



## LETTER TO CLIENTS

January 18, 2024

The past two years provided a simple and compelling summary of the ongoing behavior of the equity markets. During 2022, the three major indexes of U.S. large companies (the Dow, the S&P 500, and the Nasdaq 100) each experienced declines between 21% and 35% as measured from its highest point to its lowest point. By the end of 2023, each index had achieved new high ground on a total return basis (that is, including dividends). In other words, each index had a significant bear market over most of one year, and those declines were erased by the end of the following year. This is a testament to the importance of staying the course and not panicking or overreacting to market declines.

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Despite the strong positive returns in 2023, there are certainly long-term disruptions and distortions from the COVID pandemic that are still working themselves out in the economy, the markets, and in society itself, in ways that cannot be predicted. The central financial event in response to the pandemic was a 40% explosion in the M2 money supply by the Federal Reserve, which predictably ignited a firestorm of inflation. To stamp out that inflation, the Fed implemented the sharpest and fastest increase in interest rates in its 110-year history. In response, both debt and equity markets cratered.

Through all this, economic activity has remained relatively robust almost everywhere but in the housing sector, and employment activity has been largely unaffected to this point in time. While prices for most goods and services remain elevated, inflation has diminished significantly, though not yet to the Fed's long-term target of 2%.

Significant uncertainties abound (as they always do). Trends in the U.S. federal deficit and the national debt continue to appear unsustainable. Social Security and Medicare appear to be on paths to eventual insolvency unless reformed. The ongoing debt ceiling crisis continues, and a bitterly partisan election season looms. The markets will face significant challenges this year—as indeed they do every year.

Importantly, we continue to remind you of some of our Guiding Principles:

- The economy cannot be reliably forecast, nor can the market be consistently timed. Thus, we believe the highest probability of capturing the long-term return of equities is simply to remain invested all the time.
- We are long-term owners of businesses, as opposed to speculators on the near-term trend of stock prices.
- Although declines in the mainstream equity market are frequent and sometimes quite significant, they have always been surmounted, as the most consistently successful companies continually innovate.
- Long-term investment success most importantly depends on making a plan and acting continuously on that plan.
- Changing the investment strategy based on predicting or reacting to current economic, financial, or political events or trends most often fails in the long run.

As a result, our overall recommendations are essentially what they were two years ago at this time, and what they have always been. If your most important long-term financial goals have not changed, the plan on which we are acting

to accomplish those goals should not change. And because your investment policy and portfolio strategy are based upon that plan, there is probably not a compelling reason to materially alter your portfolio.

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We are excited to announce that we will have a college student joining us this spring to serve as an intern in our office. Carter Sanders is a senior Finance major at Abilene Christian University who has interests in financial planning and investments, and a desire to help people meet their financial goals. We want to introduce him to you so that you are familiar with his name in the event you meet him at our office or see any correspondence from him.

We have been operating as William Madison Advisors since September 15, 2023. As a reminder, there have been no changes to our team or ownership of the firm. The process of relocating and rebranding has been an exciting and eventful journey, and we have endeavored to communicate clearly and completely to make the transition as smooth as possible for you. For more details on our new name and location, we encourage you to visit our redesigned website at [www.williammadison.com](http://www.williammadison.com).

It is our absolute pleasure to work with you, and we wish you many blessings during 2024. Please do not hesitate to contact our team if you have any questions or concerns with which we can assist.

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