had actually beaten the index average. By late June, this "cap weighted" index was up 16% for the year, but the average stock in the index was up only 4-5%. **For any manager who built a diversified portfolio putting roughly equal dollars in each holding, performing in line with the cap weighted S&P 500 would have been close to impossible.**

Assume, solely for illustration, that you make a "cap weighted" index out of just two stocks, Apple and CVS. At the end of May, Apple stock had a total market value (number of shares times share price) over $2.5 trillion. At the same time, the total market value of CVS was about $90 billion.

Next, assume that you or your manager own equal dollar amounts of both Apple and CVS, consistent with most professional practices. On Day 1, assume that Apple's stock price rises 1%, and CVS stock declines 1%. If you own them in equal amounts, the change in dollars on Day 1 is zero.

Continued on page 3

For only the fifth time over the past 50 years, the oft-cited "cap weighted" S&P 500 has become concentrated by weight in a subset of companies, which can be very misleading

DID YOU KNOW?

The iconic song "Summer Breeze" begins like this:

"See the curtains hangin' in the window
In the evening on a Friday night
A little light a-shinin' through the window
Lets me know everything's all right

Summer breeze makes me feel fine
Blowin' through the jasmine in my mind"

Who wrote and recorded 1972's hit song "Summer Breeze"?

A. Simon & Garfunkel
B. Seals & Crofts
C. Loggins & Messina
D. The Beach Boys

(Answer on Page 4)

LESSONS FROM MARK TWAIN *continued from page 2*

However, the two-stock "cap weighted" index would calculate that Apple's value increased $25 billion (1% of $2.5 trillion) and that the value of CVS fell $1 billion (about 1% of $90 billion). The net result is that this cap-weighted index value increased by $24 billion. A very different result, up almost 1%. It does not "break even" as did the equal-weight portfolio. (In fact, this result concentrates you deeper into one stock. Hmm.)

Now let's make it interesting. **On Day 2, assume Apple stock rises 4%, but CVS stock, for some reason, falls to zero, a total wipe-out. Your equally invested portfolio would lose almost half its value.** Ouch.

The "cap-weighted" index would compute a market value gain from Apple of $100 billion countered by a market value loss from CVS of $89 billion. Remarkably, this results in a net gain of $11 billion for the index! This is a very different result from the equal weighted portfolio.

This example is unrealistic, but vividly shows how the performance of a few highly valued stocks in a "cap weighted" index can mislead investors concerning broad market trends.

This extraordinary imbalance in performance in the index is generally rare. There have been four previous times since 1972 when this occurred: "Nifty Fifty" growth stock mania which popped in 1973, an oil stock mania in 1979-80, the Internet stock bubble of 1999-2000, and the COVID lockdown of 2020.

In each and every case, the imbalance reversed within the next year, and many smaller company stocks that had underperformed during the mania went on to outperform their big company brethren. We are seeing a large valuation disconnect between the handful of technology darlings and the rest of the market, and history suggests that the neglected smaller company stocks could be catching up sometime during the next 12 months. Stay tuned.

Finally, none of what we have discussed is a criticism of the cap weighted S&P 500 Index. Its calculations are accurate, and its methodology is public knowledge. We merely note that, for now, the index's performance is considerably overstating the performance of most stocks in the U.S. so far this year.

Ned Montag is CEO

We thank you for your business and your trust. M

When should you begin conversations about generational wealth with your family?

GENERATIONAL WEALTH — *Larry Mendel, VP of Sales*

Here at MONTAG, we have been asked many times by wealthy clients about how and when they should begin to advise their children about their family and generational wealth.

These clients have worked hard, been successful and enjoyed the fruits of their labor. Eventually, the assets they have accumulated will most likely transfer to their estate for the benefit of their heirs and charitable giving. Many matriarchs and patriarchs shy away from discussing their wealth with their children, but in reality, all of the above will be disclosed after their passing.

For high-net-worth families, this subject is very deep and very complex and can take on many layers, from tax planning, trust and estate structures and lifestyle considerations. All of these are important to get in place, but at some point, these assets and trusts are going to be turned over to the next generation.

Larry Mendel is VP of Sales

Some key questions to ask yourself are:

- *Will my family be prepared and understand my intent and structure, or will they need to figure it out on their own?*
- *Will my children have had the experience of dealing with wealth, or will they learn in real time when it passes to them?*
- *Do I want to teach my heirs, or do I want a third party, advisor, family office, or financial planner to take the lead?*

All of these are reasonable considerations for you and your family's specific situation. (*Continued online*)

*To finish reading this article, click **HERE** or scan the QR code by pointing your phone's camera at the box*

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MONTAG CLIENT PORTAL UPDATE

At MONTAG, we have always believed in giving our clients direct access to their Portfolio Manager. Whether you prefer to pick up the phone, have a face-to-face meeting, or rely on electronic communication, your MONTAG team is here and ready to serve your investment needs.

Effective July 5th, MONTAG has added another method for our valued clients to stay up to date on their financial well-being. The MONTAG Portal began as a Document Vault to send and receive secure documents. For those clients with active Document Vaults, their Portal has been expanded to include:

INTERACTIVE DASHBOARDS
The portal features a completely interactive dashboard, allowing you to toggle to what interests you most

MOBILE APP AVAILABILITY
Your Portal is available to access via our mobile app on your Apple, Samsung and Android Devices

SECURE DOCUMENT VAULT
Simplify secure document sharing for reports, trust documents, estate planning, tax documentation and more

CLIENT REPORTING
Dynamic and interactive client portfolio reporting, including asset allocation, holdings and transactions

INTUITIVE NAVIGATION
Easy-to-navigate tabs for Dashboards, Accounts, Reports, Documents and My Team

COMMUNICATIONS
Easy access to your MONTAG support team, including your Portfolio Manager and Portfolio Administrator

If you would like to have a Portal set up, or need assistance logging into your Client Portal, reach out to your MONTAG support team:

Call 404 522 5774

Email your Portfolio Administrator

DID YOU KNOW? *(from page 3)*

ANSWER: "B: Seals & Crofts"

Jimmy Seals (1942-2022) and Darrell "Dash" Crofts (b. 1938) were an American soft rock duo best known for their hit song "Summer Breeze".

It was the title song of their second Warner Bros. album, which was also a hit and peaked at No. 7 in 1972. The title cut was released as a single, peaking at #4 on the Adult Contemporary chart, and #6 Pop. The album has since been certified 2X platinum by the RIAA for sales of two million copies in the US.

In 2013, "Summer Breeze" was ranked No. 13 in *Rolling Stone*'s "Best Summer Songs of All Time". Bruce Eder of AllMusic referred to it as "one of those relentlessly appealing 1970s harmony-rock anthems ... appropriately ubiquitous on the radio and in the memory." M

Sources: AZlyrics.com, sealsandcrofts.com

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A PARTING THOUGHT

"The most successful people are those who do all year long what they would otherwise do on their summer vacation."

- Mark Twain (1835-1910)