MONTAG

CELEBRATING 40 YEARS 1982-2022

Viewpoints

THIRD QUARTER 2023

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Inside This Issue

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WELCOME

As we transition from summer to autumn, it's a time for reflection and prioritizing quality moments with family and friends. Just as the seasons change and we adjust to colder-weather attire, we recognize that the investment landscape continues to change and we must adjust accordingly. MONTAG specializes in guiding families through various financial seasons, whether they're hot, cold, or just right. In this edition of Viewpoints, we offer valuable insights into MONTAG's approach to navigating the ever-changing market and our outlook on protecting and growing client wealth.

As always, we want to thank you for being a part of the MONTAG family and allowing us the opportunity to earn your trust and confidence every day!

MARKET OBSERVATIONS — *Chris Guinther, Senior Investment Strategist*

Through September 30th, the returns for the various indices are as follows:

	Q3 2023	YTD 2023
S&P 500	-3.7%	13.07%
DJIA	-2.10%	2.73%
NASDAQ	-3.94%	27.11%

As the market returns did weaken for the quarter, the major indices are still on the positive side for the year. In general, stock investors weren't happy with interest rates continuing to rise and the increasing likelihood that the FED engineered slowdown, meant to tamp out inflation, could end up inducing a recession. Looking at history, a recessionary outcome has occurred in nearly every case when the FED has increased rates substantially. Interest rates are now up to 5.25%, putting a damper on housing sales, auto sales, bank lending and every other part of the economy that relies on debt. Consumers are surely feeling the pinch, as credit card balances rise to over $1 trillion and signs of stress are showing up in consumers ability to repay their balances. Commercial real estate is also still on the decline, both from rising rates and the increasing popularity of flexible work schedules.

One oddly and notable positive influence on the economy, but likely to turn negative eventually, is the government's excessive spending and ongoing deficits. This is despite some of the lowest unemployment levels on record, now near 3.8%. It's not clear to many people, who regularly run their households with a balanced budget or surplus, why politicians continue to approve more spending. Historically, that may be why the phrase 'kick the can down the road' was created. Since the 2008 housing and banking crisis, government spending has continued unabated, with debt now reaching 120% of GDP and to a level we've never seen before in the U.S. Many think we are near a tipping point, especially as rates continue to rise and interest payments eat up as much of the federal budget as defense

Continued on page 2

MARKET OBSERVATIONS *continued from page 1*

spending, which is already one of the largest categories of our budget at 12%. Government (federal, state and local) spending is thought to make up nearly a third of the economy (and growing!) and right now those institutions are spending every penny they get in and then some. Note that without this government spending propping up the short-term, we would most likely be seeing a noticeably slowing economy. We suspect the excessive spending has allowed the forecasted recession to be pushed into 2024. Unless, that is, the FED can somehow manage to slow spending just enough to cool inflation back to 2%, but not so much as to start a recession.

We continue to play it safe and are not at all pleased to see interest rates on the 10-year U.S. Treasury continue to rise to over 4.6% today as debt supply/ issuance, appears to be outweighing demand. Additionally, as the U.S. and developed world shuns China, China in turn is shunning the U.S. and one area that's showing itself now is in the U.S. Treasury market, a place where China had once been a big buyer.

As rising interest rates tend to slow the economy, they also pressure valuations on businesses and public equities. Equity valuations, unfortunately, are not low and we are concerned that the almost inevitable slowdown could be a double whammy to stock prices as their valuations fall and the prospects for growth fall too. The good news is, after 10-15 years of extremely low interest rates and almost no ability to generate any income or growth in fixed income portfolios, we can now invest in all sorts of bonds ranging from U.S. Treasuries to Corporates to Municipals, with higher than 5% yields. While that's not the larger returns we prefer over the long term, it is a good start and good place to securely preserve and protect assets.

We continue to 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 dominated and high valuations were the norm.

In general, we continue to recommend positioning conservatively to account for a wide range of possible outcomes given the unprecedented inflation and eventual withdrawal of stimulus that is beginning to occur worldwide.

Thank you for your continued trust in MONTAG.

Chris Guinther is Senior Investment Strategist & Portfolio Manager

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STOCK PRICING CYCLES – *Ned Montag, CEO*

Many activities in the natural world are strongly influenced by cycles, primarily the 24-hour and 365-day intervals. Pick a date well into the future, ask a naturalist to predict the behavior of the plants and animals under study, and it will be done with remarkable accuracy. How convenient it would be if investors could do likewise: predict the vitality of the stock market and stock pricing solely based upon dates on the calendar. Well, as it turns out, they can, within solid limits.

<u>There Are Two Primary Stock Market Cycles:</u>

Market researchers have discovered the presence of two cycles that clearly influence stock prices.

Sell in May and Go Away

The first and best known to professionals is an annual cycle summarized by the phrase "sell in May and go away." First popularized by investment writer Yale Hirsch in his 1968 edition of the Stock Traders' Almanac,

Continued on page 3

DID YOU KNOW?

Along with Pumpkin Spiced Lattes and hay rides, Apple Cider is another fixture long associated with the arrival of Autumn.

The word cider is first mentioned in Middle English as sicer/ciser "strong drink" in the 13th century and as sither(e)/cidre "Drink made from the juice of fruits" → "beverage made from apples" in the 14th century.

About how many pieces of fruit does it take to squeeze a gallon of Apple Cider?

A. 8 apples
B. 16 apples
C. 24 apples
D. 36 apples

(Answer on Page 4)

Market researchers have discovered the presence of two cycles that clearly influence stock prices.

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STOCK PRICING CYCLES *continued from page 2*

the research shows that, on average, all of the returns that stocks produce compared to bonds and other fixed income happen during the cold weather months of November through April. On average, the stock market performs no better than fixed income during the warm weather months of May through October. To put a number to these findings, since 1950, the stock market has averaged a return of 6.9% during the November through April period, but only 1.7% during the balmy months of May through October.

Investors owning stocks in tax-free accounts such as IRAs or foundations might use this knowledge to modify seasonally their equity exposure in line with these tendencies, although doing so in taxable accounts could interfere with the preferable treatment of gains on stocks held continuously for more than 12 months.

The Presidential Cycle

The second cycle is far more obscure. It is a four-year "presidential cycle", and it predicts that the best time, by far, to own stocks during any president's (Republican or Democrat, it matters not) term is starting in October of a president's second year and ending in April of the third year. Typically, the returns on stocks during the first 20 months of any presidency, on average, are subpar, but in October, Year 2, the cycle kicks in and investors make all of their excess equity for the four-year term during the following seven months. This may sound far-fetched, but over the last 19 presidential terms dating back to 1932, the stock market has produced annualized gains net of inflation of 28% during this recurring seven-month period, while the other 41 months of any presidency have averaged annualized returns of only 4%.

Market analyst/guru Jeremy Grantham pegs the odds that this phenomenon is just simply random luck at less than one in a million. Some recurrent element (probably runaway government spending) is triggering this recurring behavior.

During the Biden presidency, this cycle (and the spending packages) showed up right on time. Although the stock market was in a bear market decline during the first half of 2022, the S&P 500 Index bottomed right on cue on September 30, 2022 and then rallied 16.5% through the end of April. A 16.5% gain in 7 months annualizes to a 28% rate, right on target with historical norms.

Students of the presidential cycle, including Ned Davis Research, note that the tendency for the stock market from here is to churn in a sideways trend until the spring of Year 4, after which it tends to rally into the presidential election. This makes some sense, since what investors crave more than either Democrats or Republicans is clarity, and once investors can begin to predict the likely outcome of the fall election, they tend to invest. Whether this pattern actually holds for the rest of the Biden presidency remains to be seen.

At MONTAG, we invest based upon our understanding of client investment objectives, and match that to the prospects for individual companies or sectors within the broad economy; not based on dates on the calendar. Unless an investor has a tax-free account, it is harder to accumulate wealth while dodging in and out of the market and incurring taxes in the process. Wealth has long been reliably accrued by buying good, durable companies that grow, and then holding them through thick and thin. It's a complicated endeavor but we very much enjoy it and appreciate your business.

Ned Montag is CEO

END OF YEAR TAX PLANNING,

Jackson Keenan, CFP©, APMA©, Director of Financial Planning

While most Americans' tax deadline will be Monday, April 15, 2024, at MONTAG, we recommend that our high-net-worth clients should consider Sunday, December 31, 2023, as their deadline. To take advantage of potential tax savings, here are a few strategies that should be completed this year:

- ☐ Accelerate tax deductions by contributing to charity with appreciated property or settling a sizable medical bill not due until 2024.
- ☐ Tax loss harvesting by selling investments and realizing losses to offset realized taxable gains.
- ☐ Max out employer pre-tax retirement accounts. 2023 401(k) contributions are allowed up to $22,500, $30,000 if you are 50 or over.
- ☐ Complete your Required Minimum Distributions (RMDs).
- ☐ Use up your Flexible Spending Accounts (FSAs).

For more details and to learn more, visit this month's blog post, "End-of-Year Tax Planning." M

Jackson Keenan is Director of Financial Planning

DID YOU KNOW? *(from page 3)*

ANSWER: "D: 36 apples"

Other Apple Cider Facts:

- In the 14th Century, children were sometimes baptized in cider, as it was cleaner and more bug-free than the water.
- In England, between the 13th and the 19th centuries, farm workers' wages included four pints of cider a day.
- The practice of wassailing is an old English custom still carried out today in some areas of the southwest of England and is supposed to appease the deities of the apple trees and ensure a good crop of cider apples.
- Apples are to cider as grapes are to wine. M

Source: lasidra.as.com

RECENT POSTS ON OUR WEBSITE:

"Market Outlook: Is Positive Investor Sentiment a Bad Sign?"	By: Kent Shaw
"Strategic Asset Allocation: The Big Picture"	MONTAG Video Series
"Transitioning Leadership"	MONTAG Video Series
"Interest Rates: Navigating Financial Physics with a Longer-term View"	By: Christine Quillian, CFA, CFP©

A PARTING THOUGHT

"The older I get, the more I become an apple pie, sparkling cider kind of guy."

- Scott Foley, American Actor

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