THE FINANCE COUPLE™
TWO PERSPECTIVES WITH ONE FOCUS... YOU

Let The Good Times Roll!

June/July 2024

"If you find it hard to laugh at yourself, I would be happy to do it for you."
- Groucho Marx

Let's start by saying that we do not love or hate bonds, nor do we love or hate stocks. Instead, we appreciate each asset class for its utility; in our opinion, bonds or fixed income may provide relative stability and/or income, while stocks or equity may provide long-term growth and possibly an inflation hedge. The corollary to stock's "long-term growth" is knowing that time may be the only thing that can dispel risk and/or volatility; we believe market timing and other guess-work can only render you lucky or unlucky.

With that being said, let's begin my very sarcastic and wholly tongue-in-cheek newsletter with the question: how about them apples!! I mean seriously, who cannot appreciate the massive rally in the stock market, much less expect more of the same. I simply cannot understand why people would doubt that the S&P 500 will go up another 20% in the next six months! It did so over the past six months, so why wouldn't it do it again in the coming six months? That silly 10% average annual stock return statistic from the last one hundred years is too old and thus irrelevant to our current situation, much less the coming AI-supported future, right? This time has got to be different, right?!

Sure, only a few stocks have accounted for the rapid rise, but the saying that "a rising tide lifts all boats" was actually meant to be quoted as "a few rising ships can save anyone and everyone". Just ask the lucky ones who caught a lifeboat when the Titanic sank. Oops, my mistake, I forgot the majority of passengers died when that massive boat sank (did you see what I just did there? mixed morbid gloom with sarcasm). Curiously, as of this past January, only 9 of the 500 stocks within the S&P 500 accounted for 40% of that index's gain since its low on October 27, 2023 (Investor's Business Daily, 01/22/24). Since then, it's gotten even better (I'm being very facetious here). As of the end of May, only five stocks accounted for well over 50% of the S&P 500's year-to-date ascent (Morningstar, 06/03/24). So, can't we then *assume* that the other 495 stocks in the index are doing just as well? (Not sure if you've heard this great saying, but be careful when you ASSUME as it could make an ASS out of U and ME. Sorry for the language, but when the quote fits the facts, I can't help myself.)

Let's switch gears and talk about the economy, since a market does not an economy make, though some people assume (oops, said it again purposefully) one always benefits the other. On the inflation front, the Consumer Price Index came down a bit recently, but the Federal Reserve said they want to see more progress before they cut rates. So we can trust them, right? Because they've done such a great job, especially during the "transitory inflation years", right? But lots of Main Street (not Wall Street) people say they are *now* suffering from inflation (because consequences can lag actual events). But maybe this is a good sign, in a weird sort of way, as decreasing consumption and lower employment can actually ease inflation (no sarcasm here, but lots of irony). This explains why many economists are watching the labor market; if and when labor weakens, the Fed may cut rates, potentially benefiting the economy as well as the stock and bond markets.

Speaking of Wall Street, let's get back to the sarcasm. So, after last year's banking turmoil, the Fed wants us to believe Alfred E. Neuman's quote, "What me worry?" It was just a few regional banks that essentially imploded, forcing the Fed to feed them money (oops, I meant yours and my money). Fortunately, the Fed has now encouraged Wall Street to create a different cushion against future failures. Traditionally, banks created financial cushions for their deposits by increasing capital through stock sales or selling loans. But now they can use "synthetic risk transfers" (used by European banks for years, which is reassuring). Essentially, banks can purchase credit insurance, often in the form of credit default swaps, from investors such as private credit funds, hedge funds, etc. Those investors then collateralize and bundle these swaps and sell them to the public to reduce their own risk exposure. Sounds a bit like 2007-2008, right before the Great Recession, doesn't it? But hey, what could go wrong? Or more sarcastically, what could go wrong again?

Look, I am not saying any of this stuff is going to blow up in the future, we're just cognizant of two favorite phrases: one, just because you can doesn't mean you should; and two, always prepare for good times and bad in good times and bad. Further, aside from our perennial and healthy cynicism, we do believe this bull market may have legs; we think it could last another year or two, save for the healthy 10% or so short-term pullbacks. But as always, and *most importantly*, the future is absolutely unknowable – which calls to mind the most oft-ignored disclaimer that past performance is no guarantee of future events (ever!).

Finally, to end this newsletter full of sarcasm and nod to our country's upcoming birthday, I found a Mark Twain quote that's apropos for the current political environment: "A patriot is the person who can holler the loudest without knowing what he is hollering about." All kidding aside, I think too many people may have taken this to heart and think the louder they yell the more others may agree with them. But I've always found talking over people means you are not listening very well, which makes compromise that much tougher to find.

So, please, in the spirit of the 4th of July, remember who we are deep down as Americans! In my opinion, we are a people who love freedom of choice and democracy (as an aside, if you don't like democracy, you're probably in the wrong country to begin with). And regardless of what any politician says, blue or red, we are a great nation, with a strong record of doing what is right, and fighting for each other no matter our differences – and I believe we most certainly have more in common with each other than we do differences.

Happy 4th of July, and as always, thank you for your friendship and trust!

R. Timothy Curran, JD, CFP®

tcurran@lpl.com Direct 704.499-9703