

Tuesday July 2, 2024 HCM Market Commentary

Former Fed Chairman Ben Bernanke said “Successful investing is about managing risk, not avoiding it”.

As the second half of 2024 gets underway there is reason for continued optimism. Economic numbers remain robust, earnings comparisons have been decent, inflation is moderating, and election years tend to be positive for the stock market. However, there are reasons to be cautious near term:

The current stock market rally recently has been very narrow, led by few issues, namely Nvidia. At some point narrow rallies either must broaden out, or correct. At least we would like to see some evidence of rotation into new leadership. Specifically, the percentage of NASD issues above the 200 day moving average is at only 41.33%. In a broad, healthy rally, the percentage of stocks participating would be well above 50%. Within the S&P500, only 41% of stocks are above the 50 day moving average, and the trend appears to be downward. It's not ideal and suggests the rally is currently losing momentum. Charts attached.

I would also add while the S&P500 has advanced to new highs, again led by only a few issues, the equal weighted S&P500 index has not confirmed the current trend. I don't expect a disaster, but I am concerned. See attached chart.

With the backdrop of a narrow rally, as just mentioned, a key concern to me is **the excessive bullishness/optimism among investment advisors**. As most recently reported by Investors Intelligence, **61.5% of advisors are bullish, only 18.5% bearish**. This is an extremely bullish reading seen at market tops. While July, especially during an election year, tends to be positive for equities, my intention is to be cautious.

Current concerns notwithstanding, overall, I remain positive for the remainder of 2024. There is a huge amount of cash on the sidelines, currently 6 trillion dollars in cash in interest bearing accounts, much of it should be reallocated to equities. If/when interest rates come down, expectations of a rate cut by year end, cash moving to equities could set off a tremendous rally. I would expect the bond market to rally as well. In the immediate, however, 5.38% 30 day T-bills remain attractive, waiting for signs of a broadening rally.

Equity Recommendation

Considering the current backdrop, I am inclined to look for a significant margin of safety. Please review the attached info sheet on the Bexil Investment Trust, symbol **BXSY**. The closed end fund is rated 5 stars by Morningstar, **and is currently trading at a 36.2% discount to net asset value**. At some point I believe the discount will narrow, but in the immediate, we are effectively buying over \$19 of assets for \$12.50. We are also receiving an 8% distribution yield while we wait.

Fixed Income

30 day U.S. Treasury Bills 5.38%. Simple enough

Volatility

While a short term correction in equities may very well create a large spike in volatility, volatility based investment products continue to generate decent returns, and movement has been within a contained deviation. Should a near term event occur that creates a 2x, 3x event, it's our goal to quickly hedge off extreme volatility risk.

Bitcoin

Jeff Bezos said "**Given a 10% chance of a 100 times payoff, you should take that bet every time**". As for Bitcoin, as acceptance and adoption of the cryptocurrency continues, I think it's a foregone conclusion BTC is here to stay, and I think the crypto currency can surprise to the upside second half of 2024. Bill Miller IV of Miller Value Partners wrote a short compelling argument well worth reviewing. Attached.

Commercial loans, regional banks, debt covenants

A couple clients have expressed interest looking at identifying companies, investment operations, banks, real estate holdings near default. While an accommodative Fed may kick the can down the curb a bit, a potential slowing economy plus overleveraged assets, may uncover some interesting opportunities selling assets at risk short. I'll put together a follow up report on positions I view as good short sale candidates.

Happy July 4th to all!