On Monday, January 8, the Breakfast Club met again, to put the year 2023 behind us and welcome the new year. After coffee, the trivia challenge for the month received our attention.

**Trivia**. A potpourri. (1) Some acronyms. **Do you remember NINJA? What does it stand for? And TINA? Its meaning?** NINJA was popular several years ago as the 2008 financial crisis ran its course. In the lead up to the crisis, against all reason sizable mortgages were awarded to NINJA’s. These were persons with **N**o **I**ncome **N**o **J**ob or **A**ssets. More recently, TINA has been featured in financial advice columns. With interest rates bouncing off zero, TINA was the answer: **T**here **I**s **N**o **A**lternative, to stocks. (2) **As the population expands, so does the number of millionaires. According to census data and the IRS, how many millionaires reside in the US?** There are 22 million (actually 22.7) millionaires in the US. **The average age of the US millionaire is \_\_\_\_\_ years old.** Millionaires, on average, are 57 years old. **Women make up \_\_\_\_% of the total.** One in three millionaires is a woman. (3) **2022 was a terrible year for stocks. Of the 500 stocks of the S&P 500, how many actually showed a gain for the year?** When 2022 drew to a close, less than 10% of the S&P 500, just 46, showed a gain. (4) **The “Magnificent Seven” tech stocks drove the market higher in 2023. \_\_\_\_ performed best for the year.** Highest flying of the seven was Nvidia (NVDA). **And \_\_\_\_returned the least.** The least was Warren Buffett’s largest holding, Apple (AAPL). **(The seven: AAPL, MSFT, GOOGL, AMZN, NVDA, META, TSLA)**.

**Portfolio Review.** As a new year begins, it is time to put Portfolio 42 to rest. In the home stretch, this portfolio performed admirably. With the surge in tech in the final two months, the tech stocks of the portfolio participated in the strong rally. A surprise developed as well. Diep C’s Nvidia (NVDA), which had showed the way for the first eleven months of the portfolio, was overtaken in December by Tom K’s Marathon Digital Holdings (MARA). Returns for these top two selections were 191.1% and 177.7% respectively. Congratulations are in order, well done Tom and Diep. Close behind was a trio of stocks which essentially doubled during the year. The selections were Terry B’s Quick Logic (QUIK), Tom R’s Alpha Metallurgical (AMR), and Dale W’s Broadcom (AVGO). These stocks returned 124.3%, 99.9% and 98.9% respectively. Roughly a third of the portfolio returned over 50%. On the downside, two stocks completely tanked. Amyris (AMRS) declared bankruptcy and is now valued at less than a penny per share. Vision Energy (VENG), betting on hydrogen, could find no support or financing; their corporate offices moved out of the country as well, relocating to London. Had we been allowed to delete these two selections from portfolio accounting, the overall return for the year would be 40.1%. Instead, we report a 30.8% return for the portfolio. This figure closely matches the return for NASDAQ (since January 20, 2023), at 34.7%. For the Dow, the return is reported at 12.9%, and for the S&P 500 it is 20.1%. Apparently, belief in Santa Claus and a “soft landing” had taken hold.

For the month, Portfolio 43 also enjoyed the market’s surge. From November’s slightly negative return, at -0.8%, the portfolio has advanced to an encouraging 5.4% return. Since portfolio inception in July, market indices all report in positive territory. The DOW leads the way, with a 8.57% return, followed by the S&P 500 at 4.26%. NASDAQ has recovered to a 2.91% return. (Remember, from July to October, the NASDAQ was down -10.4%.) The portfolio is led by Terry B’s Quick Logic (QUIK) and Rick Y’s DLH Holdings (DLHC), offering returns of 59.8% and 56.3% respectively. Paul P’s Intel (INTC) is getting attention again, climbing back to 47.4% return. Tech is well represented in this portfolio, so it remains to be seen whether the tech surge continues. Recent commentary opines a trim, a slight “haircut”, is likely. In November we had hoped for a generous “Santa Claus Effect”, and thankfully the effect appeared. We now hope Santa’s generosity has fortified the portfolio for the remaining six months to come.

**Handouts**. Discussion of handouts followed. Our first contained select headlines found during December. Topics were wide ranging. On December 9, we learned that Boomers were turning into big bond buyers, the “… **best financial development for retirees in twenty years**...” Why? The highest bond yields in years. It seems there is always a monthly WSJ headline concerning China, and on December 13 there was this: “**China’s Economy Shows Signs of Losing Further Momentum.**” The article states “the economy is struggling … slumping imports, shrinking manufacturing activity, slowing services activity and deepening inflation.” And you thought we had problems. The December 20 headline reads “**Wall Street’s Stock Market Optimism Isn’t Stopping**.” Apparently a second wind arrived, supplied by investors fearful of missing out on the market surge. “It has helped broaden the rally beyond the year’s big winners in the tech sector.” On the next day we found a headline striking close to home. "**Paychex CEO Says Job Market Is Softening and Bankruptcies Are Rising**”. Quarterly profit for the company topped expectations but revenues came up short; in same day trading the stock price fell 6.6%. When attendees were queried on their ownership of Paychex, a third of the room raised their hands. To close out the month, on December 29 we read, “**Millionaires Are Moving** ... Countries! A wave of high net-worth individuals looking to relocate is forecast to grow next year... Safety, a lower cost of living, favorable tax regimes and a high quality of life are top reasons ... The top five destinations include Australia, the United Arab Emirates, Singapore, the US and Switzerland... Meanwhile, China, India, the UK, Russia and Brazil lead the ranking of countries with the most people leaving for other shores.”

Next up, sector performance. We can now close the book on 2023 performance. In the broad economy as tracked with the S&P 1500, the Operational Earnings across the 1,500 stocks was expected to grow 12.4% for the year. This forecast was made January 12, 2023. This expectation translated into a 25.9% annual total return for the Vanguard Total Market ETF, VTI. Of the eleven sectors, top performer was Information Technology, whose ETF (VGT) delivered a total return for the year of 52.5%. The tech sector’s performance aligned with forecasts, the sector was expected to be one of the top three for the year. The Communications Services ETF (VOX) surprised many. In January the sector was ranked eighth among eleven, but by year end its total return beat all but tech, giving back 44.6%. Close behind, the Consumer Discretionary ETF (VCR) returned 40.2% for the year. The Financial sector (VFH) had been pegged to be the top performing sector for 2023; operational earnings in the sector were expected to grow more than 35%. However, the bank scare of March destroyed those prospects, and the sector turned negative for months. We can report that VFH has recovered, crossing from negative to a positive 13.8% return for the year. Least among the sectors was Utilities (VFU), hurting with a negative -7.5% return. Energy (VDE), after a monstrous 2022 (61.9%), also fared negatively, closing out the year with a -0.1 return. It is now onward to 2024.

The flip side to the sectors’ 2023 performance was the handout, “A Look Ahead.” The 2024 forecasts of Operational Earnings for the S&P 1500, by sector, were compared against their actual performance in 2023. With this comparison in hand, the question naturally arises: where is the coming year’s growth likely to come from? For example, the Health Care sector’s earnings per share in 2023 amounted to $68.62. Forecast earnings for 2024 are estimated to be $91.45. (Source: Howie Silverblatt of S&P Global, as of January 2, 2024). These figures project to 33.3% growth in earnings, which is the highest among the eleven sectors. Since return follows earnings, we might reasonably expect Health Care to be one of the top - if not the top – performing sectors in 2024. Also expected to do well is the Information Technology sector, whose earnings are expected to grow 27.0%. What sectors might we avoid? Least growth is expected within the Energy sector, whose projected earnings grow a mere 1.1%. Also challenged will be the Utilities sector, with 2.9% expected earnings growth for the year. We are promised monthly updates throughout the year, we will be paying attention.

The final pair of handouts updated the performance of the Breakfast Club’s two experimental portfolios, the Concentrated Large Cap Portfolio and the Small Cap Swinging for the Fences Portfolio. The Concentrated portfolio was formed in June to provide a reality based answer to the question: how would a portfolio perform going forward that was comprised of large cap stocks only, selected from the top three-four performing sectors? (Large caps only would be chosen because their returns were multiples higher than returns from the small caps at the time.) Top sectors were Information Technology, Communication Services, Consumer Discretionary and Industrials. Stocks drawn from these sectors were ranked by quality, value and momentum criteria, and the top twenty entered the portfolio. This portfolio has done very well, far outperforming its comparable index, the S&P 500 ETF, VOO. From July 11 to December 31, this portfolio has returned 19.0%. Its index, VOO, has returned 8.2% over the same period. We will continue to follow this portfolio so that we may have a 12-month performance comparison. (Portfolio 43 has returned 5.5% over roughly the same time frame.)

The Swinging for the Fences Portfolio ends with this December report, and its performance is instructive on a number of considerations for investing. The portfolio outperformed its index, the Vanguard Small Cap Index ETF, VB. Though by a small margin, 15.9% to 15.6%. (Thanks to Santa, the small cap index accelerated in December.) Other measures of performance uniformly favored the Swinging portfolio. Its volatility was less than the index, 5.4% to 6.0%. Keeping score by month, the portfolio pitched a shutout, 12-0, outperforming the index each month of the year. The portfolio also had zero months in negative territory, whereas the index reported three negative months. On drawdowns, the portfolio emphasized the importance of Quality in stock selection. By October, the YTD index performance was drawn down to negative -5.3%; in contrast, the portfolio never dipped negative. The portfolio “highs” were higher, and its “lows” were stronger than the index. In seven months of the year, the portfolio offered a return greater than 10%; only in July and December was the index return greater than 10%. In this experiment, we conclude it was better to be good. Quality, value and momentum factors paid off.

Before closing, we made plans for our next meeting. For the final week of January, the restaurant is closed, so we will not meet. We agreed that today’s meeting would also serve as our January gathering. We will next meet in February, on the final Monday of the month. That date is February 26, 2024.

In the meantime, consider participating in the formation of our latest portfolio, Portfolio 44. Apply your stock selection criteria, conduct due diligence, and submit your entry as a reply to these notes. Cutoff date: January 19, 2024.

To repeat: **The Jeff Fraser Breakfast Club next meets Monday, February 26, 2024**. Hope to see you all again then.

Happy Leap Year.