Quarterly Commentary

NOTES FROM THE NEWSQUARE COMMUNITY

NEWSQUARE CAPITAL

4th Quarter • 2023 | **newsquarecapital.com**

Five things we've heard in 2023.

At NewSquare Capital, we don't make market predictions. We never have, and we never will. To do so is fruitless. Pointless. Useless. It's also impossible, though some prognosticators might get lucky in any given period. We believe it can also lead investors to make unfortunate decisions. We don't put our energy into trying to guess why the market is performing as it is or try to find investments we believe the market *should* reward. Instead, we trust the market and listen to the signals it's giving us.

And so, as we look ahead to 2024, we're looking back at some of the most memorable things we've heard over the past year—or really *every* year, in some variation. The point is to highlight the thought process behind these statements and provide a sense of how to do what we believe is right.

> *"It is that time again when many investment professionals make predictions about how equity markets will perform over the coming 12 months. The only purpose of (this) seems to be allowing us to look back in a year's time and comment on how pointless such endeavors are. Although it can be viewed as a harmless diversion, the pervasive culture of forecasting the unforecastable perpetuates damaging investor behavior."*[1]
>
> —Joe Wiggins, author of the *behaviouralinvestment.com* blog. A mutual fund industry veteran, Wiggins holds a Master's Degree in Behavioral Science from the London School of Economics.

1. "Where is the market going?"

In his **piece[1]**, Wiggins explains that a successful market prediction would need to identify the known "issues or developments that will influence investor sentiment in 2024," along with all of the unknowns(!), and then, "foresee how markets will react to these known unknowns and unknown unknowns." "Although this may seem glib, it is not," Wiggins writes. "It is exactly what is required to make such a forecast. It is a prediction of the market's reaction to unpredictable events and events we haven't even thought about." This is in line with our thinking. If you are so inclined, write down five things you expect the market to do this year and review it at year-end. You may be surprised by how things unfolded.

From 2000 to 2023, the median Wall Street analyst forecast for the S&P 500® Index missed its target by 13.8% annually, according to data from Paul Hickey, a founder of Bespoke Investment Group. In fact, 2022 represented one of the biggest gaps: The forecast called for a 3.9% gain, but the index fell 18.1%. In addition, for other indexes, the gap was even larger.

Jeff Sommer, who writes the "Strategies" column for *The New York Times*, offered up those numbers in a recent column[2], warning readers to "pay no mind" to market forecasts. He says, very simply, that it is:

> *"better to invest with humility:* ***Accept that no one knows where the market is going moment by moment, and focus on the long haul."***

We could not agree more. One thing we can count on, is the market will serve up surprises. There will be paradigm shifts, and we have just lived through a monumental one of those, starting in 2020. Rather than trying to rely on conventional wisdom for market analysis, we believe what is key is *how one reacts* to these changes.

2. "Capital gains are bad."

Toward the end of each year, we hear from clients and advisors who are worried about the tax implications of annual gains. We understand. Nobody *wants* to pay capital gains taxes. But, and this is a big but … they are the result of buying low and selling high. And isn't that the whole point?

Continued on page 2

The bottom line: Tax planning should play an important role in your overall investment planning and portfolio construction. However, avoiding taxes should not drive your decision-making. Yes, there may be an opportunity for tax loss harvesting, but the reality is, whether you have to pay capital gains in any given year depends a lot on the market environment. We recently had a client reach out, looking to find losses to sell near year-end, hoping to cut capital gains taxes before presumably buying back in after New Year's Day. Our answer, "Fortunately, we can't find a lot of losses. You've got too many gains in this market environment," was the fact. Still, it also revealed the truth: Capital gains are good. They mean you made money. You just might owe some of it to the government, whether you elected to realize those gains yet or not. To be clear, even unrealized gains have a liability attached to them that could ultimately result in owing taxes. The bottom line is: How to handle unrealized capital gains should not be the sole driver of your investment decisions.

3. "It's been a great year for stocks."

Look at the gains in 2023—a 26% advance for the S&P 500® and the large-cap Russell 1000, 45% for the NASDAQ Composite, and 16% for the Dow Jones Industrial Average—and it seems true. Even the small-cap Russell 2000, which lost ground across the first 10-11 months of the year, finished up 17% with a December surge. In reality, the big index numbers hide the fact that it was a choppy year at best for most of the year, and the gains were extremely concentrated. The S&P 500® Equal Weight Index (which did finish 2023 up almost 14%), was down 5.5% year-to-date on Oct. 27. Even the S&P 500®, which dipped below its 2022 finish for just a few days in early January, was up only 7.3% through Oct. 27 before the late-year rally, the magnitude of which surprised us all.

The real issue is market concentration, and the power of the so-called "Magnificent 7" mega-cap, tech-heavy stocks (Apple, Amazon, Google parent Alphabet, Nvidia, Meta Platforms, Microsoft, and Tesla). Those names accounted for the majority of the S&P 500®'s 2023 gains, and for much of the year, the broad index would have been down without them. In fact, three of those stocks—Tesla, Amazon, and Alphabet—are actually *down* since the beginning of 2022. It's not to say there haven't been opportunities this year, there have. But to say that all stocks had a phenomenal year is an over-statement.

Not Looking So Magnificent Since 2022

Company	Symbol	2023	2022-2023
Tesla	TSLA	101.7	-29.5
Amazon.com	AMZN	80.9	-8.9
Alphabet	GOOGL	58.3	-3.6
Meta Platforms	META	194.1	5.2
Microsoft	MSFT	58.2	13.9
Apple	AAPL	49.0	9.7
Nvidia	NVDA	239.0	68.6
S&P 500 Index		26.3	3.4
NASDAQ Composite Index		44.7	-2.4
Russell 1000 Index		26.5	2.3
Dow Jones Industrial Average Index		16.2	8.2
S&P 500® Equal Weighted Index		13.8	0.8

Sources: Bloomberg Finance and NewSquare Capital.
Past performance is no guarantee of future results.

The point is, 2023 was a good year. But the numbers are deceiving, and likely, over time, will highlight the long-term risks of portfolio concentration without proper risk management, succumbing to the fear of missing out, and chasing returns.

4. "My money is in the bank. It's safe."

We don't want to hit the panic button here, because in most cases, your money is indeed safe in the bank. Still, 2023 featured five bank failures, with combined assets of more than a **half a trillion dollars**[3], the largest annual total ever. Another big surprise which no one predicted. "These banks," thestreet.com wrote in a year-end review, "weren't limited to one geographic area, and there wasn't one single reason behind their failures."[4] That's technically true. We'd argue though, that there was a common thread: Call it hubris, or arrogance, or the over-confidence of the banks' overseers. They had essentially NO risk management, at least of the sort that would have protected them when the U.S. Federal Reserve went on a historic interest rate-hiking path. Yes, the pace of the Fed's path was unexpected, but if those banks had had a well-defined strategy for managing risk, they'd likely still be standing. While risk management does not eliminate risk, at NewSquare, we believe risk management is a critical, integral, and explicit part of what we do, at every step of the investment process.

Continued on page 3

5. “We are hurtling toward a recession.”

Maybe we are. Maybe we aren’t. Or could this be the first, or at least the biggest, “soft landing” ever? In December 2022, a *Financial Times* survey of economists[5] revealed that of those surveyed, 85% expected the National Bureau of Economic Research (NBER), which defines recessions in the U.S., to declare one in 2023. Just two months earlier, Bloomberg’s 12-month **recession probability model hit 100%[6]**, calling a recession “effectively certain” by October 2023. As we know, it didn’t happen.

Once again, we don’t make predictions. We listen to the market.

We strive to focus on what matters. We believe it’s pretty simple, but that doesn’t mean it is easy: Choose a disciplined investment plan that focuses on the long term. Long-time returns are the only ones that really matter, yet the short term gets all the attention. Wise investors do the opposite, they focus on the long run and ignore the noise that is in the present. Understand the process, what it’s designed to do, whether you are a good candidate for it, and how it manages risk. Then, forget the forecasts and the future-looking opinions of Wall Street “geniuses.” Manage your expectations and your emotions, and stick with your plan. That is sometimes hard to do in the short term. But if you do that, we believe this shifts the probabilities in your favor. You may find yourself in the minority that has the best chance to reach investment goals.

We wish you and your family a happy and prosperous new year.

---

[1]Behavioral Investment Blog, December 12, 2023, *“How Will Equity Markets Perform in 2024”*

[2]The New York Times, December 23, 2023, *“Wall St. Loves to Guess, but Nobody Knows What the Market Will Do in 2024”*

[3]American Banker, December 13, 2023, *“Dramatic collapses made 2023 the biggest year ever for bank failures”*

[4]TheStreet.com, December 5, 2023, *“Looking back at the banking crisis of 2023”*

[5]Financial Times, December 7, 2022, *“US unemployment rate set to surpass 5.5% economists predict”*

[6]Bloomberg, October 17, 2022, *“Forecast for US Recession Within Year Hits 100% in Blow to Biden.”*

Indexes referenced:

The Dow Jones Industrial Average (DJIA) is one of the best-known stock market indexes in the United States that measures the daily price movements of 30 large American companies on the Nasdaq and the New York Stock Exchange. It is widely viewed as a proxy for general market conditions and the U.S. economy as a whole.

The Russell 1000 Index is a stock market index used as a benchmark by investors. It is a subset of the larger Russell 3000 Index and represents the 1000 top companies by market capitalization in the United States.

The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

The S&P 500® Equal Weight Index (EWI) is the equal-weight version of the widely-used S&P 500®. The index includes the same constituents as the capitalization weighted S&P 500®, but each company in the S&P 500® EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

The Nasdaq-100® is a stock market index made up of 102 equity securities issued by 101 of the largest non-financial companies listed on the Nasdaq stock exchange.

The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index.

Additional statistical data sourced from: Bloomberg Finance, LPL Research., Morningstar, and NewSquare Capital, LLC.