2024-04-11

A PUBLICATION OF LBWM

Creating, Building, and Preserving Wealth

What did 2023 tell us about investment opportunities? How does 2023 inform Left Brain's investment strategies for 2024? CEO Noland Langford analyzes the investment landscape of the past year, evaluating the events and dynamics of 2023 within the unique perspective of our Left Brain Lens. Then, looking forward, he offers expert insights on the economic factors that will shape investment opportunities in the year to come.

2023 RE-CAP / 2024 OUTLOOK

For those of you who are new clients or those who are reading this note for the first time, let me explain Noland's Notes: each year I sit and write you a note. In it, I analyze the prior year in my own words, so you have a better understanding of the investment environment in which we are managing your accounts. I also offer my views of the landscape, as we enter the new year. Our brief discussions we have throughout the year do not permit me time to describe my full market analysis. My hope is that in the 20 minutes (or so) that it takes you to read my note, you will gain a better feel for how we view the present investment climate, as well as our general thought process of how we discover winners in the ever-changing investment markets. ***Welcome aboard (or welcome back) and I appreciate your feedback!!!!***

This note was written with you, the client, in mind. However, please feel free to send it to your inner circle of family, relatives, or friends, should you think it appropriate. This letter offers insight into the philosophy and "feel" of our work, should you wish to introduce Left Brain to your circle.

Let's Get Started!

Here are the official returns from 2023

INDEX	CLOSE PRICE	RETURN (%)
DOW JONES IND. AVERAGE (LARGEST U.S. STOCKS)	37689.54	+13.70
S&P 500® (U.S. STOCKS)	4769.83	+24.23
RUSSELL 2000 (SMALL CAP COMPANIES)	2027.07	+15.09
NASDAQ (TECH AND GROWTH FOCUS)	15011.35	+43.42
MSCI EAFE® (INTL STOCKS)	2236.16	+15.03
MSCI EMERGING MARKETS	1023.74	+7.04
MSCI US REIT (REAL ESTATE)	1248.83	+8.96
AGGREGATE U.S. BOND INDEX	99.25	+2.33
GOLD (PER OUNCE)	2062.97	+13.07
OIL (PER BARREL)	71.65	-10.73
BITCOIN	42265.19	+155.42

Source: S&P Dow Jones Indices, FTSE Russell, Nasdaq, MSCI, S&P U.S. Aggregate Bond Index, S&P GSCI Gold, S&P GSCI Crude Oil)

(For those of you wishing for the abridged version of this note, feel free to jump straight to the summary which starts on page 8. For everyone else, we have lots to discuss, since it has been a whole year. And, what a year it has been. So, let's jump right in!)

WHAT HAPPENED IN 2023

Coming off a horrendous 2022, we felt strongly that conditions were in place for a strong rebound effort in 2023. That is exactly what we got, but not in the way we had expected. As usual, there were several twists and turns throughout 2023. In the case of last year, a notable event we experienced was the mini-banking crisis, which broke out when Silicon Valley Bank failed on March 10. Memories of the Great Financial Crisis of 2008 spread some fear of a repeat 15 years later. Though concerns regarding commercial real estate loans still remain, the immediate liquidity crisis has been contained. There were just 3 other failures in US banks of significant size that followed. For now, crisis averted.

It felt like recession fears were also with us most of 2023. You couldn't turn on a news broadcast or open a newspaper without some commentator predicting impending recession. With inflation running stubbornly high, investors fretted about how high the Federal Reserve might increase rates to beat back inflation. High rates and high inflation brought high anxiety to markets.

In the end, we saw no such recession and 2023 turned into a year of recovery**.** For our part, we were not surprised that the US avoided a recession in 2023. As we have often said, it is really difficult for a recession to unfold when everyone is expecting one.

Other events in 2023 did surprise us, though. Of all the surprises the rise of the *Magnificent Seven* surprised us the most. That these companies performed well was not a surprise, but the sheer size of the move was shocking -- these seven companies (Microsoft, Tesla, Apple, Nvidia, Meta, Google, Amazon) averaged returns of 111.27% in 2023. They have a combined market cap of $13.7 trillion, making up roughly 31% of the S&P 500 at current prices. This is a group of wonderful businesses.

As often happens during bear markets, we saw their stock prices drop dramatically in 2022. These wonderful businesses were no less "wonderful" than before in 2022, but their stock price action was awful and the stocks became cheap, as the overall market sold off sharply. What we witnessed in 2023 was investors regaining their senses and bringing the price of these stocks higher to reflect their improving business conditions.

The strong market recovery of 2023 validated a key Left Brain mantra: "Over time, winners tend to keep winning." This mantra is the key reason that we prefer to let our winners stay in client accounts for extended periods. That's true even when small positions grow to large positions.

If Left Brain had been managing the 1998 Chicago Bulls, there would have never been a need to film "The Last Dance" – we would've kept winners like Michael Jordan, Scottie Pippen, and Phil Jackson in place until the wheels fell off!

After 11 interest rate increases rates finally stopped their meteoric rise in August 2023. This led to a strong rebound in bond and stock prices -- *hallelujah!* However, not all securities went up last year in equal measure. Healthcare and Financials underperformed. Value stocks (however one defines the term) also had a tough go of it. Maybe, just maybe, these old economy stocks that are supposed to be "*safe*" are not bullet proof, after all. We think it is important that investors avoid becoming hypnotized by companies with large dividends and household names – these characteristics are not the be all, end all.

Finally, and most importantly, investor expectations were reset. My view is that corporate CEOs delivered performances worthy of Oscar nominations -- telling investors to expect less, causing analysts to revise projections lower. Given the headwinds of high interest rates and inflation, corporations told investors to expect slower growth.

The new focus in corporate America is on profits, profits, profits. Gone are the days of more growth at any cost. Combining this renewed focus on profitability with accelerating sales growth and lower expectations, we think sharply higher stock prices could be in our future.

WHAT LOOKS INTERESTING?

It's not hard to find interesting opportunities today. For the first time in many, many years we notice our investing pasture filled with many more flowers than weeds. Interest rates are no longer a headwind. Inflation is less of a threat. Business conditions are improving. The economy seems to be resilient. Stock prices don't seem outrageously high.

That's not all, we must also remember the bills that Congress has already passed and the associated spending yet to come:

Infrastructure Bill of 2021

The Infrastructure Bill is a $1.2 trillion bill, with $550 billion to be spent on new projects, allocated over the next 5 years.

Chips Act of 2022

The Chips Act directs $280 billion in spending over the next 10 years on scientific research and development (R&D) and semiconductor manufacturing.

Inflation Reduction Act of 2022

The Inflation Reduction Act has $500 billion in new spending and tax breaks over the next 10 years to boost clean energy, lower healthcare costs, and increase tax revenues.

We believe this spending could add fertilizer to our pasture.

From the "**Left Brain Lens**" there is a lot to like in today's market. Here are some of the exciting opportunities that have our attention:

- Weight loss drugs
- Artificial Intelligence (AI)
- Cybersecurity
- Digital Advertising & Streaming
- Digital Transformation

We do pay close attention to what is working in markets and what industries are on the rise. Some of history's biggest winners were growing firms in growing industries. My guess is some of tomorrow's biggest winners will also show up as growing firms in growing industries. The industries listed above look like attractive areas to explore. Our goal is to locate the best specific opportunities within these industries. We seek to buy dominant companies in growing economic sectors while they are still in their high growth phase.

Economic and business conditions have us thinking about this bull market. We're pondering how long this bull market can run and how much possible upside there could be. Many have referred to this new era as the "Industrial Revolution 4.0", as McKinsey defines, "the next phase in the digitization of the manufacturing sector, driven by disruptive trends including the rise of data and connectivity, analytics, human-machine interaction, and improvements in robotics."

We can't help but compare the Industrial Revolution 4.0 to the tech revolution that drove the bull market of the late '90s. From 1995 through March 2000, the S&P 500 generated a total return (including dividends) of 259% (27.55% per year), while the NASDAQ Composite returned 508% (40.99% per year). A hypothetical $100,000 investment in the S&P 500 over that period would have grown to $359,000. Similarly, a hypothetical $100,000 invested in the NASDAQ composite turned into $608,000 over the same period. We caution readers that past results are no predictor of future returns, however,

We're wondering if this upturn could be as dramatic as that of the 1995-2000 rally.

COME CELEBRATE WITH US

Left Brain Wealth Management opened for business ten years ago. This year we'll be celebrating our **Ten Year Anniversary!** We would like to extend our sincere gratitude to you for trusting us with your family fortune. Because of your confidence in us, we can continue serving you and your family. Thank you!

Please be on the lookout for your invitation to our celebration in the Fall of 2024.

LEFT BRAIN – A DECADE OF MILESTONES

SIZING UP THE INVESTING CLIMATE

I am often asked for my thoughts on the current investment climate. At Left Brain, we want you to understand our current views of the investing landscape through the "Left Brain Lens." The "Lens" (our decision-making process) never changes, but the landscape we see through that lens is ever-changing. Here is what we see through the Left Brain Lens for 2024:

Interest Rates

What an unbelievable interest rate ride we have experienced over the last 5 years! Interest rate moves have made us all feel like us 50-year-olds feel when we get off a roller coaster at Six Flags – queasy!

It's almost unimaginable to think that as recently as 2 years ago interest rates were (virtually) zero! Those days are long gone and likely never to return-trust me, we hope not. The good news is after 11 interest rate increases over the 17 months between March 2022 and August 2023, interest rates look to have topped out. The Federal Reserve has remained steadfast in its projection of 3 rate cuts this year!

One of the lessons that we have had to re-learn here at Left Brain is just how important interest rates are to economic health and investment wealth. When rates are steady or decreasing -- watch out for market upside. On the other hand, when interest rates are heading higher -- look out below! I am hopeful that rates are finally on their way down. I am sure that the entire real estate industry, more than anyone else, is hoping for lower rates. **We are calling our interest rate outlook:**

Favorable

Inflation

Inflation and interest rates have been intimately linked for quite some time. For far too long, the cost of everything has been going up. We have heard many reasons for this, beginning with supply chain issues post-Covid, along with the fact that demand has outstripped supply for many goods and services.

Interest rates have gone up, in sympathy, to help keep inflation relatively in check. We hope it is time for the linkage between inflation and interest rates to break. While the costs of most goods and services have increased, they no longer seem to be headed for an endless move upward. Producers realize that they cannot simply keep charging higher and higher prices. *I sure hope the cable companies and grocers are reading this!* Though prices remain elevated, I am heartened by the fact that inflation has fallen from its peak of 9% to its current reading of around 3%.

The Fed prefers inflation to move at a slow and steady pace. Their target is 2%. At 2% inflation prices double every 36 years. *That* we can handle. **We are calling the inflation outlook:**

Favorable

Earnings

We cannot overstate how important it is to own shares of quality businesses. This is the Left Brain definition of a high quality business:

1. They offer a superior product.
2. The business is growing at a healthy rate.
3. Company management is dialed in, motivated and thinks in a strategic way with a multi-year focus.
4. Most of all the business should generate positive economic returns (called "earnings" on Wall Street)

Of the factors that we evaluate, earnings are the most important to predict future stock prices. From there, the next most important factor we watch is sales growth.

As an example, we would like to showcase former computer chip giant Intel vs. today's leader -- Nvidia. In the 1990s, Intel was the undisputed leader of microprocessors. It seemed that every desktop and laptop had the little rainbow "Intel Inside" emblem attached to it. Intel's market cap peaked at $496 billion in September 2000. In contrast, at the same time, Nvidia's market cap was $5 billion. Today, the numbers have completely reversed.

Today, the market cap of Intel is $177 billion, while Nvidia now is the 3rd largest company in the world at $2.38 trillion. What happened? Intel focused on PCs, spent less on R&D, started paying a dividend, and has had 5 CEOs over the last 25 years.

At the same time, Nvidia focused on making products for tomorrow, spending lavishly on R&D, while paying a nominal dividend. Most importantly, Nvidia has only had 1 CEO throughout this period -- its founder, Jensen Huang. **The takeaway: Be very concerned when growth companies stop growing.** This is why we prefer companies run by founder owners. Management's vision and strategy are crucial for superior performance. We find that when the founder has a part of themselves in the company, the business tends to reflect the vision of the founder. We are spending our time now looking for the next Nvidia.

For the market as a whole the earnings picture is OK. S&P earnings are estimated to be $242 per share in 2024. If those numbers bear themselves out that will mean earnings growth of 11.12% versus 2023 earnings. The forward P/E ratio of the S&P 500, given analyst estimates, is 21.5x. That is higher than historical ranges, but not alarmingly so. **We are calling the earnings outlook:**

Favorable

Valuation

What we pay for our investments matters. When interest rates went to zero in 2020, bond prices became expensive. In 2020, when Covid shut our stock markets, stocks became cheap. In both cases there was a reversion to the mean.

Today, we think both stock and bond prices sport attractive prices. There is a lot of discussion about stock prices being higher than they have been historically. We politely disagree. Our argument is that stock prices cannot be measured with the same metrics as before. At least not without some adjustment.

The stock market's favored measure is the Price to Earnings (P/E) ratio, as discussed above. Earnings simply aren't the measuring stick that they used to be. Why? Many growth-oriented companies no longer report large earnings numbers. This does not mean that they aren't prosperous enterprises -- far from it. Because of stock-based compensation and subscription-based services, most companies earnings are somewhat understated and this is a function of the way they account for their revenues.

As investors we'll pay a lot more for a company with consistent revenue and cash flows than we will for one whose sales are lumpy and earnings bumpy -- up when the economy is expanding, down when the economy heads towards recession. We think today's dynamic growth businesses deserve to be pricier (in P/E terms) today than they have been historically. That is because many of these companies have high and accelerating growth rates, with "sticky" business models.

Yes, stocks have risen and so have bonds. But, no, we do not think prices have run too far for there to be future upside. **We are calling the valuation outlook:**

Favorable

SUMMARY – OUR 2024 PLAYBOOK

The markets are in a pretty good place. Interest rates are steady. Inflation is trending lower. Earnings are holding up pretty well. Stock and bond prices are not terribly expensive. These are really good conditions for the near future of investment markets.

As I write this letter, we have just concluded fourth quarter earnings season. There is a note of cautious optimism that runs through many of the earnings calls that we have read here at Left Brain. It is not just Artificial Intelligence that is causing the optimism. Retailers, Homebuilders, Industrial Companies, Biotech Firms, and even Bitcoin are all generating animal spirits. We have spent considerable time thinking about this current technology upturn driven by Artificial Intelligence, Cybersecurity, Digital transformation, etc. We can't help but compare what's happening today to the internet-based tech boom of the late 1990s. The last tech boom featured lots of computer hardware companies and many that had no profits, with cyclical business models that were vulnerable to changes in the economy.

Performing Top Stocks of 1995 – 2000

TOP 5 STOCKS ('95-2000)	RETURNS	OTHER NOTABLES ('95-2000)	RETURNS
BIOGEN (BIIB)	17,232%	Cisco (CSCO)	1,867%
NETAPP (NTAP)	4,910%	Skyworks (SWKS)	1,641%
JABIL CIRCUIT (JBL)	4,678%	Charles Schwab (SCHW)	1,598%
QUALCOMM (QCOM)	2,858%	Oracle (ORCL)	1,234%
NVR (NVR)	2,147%	Texas Instruments (TXN)	950%

Today's tech boom has been labeled **"Industrial Revolution 4.0"**. Today's winners tend to have much higher profit margins, superior business models, and much less cyclicality to their earnings than did last generation's tech companies.

This is a bull market. We have been thinking about how long this bull market can last and how much more upside there could be. Given that both the business conditions and economic conditions are both improving, there is reason to think it could be significant. We think today's market may be like catching a strong wave -- when a big one comes along you can experience an incredible ride if you hop on.

Everything isn't perfect. We're still watching small caps, which have continued to underperform the world's largest stocks.

Small businesses are the backbone of America and truly are the heroes of the U.S. economy. There are 33.2 million small businesses in America. Small business owners employ 46.4% of the US Labor force. Financing is much more difficult to secure for small businesses than it is for large companies. Small companies are very economically sensitive. When there is trouble brewing in the economy, it usually shows up here first.

Small company stock prices haven't kept pace with the returns of large companies. In fact, small caps have underperformed the S&P 500 by 56% over the last 5 years and 40% over the last 3 years. These are the most dramatic periods of underperformance for small cap stocks over the past 40 years. We will be watching for signs of market leadership rotating into small caps. When this ultimately happens, this will be a signal that the rally has really taken off.

The most exciting news of 2024 may not come from the stock market. This being an election year the major excitement might be left up to the Presidential Election. This too can be a catalyst for higher prices. Come election season we expect both candidates to put forth their ideas for strengthening the economy and putting money in Americans' pockets.

We like the fact that the political ads will be putting money in the pockets of the digital ad industry. We expect the digital advertising business to continue to be a beneficiary of the shift from cable TV to streaming.

It is very possible that we'll get a correction somewhere along the way. And it's equally certain that we will roll up our sleeves and continue looking for winners when it does. No matter what the markets may bring, we will be looking for opportunities to help you Create, Build, and Preserve your family fortune!!

Investing involves risk, including the possible loss of principal and fluctuation of value. Past performance is no guarantee of future results.

This letter is not intended to be relied upon as forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The opinions expressed are as of the date noted and may change as subsequent conditions vary. The information and opinions contained in this letter are derived from proprietary and nonproprietary sources deemed by Left Brain Wealth Management, LLC to be reliable. The letter may contain "forward-looking" information that is not purely historical in nature. Such information may include, among other things, projection and forecasts. There is no guarantee that any forecast made will materialize. Reliance upon information in this letter is at the sole discretion of the reader.

Please consult with a Left Brain Wealth Management, LLC financial advisor to ensure that any contemplated transaction in any securities or investment strategy mentioned in this letter align with your overall investment goals, objectives and tolerance for risk.

Additional information about Left Brain Wealth Management, LLC is available in its current disclosure documents, Form ADV, Form ADV Part 2A Brochure, and Client Relationship Summary report which are accessible online via the SEC's investment Adviser Public Disclosure (IAPD) database at www.adviserinfo.sec.gov, using SEC # 801-113256.

Left Brain Wealth Management, LLC is neither an attorney nor an accountant, and no portion of this content should be interpreted as legal, accounting or tax advice.