

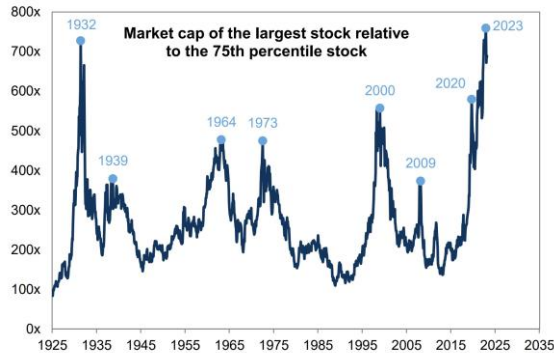
What is a Flat Market?

The markets have been on fire for a while now as averages are at all-time highs again after taking a beating in 2022. When markets rally hard, and all is well, most stocks participate in the rally. The saying goes, a rising tide floats all boats, and that's what we like to see. This time, we do not see that; the rising tide is only floating a few boats and not many, which is worth digging into and getting more granular detail. A healthy market has 70—80% of stocks rolling higher simultaneously. Now we've got what the pros call a thin market, meaning not too many stocks are going to all-time highs while averages are advancing. This era of high prices will go down as the everything bubble finally pops, and it'll likely be followed by a flat market for a very long time.

We haven't seen a flat market here in a long time. The last one was from 2000 to 2014, and it's long gone from people's memories. There have been much longer ones, and Japan has just recovered from the longest in history. Here are some other times valuations have been out of hand. We're above all of them today.

Thanks for Compustat for the chart!

Exhibit 5: Periods of extreme market concentration during the past century



Universe consists of US stocks with price, shares, and revenue data listed on the NYSE, AMEX, or NASDAQ exchanges. Series prior to 1985 estimated based on data from the Kenneth French data library, sourced from CRSP, reflecting the market cap distribution of NYSE stocks.

Source: Compustat, CRSP; Kenneth R. French, Goldman Sachs Global Investment Research

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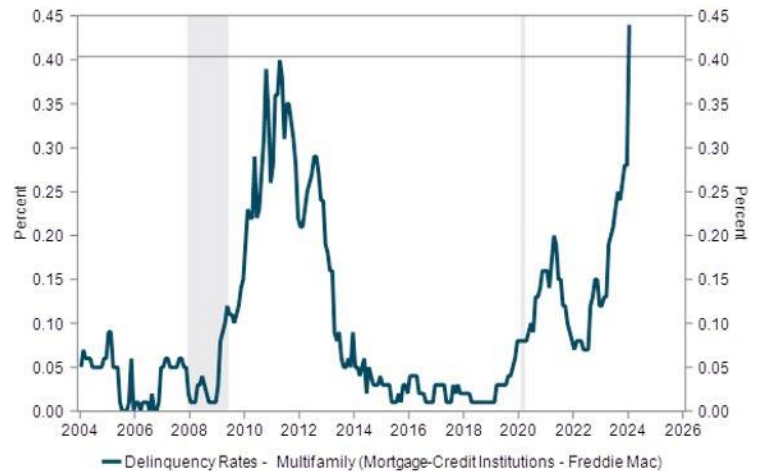
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Real Estate Reality

Real estate has never been more unaffordable in America than it is today. When COVID hit, prices were temporarily falling as everyone initially thought the world as we know it would end. Shortly after, the markets went ballistic as people left the cities to pursue life in the country and suburbs. This resulted in real estate prices taking off like rocket ships. We are past the pandemic, and interest rates have risen dramatically, yet real estate prices have not come down. They will; it is just a delayed reaction.

Here is a look into the real estate markets, what has been going on under the covers, and what is likely to happen next. The commercial real estate sector is currently experiencing significant challenges, and these difficulties are starting to impact the residential market. As the chart below illustrates, the delinquency rate in multi-family housing units is now higher than it was during the Great Financial Crisis. You would never know it looking at real estate prices, but there is a big delay in this hitting the active market everyone can see.

Delinquency Rate For Multi-Family Housing Higher Than In GFC?!



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Thank to Trahan & Macrobond for the chart!

People are suffering from FOMO (Fear of missing out) in the real estate market as they think prices will continue to rise and they will never come back down. It is funny how this works; when things are cheap, nobody is interested, and when prices go up, everyone is chomping at the bit to buy. We are not too worried as the current housing market cannot continue to get more expensive, and at some point, prices will come down. They will not come down forever, but they are likely to fall surprisingly hard for a period of time, then eventually stabilize and continue to rise again.

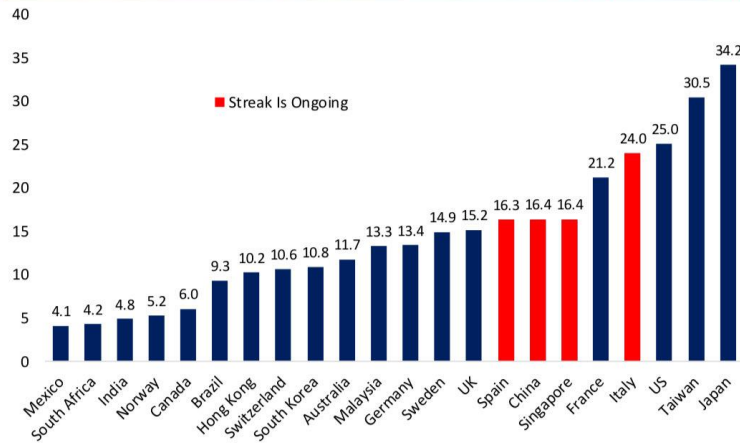
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What is a Flat Market! (cont'd from page 1)

Here is a graphic of bad flat markets. Japan just got out of this one, which started in 1990, Ouch. China and Italy are currently in bad ones.

Thanks to Bespoke for the chart!

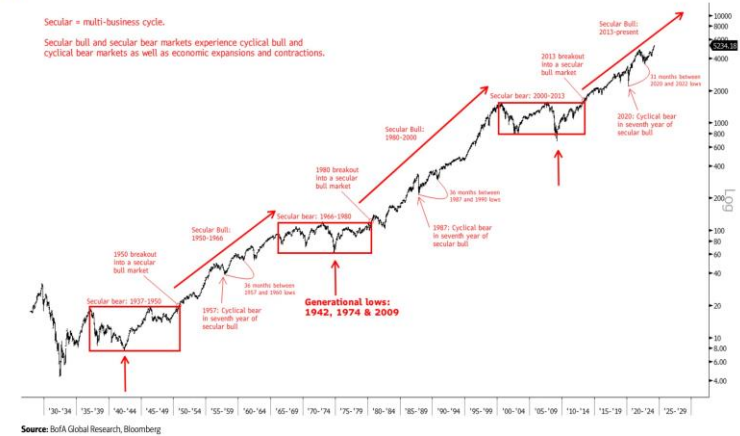
International Stock Markets' Longest Streaks Without An All Time High (Calendar Years)



Now, let's look at our markets from a long-term perspective and what flat markets look like over long periods of time.

This graphic is from BOA; thank you!

Chart 1: S&P 500 secular bull market roadmap: Monthly chart 1928 to present
In April the SPX will enter the 11th year of its secular bull market signaled on the breakout to new highs in 2023. The current secular bull market from the 2013 breakout above the prior highs from 2000 and 2007 is middle-aged and can last until the late 2020s into the early 2030s.



As you can see, we have had many years of massive ups and downs where the market averages go nowhere. This period always follows an enormous advance, similar to the one from 2009 to 2024. When it tops, nobody knows for sure, but the data we have all suggests we are close, much closer than many may think.

We estimate that from here or wherever the peak ends, we'll see a flat market for a long time. Flat markets are suicide for those buying into indexes today at all-time highs with stretched valuations. Henceforth, we have to use some tactical methods of asset allocation and valuation discipline to do well in such an environment.

Golden Opportunity

This is my 30th year as an investment advisor, and it's the first time I've ever been attracted to the precious metals complex. There is a macro thesis around why we like the space and compelling valuations. The environment we're in today is high inflation, high debt, money printing, and a politically volatile one, all of which bode well for the precious metals.

The disparity between the US Tech sector and the precious metals complex is at an all-time high. While it was notably wide in 1999, I observed it and missed a significant opportunity while we performed well in energy and deep value. However, the potential in the metals complex was unparalleled. The chart below illustrates the spread between the BGMI (Barrons Gold Miners Index) and the price of gold, which has never been wider. The last time we witnessed such a significant spread was in 2016, when the miners experienced a several hundred percent surge.

Thanks to Longtermtrends for the chart.

BGMI&XAU / Gold Ratio



Now, we see that 2015 was slightly higher than it is today, but the ratio is far more stretched. We're expecting some fireworks in the sector at some point, so we're accumulating.

Thanks to stockcharts.com for the chart.



Noteworthy News!!!

- Congratulations to Tom Cornish on his recent retirement!
- Our condolences to the Cornish/Kannenber family on the passing of Nancy, a wonderful woman, mother, grandmother, wife, person and friend.
- Our condolences to the Carson family on the passing of Chris, a wonderful man, father, husband, uncle and friend.
- Our condolences to the Tobin family on the passing of Kathy, a wonderful woman, mother, wife, aunt and friend.
- Our condolences to the Beckman family on the passing of Penny (Penelope), a wonderful woman, wife, mother, friend and person.
- Our condolences to the Russo family on the passing of Paul, a wonderful man, husband, father, grandfather, person and friend.

Question & Answer

Ask any financial question you have, and we will address it here.

Q: What is all of the talk of the Brazilian Markets, they don't matter to us do they?

They do in that they're one of the few markets in today's world that are truly undervalued. Brazil has a natural resource rich economy and it's struggled for a long time, but the values available there in public markets are compelling. Brazil is one of the only countries today to have a budget surplus, yes a budget surplus meaning they're not spending more than they're taking in like most other countries are today. it's hard to fathom I'm actually writing this but it is true, the fiscal behavior of global governments is sad today.

It appears that there may be a turning of the tide in Brazil in that the compelling valuations are finally attracting enough investor capital that the tide seems to be turning and the multi decade long downtrend seems to be turning into an uptrend. We've been in these markets for a couple of years now and although we haven't see big gains, we expect good times will follow from here.

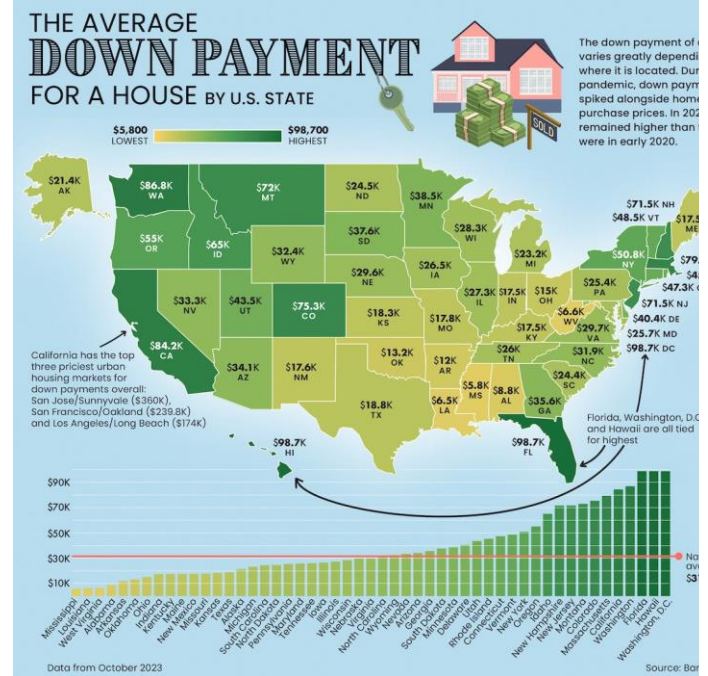


Thanks to Tavi Cortez for the chart!

Real Estate Reality! (cont'd from page 1)

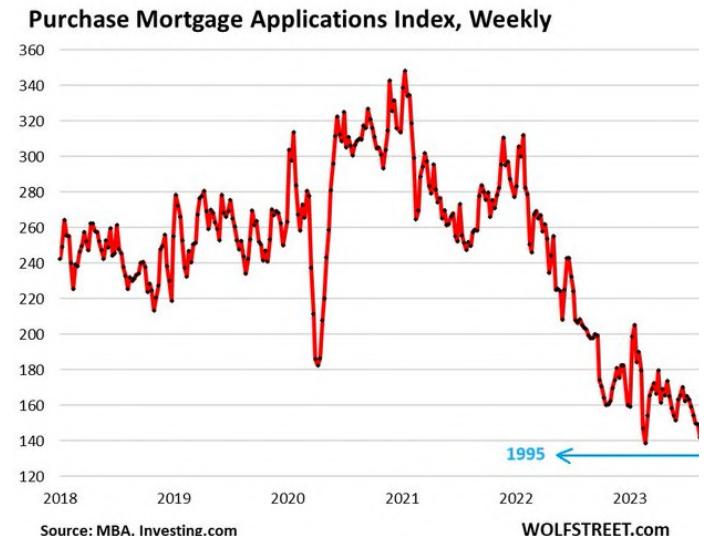
Here is some hard data to show the macro thesis on real estate today and hopefully ease any FOMO you're having!

Depending on where you live, this shows the average down payments on a house per state.



Thanks to Bankrate for the excellent chart!

Now, we look at actual mortgage activity; It's at a 29-year low. We haven't seen this little mortgage activity since 1995. I feel bad for all of our buddies in the mortgage business; this is a very tough time for them. Thanks to Wolfstreet for the chart. The only thing that'll get mortgages pumping again is lower prices, likely driven by the onset of the recession and lower rates.



Money Quiz



This month's challenge is on Financial Advisors and the fact that they're getting old. What percentage of the 109,000 advisors will retire in the next 10 years? The winner gets lunch on us at Chick-fil-A!

😊 BTN:012224:10

Tech Dominance

The tech sector, and most specifically AI (Artificial Intelligence), is the dominant portion of the global investment landscape today. We have a concentration in stocks like we have not seen since 1999. In 1999, we called that era the Internet bubble because all things Internet were in a bubble while the rest of the markets were reasonable, and there were plenty of choices as to where to go to find safety and value.

Today, it is an entirely different issue but somewhat the same. Tech is certainly the juiciest, most popular, and most overvalued segment of the market, but there simply are not many great deals out there today, as most assets are grossly overvalued.

We see some value in select names that are value-based as value is out of favor. We see some value in smallcap names, such as energy and natural gas, and the commodity sector is far more attractive than any other domestic one. We see some attractive value in Great Britain and Italy, but when most investment managers are chasing the same seven stocks that populate all popular ETFs and mutual funds today, it is not hard to see why this won't end well.

We have had similar valuations but not as stretched in 1999 and 1966. Both times after that, we suffered a 16-year flat market after the fact. Since this one is so much more extreme, we wonder if the flat market following it will be 20 or 25 years. Only time will tell!

Thanks to BOA for the chart!

Chart 3: Tech at all-time highs vs S&P 500

Tech vs S&P 500 (price relative)



Asian Amazing

When the girls were younger, they had won several math competitions and advanced to the state tournament with high hopes of winning. However, upon arrival, they performed well but failed to win. They both ranked in the top 10 statewide. Both girls had noticed that the demographics of the competition primarily consisted of competitors from Asian and Indian backgrounds.

This was a wake-up call for two kids growing up in rural America who did not realize global population statistics. Think about it: China and India have the largest populations on the planet, and they have brilliant, hard-working, hard-charging cultural attitudes that take them to high levels. Americans can learn a lot from that thought process and behavior. We used to be that, and the world's envy, but sadly, some of our grit has vanished for an entitled portion of society, especially in the youths of today. Let's get the grit and hard work back, folks; we must stay ahead of others.

India has a population today of 1,428,627,663

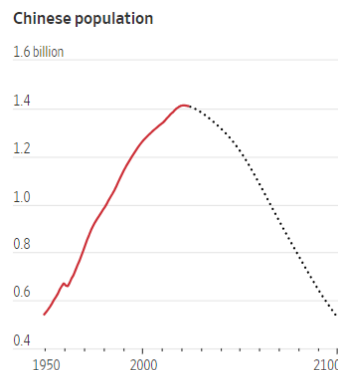
China has a population of 1,425,671,352

We have a population of 339,996,563

It's no surprise that when it comes to thinking and ability challenges, the majority of the entrants are from the largest countries. Their sheer numbers, coupled with their mind-boggling work ethic, make for a lethal one-two punch!

China's population will be changing moving forward. The one-child policy has caught up to them and is now irreversible, so their demographics are in trouble. We'll see how this shakes out.

Check out this cool graph from the NBS, SACC, and VUA.



Sources: National Bureau of Statistics (historical data); Shanghai Academy of Social Sciences and Victoria University, Australia (forecasts)

Inspirational Quotes

- It always seems to be impossible, until it is done, Nelson Mandela
- A river cuts through rock, not because of its power, but because of its persistence, Jim Watkins
- Excellence is more fun than mediocrity, Leonard Barry
- Whatever you can do, or dream you can do, begins it. Boldness has genius, power and magic in it, Johann Wolfgang von Goethe
- Success is not the destination, it's a way to travel, Denis Waitley
- It's a rough road that leads to the heart of greatness, Seneca
- We need men who can dream of things that never were, John F. Kennedy
- IF you would thoroughly know anything, teach it to others, Tryon Edwards



We can piece the puzzle together and make your money work for you!

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The younger generation, with the right guidance, has the potential to develop robust critical thinking skills. While social media and tangential thinking may dominate their current landscape, we can empower them to form their own informed opinions, steering them away from the mindless consumption of information on their phones.

I've read that most kids get their news mainly from social media, online videos, aggregator sites, or phone notifications. This is terrifying, and when they lack the ability to concentrate for long periods, we have to help them change these bad habits.

Just the other day, a couple shared their concerns about their grandkids. These youngsters were getting their news solely from TikTok and YouTube. The couple was distraught, as they saw how this skewed version of the world was causing their grandkids frustration and confusion.

They tried many times to get the kids to use reading and traditional research to gather data and then form their own opinions. This failed for some time, but what did get through to the grandkids was asking pertinent questions about why they believed some of the things they believed. Once these kids realized that the drivel they were being fed by sources of entertainment was not credible data sources, they finally changed their thinking. We should all have these conversations with our kids and grandkids. It'll help them in the long term by making them productive members of society!

If anyone you love or care about would benefit from receiving our newsletter, tell us who they are and they will be included on our mailing list. They'll certainly appreciate you thinking about them and having their best interests at heart!

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