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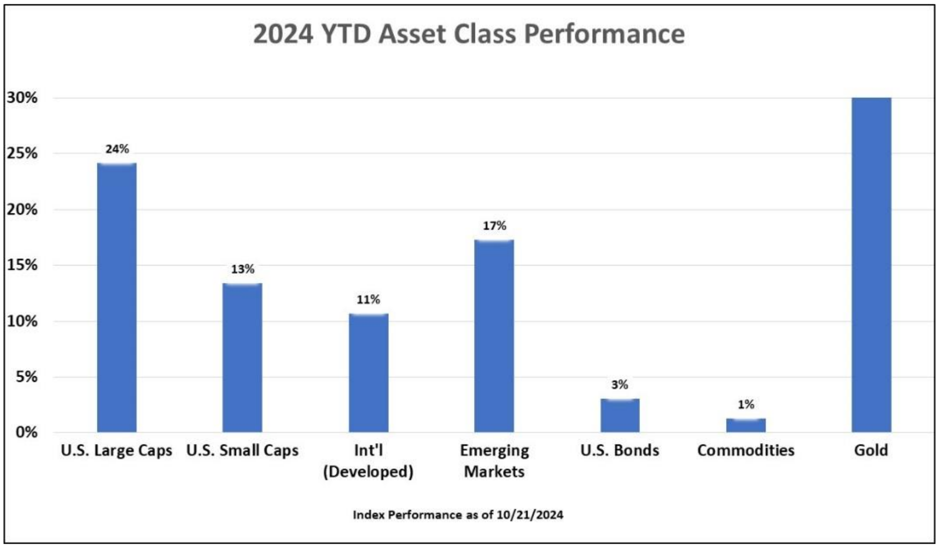
JR Hassen Wealth Management

Golden Rule Program Quarterly Review Q4 2024

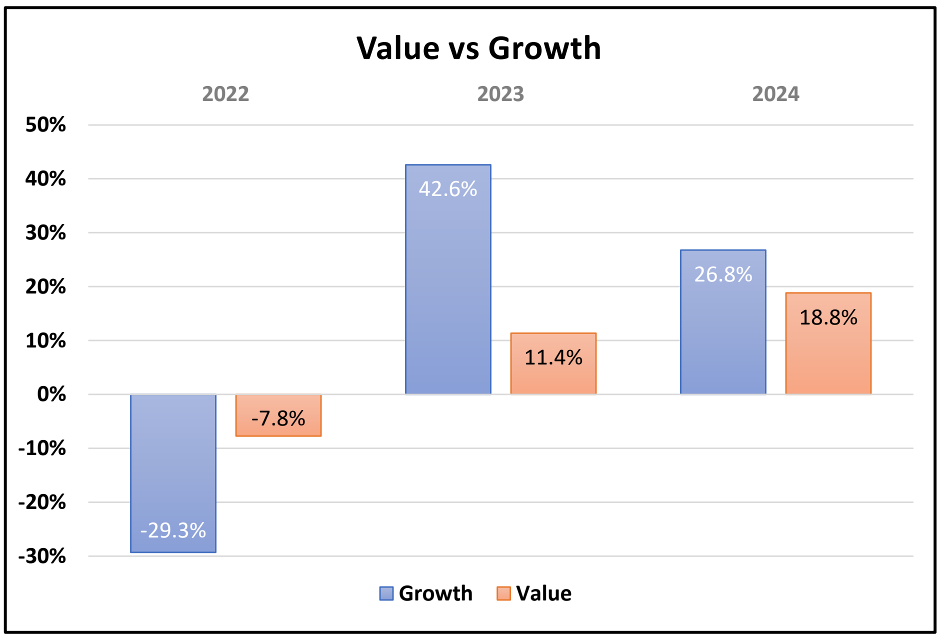
The GRP Quarterly Review is designed to keep you apprised of the markets and how your account is being managed.

Market Update

Despite uncertainty about the upcoming election and heightened international tensions, markets worldwide continue to thrive. This seems to be due to solid earnings growth coupled with central banks (especially the U.S. Federal Reserve Bank) lowering interest rates. As the graph at right shows, all major asset classes have risen. Since mid-July there has been a significant change in stock-market leadership: Groups including small caps, international and value have fared particularly well. Interest-rate-sensitive stocks, such as utilities and financials have been strong, as rates have dropped.



This "broadening" of market leadership was a big change, as stock-market gains in the first half of 2024 were highly concentrated in a handful of large-cap growth stocks. Growth stocks are those which have rapidly-rising earnings, and correspondingly high valuations, as measured by price-to-earnings or similar metrics. Value stocks, on the other hand, are those with lower growth rates but cheaper valuations. Higher growth is clearly better, but the challenge is figuring out how much more to pay for it. The second graph shows how growth and value stocks have performed over the past three years. In 2022 Value did far better, but Growth made up the difference in 2023. In 2024 the two categories are much closer together.



Economic news continues to be solid. Although the unemployement rate has ticked up over the last year, it remains low by historical standards. GDP and corporate earnings continue to expand. The rate of inflation is receding, meaning that prices aren't growing as fast as they were (not that prices are actually falling). For these reasons it is interesting that the Federal Reserve Bank chose to lower rates by .50% at its September meeting. Usually the Fed changes rates in .25% (25 basis point) increments. Larger changes are rare, and usually associated with economic crises. The dramatic cut during strong economic conditions suggests that either A) The Fed believes it should have started cutting rates sooner and was trying to make up for lost time, or B) The Fed is concerned about some economic deterioration that isn't yet showing up in the numbers.

Its worth noting that while the Fed holds strong sway over short-term interest rates, the bond market determines longer-term rates. Rather than falling, 10-year and 30-year bond yields have both climbed about 0.4% since the Fed announcement on September 18. Rising longer-term rates are usually a sign of economic strength, which argues for explanation A in the Fed's decision. We are concerned that the large rate cut may cause inflation to re-accelerate.

October Remembered Investing is not all about finance and mathematical calculations. Awareness of psychology, emotions and history are also critical components of wise investing. Strangely, the month of October has historically been a spooky month for the stock-market. According to Wikipedia, nine of the nineteen worst single-day performances in the history of the Dow Jones Industrial Average happened in October, including three of the worst four. We just passed the anniversary of the largest single-day decline—the market fell 22.6% on 10/19/1987. I was in high school and had a buy order to purchase a stock the morning of "Black Monday." By the time I got home from school I'd already lost 20% of my money. I remember watching FNN (the forerunner of CNBC) with my dad that afternoon, and it seemed like the economy (and perhaps the whole world) were about to end. But it wasn't. The Dow Jones finished the year up 2% (although far below its high) and rose 42% over the next two years.

Its unlikely that we'll ever experience a single-day drop at dramatic as we had in 1987, because stock markets have taken measures to reduce single-day volatility. But after two years of little volatility and solid gains, its important to remember that periodic declines are to be expected in stock investing. As noted in previous updates, the stock market has performed about the same during Republican and Democrat administrations, and usually performs well in the months following an election. However, unexpected results, or a protracted period of uncertainty if the election were disputed, could cause increased volatility.

Fund Close Up The largest holding across all the GRP portfolios is GSLC (Goldman Sachs ActiveBeta US LargeCap Equity ETF). This is our core U.S. equity fund. It is highly comparable to an S&P 500 fund. However, GSLC re-weights the index slightly, using several factors which hopefully increase returns on the margin. For instance, the fund will slightly reduce the weight of holdings which appear to be overvalued in favor of those that appear to be undervalued. Academic studies have shown that tweaking the index using factors such as valuation can aid returns over time. This puts the fund in a middle category between active and passive management. While there isn't a portfolio manager making subjective calls on stocks, there is an algorithm which changes the holdings based on predetermined factors. The fund is very inexpensive: Its expense ratio is only .09%. GSLC is up about 22% year to date.

Quote of the Quarter: *"OCTOBER. This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August, and February."*
– Mark Twain

We thank you for investing in the Golden Rule Program. If you have questions, please direct them to your advisor.

Peter Hughes, CFA
President of LexAurum Advisors, Portfolio Manager of the Golden Rule Program.