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10/16/24

FFG Partners Market Pulse Newsletter, Q3 2024

We believe we are entering a period that should bode well for stocks generally. As the surely overquoted saying by Mark Twain goes "History doesn't repeat itself, but it often rhymes." For some reason, this quote has a negative connotation to it, usually indicating that something undesirable is right around the corner. I would suggest this has to do with something called negativity bias, a cognitive bias that leads to adverse events being more heavily weighted in our minds than positive ones. However, in this case I would argue that based on history there will likely be a positive end to the rhyme this time.

As suggested above, we believe there is a strong historical context for the period we are in right now, with many indicators pointing to the market returns being positive and higher at yearend. Below are some of the examples we have found throughout our research:

1. **Fourth Quarter Tends to be Positive**
   a. There have only been six negative fourth quarters since 1990
   b. The negative fourth quarters are usually driven by some sort of unprecedented and detrimental economic shock. The most severe of which have been the tech wreck in 2001, the financial crises in 2008 and the fear caused by the Fed beginning to raise rates in 2018.
   c. Absent some sort of economic shock, the markets should continue their current trajectory
2. **Strength Leads to Strength**
   a. The market has already achieved a significant number of record high levels this year.
   b. The market tends to experience these events in clusters which suggest more new highs are likely
   c. Most new highs since 1990 have been achieved in December
   d. Momentum does not usually end without a significant catalyst that changes sentiment
3. **Eight of the First Nine Months have had Positive Returns**
   a. This is a rare occurrence that has only occurred 4 other times since 1990
   b. Each of those periods have been followed by more positivity

The above list is encouraging, but we're not waiting for history to repeat itself – we are actively managing the portfolio for different outcomes. Things in the economy can sometimes change quickly and we cannot allow ourselves to be lulled into complacency based on historical comparisons. Ultimately the market does not care about how events unfolded in the past. The market is the ultimate discounting mechanism and if there is a sense of negativity on the horizon, it will quickly be reflected in market prices. We are therefore still hypervigilant about the potential risks that could negatively affect the market and the economy.

The good news is that we believe we can position the portfolios in a way where we can take advantage of the positivity in the markets, while still protecting the portfolio from potentially adverse outcomes. There are no absolutes in investing, and thankfully we do not have to choose between being all in or all out. Ultimately, we believe it is the proper blend of risk and return that leads to favorable outcomes over time.

For example, we have been working on implementing a new strategy that we believe should complement the fixed-income part of the portfolio. With the recent and likely continued reduction in interest rates, it has been difficult for us to find high quality bonds that get us excited. As some of you may remember from our pillar portfolio conversations, we are unwilling to force a specific portfolio allocation simply because that's how it has been in the past. Things change in the economy and markets, and it is our job to realize when they occur and change along with them. We therefore have been working to find a fixed-income alternative that satisfies our desire for safety, income, and ultimately positive returns. We believe we have come up with a strategy using structured notes and are excited to implement it over the coming weeks. We look forward to discussing the strategy in detail with you once it is fully established.

<u>Comments on the Election</u>

The upcoming election is expected to reach a fever pitch in the coming weeks, with outlandish promises, harsh criticism, and dire predictions dominating the headlines. This election is shaping up to be one of the most divisive and consequential in recent history, with far-reaching implications for our society. However, despite all the noise, we believe the impact on the financial markets will be relatively muted.

The beauty of this country's government is the checks and balances put in place to limit the power of any one branch. Although a powerful figure head and certainly a significant global leader, the president's ability to quickly change and drastically impact the economy is severely limited. Thankfully this job is left to the members of congress who can't seem to agree on anything.

Markets thrive on clarity, and there is nothing more certain than the little change that will occur with a split government. The likelihood of a split government, and the inevitable political gridlock that comes with it, seems to be relatively high at this point. This is one of the reasons why we believe the market reaction to the upcoming election has been rather muted. With this rather clear outlook, the market is anticipating few surprises from the election outcome and instead has turned its attention on the economy at large.

Wishing you a happy and healthy holiday season!

Yours Truly,

Gabriel Levy, CFA
COO, Fiori Financial Group

References:

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