Investor Newsletter brought to you by My Portfolio Guide, LLC : Issue # 38 Fall 2023

the Guide

INSIDE THIS ISSUE :

RECESSIONARY READY

The recession that's coming has been telegraphed like no other and we share some tips and ideas on how to prepare for it.

MARKET RECAP

How did the stock market do last quarter? Take a look at how different benchmarks and indexes did versus your own portfolio. What's on the horizon?

EDUCATION CORNER

Check out some ideas as well as things to keep in mind for Q4. We also share our five best ideas in a beaten down sector that offers long-term promise.

NEWS & NOTES CALENDAR

Get a jump start on your 2024 goals and financial planning. We're offering concise and clear updates via a 30-45 minute Zoom meeting followed by tailored Q&A.

Recession Prep

Right now we have what amounts to a tug of war between the "broken clock syndrome" which tells us the correct time twice per day and the markets potentially poised to climb a "wall of worry".

In this edition of "***the Guide***" we'll touch on the most telegraphed recession of your lifetime. Yes, one is coming but so many financial pundits have not only got it wrong in advance but are using fear tactics to amplify headlines, some of which are indeed valid but many are simply a result of one of the most unprecedented events in world history. On average recessions happen every 6.5 years but over the past four years alone we've witnessed a stock market that dropped -37%, followed by massive stimulus recovery, an ensuing inflationary environment, and government debt that as a percentage of GDP will crest 7% this year putting it at levels not seen since the 1980 Reagan years where it was at a whopping 5.9%. Throw in an inverted yield curve (which is the preeminent recession indicator) and you have all economists ringing the alarms. What happens next will make or break many investors in how they prepare and then react.

Our main job is not to predict markets, nor stoke fear, or conversely sugar coat reality. That said, this environment is also lending itself to the other phenomena of a stock market "climbing a wall of worry". Counter to our natural intuition, the market can rise even in the face of negative news and economic uncertainty. In our opinion there are of course real reasons for concern but so much is "baked into the cake" that one simple pivot by the Federal Reserve indicating that enough is enough, and you'll not only see a final "melt up" but one that's fueled by a cadre of naysayers that were short the market along with a crew of folks in the FOMO (fear of missing out) crowd. Prepare your mindset and portfolio in advance of this telegraphed recession and this time you can avoid being in the spot so many have been in before; emotional overreaction.

	2023 YTD	2022	2021	2020	2019	2018	2017	2016
20 / 80	-0.97%	-15.51%	2.26%	6.29%	8.88%	-3.90%	4.71%	3.89%
40 / 60	2.07%	-16.51%	8.32%	8.13%	11.13%	-4.70%	8.44%	6.12%
50 / 50	3.59%	-17.01%	11.35%	9.02%	12.25%	-5.09%	10.31%	7.24%
60 / 40	5.12%	-17.51%	14.38%	9.90%	13.38%	-5.49%	12.17%	8.36%
70 / 30	6.65%	-18.01%	17.41%	10.76%	14.50%	-5.89%	14.04%	9.48%
80 / 20	8.17%	-18.50%	20.45%	11.60%	15.62%	-6.29%	15.90%	10.59%
S&P 500	11.21%	-19.50%	26.51%	15.26%	17.90%	-7.74%	20.37%	9.54%
Mid Cap	2.36%	-14.93%	22.36%	11.39%	12.70%	-13.19%	18.37%	9.59%
Small Cap	-1.02%	-17.55%	23.89%	9.65%	12.50%	-13.44%	15.51%	16.56%
MSCI EAFE	1.89%	-24.41%	7.12%	15.88%	6.90%	-14.82%	25.19%	1.77%
Emerging	0.54%	-20.85%	-3.15%	9.88%	4.30%	-17.00%	30.52%	9.39%
Bonds	-4.02%	-14.52%	-3.79%	4.59%	6.80%	-3.01%	0.68%	0.04%

MARKET RECAP

How did the "Market" do ???

Never rely on the media to tell you "how the market did". The answer is different for everyone because investors should be allocated specific to *their* goals and risk tolerance.

The above chart shows several (6) basic portfolio allocations with their corresponding performance over different time periods.

20 / 80, for example, represents 20% in the S&P 500 and 80% in the U.S. Aggregate Bond Index. Other major indexes are also posted (S&P 500, Mid, Small etc) MSCI EAFE represents 23 developed International countries except for the US or Canada.

The third quarter of 2023 is one that everyone wants to put behind them as literally everything was down (except cash)! YTD the indices will still show us that the market is up but if you look under the hood, it's still being propped up by very narrow leadership and led by the "Magnificent 7" (Amazon, Apple, Google, Meta, Microsoft, Nvidia, and Tesla). These seven companies alone make up 28% of the S&P 500 Index and have contributed almost 65% of those respective returns. We bring this phenomena of "narrow breadth" up because in general when market performance is dominated by a few names, it's not healthy. How it parlays into Q4, however, could be a different story as those who were bearish will likely be covering short bets or institutions who underperformed will add to those hot positions to "window dress" before year end.

The "other shoe that has yet to drop" with regard to a recession is whether it will be a 'soft landing' or a 'hard' one. No matter what…something has to give at this point. The nationwide average payment on a new home is a record $2,900/month, rent at a record $1,900, new car payment $740, student loan $500, credit card balance $7,300, and gas prices also close to all-time highs. All of this coming with the average household having zero excess in savings by the end of this quarter. One can only kick the can down the road for so long and with all that said, we see a large wave of debt defaults on the horizon in 2024. What's holding all this up to date is low unemployment and a resilient consumer but in our opinion those will inevitably be tested if rates stay the way they are or something else does not give in.

The current P/E (price to earnings) ratio of the S&P 500 sits around 24.72 but other asset classes such as Small Cap and Emerging Markets are considerably cheaper having lagged Large Cap for quite some time. (currently 11.42 and 11.12 times earnings respectively) Eventually that becomes a sale one should not ignore. The upside for Small Caps would be a mild recession (or none at all) where inflation and interest rates remained flat or declined gradually. Conversely the downside is a hard recession where they're more volatile than larger blue chip stocks. Lastly, there are many other asset classes we allocate our portfolios towards such as Gold and Commodities for proper diversification and volatility hedges. Gold has dipped recently but still has outperformed stocks over the past two years and we continue to see a case for holding it. Commodities (especially oil) were the only bright spot the past three months and are worth adding more to now.

In the meantime…

"Stay disciplined to stay positive" -MPG

EDUCATION CORNER

Recession Ideas

"It's a recession when your neighbor loses his job; it's a depression when you lose yours." - Harry S. Truman

"Fed up" and Interest Rate Shock

Most recently My Portfolio Guide, LLC published another article by way of our investment blog, ***Dear Mr. Market***, where we explained how the Federal Reserve has basically screwed us. Their main goal is attain greater stability and lower inflation…how's that working out? The long stated goal of 2% inflation is certainly a far away target but at least we're lower than almost the 9% we were last year which was the fastest annual increase since 1981. Speaking of inflation, we're all told it's most recently at just about 3.7% but say that to any American who pays bills, eats food, or buys gas, and you'd be told to "go sell crazy someplace else; we're all stocked up here" (Jack Nicholson reference).

It's perhaps easy to point fingers at the Fed from the cheap seats here but in fairness to all of us investors (and consumers), they had the tools to stop inflation and simply didn't use them in time. Throw in 11 interest rate hikes, money supply growing faster than demand, and almost $7 trillion in government spending this year, and here we are with a recession at our doorstep.

The main culprit however, could indeed be the most aggressive rate tightening campaign ever with an inverted yield curve that is the premier recession indicator we have. This rate hiking cycle is the steepest since 1981 so if what follows is any precursor the recession may not be a mild one. Recessions are typically not caused by fiscal shock but rather interest rate shocks and the economy dipped into recession 11 out of the last 14 rate-hiking cycles. What's perhaps delayed this recession has been the student debt relief and stimulus checks being doled out. That party is about to end now, so what comes next?

Volcker repeat?

As Mark Twain said, "history never repeats itself, but it does often rhyme" and we believe there are of course some parallels to draw from right now with inflation, interest rate shocks, etc. but also a few distinctions. During the summer of 1982 the economy was in the tangles of a recession and the Fed chair at that time, Paul Volcker, had not yet signaled he was ready to ease his interest rate war on inflation. Then in October of that year he did indeed announce that signal and within four months the market erased all losses (-27%) after what was a 22 month long recession. Furthermore what ensued was a 40-year bull market. If you're a visual learner, the chart on the following page can give you a little perspective. We believe each extreme (the depths to what we'll see as well as the recovery), is somewhere to be found in the middle this time.

When and How Long?

Per the National Bureau of Economic Research (NBER), the average recession lasts anywhere from six to 18 months and averages around 11 months. Recessions are basically impossible to predict and going to cash or trying to sidestep one with any form of market timing can usually backfire. Some of the strongest returns are during late economic stages or immediately following a market bottom.

Current odds of a recession by July of 2024 are at about 59% but so many "experts" predicted one well before then and have all been grossly off target. One of our favorite nerdy finance jokes is that "***economists have predicted nine of the last five recessions***"! That said, one is certainly on the near horizon but prepare ahead mentally and avoid emotional reactions to it beforehand. Not doing so almost always causes more pain and the average investor almost inevitably succumbs. Mr. Market loves to make fools of smart people thinking they can can sidestep what's coming.

Q4 "Melt up" & Santa Claus Rally

We have discussed before how seasonality can often play a big part in how markets perform and if this year is any indication we're lined up for what could possibly be a strong final quarter of the year. Add to this trend, the 4th quarter of a pre-election year usually bounces back which is what we're thinking will happen. October itself might be choppy with a hangover from the two recent monthly drawdowns in August and September but don't rule out a very promising Q4 which is up almost 80% of the time and averages about +4.2%.

Lastly, while it could be partly self-fulfilling prophecy, many traders expect the market to rally and buy stocks accordingly which tends to push the market higher in December. Over the past 50 years we've seen December run higher roughly 3 out of every 4 years. Some Wall Street money managers will also chase a few positions ("window dressing") that are "must owns" adding fuel to the fire. We'll take the 84% odds!

Don't Bet Against A Fourth Quarter Rally Just Yet

S&P 500 Performance When Up YTD Between 10-20% At the End of September

Year	YTD Return End of September	S&P 500 Index Returns: October	S&P 500 Index Returns: Q4
1950	15.8%	0.4%	5.0%
1951	13.9%	-1.4%	2.2%
1961	14.8%	2.8%	7.2%
1963	13.6%	3.2%	4.6%
1964	12.2%	0.8%	0.7%
1976	16.7%	-2.2%	2.1%
1979	13.7%	-6.9%	-1.3%
1980	16.2%	1.6%	8.2%
1983	18.1%	-1.5%	-0.7%
1988	10.0%	2.6%	2.1%
1991	17.5%	1.2%	7.5%
1996	11.6%	2.6%	7.8%
2003	13.2%	5.5%	11.6%
2009	17.0%	-2.0%	5.5%
2012	14.6%	-2.0%	-1.0%
2013	17.9%	4.5%	9.9%
2017	12.5%	2.2%	6.1%
2019	18.7%	2.0%	8.5%
2021	14.7%	6.9%	10.6%
2023	12.8%	?	?
	Average	1.1%	5.1%
	Median	1.6%	5.5%
	% Higher	68.4%	84.2%

Recession Sectors to Watch

What sectors are more defensive or might you want to possibly overweight in a recessionary environment?

Utilities - You still have to pay the electric bill, right? Utilities tend to be relatively stable during economic downturns. They're also the worst performing sector this year which makes us take even more interest in buying something that is on sale!

Healthcare - No matter what happens in the economy most people will still need to take care of themselves. The average person takes four medications per day!

Defense - More on this sector with our five favorite stocks in the adjacent column, but talk about a value right now! Not only do governments maintain spending in downturns but recent geopolitical events signal we'll see substantial increases over the next few years.

Discount Retailers - We're not a huge fan of too many retailers right now but within the sector you'll likely see certain ones outperform others as consumers seek more cost-effective options.

Specific Names we Like

Most people are best served to properly allocate and simply hold inexpensive indexes or ETFs (exchange traded funds) to diversify. That said, below are a few companies we like along with where they trade now versus our targets:

Proctor & Gamble (**PG**) $142.45
P/E = 24 Dividend = 2.61% Target = $167
Johnson & Johnson (**JNJ**) $157.87
P/E = 31 Dividend = 3.06% Target = $180
Walmart (**WMT**) $154.37
P/E = 29 Dividend = 1.46% Target = $179
Costco (**COST**) $554.21
P/E = 39 Dividend = 0.73% Target = $593
Edison International (**EIX**) $61.91
P/E = 25 Dividend = 4.75% Target = $74
Verizon (**VZ**) $31.39
P/E = 6 Dividend = 8.62% Target = $39
Microsoft (**MSFT**) $328.27
P/E = 33 Dividend = 0.92% Target = $391
Qualcomm (**QCOM**) $110.35
P/E = 14 Dividend = 2.89% Target = $137

Let's Play Defense…

Back to an economic sector to consider ; Defense and Aerospace. First off, as we often mention, if you're not wanting to try and figure out which stock within a sector or asset class you like, always consider an ETF. The iShares U.S. Aerospace & Defense ETF (ITA) is an excellent choice for such an investor. We especially like it this year as the entire sector has really been punished. Not only can stocks in this group offer some resilience and stability during recessions, but in the uncertain times we're in now, they're quite appealing and have been hit more relative to other areas of the market, so they're on sale…Lastly, many of these companies have secured huge contracts with escalating geopolitical risks (Russia/Ukraine along with ongoing tensions in the South China Sea).

Lockheed Martin (**LMT**) is the world's largest defense company with 95% of their revenues being generated from government contracts. It trades at just 15 times earnings and has an almost 3% dividend.

Raytheon (**RTX**) has been decimated this year and is down -28% YTD putting it on our radar as one to watch and potentially open a position in. Currently trading at $71.97 this stock could easily see $90 over the next 12-18 months for about 25% upside.

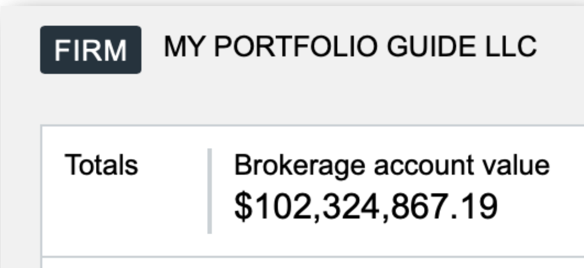
L3Harris Technologies (**LHX**) could still have a ways to go down and is still struggling. That said, they'll eventually recover but don't look to buy it at these levels.

Northrop Grumman (**NOC**) has also been crushed and is down -19% YTD but for long-term investors this major defense player is becoming appealing and has a tremendous 10 year track record of outperforming the overall market.

Last but not least, don't count out **Boeing** (**BA**). Its legal woes are well documented and while they're not out of the woods yet, it's one of only two global suppliers of commercial aircrafts and will one day be double from here.

News & Notes:

Mergers & Milestones



The merger between Charles Schwab and TD Ameritrade Institutional is behind us and all things considered it went smoothly and as planned. Although there was tons of planning and coordination behind the scenes with literally thousands of independent advisors bringing their respective practices under a new platform, in retrospect, it could not have gone much better than it did. For My Portfolio Guide, LLC we perhaps had a leg up on others as we were already on the Schwab platform, and with any transition this large, we expected some hiccups however we're pleased to announce none! It's business as usual and we thank you for your loyalty and patience through it all.

Along these lines, we are happy to announce another record year of growth due to many client referrals from your friends and families. For a boutique investment firm that is truly independent, cracking the $100 million milestone of assets under management is something we're also ecstatic to announce. Being at this level comes with some perks and access to dedicated service teams, back office support, and added resources. We look forward to our next chapter of growth and part of that entails protecting our clients and continuing to be the best fiduciary and financial steward for our clients best interests. We've bulked up our compliance support by engaging a new firm to help us navigate the landscape, enhance cyber security protection, and ensure contingency plans in the event of any unexpected events.

October = Estate Planning

Speaking of planning for the unexpected, October is National Estate Planning Awareness Month. As a fiduciary we are concerned for more than just the ins and outs of your portfolio but more so around the matters of safeguarding your financial house and inheritance, future health decisions, providing for loved ones, and creating your legacy.

If you need help avoiding or implementing any of the following estate planning areas, please reach out to My Portfolio Guide, LLC right away:

1. Dying without a Will/Trust (avoid probate!)
2. Ensure proper Beneficiary designations.
3. Develop strategies to minimize Estate Taxes.
4. Prepare proper Healthcare directives.
5. Consider Long-Term Care planning issues.
6. Address Guardianship for minors.
7. Evaluate or establish Charitable giving wishes.
8. Plan for Digital asset management (online accounts, social media etc)
9. Evaluate proper Life Insurance needs.
10. Business owner & Succession Planning.
11. Last but not least…don't forget Fido! (plan for pet care in the event you or your loved ones can't). Contact us ASAP with questions or needs on any of the above estate planning matters.

Events Calendar

CALENDAR:

Q4 Market Strategy

Quarterly Review Recording

Nationwide and via Zoom

October 2023

10/17/23 - 10/20/23

Due Diligence Meetings

Circa

Las Vegas, NV

November 2023

11/9/23 - 11/10/23

First Trust Insight Forum

Four Seasons Hotel Nashville

Nashville, TN

RSVP (562) 799-5595

We kick off the Fall season with a series of due diligence events with the aim of always sharpening the saw" since we take being stewards of people's finances with the highest fiduciary standard we can. Nobody likes getting older but one thing that can come with age, is wisdom. Sure, that along with everything nowadays, can be argued but each year we will proactively seek the brightest minds, new strategies, and financial research we can to help stay current and flexible on our ideas. We have two due diligence events coming up this final quarter of the year; one in Las Vegas and the other in Nashville.

Speaking of Las Vegas, that is perhaps literally the last city we normally would find ourselves in. My Portfolio Guide, LLC founder, Matt Pixa, is still fuming after losing $20 on the roulette tables five years ago. All jokes aside, we're particular excited about this upcoming meeting as we're honored to be invited and included as one of the fastest growing independent Registered Investment Advisor firms in the country. Mind you, all of our growth is organic and due to client referrals compared to many other larger firms who are in acquisition mode or heavily advertise under the umbrella of a bank, brokerage, or insurance company. We truly thank each loyal client of ours who has referred a family member or friend to us!

We'll also be in "Music City" Tennessee in November but listening to something different than country music at the Grand Ole Opry House. A couple times a year we have the treat to listen and sit with one of the most accurate and revered economists in the country (and that's saying something since most are intelligent but guessing just like everyone else)!

Lastly, please reach out to set up your Q4 Review session via Zoom if you have not already!

As always, if you're interested in connecting, please contact us directly on our office line at **(562)799-5595** to reserve a time to meet.