



CAPITAL INVESTMENT COUNSEL

The Columns

January 2025

How would you describe 2025 so far? A bit bruising? Disorienting? Those are accurate, but I think 'grinding' might be best. The Dow peaked on January 4th at nearly 43,115 and has been heading down since.

The Dow has shown some unusual behavior for January, but there might be a silver lining. More on that below. Our first warning sign came when the Dow broke its December low on January 13. Historically, this has been a reliable indicator, with 39 occurrences. On average, the drop after a December low has been 11.25%. This would set a potential downside target of 37,500.

I've felt stocks needed a pullback but 37k seems a bit extreme with an economy that's still humming along. The general view since January's employment report has been something to the effect of, "the economy is super strong so let's sell." We use a wide variety of research, but I find history provides a framework to what *might be* coming around the bend. Picture the Barefoot Contessa on the Food Network when she seasons a dish without measurements. Sometimes a little finesse is just what you need. The good news is that after that (very)brief dip below the December low, the Dow has since recovered to roughly 43,300 as of mid-January, so maybe we're finally on our way back up.

I'm not sure what it is about me vacationing in Northern California, but the market tends to get a bit erratic when I head West. Back in early August, while I was on the left coast, the market took a nosedive and dropped 5% over three days. Then, just this past December 18th, one of my favorite volatility indicators—the VIX 10-Day Rate of Change (ROC)—skyrocketed over 100. A quick dive into my VIX database showed it's only happened seven times before: 2010, 2011, 2015,

2018 (twice), 2020, and now twice in 2024. I was around for all of those and remember them fondly, haha. Seriously though, they provided solid buying opportunities as stocks were higher both six and twelve months later, seven out of seven times. Thanks to Seth Golden for the heads-up on the VIX spike.

I've been around long enough to know the market doesn't repeat but it can rhyme fairly close to the past. This volatility spike makes me interested in a little bargain shopping. The funny thing is that the market overall is only down roughly 3% from its all-time high but it feels much worse than that.

The reason might be that the mean stock in the S&P is currently down 26% from its 52-week high. In other words, the top-heavy construction of the index makes the current market feel more placid than it actually is. The top ten holdings of the S&P currently make up 37% of the weightings. That's top-heavy by any means, but it may spell opportunity.

This market feels reminiscent of November 2020. Back then, we had a new President on the way and interest rates had started to normalize higher. This shift drove market leadership to broaden out away from big tech. You didn't need to avoid tech in 2020, but there was definitely more mojo in other groups. From November 2020 through February 2022, the NASDAQ 100 cranked out a respectable 21%. However, moving into the more diverse S&P 500 gave you a 29% gain, while energy (XLE) and financials (XLF) returned 155% and 60%, respectively. While I don't think a gain of that size is in our near future, given how stretched valuations are in big tech, there may be better upside in other sectors.

I'm a big fan of AI and use it a lot for editing and looking up detailed information. Here's an example: I recently bought a backpack leaf blower and asked AI to analyze my different options. It's mind-blowing what it can do, and the blower AI led me to buy has been incredible.

I like to think I'm a nice person (I guess we all do), so when speaking or writing, I aim to be positive and thankful in my style. This includes communicating with AI. I know, I know, it's just a machine, but it's also a learning machine. After a recent editing job on one of my speeches, AI asked if I'd like to make any additional changes.

My response was, "No thank you, you did EXCELLENT work as always." Chat GPT replied back: You're very kind—thank you! I'm thrilled you found it spot-on. Always a pleasure to collaborate with you. Let me know when you're ready for the next round of fine-tuning or brainstorming. 😊

Rule of thumb – always treat everyone with respect – including the AI. Plus, in the future when the machines take over the world, I'll be on friendly terms with them haha.

Let's wrap up on a positive note and look at the backdrop for 2025. Unemployment is near all-time lows. Domestic oil production is at record levels and gas is currently only \$2.65 a gallon. Productivity is skyrocketing and inflation is heading down. Those numbers are a dream! They're like an 80-degree day in June with no humidity – it just doesn't get any better. Amid all the negativity around us, don't forget how good this economy is. We'll look back on this period with the same fondness as the mid-90s. If you have any comments, feel free to contact me at heddins@capital-invest.com or call at 919-656-0836.

Disclosures:

***Past performance is not indicative of future results. This material is not financial advice or an offer to sell any product. The actual characteristics with respect to any particular client account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of investment. Capital Investment Counsel reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed may not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the securities transactions, holdings or sectors discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.**

Capital Investment Counsel is a registered investment advisor. More information about the advisor including its investment strategies and objectives can be obtained by visiting www.capital-invest.com. A copy of Capital Investment Counsel's disclosure statement (Part 2 of Form ADV) is available, without charge, upon request. Our Form ADV contains information regarding our Firm's business practices and the backgrounds of our key personnel. Please contact us at (919) 831-2370 if you would like to receive this information.

CIC-20250101

Capital Investment Counsel, Inc. 100 E. Six Forks Road, Ste. 200; Raleigh, North Carolina 27609

Securities offered through Capital Investment Group, Inc. & Capital Investment Brokerage, Inc.

100 East Six Forks Road; Raleigh, North Carolina 27609
Members FINRA and SIPC