On Monday, June 26, the Breakfast Club gathered again. June is always an interesting month, as it marks the close of the second quarter. At the half-way point for the year, portfolio managers are either feeling good or anxious about the performance reporting they must prepare. The art of window dressing will be on display.

During coffee, a SAVE THE DATE and head’s up announcement was made. Breakfast Club members arrange guest speakers for the Rochester AAII Chapter. On Wednesday evening, September 27, the CEO of Brighton Securities, Mr. George Conboy will speak on investing during inflationary times and the possible market response to upcoming 2024 elections. Pencil in the date, George is an engaging and entertaining speaker. Details to follow.

**Trivia**. The trivia challenge for the month was answered without too much difficulty, once again testimony to the business savvy of our members. Question 1. Trade is important to American businesses. **According to government statistics, the largest US export of 2022 was \_\_\_\_\_\_?** The largest US export of 2022 was crude oil. **Which country was the largest purchaser of US exports?** The largest purchaser of US export in 2022 was our neighbor to the north, Canada. Over 17% of all exports went to Canada, roughly three times the export load to China. (2) Not too long ago, the Breakfast Club discussed a handout from the **MIT Tech Review. This handout listed the 50 “smartest” companies doing business today. What company was considered smartest? And who was considered second smartest?** (Hint: Both companies have appeared in our recent portfolios.) Those companies would be Nvidia (NVDA) and Microsoft (MSFT), which have done extremely well in our portfolios and in the portfolios of many, many others. Other American companies of the top ten include SpaceX (private company), Amazon (AMZN), Kite Pharma (KITE) and Alphabet - Google (GOOG). China and UK are also represented in the top ten. (3) **According to the Boston Consulting Group, whose people study such things, what US company is considered the most innovative? Followed by?** According to BCG, Apple (AAPL) is the most innovative company doing business today, followed by Tesla (TSLA). These companies have also done very well in our portfolios, past and present.

Portfolio Review. The June meeting marks the end of Portfolio 41, and the coveted free breakfast was awarded to Frank C. Frank’s selection of Nvidia (NVDA) shone brightly the whole year through, leading the portfolio with a very rewarding 145.1% return. We also salute a quintet of members whose selections all performed well, besting a 33% return for the year. These are Paul S (Netflix (NFLX), 92.6%), Carlos G (Copart (CPRT), 47.2%), Terry B (Quick Logic (QUIK), 46.1%), Bob J (Eli Lilly (LLY), 40.9%), and Dawn C (Applied Materials (AMAT), 33.4%). Well done. The strong performance of these stocks enabled the portfolio to reclaim modest respectability. The portfolio realized an overall return of 7.6% for the year. This return bested the DOW, which returned 5.7% over the same period. The resurgence of NASDAQ was cited in these recent monthly minutes, and its return of 14.0% crystallizes the chaos inherent in markets; as recently as the end of February, the NASDAQ return since July was a negative -3.71%. As always, markets are forward-looking, and we look forward to the formation of our new Portfolio 43. Perform your due diligence, then forward your selection as a reply to these minutes. Selections will be priced as of closing on Friday, July 14. That will be our cutoff date.

Portfolio 42 likewise enjoyed a good month, besting the DOW with a 5.6% return YTD. The DOW has returned 1.1%. Returns for the S&P 500 and NASDAQ strengthened, coming in at 9.5% and 21.1% respectively. With the surge in NASDAQ, is it any surprise that our top five portfolio selections are all tech companies? Nvidia (NVDA), selected for this run by Diep C, leads the portfolio, returning 136.7%. Next are Frank C’s Tesla (TSLA) at 92.3%; Tom K’s Marathon Digital (MARA), 57.5%; Dale W’s Broadcom (AVGO), 45.7%; and Terry B’s Quick Logic (QUIK), 35.4%. Last month we reported on Eli Lilly’s (LLY) weight reduction drugs. LLY returns a nice 33.2% YTD. Our dilemma with this portfolio continues, wherein half the portfolio is doing quite well, but the second half struggles in the doldrums. The volatility (standard deviation) of our portfolio is quite high, 41.3%. By comparison, the volatility of the Vanguard S&P 500 ETF is 17.9%. With half the year remaining, we confront the classic minimax problem: maximize gain, minimize volatility. We’ll see how we do.

Discussion followed with several interesting handouts. Jim H started things off with the article “These Stocks Just Hit a 33 Year High … and More Gains Are on the Way”, by Brett Eversole. The headline, intended to get your attention, refers to the Japanese market. The silver-haired among us remember well the tremendous growth of Japan’s economy through the 1980’s. The decade saw the immense success of Toyota, Sony, Fuji, Honda, Nippon Steel, and others. In 1980, Japanese stocks made up 15% of the global market. By 1989, their growth pushed that figure to 45%. Then, everything headed south, exhausted by their own success, as the article states, “… an incredible bubble, followed by one of the worst busts in history.” Now, in 2023, Japan is back, their market shows “solid outperformance.” We know Mr. Buffett has shown keen interest in Japan, and he is buying. The article concludes, “… boom is well underway … history shows you haven’t missed it yet. So if you’re looking to put money to work outside the US, Japan is a smart choice right now.” Thank you, Jim.

Ten-year plots of the NASDAQ and S&P 500 indexes were discussed next. Is something up? Although NASDAQ closed the week down most recently (June 23), over the previous eight weeks, NASDAQ had closed each week higher. For the S&P 500, the streak was not quite as long – five weeks. Some talking heads have taken notice and are proclaiming a new bull market. The breadth of the market advance is also expanding, it is not just the seven big tech stocks leading the way. On the other hand … is this recent advance merely a correlation with the Fed’s June pause? You know, the pause that refreshes? The Fed has already signaled another hike to come in July, and the chairman opines that inflation will remain with us until 2025. If you “… don’t fight the Fed,” we will watch and pay attention. The market always does what the market should do, but not always when it should.

Next up, sector performance. And a look ahead. Paul G distributed a summary of the economy’s sector performance Year-to-Date. The best performing sector remains Information Technology, with its ETF (VGT) growing 34.2% through June 23. Next best is the Communications Services sector (VOX), having grown 27.1%; this is closely followed by Consumer Discretionary (VCR) at 26.0%. It appears these three sectors explain the overall market advance. Five of the eleven sectors still show negative growth year-to-date, and the remaining three exhibit paltry growth, e.g., Consumer Staples (VDC) has returned a mere 1.6% thus far in 2023. Going forward, what can we expect?

A second handout on the sectors attempts to answer the question. Briefly, the answer is “… more of the same”. In the handout, the Operational Earnings of the latest six quarters (full year 2022 and the first two quarters of 2023) serve as the ground zero against which estimates of earnings for the upcoming six quarters are compared. The same three sectors are expected to perform well through the end of 2024, the only difference being Consumer Discretionary improves, placing second (instead of third). Expected earnings growth is strong for the three, at 33.6%, 30.6% and 27.6% (Info Tech, Consumer Discretionary and Comm Services respectively). Healthy earnings growth is also expected for the Utilities and Health Care sectors, growing at rates of 22.5% and 19.8%. Earnings for Energy and Real Estate are expected to contract, yielding negative growth at rates of -18.4% and -2.8%. “Returns are explained in the earnings.” You have been apprised. Thanks to data providers Howie Silverblatt and his associates at Standard & Poor data services.

The Breakfast Club meets again on the final Monday of July. The date is July 31. With Portfolio 43 now forming, you may find it interesting to stop by and witness its unveiling. Judge for yourself the wealth producing decisions and arguments made by your friends and colleagues. Maybe you will agree. If nothing else, it will be fun.

To all you Yankee Doodle Dandies, enjoy July 4!