Q1 2024
Investment Update and Outlook

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If I were a betting man[i] …

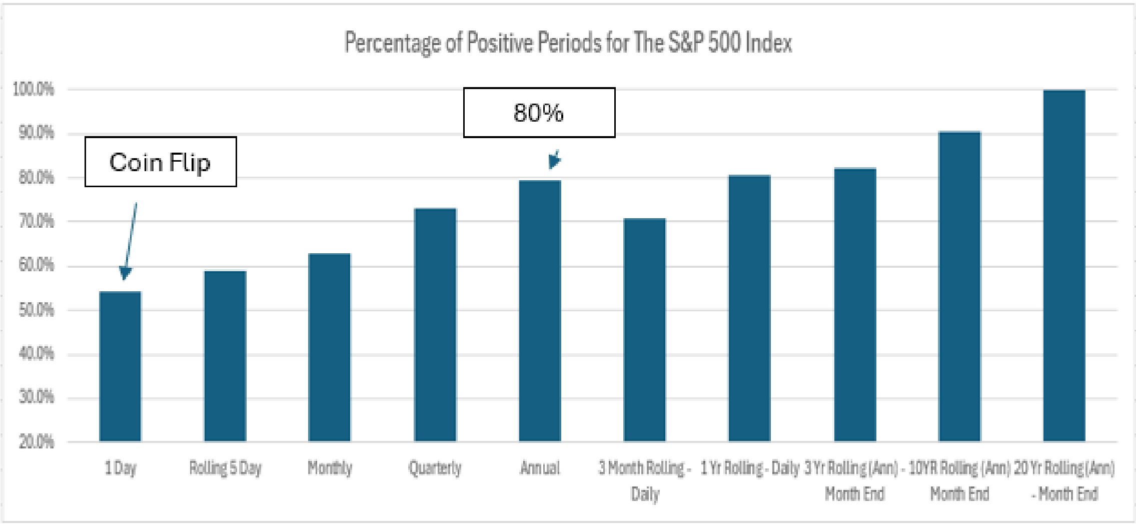


Figure 1 - 02/28/93-02/28/24 – Percentage of Positive Periods for The S&P 500 Index

And may the odds be ever in your favor[ii]

What this Figure 1 bar graph chart says to me is that if I give a positive 1-year return outlook, I will be right 80% of the time. But if you ask me how tomorrow is going to be for the stock market, I could flip a coin. The longer the period in the US Stock Market, the more likely you are to experience positive rates of return. That's all well and good but how about this quarter?

Well 70% or so of quarterly results turn out to be positive as well. So, if I were a betting man, I would have to lean positive most of the time in quarterly predictions. In client conversation, optimism soothes, but in marketing, sales, and short-term predictions, fear sells. At times it seems that this is a perverse industry with skewed incentives and often misaligned interests. At Members' Wealth, we work hard to overcome these negatives (perceived, real, or otherwise) by being transparent, communicating, and educating our clients. Read on for our current outlook and some investment high and low lights.

Results

Asset Class Summary							3/29/24
Asset Class	**1 Week**	**1 Month**	**3 Month**	**YTD**	**1 Year**	**3 Year**	**5 Year**
U.S. Stock	0.35%	3.79%	9.57%	10.02%	33.87%	9.78%	14.48%
Global Stock Ex U.S.	0.31%	3.13%	4.69%	4.69%	15.02%	1.94%	5.97%
U.S. Bond	0.23%	0.92%	-0.78%	-0.78%	2.36%	-2.44%	0.36%
Global Bond	0.15%	0.55%	-2.08%	-2.08%	0.81%	-4.78%	-1.17%
U.S. Real Estate	1.00%	2.74%	-2.32%	-1.17%	15.44%	1.99%	3.74%

Figure 2 - Asset Class Returns

The first quarter of 2024 was a good one for US Large Cap Stocks (Figure 2 - Asset Class Returns) as measured by the S&P 500. Outside of US Large Cap dominance, the returns start to dwindle a bit. Thanks to interest rates increasing, most high-quality bond indices were negative for the quarter. At quarter end, optimism in stock markets was clearly running high among participants while simultaneously, the number of people calling for a stock market correction continues to climb (perhaps it might be climbing a wall of worry[iii]??).

Outlook

With unemployment still low, interest rates range bound (and historically not at that high of a level), and huge piles of cash Figure 3 – Money Market Funds on the sideline available to pounce on any pullback, it is hard to imagine anything more than a run-of-the-mill stock market correction in the cards. Timing a run-of-the-mill market

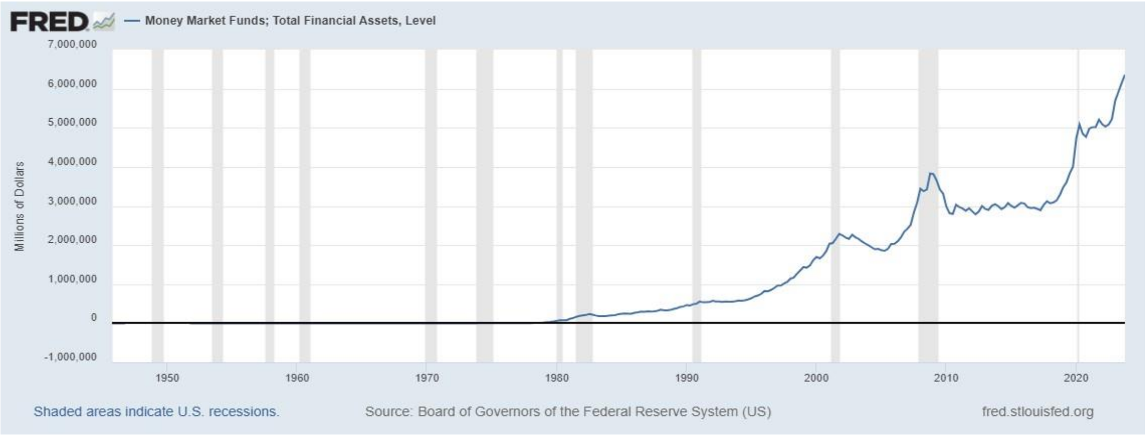
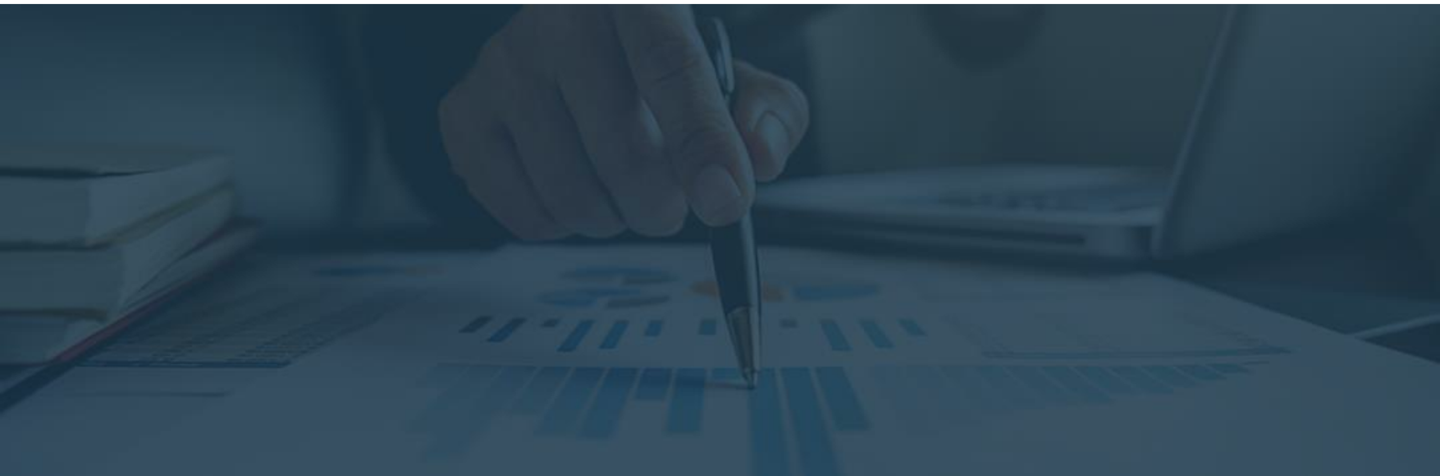


Figure 3 - Money Market Funds

correction – in our eyes about a 5%-15% pullback, is darn near impossible, actually impossible for us, and thus we too remained guarded on the recent investor euphoria, but also maintain positioned to take advantage of any pullback in the stock market. You can see in Figure 4[iv] - *Aftermath of Back to Back 10%+ Quarters*, that historically on average, after back-to-back 10+% return quarters, we should expect a bit of a breather in the short run (ie. 1-3 months) but hardly anything worth writing home about. Look at Figure 5 as well – It has been a long time since we had a 2% decline in the S&P 500...pretty sleepy and complacent out there. A breather for the market would be healthy and should be expected but never guaranteed.



S&P 500 Up 10%+ In Back to Back Quarters: 1945 - 2024						
Second 10%+ Quarter	First Quarter (%)	Second Quarter (%)	S&P 500 Performance (%) One Month	Three Months	Six Months	One Year
12/31/1954	10.61	11.36	1.81	1.67	14.04	26.40
12/31/1958	10.65	10.29	0.38	0.42	5.90	8.48
6/30/1975	21.59	14.19	-6.77	-11.89	-5.25	9.55
3/31/1986	16.04	13.07	-1.41	5.00	-3.17	22.10
9/30/2009	15.22	14.98	-1.98	5.49	10.63	7.96
12/31/2010	10.72	10.20	2.26	5.42	5.01	0.00
3/31/2012	11.15	12.00	-0.75	-3.29	2.29	11.41
3/31/2024	11.24	10.04 *(thru 3/27)*				
Average			-0.92	0.40	4.21	12.27
Median			-0.75	1.67	5.01	9.55

Figure 4 - Aftermath of Back-to-Back 10%+ Quarters

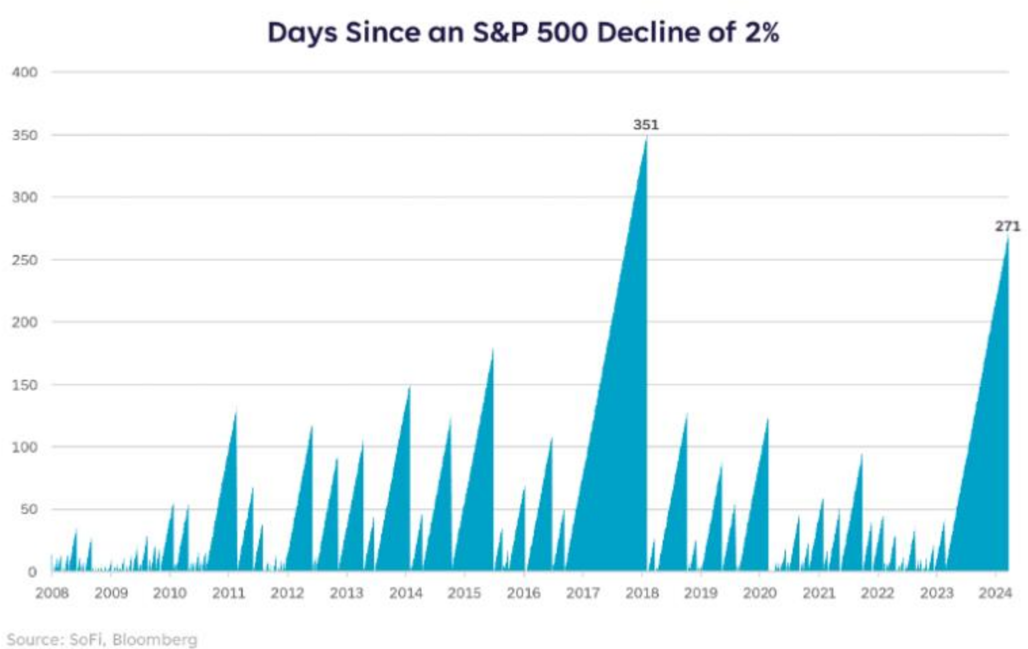


Figure 5 - Days Since an S&P 500 Decline of 2%

On the bond side, at Members' Wealth we are again salivating at the prospect of rising rates. Generally, as a firm, where appropriate for clients, we are still rather short on interest rate exposure risk (meaning we have shorter bonds relative to general market indices like the Barclays Aggregate Bond Index).

Each investor is different so talk to your advisor or portfolio manager about your exact positioning, but if rates head higher, expect, where investor appropriate, for us to further lengthen the duration (measured in years) of the bonds that each family owns.

Cash

We have continually warned investors about the risk of staying around in cash too long. The risk is that yields could go lower and if you are in cash you would not have taken advantage of locking in higher rates for longer periods of time. This is known as reinvestment risk. Cash, apparently not ready to succumb to the risk, has held in there as a formidable investment alternative for the last 12+ months and is increasingly no longer thought of as trash but increasingly a very strong magnet for investment and clearly the new benchmark hurdle. With about 5% returns in cash money and short-term CDs, investors are demanding higher returns to loosen their grasps on their cash hordes for other types of investment consideration.

Do note, reinvestment risk is still very much here. If the Fed cuts short-term overnight rates, rates on money market and short-term CDs could go lower, leaving investors with a declining yield asset, but still not a negative return per say. We think higher-than-zero rates are here to stay. Thus, yields MAY be around for a while; but we continue to think of cash as a temporary investment and always scouring for better opportunities.

High-Quality Bonds

Bond prices and returns experienced a downturn this quarter, as yields witnessed an uptick from 3.8% on the 10-year Treasury at the end of 2023 to approximately 4.25% by the end of the first quarter. This adjustment period for bonds comes after nearly a decade and a half of historically low interest rates. The year 2022 marked a significant reset for the bond market, a shift so severe that it deterred some investors from this asset class. However, the landscape has begun to stabilize, with yields now in a more 'historically-normal' range of 4-6%, laying a firmer foundation for future performance. This shift increases the potential for bonds to contribute to diversification and returns within an asset allocation portfolio more effectively.

Speaking of portfolio contributions from bonds, global (non-US) opportunities are beginning to look more attractive. In the era following the Global Financial Crisis (GFC), central banks worldwide have moved in sync, but the ongoing interest rate normalization process could herald positive shifts for international bond markets too. This may lead to greater disparities between countries, offering investors a broader array of unique return opportunities. For example, perennial negative rate stalwart Japan recently took yields positive for the first time in a long time. (Figure 6 - Negative rates era draws to a close). We tend to agree that the ZIRP (Zero Interest Rate Policy) experiment is over and may be for a long time[v].

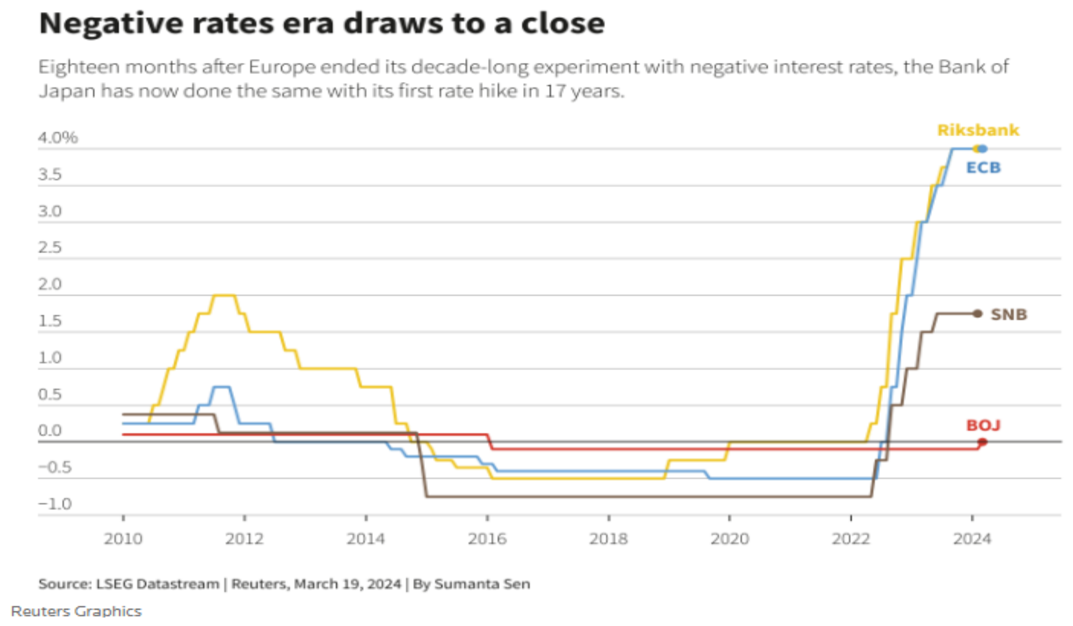
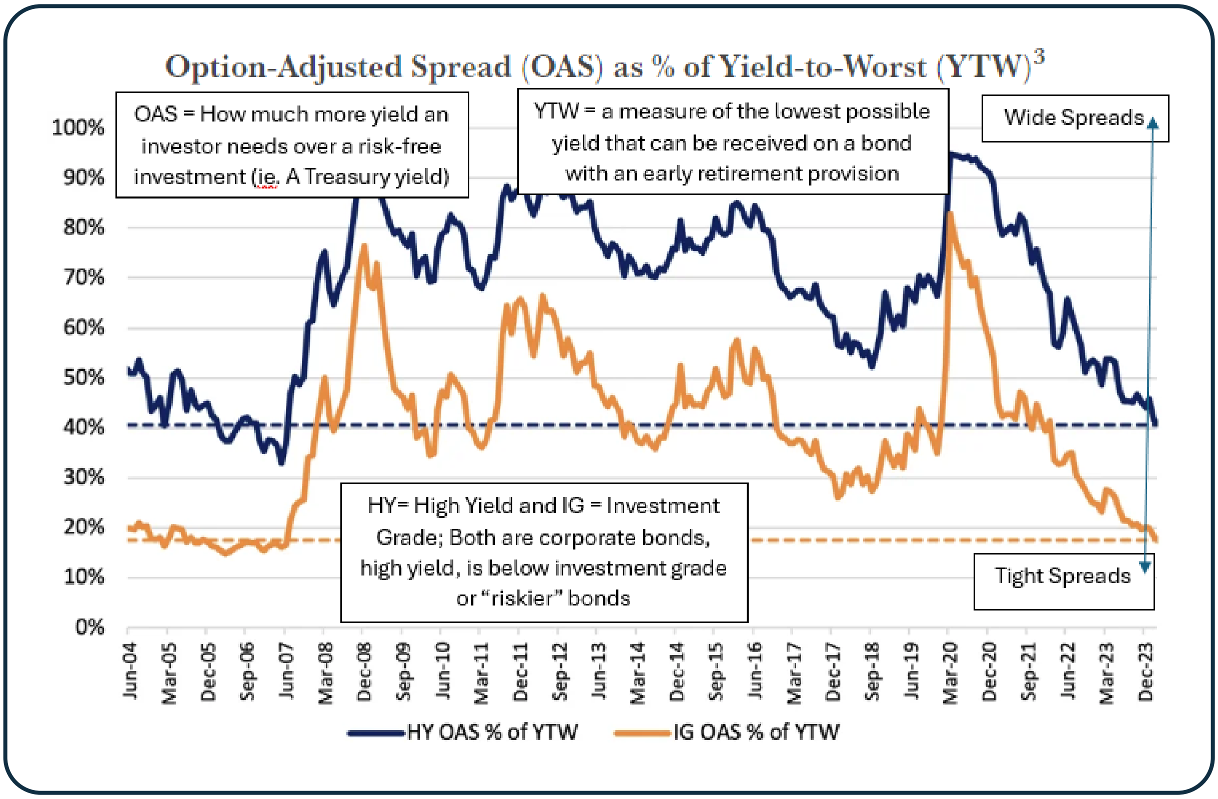


Figure 6 - Negative rates era draws to a close

As a fun side note (when I am a betting man😉)… At Members' Wealth, forecasting interest rates is not our main focus, but we do enjoy a friendly wager now and then. One of our advisors is betting on lower rates by year-end, while I'm on the opposite side of the fence, predicting they'll rise (10-year treasury yield needs to at least hit 5% by year-end). The stakes? A delightful ham, egg, and cheese croissant from our local Croissantarie. I've long argued that bond investors should welcome higher yields, as these allow for greater income from future bond reinvestments and maturing bond proceeds. In essence, I'm putting my convictions to the test, hopeful that, in the end, I'll be savoring that croissant while our investors enjoy enhanced income possibilities. Only time will unveil the outcome. Until then, let's appreciate the attractive income that high-quality bonds are currently offering—an opportunity that was scarce for quite some time.

High Yield Bonds

As a reminder, credit spreads can serve to indicate the level of distress or complacency in the corporate bond market. Currently, spreads continue to run at below average levels in the investment-grade bond market and expensive/tight levels for lower-rated high-yield bonds. As defaults for lower-rated bonds have been rising, this segment appears a bit riskier given current quotations. At Members' Wealth, where appropriate for specific investors, we will continue to have conservative exposure in this space but remain guarded. David Sherman, CEO and Portfolio Manager at Cohanzick Investment recently provided the following in his Q1 2024 Letter[iv] (italics and underlined emphasis is ours):



As shown above, credit spreads are near historic lows and, as a percentage of the total yield,[4] at their lowest level since the first half of 2007. Assuming everything goes according to the game plan, debt investors' expected return is highly correlated to U.S. Treasuries of similar maturity with little value associated with underwriting credit risk. This creates a conundrum for investors with disparate outcomes depending on the economy:

Robust economy - *Inflation may reignite causing rates to rise and bond prices to fall.*

"Soft Landing" – *Investors' returns are similar to movement in Treasury rates.*

Weaker Economy – *Credit spreads widen, likely causing corporate bond prices to fall.*

Our summary: tread lightly in credit. Be it public or private credit, know what and who you are investing in. If you do not know or understand your positioning here, ask!

Alternatives

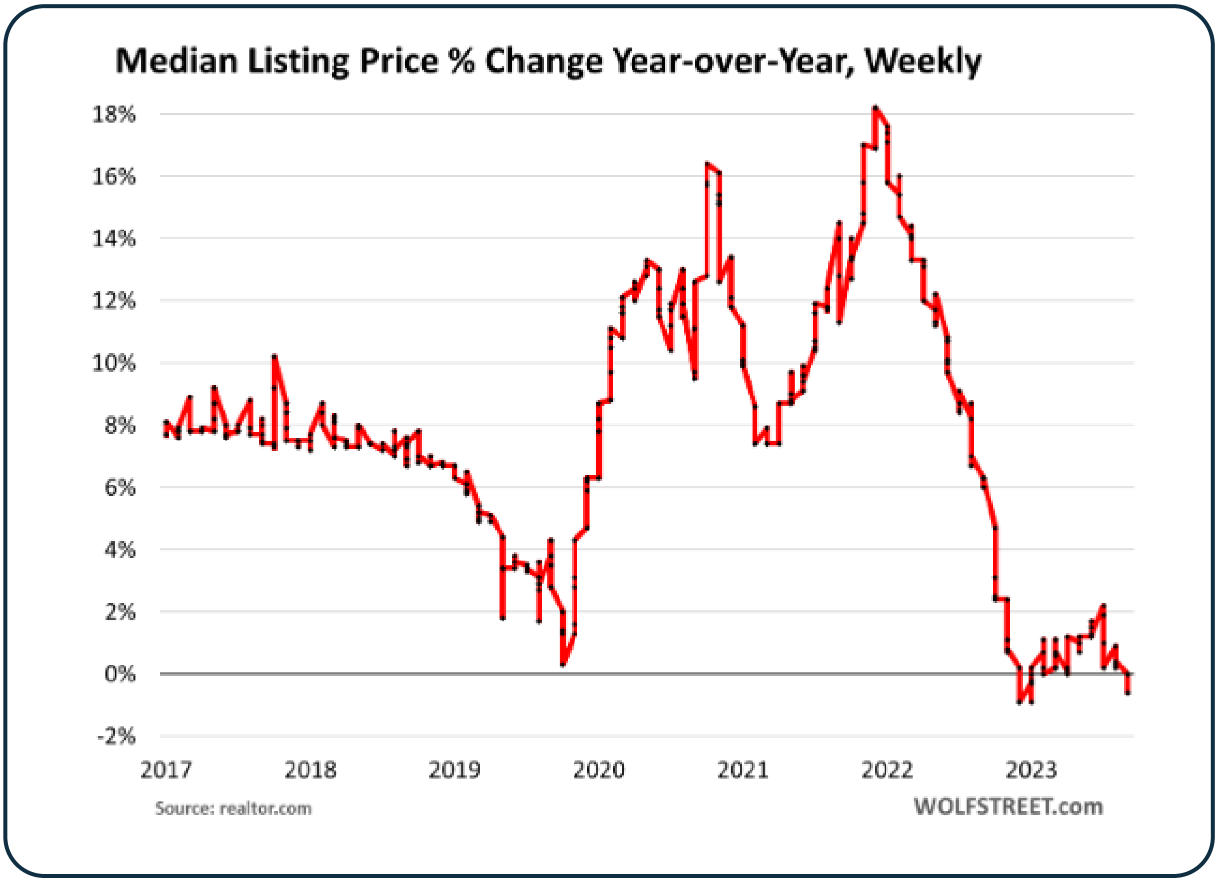
Each quarter we like to highlight an alternative strategy or investment. Part update, part education. What is an alternative? At Members' Wealth, an alternative is something that is not traditional. (Traditional being an investor owning with the expectation of income and/or price appreciation from bonds, stocks, and cash). Alternatives can include, but are not limited to, Real Estate, Private investments, long/short, market neutral, event-driven, convertible bonds, merger arbitrage, trend-following strategies, managed futures, commodities, and the list goes on.

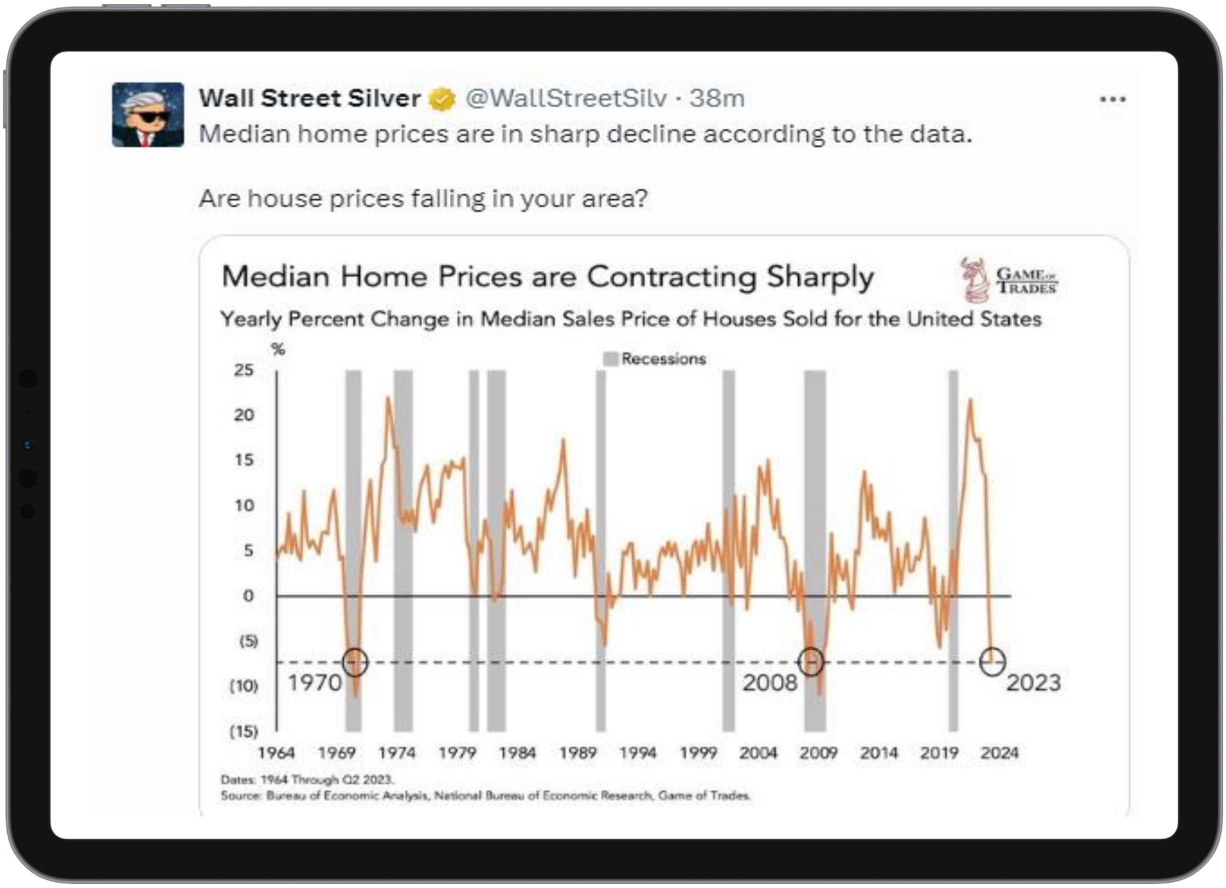
Of private investments, Real Estate is clearly a large allocation for most High Net Worth and Ultra High Net Worth investors. See Figure 7 - Real Estate as a percentage of private investments:

Figure 7 - Real Estate as a percentage of private investments

But Figure 7 is referencing real estate as an investment – something we will touch on more in future writings. However, a lot of the recent news is around the price of homes that we live in. Since home prices have only seem to go up over the last few years and since most of our investors live in a house, we thought we would touch on home prices this quarter before delving into (non-lived in) real estate as an investment. While we can debate over the merits of the home you live in as an investment (vs. a money pit), it does have a value and/or price and is often a significant part of an investor's net worth, in terms of size and concentration.

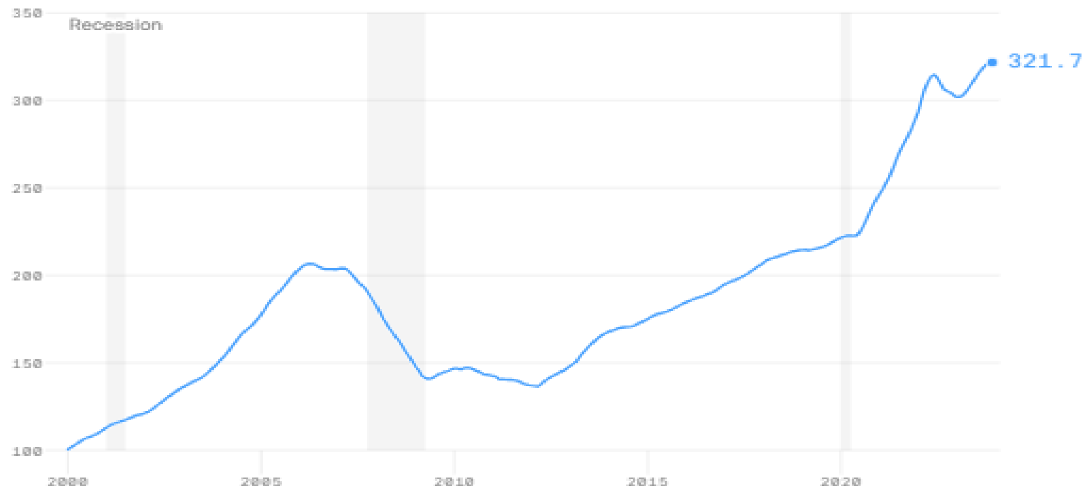
Below are muliple different graphs we have seen posted recently. It is confusing out there. Contradictions abound and the devil is in the detail. Some seem to indicate home price declines and are clearly grabbing headlines. While others are looking like an uptrend is continuing or remerging. But how real is it all? You have to look closer. The first graph is only talking about NEW homes prices, the second and third graphs, though posted very recently, are actually only through Q2 2023. So where are we really and does it really matter for you the investors residing in your own home? One of the most followed home price gauges, is the Case-Shiller 20 City Composite which is showing a return to price appreciation.


Median Listing Price % Change Year-over-Year, Weekly
18%
16%
14%
12%
10%
8%
6%
4%
2%
0%
-2%
2017
2018
2019
2020
2021
2022
2023
Source: realtor.com
WOLFSTREET.com


Wall Street Silver @WallStreetSilv · 38m
Median home prices are in sharp decline according to the data.
Are house prices falling in your area?
Median Home Prices are Contracting Sharply
GAME of TRADES
Yearly Percent Change in Median Sales Price of Houses Sold for the United States
%
Recessions
25
20
15
10
5
0
(5)
(10)
(15)
1970
2008
2023
1964
1969
1974
1979
1984
1989
1994
1999
2004
2009
2014
2019
2024
Dates: 1964 Through Q2 2023.
Source: Bureau of Economic Analysis, National Bureau of Economic Research, Game of Trades.

Case-Shiller 20-city composite home price index

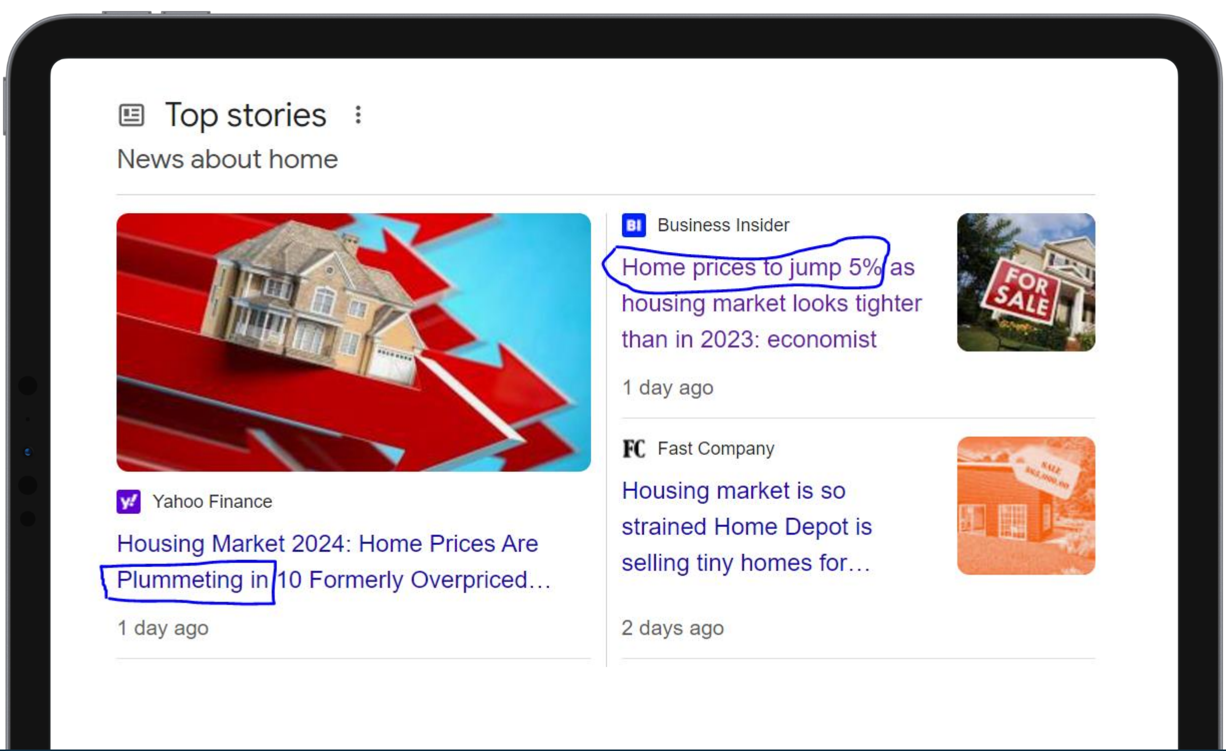
Monthly, January 2000 to December 2023; Indexed to 100, January 2000 level



Data: S&P CoreLogic Case-Shiller Home Price Indices ; Chart: Axios Visuals

Home prices rose 5.5% in December from the previous year, according to new data out Tuesday.

Even better – as we wrote this letter, we Googled Home Price News on 4/11/2024 and this is what came up:



Next to each other is plummeting and home prices to jump 5%. Wow. But to give credit to the Yahoo article above, the opening sentence is: "Measured against the normal metrics, the U.S. is in the middle of a really weird housing market right now." We, at Members' Wealth, could not agree more. Our solution, enjoy the home you are living in for its role in making memories, be glad you are in one, and do not worry about the short-term prices. Now as far as opportunities for investing in real estate, we look forward to discussing this more with you individually at our next meeting.

Equities

From their lows in late October of last year, through the end of Q1 2024, U.S. stocks have run almost straight up. Earnings have also come in better than expected (with positive growth, rather than the originally-expected decline), but not nearly as fast as price growth—implying valuation expansion was also a key driver. Foreign stocks have also fared better and would have shown even stronger results for domestic investors absent the strength of the U.S. dollar, which acts as a headwind. Japan is a notable example on the positive side, with a strong sentiment shift due to fiscal tailwinds in process and transition away from negative interest rate conditions. Conditions in Europe have also seemed to improve, from a recessionary-like trough.

As noted in the intro above, whenever stocks rise by as much as 10% in a quarter (now two quarters in a row)—historically, two year's worth of returns (assuming average annual returns of about 10%)—a reset of expectations is probably warranted. As we write this letter, we seem to be in some sort of "reset/breather" in stock prices. This is a good time for the periodic reminder that, on average, stock markets have historically corrected by -10% roughly once every 1-2 years, with -5% pullbacks happening a few times a year on average. Deeper bear markets of -20% are less frequent, approximately every 5-7 years, synched more in line with changes in business cycles.

Currently, while optimism is high, we are not sure we would say exuberant. Exuberance historically was a prelude to a final push into too-expensive territory. At the same time, some periods of higher valuation can solve themselves. As earnings represent the long-term driver of stock market returns historically, improvement toward stronger earnings growth could well sustain positive momentum. While large cap growth has garnered the most attention as of late, smaller companies broadly have remained priced at discounts.

Some graphs to contemplate. First, Figure 8. Market returns around the end of a Fed hiking Cycle. IF we are at the end of Fed hiking cycle, history seems to lean favorably on equity and bond returns. We stress IF, because who knows? The year started with a promise of as many as 6 rate cuts, this year. That prediction seems to be down to two, and the recent post-end of Q1 inflation readings are causing a stir. Dare I say, we might only be in a rate pause. Time will tell.

JP Morgan Guide to Markets

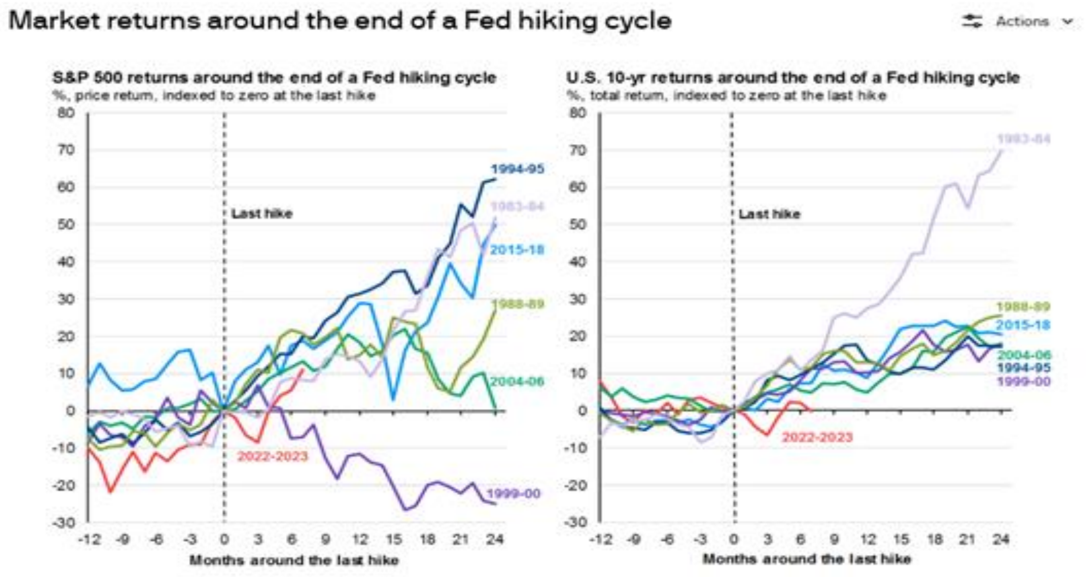


Figure 8 - Market returns around the end of a Fed hiking Cycle

Figure 9 - Presidential Election Years have been good for Investors and is always a popular topic as well. The best news, is the second half of the year looks even better (on average) than the first. So current rockiness aside, perhaps we are setting up for nice back half!

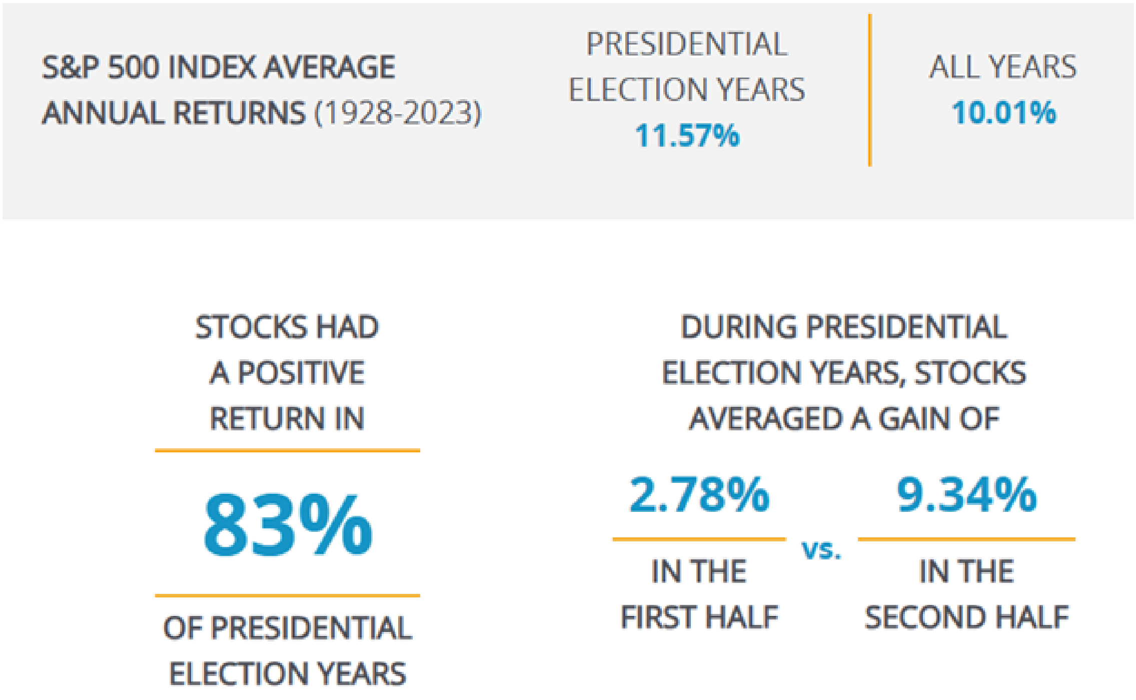
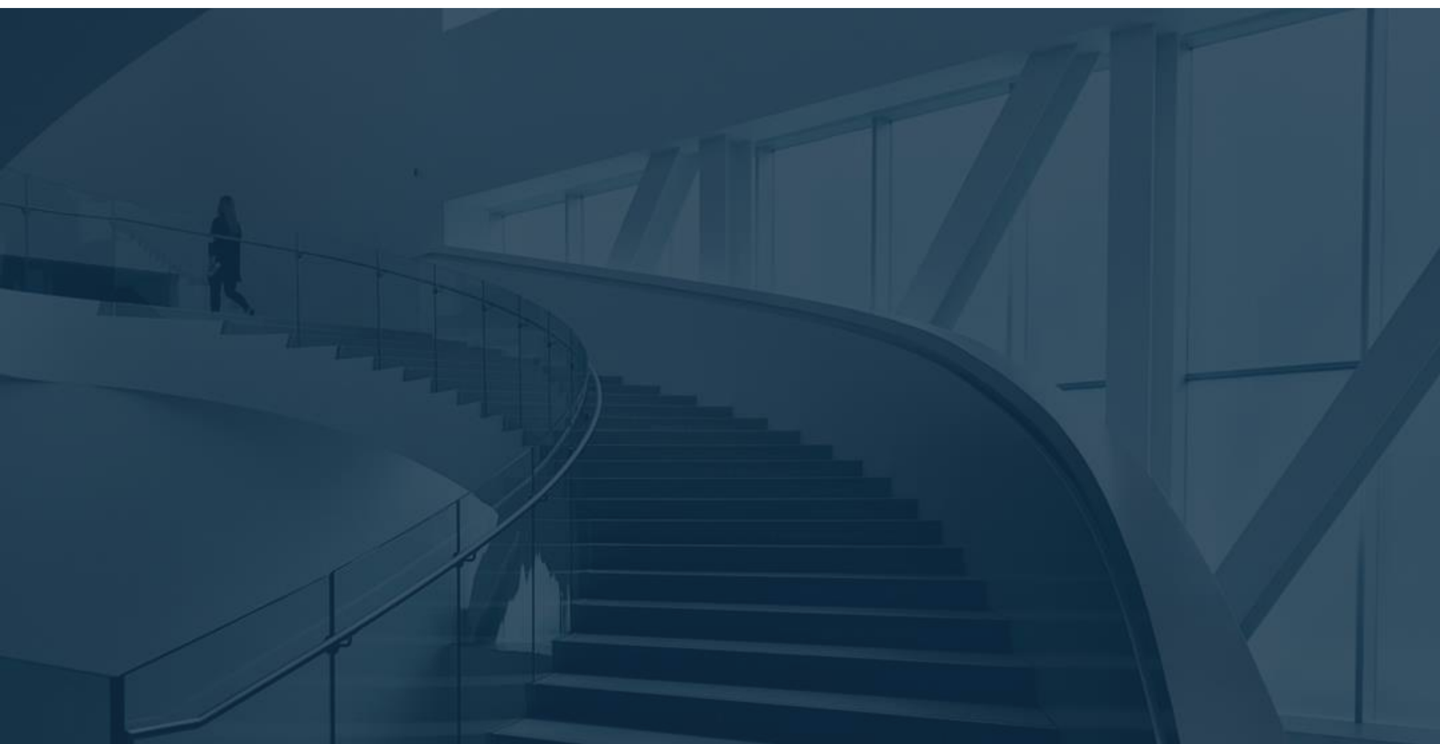


Figure 9 - Presidential election Years Have Been Good for Investors [vii]

Lastly, at Members' Wealth we recognize that economic growth inherently supports rising stock prices through increased corporate profits, justifying higher valuations over the long term. However, short-term fluctuations can occur, often fueled by excitement over sectors like Artificial Intelligence (AI), leading to potential overvaluations and subsequent market corrections. Currently, the AI sector may be experiencing such enthusiasm, yet the broader market remains stable, in our opinion, not straying into irrational territory. While we anticipate market volatility, driven by factors like interest rate adjustments and tech sector dynamics, the underlying growth of the economy, spurred by innovations like AI and increased efficiencies, promises a continuation of the larger cycle of prosperity. Our strategy remains focused on broad diversification and disciplined portfolio management to navigate through these fluctuations, seizing opportunities presented by market volatility while being mindful of valuations.

Tax Strategy vs Tax Prep [vii]

Are we at Members' Wealth tax preparers? Heck no and thus we do not do tax returns. What we do is help our investors work with their CPAs to strategize long before tax filing deadlines. With tax filing deadlines this week, we are letting CPAs work (around the clock) to meet the deadline. We, on the other hand, are already strategizing for investors regarding next year and the years beyond in terms of tax strategies. CPAs get paid a fee to organize and meet a deadline, where we as part of our services, help you think of ways to not only improve your investment returns, but also improve the tax efficiency of those returns. It is not what you make, but what you keep that counts. We look forward to gettin together to talk about what we can do for next year and beyond.



Thank you

Thank you for another great quarter and for your continued support as clients. For those of you that sent referrals our way, a double thank you. Nothing says satisfaction with how we are servicing you better than a referral.

As always, if there is anything you would like us to consider adding to your overall experience with Members' Wealth, please just ask. We look forward to seeing you each at your upcoming meetings.

[i] **"If I were a betting man"** – An American Idiom and one often utilized by my father. Who was not a betting man…but a funny man… miss you pop. Little did I know, it would be a phrase so apropos for my line of work.
DEFINITION
One's educated prediction. Someone's opinion on an outcome. It's a tongue-in-cheek response, as if someone wouldn't think of gambling, but they will proffer a guess on an answer.

[ii] The Hunger Games (creative franchise): What does the expression "And may the odds be ever in your favor" mean? The expression "And may the odds be ever in your favor" means that they hope that there is a high chance of your district winning the Games.

[iii] Wall of Worry: typical phrase investment professionals use to describe a period in which investors believe markets shouldn't be climbing, but they do.

[iv] https://www.bespokepremium.com/

[v] Era of negative interest rates unlikely to be revisited soon | Reuters - https://www.reuters.com/markets/negative-rates-era-unlikely-be-revisited-soon-2024-03-19/

[vi] https://blog.crossingbridgefunds.com/blog/q1-2024-commentary-getting-off-the-benchmark

[vii] Presidential Election Years Have Been Good for Investors (hartfordfunds.com)

[viii] https://www.miamiherald.com/careers-education/article286083871.html#:~:text=Tax%20strategists%20specialize%20in%20tax,business%20consulting%2C%20and%20tax%20services.

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Visit www.russell.com/indexes/ for more information regarding Russell indices. The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The Bloomberg US Aggregate Bond Index, is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States.