

# 2023 Q3

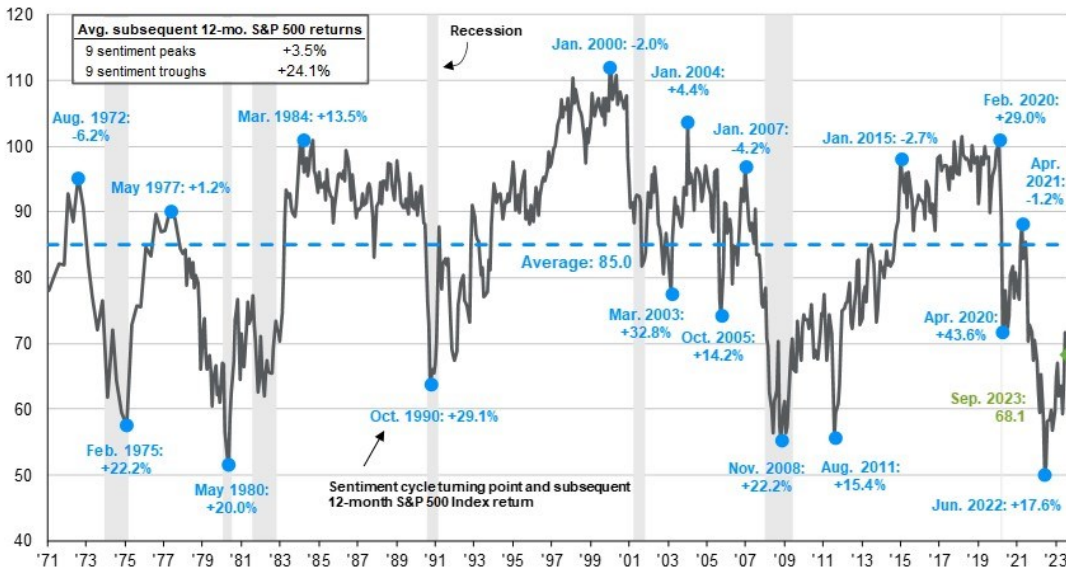


## Uncertainty Creates Opportunity

Uncertainty in all aspects of life is not comfortable. Starting a business, moving to a new city, getting married or having children all come with varying levels of uncertainty. Investing is no different. Opportunity for long-term returns exists not in spite of uncertainty, but *because* of it. The real risk lies in perceived certainty. For example, holding money in cash is relatively certain that your money won't decrease in absolute value. However, it is also certain that it *will* decrease in purchasing power due to inflation, thus making it a poor long-term investment.

Below is a chart from JP Morgan\* that presents investment returns of the S&P 500 relative to consumer sentiment, which is a barometer on how the general public “feels” about the markets and economy. When things “feel” the worst is often when your portfolio performs its best. Note that returns are still positive overall when sentiment is good as well.

Consumer Sentiment Index and subsequent 12-month S&P 500 returns



Investing means learning to embrace uncertainty and view it as opportunity. When markets go down, we get excited! This is when opportunity abounds. An approach that embraces uncertainty helps us get through difficult times and refocus on the opportunities ahead, both in investing and in life.

## Expected versus Unexpected Returns

Valuation ratios, one of the most common being P/E (Price/Earnings) ratio, are often used to look at stock valuations relative to history and offer some forward looking data. The problem with valuation ratios is they are very noisy, particularly in the short term. P/E ratios on US Large stocks currently sit above their historical averages while US Small stocks are below. Small value stocks exhibit historically higher *expected return* over long periods of time. However, the *unexpected* component of returns will make short-term returns noisy and unpredictable. Stay focused on the long term. Stay focused on what pays.

## Key Market Performance 2023 Q3

US Stocks .....	-3.25%
Developed Ex US .....	-3.93%
Emerging Markets .....	-1.99%
Global Real Estate .....	-6.55%
US Bonds .....	-3.23%
Global Bonds Ex US .....	-1.82%

## Special points of interest

- Artificial Intelligence on the forefront
- Looming Government shutdown—temporarily averted
- Short Term bonds still yielding more than long term (inverted curve)
- Inflation (CPI) at 3.67% (as of 9/13)
- Economy remains resilient avoiding recession so far in 2023

## Opportunities

- International Stocks
- Small Stocks
- Bonds—variable maturity and credit will take advantage of current higher yields
- Cash—in short term situations

Past Performance is no guarantee of future results: US Stocks: Russell 3000; Developed Ex US Stocks: MSCI World Ex US IMI; Emerging Markets: MSCI Emerging Markets IMI; Global Real Estate: S&P Global REIT; US Bonds: Bloomberg US Aggregate Bond; Global Bonds: Global Aggregate ex-US Bond (Hedged to USD)

\*JP Morgan *Guide to Markets* pg 24—US Data are as of September 30, 2023.