CAPITAL INVESTMENT COUNSEL

The Columns

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I raced a 5k race once in Asheville. I was amped up and ready to roll when the starting gun went off. In hindsight, maybe too amped up. I did the first mile in 5 minutes 35 seconds and then it went sideways in a hurry. It was like I had a giant rubber band attached to me that kept on stretching and stretching. After cleared that first mile in 5:35, that rubber band reached the maximum amount of flex and it started pulling back……HARD! I finished the race with a good time, but I also learned an important lesson about pacing.

I'm wondering if the markets may also learn a short-term lesson in pacing. Spoiler alert: I'm not bearish. Remember, I'm the guy who has been bullish since the fall of 2022 and our outlook is still positive for 2024 as a whole. But maybe the market has gone out too hot in that first mile and needs to slow down.

I get it. It's an exciting time. Inflation is basically vanquished and interest rates appear to be heading lower. Economic growth is still impressive, and we haven't even talked about artificial intelligence yet. A.I. is the biggest development since the internet but it's priced for perfection. There may be big winners like Nvidia but there's a lot of ballgame left to play and I can't wait to see it.

We had our annual conference in Asheville last October, and I remember walking around town after my presentation and wondering if we were wrong about where markets were headed. I'd received a lot of questions about how we could possibly be bullish when things were so bad.

Well, markets have been up 27% since then and that's even better than we'd hoped for. The more important question is where we'll be a year from now. Leave it to Ryan Detrick at Carson to come up with this gem. We have a current scenario where the S&P was higher by 20 percent over 6 months and this has happened 22 times in the past.

Over the next year, markets were higher 21 out of 22 with an average gain of 13%. I like those odds and it's comforting to see that 12 out of the 22 instances happened since I've been in the business. I particularly like the 4 occurrences we saw in rapid order in the mid to late 90's. The business environment is similar to today. Like then, tech is ascendent, and the financials and banks are currently pulling strongly as well. The next year may be very good indeed. If we apply that potential 13% gain to the Dow Jones Industrials, that would put the Dow at roughly 44,700! What a ride, does anyone remember the Dow 10,000 hats they wore on the trading floor way back when?

The market's return is typically the most important factor. But I find what lurks beneath the bottom line is equally important. I'm a big fan of what type of companies are actually moving the markets and I like what I see.

XLY is the consumer discretionary sector and is dominated by names like Amazon, Tesla, Home Depot and McDonalds. It's a great cross section of how the consumer is doing and we're seeing the largest number of new highs in that group since 2022. XLF is the financial basket with names like JP Morgan, Visa, and Wells Fargo. When banking is strong, I find it puts a solid base under the rest of the markets. XLF is also currently making a record number of new highs.

Finally, let's look at XLI. This represents the industrial sector and if infrastructure projects are being done then this is likely the group doing them. These companies tend to do the dirty work that keeps the US economic engine humming along. Top holdings include GE, Caterpillar, Union Pacific, and Honeywell. This group is also making a record number of new highs. I saw a bumper sticker the other day that summarizes this group: dirty hands equal clean money. It appears our current expansion is in good hands.

It's a little early for Thanksgiving but I'm thankful for this check list of all-time highs. Stocks just hit an all-time high and housing did the same. Cruise lines are firmly back in gear after the Covid disaster and airlines are moving record numbers of travelers. Inflation continues to drop, and employment numbers are still near the highs. The funny thing is that thanks to social media, everyone seems to feel miserable about it.   Ignore the headlines and the click bait and concentrate on the good. Oh, and I almost forgot. After years of earning basically zero on your money market, cash is now paying 4.5%. Life is good. If you have any comments, feel free to contact me at heddins@capital-invest.com or call at 919-656-0836.

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