



PARISI GRAY MARKET UPDATE AND OUTLOOK LETTER

STEADY AS SHE GOES!

28 JULY, 2023

Greetings!

The market has been on quite a tear since we got back to full investment on April 26th. In fact, the Dow Jones Industrial Average closed higher for 13 consecutive days, beginning on July 10th and ending on July 26th. This is quite historic, as the last time the Dow put together a 13-day win streak was 36 years ago, in 1987. The Dow closed lower yesterday, ending the rare streak, however, if it had finished higher for a 14th day, that would have been the first time since June of 1897 (...yes...you read that right!), which was just one year after the Dow was created in May of 1896. Rare times indeed!

Keep in mind, the Dow has lagged the broader market, as year to date, it is only up +7%, while the S&P 500 is up +19%, and the Nasdaq 100 is up +43%! Heading into 2023, after the steep stock route in 2022 which saw the S&P drop -22% and the NASDAQ -30%, market sentiment was horribly negative. We came out of the gate that 2023 would be a positive year but believed it would be a second half of the year event. Getting back to target weight in April '23, reversing our more defensive position during the market route in 2022, has put us in a great position, navigating the market that has many investors frustrated and offside.

Many lessons to be learned these past few years: Primarily, never get too euphoric over stocks when they are advancing higher, and never get out completely during difficult years. Stay long term focus. Our disciplined approach to trim after strong years and add to stocks during weaker years continues to work, even though such actions feel incredibly uncomfortable and remain counterintuitive.

As I mentioned in a video posted on 7/16/23 in our Markets Insights section of our website, this prudent investment discipline was outlined well in Ben Graham's 1949 classic book on investing, 'The Intelligent Investor.' In chapter 4, 'General Portfolio Policy- The Defensive Investor,' Graham writes that investors should target a 50/50 balance between stocks and bonds, never allowing stocks to move above 75%, and never below 25%. This chapter changed my thinking on investing and is exactly the point in my life where I began to see tremendous effectiveness in my own investing. All this being said, behaving in such a manner is incredibly counter intuitive, and has one feeling offside (if not irresponsible), selling into strength, and buying into weakness. As we have said here for years, "when we are buying correctly, markets are usually in a state of painful chaos, and when we are in the midst of doing it right, it can almost feel irresponsible." Only in hindsight, over many such circumstances over the years, do we see the discipline work, resulting in consistent investment success. As they say, its simple.... but it isn't easy.

WHAT TO DO NOW

With such a strong run over the past few months, we advise not chasing the hype. The best entry points have passed. We are sitting tight. We are just a few weeks away from the notoriously volatile months of September and October. We will enjoy the current run higher with a full allocation to stocks, but investors should be prepared for chopiness ahead. This may be normal corrective behavior in the bull run, or a more significant pullback, as the Fed's repeated rate hikes continue to bite. This Fed Board has a history of overstaying their policies, leading to trouble. Hopefully they can navigate a soft landing for the economy. Inflation is moderating steadily. Let's hope they get it right!

In the meantime, we will, in all likelihood, perform one more rebalancing sometime before year end, if stocks continue to advance. Unless a more severe recession begins to take shape in the months ahead, 2024 corporate earnings look decent. Our rebalancing will just be us sticking to our discipline of being a "defensive investor."

Below is the one-year chart of the S&P 500 that we track and make notations on. The red horizontal line across the top is the point at which we de-risked the portfolios heading into 2022. As you can see, the market just got back to those levels this month.

Please do not hesitate to reach out to me or David directly if you have any questions or concerns.

Enjoy the rest of your summer!

John Parisi

John F. Parisi - Managing partner - Chief Investment Officer

Parisi Gray Wealth Management

