MONTAG *Viewpoints*

SECOND QUARTER 2024

"Taking the dog for a walk"

Inside This Issue

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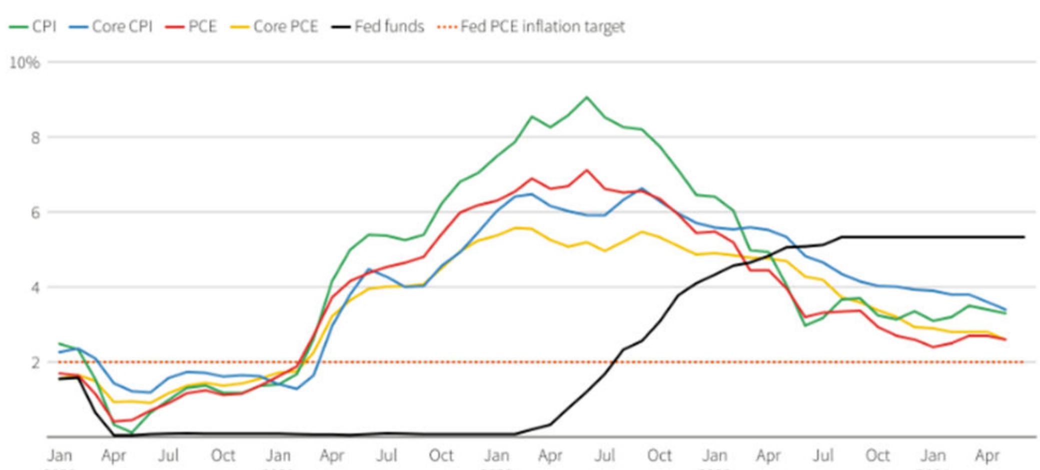
MARKET OBSERVATIONS — *Chris Guinther, Senior Investment Strategist*

Through 6/30/24, returns for the various indices are as follows:

	Q2 2024		
S&P 500	**4.3%**	**IWM**	**-3.3%**
DJIA	**-1.3%**	**AGG**	**0.1%**
NASDAQ	**8.5%**		

Q2 is in the books, and it was a good one for investors in stocks and bonds. Better than that, the forecast for more growth and economic stability has improved. Inflation continues to fall and our hope that the Federal Reserve doesn't need to raise rates continued to be confirmed through the quarter. Oil and gas prices are stable to down despite the wars, consumer goods and raw material input prices are falling, auto prices are slowly retreating and overall, most inflation measures (see graph below) are now annualizing and trending below 3%. In fact, Fed cuts may be in the cards by year end as the Fed Funds rate is materially higher than inflation now. Consumers may get some relief if the Fed lowers, and investors may see even more gains the next 12-24 months as lower rates pave the way for higher valuations on securities. The resilient economy continues to confound most strategist and economists since Covid hit, but much of it is explained by the excessive spending (many would call it "irresponsible spending") of the U.S. Government. For now, the government spending packages are a good thing, but of course the risks of too much debt becoming a problem rise.



Note: CPI = Consumer Price Index; PCE = Personal Consumption Expenditures Price Index; Core = excluding food and energy; Fed funds = Fed policy rate
Source: Federal Reserve (funds rate and target); Bureau of Labor Statistics (CPI); Bureau of Economic Analysis (PCE); inflation rates are annual
Reuters Graphics Reuters Graphics

Continued on page 2

I pointed out last quarter that the collapse in the 10-year bond interest rates last November of over 100 basis points, when the CPI came in lower than expected, that that was likely a good indicator of what's to come in terms of economic growth. That seems to be continuing to play out in Q2 and be confirmed each month during Q2.

A new negative that is worth pointing out is that while the overall economy is chugging along, there seems to be a bifurcation developing, in terms of who's improving and who's lagging. The wealthy, who own assets like stocks, companies and real estate are doing better and better while the other half is struggling. To a large extent we are seeing the same bifurcation play out within the equity markets, where the largest companies that have tremendous size and scale and play in global markets are doing very well…but the average mid-cap and small-cap companies are just treading water. It's not an ideal scenario whereby some do well and others struggle. We aren't sure if that's a sign of the times as companies grow more globally than ever before or a signal that predicts a problem ahead. Better breadth across ALL income cohorts for consumers and participation across ALL sized companies strikes us as a better more durable economy long term.

For now we have to play the cards we are dealt and our positioning that tends to lean large cap has been paying off in spades the past 1, 3, 5, and 10 years. While we have the option and ability to invest in companies of all sizes and in all markets around the globe, our large cap and highly domestic tilts have been both significant, correct and rewarding. We're always looking and willing to diversify more, but for now the firm continues to lean into large-cap U.S. based companies across most accounts.

Last quarter I laid out some ground work on artificial intelligence (AI) and this quarter there's little change to report except to say that that theme and industry is still on track, still growing and still showing many reasons to believe that it's here to stay for the long-term. Technology companies are spending tremendous amounts of money to get in the game early and fast. Again, it took about 10 years before we started to see the real durable use cases of the internet in the '90's and how it was going to change the world and every industry on the planet. AI continues to feel about the same as the early days of the internet. And for investors, we want to reiterate while returns have been great so far, it may create a lot more volatility soon. We may see early adopters and we may see new winners emerge, only to see them lose within 5 years.

Early AI leaders like MSFT, NVDA, AMD, SMCI, TSM, MU and AMAT have made big moves the past 12 months and technology now constitutes over 45% of the S&P 500 (a new sector high!) Expect to hear a lot more about AI in the coming quarters and years….investments here are probably showing up in your portfolio either directly or as major weights and contributors of common passive indexed ETFs.

One final note, take note of the difference in performance below. I'm highlighting again that in 2024, which is

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Chris Guinther is Senior Investment Strategist & Portfolio Manager

Continued on page 3

DID YOU KNOW?

1. Which cities have more than one Major League Baseball Team?
2. Which team is the only existing MLB franchise to have played every season since professional baseball came into existence?

(Answer on Page 4)

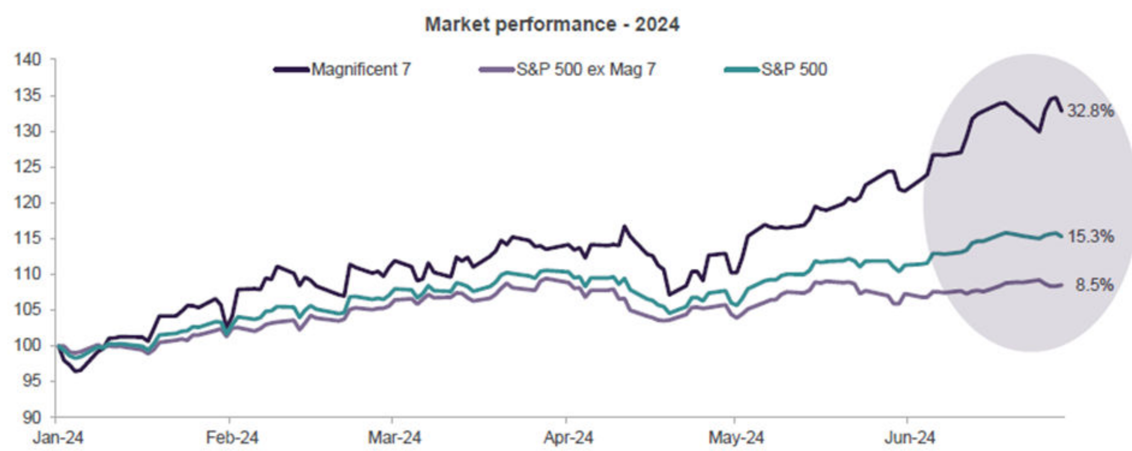
MARKET OBSERVATIONS *continued from page 2*

not too different than what occurred the last several years, mega-cap companies continue to get bigger and perform much better than the average. For advisors like us choosing to mostly use an equal weight strategy to ensure good diversification, it's been a battle to perform well without holding 5-8% positions in a handful of securities.

It won't always be that way, but it has run for a long time now and isn't too different than what occurred in the internet bubble. By March of 2000 when we finally saw the bubble burst, the mega-cap companies materially lagged for many years. We're not calling for that now but we do want to draw some attention to this and continue to recommend full diversification strategies with mostly equal weighted position sizes regardless of the negative short (0-2 years) to intermediate (3-5 years) term performance impact.

Magnificent 7 growth stocks add another strong month, extending their YTD outperformance

Strong gains in NVIDIA, Apple, and Microsoft contributed nearly 70% of the Magnificent 7's performance in June.



Data source: Truist IAG, Morningstar

Magnificent 7 = Apple, Microsoft, Amazon, NVIDIA, Alphabet (share classes combined), Tesla, and Meta

INVEST LIKE A PIGEON? *- Ned Montag, CEO*

In the short run, the stock market is very much a fad and fashion business, where the news of the day determines which stocks will be chased higher. All investment styles or methods, no matter how logical their grounding, will underperform the market averages during times when the market's attention is elsewhere: technology, macro-economics, world politics and many other phenomena can draw the attention of investors in our hyper-speed global environment these days. Periods of underperformance can pose a dilemma for more focused, long-term investors or investment managers. *Should I stick with a method that I know to be sound, even if it is not working for now? Should I try to shift my style or what I pay attention to, just temporarily, to participate in the fashion of the day?* It can be excruciating to watch other investors make money in "hot stocks" while your portfolio of thoughtfully chosen and/or long reliable stocks is left sitting on the sidelines.

For decades, behavioral psychologists have studied how rats, pigeons and people make choices in times of uncertainty. In a study from the 1960s, essentially replicated in the 1980s, psychologists placed pigeons in a box that contained two feeding keys. If a pigeon pecks the correct key, a food pellet emerges; if it pecks the wrong key, nothing happens. The trick was that one of the keys was rigged to produce a food pellet much more frequently than the other. Once the pigeons, through trial and error, learned the most likely key to produce food, they pecked it relentlessly, thereby optimizing their food supply. This approach, learning the best answer and then applying it relentlessly, is called "maximizing." This behavior is also observed in similar experiments involving rats or children under the age of four. The lack of self-awareness seems to be present, but it's hard to really understand what exact variables are at work when this result occurs.

Other experiments involved guessing the results of coin flips or the color of marbles drawn from an opaque bag. In each case, one choice was rigged to occur more than the alternative.

Interestingly, though, when adults are faced with the same experiments, they tend to ignore "maximizing" but instead engage in a strategy called "frequency matching." This term simply means that adults try to anticipate when the less likely result will occur, and they guess it accordingly in an effort to avoid it. Clever, clever. And somehow by attempting to guess when an unlikely result will occur, adults think they are likely to raise the odds of success.

So given these two paths, if the best answer occurs 60% of the time and the alternative only 40%, why fight that pattern? Well, because a whole psychology emerges from this, driving one to make choices that in fact "feel" smarter. But are they? It is hard to tell, especially in the moment.

Neuroscientists tell us that starting around the age of five, humans

Invest like a pigeon *continued from page 4*

develop a module in the left lobe of their brain nicknamed “the interpreter.” This nodule searches for patterns in data and can tempt us to find or guess patterns that don’t actually exist. The “interpreter” probably helped primitive man succeed in hunting and in avoiding being hunted, but it can fool modern man into thinking he/she can predict short-term events at a rate higher than chance.

So, as we consider these behaviors, what are the final results? Well, the “maximizing” pigeons usually scored higher in making binary choices than the pattern-seeking human adults who would change picks based upon “intuition.”

An example: One famous investor who showed extreme pigeon-like tenacity in refusing to abandon a successful investment style is Warren Buffett. In 1969, the stock market was rewarding only the most speculative of stocks, and Buffett determined that his highly successful style would not be rewarded anytime soon. So he decided to terminate an investment partnership that, over 13 years, had achieved a remarkable 31% per annum return for its partners. He sent the money back, something that rarely happens on Wall Street. In his closing letter to investors, he wrote, “I am not attuned to this market environment and I don’t want to spoil a decent record by trying to play a game I don’t understand.”

Never mind that the record was in fact spectacular and not decent.

So, what is the take-away from this reflection on investing? If you have a selection method that is sound, based upon proven selection principles, don’t abandon it simply because the market, for now, is not rewarding it.

It is probably far wiser to be a pigeon and stick with what you know works, than to switch gears in pursuit of the latest investment fad. The odds of increasing your returns long-term by switching back and forth between styles is probably low. In the long run, speculative markets fade, and investors re-learn the value of selecting stocks with strong fundamental characteristics. But it can take time.

This lesson is not one to take lightly. Humans are quite given to fads. Behavior is contagious, especially when fashionable thinking becomes a priority. Your “crowd” and frankly, any crowd, has heavy influence on your choices, and the single most powerful factor in any investment record is who you choose to have as part of your decision-making team. That, more than anything else, matters. We are grateful to our clients who have chosen to bring us into their situation and let us make important contributions to the financial path they travel. We take that assignment very seriously, know we are accountable for the results, and spend a lot of time analyzing and rejecting fashion trends that constantly circulate in our work. Discipline and sobriety are critical to us, and we prize the trust we earn.

Let me acknowledge that the inspiration for much of this note came from the writings of Morgan Stanley strategist Michael Mauboussin, who has studied how investors make decisions for decades.

Ned Montag is CEO

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MONTAG

ROUNDING THE BASES - *Larry Mendel, Vice President, Sales*

Having our office across from Truist Park, the home of the Atlanta Braves, is a constant reminder of America's favorite past time. As baseball is often used as metaphor for life, at MONTAG, we occasionally use it to illustrate financial preparedness.

1st Base: Building Career and Family

These are the formative years where many of us engage in defining our career and family paths. Should your path include having a family, we begin to think about things bigger than ourselves and taking care of those around us. We create our Will, consider life insurance, set up our 401k or retirement plans. These are also the years where we aim to educate our children and instill the financial behaviors which are important. It's what I refer to as building "our ethical relationship with finance" which is how to think about money, investing, and developing our spending habits.

DID YOU KNOW? *(from page 3)*

ANSWERS:

1. There are four cities with more than one MLB team. They are:

   a. Chicago
   b. New York
   c. Los Angeles
   d. San Francisco Bay Area

2. Formerly of Boston (1871) and Milwaukee (1953), The Atlanta Braves are the only existing MLB team franchise to have played every season since professional baseball came into existence!

2nd Base: Spending and Planning

I know what you are thinking… can I "steal" second base?" I had already thought someone might ask that question. In this game of preparation and strategy, the answer is no, these are the years for spending and building a foundation. We possibly buy a home, continue to define our careers and begin planning for the long-term financial health of ourselves and our children. We should build a relationship with a financial advisor, get life insurance in order, both long-term and short-term, think about 529 plans for our children, think of retirement investment strategies, 401(k) plans etc. These are the years to think about investing for the long term with tax free and tax deferred methodologies. Time is on your side and planning for the future becomes an integral part of the decision-making process.

3rd Base: Accumulation

Rounding 3rd should align with your high earning years and allowing your assets to work for you. As you think into the future, revisit your estate planning, consider eldercare options and long-term health insurance. Utilize your team such as your CPA, Attorney and Financial Advisor, to strategize together in reviewing your plan to make sure it still works for your long-term goals.

Home Plate: Transition to Retirement

As you come into home plate, working with a financial planner can help with your transition as you move from being an accumulator into the retirement years. Believe it or not, the mindset transition can take some adjustment. At MONTAG, our financial planner is prepared to coach and create a plan to smooth this transition and create an income stream which meets your needs.

Finally, when thinking of your financial pastime, it's important to have your team work together and to remember that as life changes, so should your documents. Many of the headaches the next generation will deal with are the mistakes (errors) made along the way, and many of these are self-imposed. Remember to check in regularly with your professionals and stay in the game with your planning. A good strategy with strong communication is the key to success as you round the bases of life.

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