SC Capital Advisors Investor Insights

41-750 Rancho Las Palmas Dr, Ste N-3, Rancho Mirage, CA 92270 Phone: 760-776-1488 Email: info@scadvisors.net

1st Quarter 2024

2024 1st Quarter in Review & Outlook

"I figure that I want to swim as well as I can against the tides. I'm not trying to predict the tides." —Charlie Munger

Trends continue

Over the decades, we have always attempted to learn and apply investment lessons from the legendary successful investors like Charlie Munger, former Vice Chairman of Berkshire Hathaway and business partner to Warren Buffett for many decades, who died in November 2023. We pay homage to Mr. Munger whose quote above references the futility of attempting to predict markets and economic trends and following herd mentality. He and Mr. Buffett always took advantage of what capital markets offered and understood securities valuation concepts better than most investors.

Asset Class Returns 2024 (3-31-2024)

	US Large	US Mid	US Small	REITs	Intl Large	Intl Small	Em Mkts	Bonds
2023	26.5%	16.4%	16.9%	12.2%	18.2%	13.2%	9.8%	5.5%
Q1	10.3%	10.0%	5.2%	-1.2%	5.8%	2.4%	2.4%	-0.8%

Indexes: US Large, Russell 1000; US Mid, S&P MidCap 400; US Small, Russell 2000; REITS, DJ US Real Estate; Intl Large, MSCI EAFE; US Small, MSCI EAFE SMall Cap; EM, MSCI Emerging Markets; S&P GSCI TR; Bonds, Bloomberg US Agg Bond. Source: Morningstar.

Unlike Munger and Buffett, many investors have difficulty putting capital to work during bear markets, as in 2022, when history suggests that bear markets provide the optimal opportunity to buy quality companies at even more reasonable prices. In 2022, we did not know how long the bear market would last or try to predict when it would end. We simply felt that many high-quality companies were cheap and gradually took advantage of it. Those purchases bore fruit as markets recovered strongly in 2023 and continued similar trends in the first quarter of 2024, above. We now find ourselves in a more challenging environment, however, in terms of stock valuations.

As in 2023, large cap and growth stocks continued their leadership in Q1 2024. Real estate sectors were among the worst performing asset classes, and bonds pared back total returns from 2023. In the first quarter of 2024, the stock market rally remained concentrated in a handful of stocks, especially those leveraged to Artificial Intelligence (AI). According to an attribution analysis of the Morningstar US Market Index, as of March 22, the returns from 10 stocks accounted for approximately 62% of the total market return year to date. Due to a

Ten Stocks Responsible for 62% of Market Gains Year to Date Through March 22, 2024.

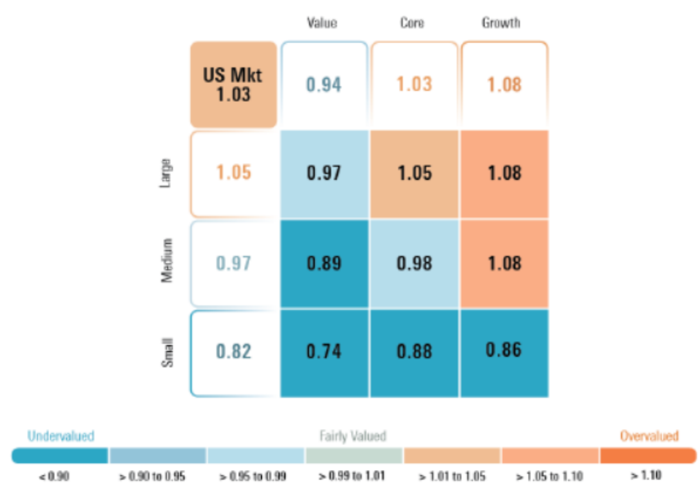
Name/Ticker	Index Weighting (%)	YTD Return (%)	YTD Contribution to Index Return (%)
Nvidia NVDA	3.54	90.31	2.37
Microsoft MSFT	6.40	13.94	0.88
Meta Platforms META	2.08	43.97	0.77
Amazon.com AMZN	3.30	17.71	0.56
Eli Lilly LLY	1.27	32.20	0.35
Alphabet GOOGL	3.33	7.94	0.27
Broadcom AVGO	1.15	21.25	0.24
Berkshire Hathaway BRK.B	1.51	15.40	0.22
JP Morgan Chase JPM	1.10	15.59	0.18
Netflix NFLX	0.52	28.91	0.14

Source: Morningstar. Data as of March 22, 2024.

combination of its 90% gain and high index weighting, Nvidia by itself is responsible for almost 25% of the market return thus far this year, according to Morningstar.

While these stocks have led the market higher, we doubt they will continue to do so over the remainder of this year. The weighted average price/fair value of these 10 stocks is currently 1.15 or approximately 15% overvalued, according to Morningstar.

US Stock Market Trading Above Fair Value
Valuations of Morningstar's equity research coverage by equity style box.



Source: Morningstar. Data as of March 22, 2024.

Attractive valuations more scarce

Based on a composite of intrinsic valuations of the almost 700 stocks covered by Morningstar that trade on US exchanges, as of March 22, 2024, they calculate that the US equity market was trading at a price/fair value estimate of 1.03, representing a 3% premium to their fair value estimates. While this premium does not put the market in overvalued territory, since the end of 2010, the market has traded at this premium or more only 14% of the time, according to Morningstar.

The value category remains the most attractive, trading at a 6% discount to fair value, whereas the growth category is trading well into overvalued territory at an 8% premium. The core category trades just over fair value at a 3% premium. By capitalization, small-cap stocks remain the most attractive at an 18% discount followed by mid-caps at a 3% discount while large-caps are at a 5% premium.

> *While this premium does not put the market in overvalued territory, since the end of 2010, the market has traded at this premium or more only 14% of the time. . .*

We expect further gains will be driven by a widening out of returns across the market, specifically into the value category, which remains the most undervalued according to our valuations, as well as down in capitalization into small-cap stocks. Thus, our rebalancing efforts have us trimming some of our large cap growth companies that have achieved or exceeded fair value estimates and adding some value names such as Nike (NKE) which is experiencing a cyclical downturn. We are also adding to small- and mid-cap positions. For our balanced accounts, we are bringing fixed income positions back up to policy weights and moderately extending duration with the likelihood that the Fed could pivot to quantitative easing later this year or perhaps next year.

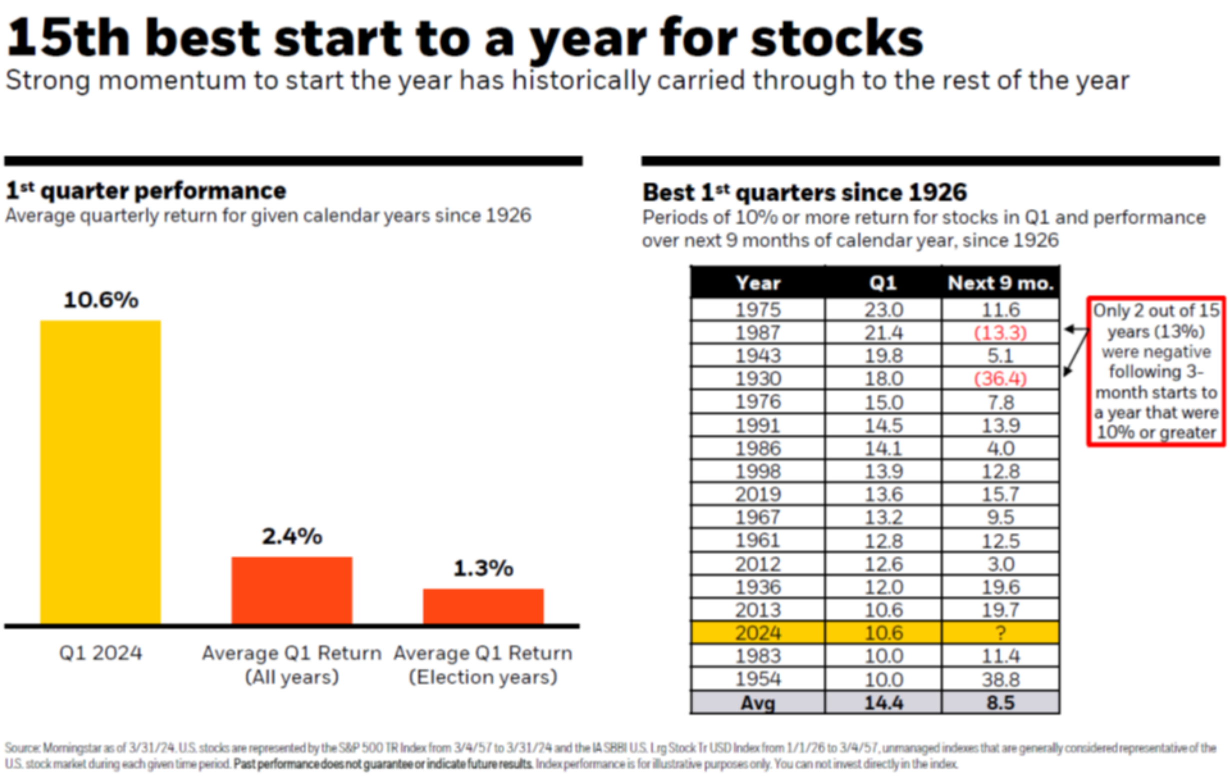
Goat to hero

When certain companies in our Core Equity holdings according to our research become over-valued, we do not necessary sell the entire position. An example of one of our holdings we have trimmed this year is Meta Platforms (META). We trimmed about 30-40% of shares in the first quarter. Meta was one of the most hated stocks by the market in 2022 as investors were overly focused on its investments in the so-called metaverse and completely forgot about its cash flow generation capability. The stock was down 64% in 2022 (Morningstar), nearly double that of the NASDAQ composite index.

The company's renewed focus on its core business resulting in a 194% recovery in share price in 2023 and another 41% thus far in 2024. Despite the stock trading at nearly 30% premium to fair value estimates, it is difficult to completely sell a company of this quality. According to its financials, the company generates more than $10 billion in free cash flow per quarter with revenue exceeding $130 billion in 2023. As a result, the company's balance sheet is pristine with more than $60 billion in cash at the end of Q3 2023. The company deserves a premium valuation, in our opinion, and we believe that fair value estimates for the company's shares could increase in the future. However, trimming the position provided a source of cash to invest in something that we feel is comfortably undervalued.

Strong quarter stokes optimism

The first quarter of 2024 was the 15th best start for U.S. stocks for a year since 1926, according to Blackrock, below. The average Q1 return since 1926 has been 2.4% with the average Q1 return during election years being 1.3%. So it was a very good quarter indeed. Generally, presidential election years start off slow and finish strong once the uncertainty of who the next president will be is over. We think the AI theme was the big driver for the quarter, however.



Year	Q1	Next 9 mo.
1975	23.0	11.6
1987	21.4	(13.3)
1943	19.8	5.1
1930	18.0	(36.4)
1976	15.0	7.8
1991	14.5	13.9
1986	14.1	4.0
1998	13.9	12.8
2019	13.6	15.7
1967	13.2	9.5
1961	12.8	12.5
2012	12.6	3.0
1936	12.0	19.6
2013	10.6	19.7
2024	10.6	?
1983	10.0	11.4
1954	10.0	38.8
Avg	**14.4**	**8.5**

Looking at the 15 years since 1926 with 1st quarter returns in excess of 20%, the remaining nine months of those years have been strong except for two years. The average return for the remaining nine months of these years was 8.5%. While momentum could play out once again in 2024, we do have some valuation concerns in certain areas of the market. Stocks are paring back some of those first quarter gains thus far in April due to profit taking, institutional rebalancing, the Iranian drone and missile attack on Israel, and sticky inflation reports that cast some doubt on any interest rate decreases by the Fed in 2024.

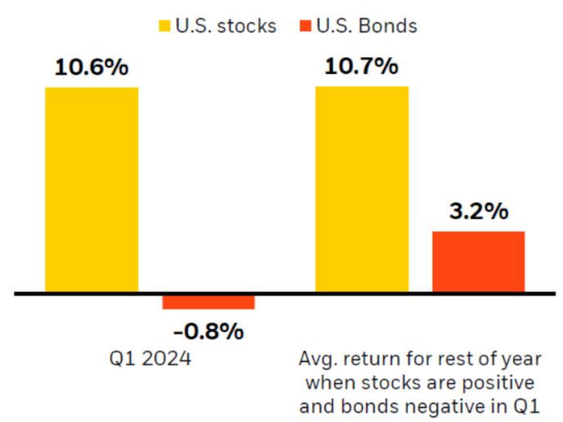
Stocks and bonds diverge

It is a rare experience when first quarter returns for stocks are positive and bond returns are negative, according to Blackrock, but that is what happened for just the 11th time in 99 years since 1926. It is not a big surprise that the bond market took a breather in the first quarter with interest rates ticking back up. The U.S. bond market, per the Bloomberg Aggregate Bond Index, had just experienced the seventh strongest back-to-back months in November and December since 1926. While the divergence between the two asset classes is rare, it generally bodes well for each asset class for the remaining nine months of the year, according to Blackrock. Average returns in these 11 years for the next nine months for stocks and bonds were 10.7% and 3.2%, respectively.

Stocks positive, bonds negative in Q1 2024

Only the 11th time since 1926 that the first 3 months saw stocks positive and bonds negative (11 of 99 years)

Stocks positive and bonds negative to start 2024
1/1/26 – 3/31/24



Performance for years in which stocks started positive and bonds negative
1/1/26 - 3/31/24

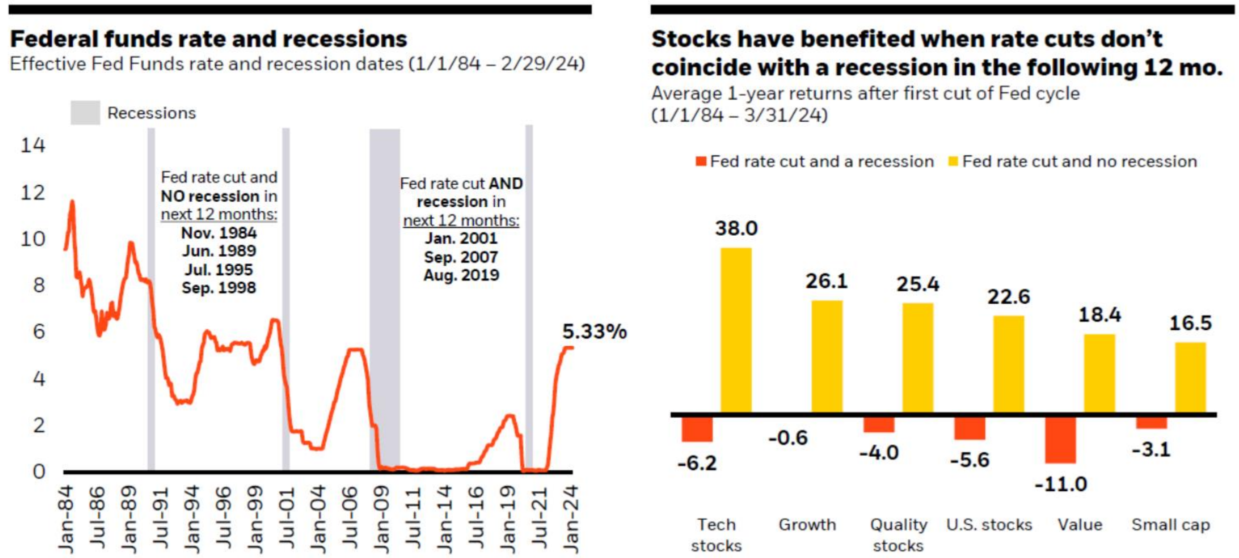
Year	Q1		Next 9 months	
	Stocks	Bonds	Stocks	Bonds
2024	10.6%	-0.8%	?	?
2021	6.2%	-3.4%	21.2%	1.9%
1937	5.1%	-1.9%	-38.2%	3.5%
1996	5.4%	-1.8%	16.7%	5.5%
1951	6.4%	-1.0%	16.6%	1.4%
2006	4.2%	-0.6%	11.1%	5.0%
1955	2.7%	-0.6%	28.1%	-0.1%
1997	2.7%	-0.6%	29.9%	10.3%
1999	5.0%	-0.5%	15.3%	-0.3%
1929	5.5%	-0.4%	-13.2%	6.5%
2013	10.6%	-0.1%	19.7%	-1.9%
Avg.	**5.6%**	**-1.1%**	**10.7%**	**3.2%**

Source: Morningstar as of 3/31/24. U.S. stocks represented by the S&P 500 index from 3/4/57 to 3/31/24 and IA SBBI U.S. large stock index from 1/1/26 and 3/4/57. U.S. bonds are represented by the IA SBBI US Gov IT Index from 1/1/26 to 1/3/89 and the Bloomberg U.S. Agg Bond TR Index from 1/3/89 to 3/31/24. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index.

Rate cuts and no recession

Finally, the stock market may have been pricing in the potential for multiple rate cuts by the central bank in 2024 during the strong first quarter and having second thoughts here in April with inflation numbers coming in a bit warm. We do not know when rate cuts are coming, but they will happen at some point. We do not waste time trying to predict when. However, Blackrock points out in the graphic below, that, historically, when rate cuts happen in the absence of a recession, the stock market loves it.

A Fed rate cut that doesn't result in recession has been good for stocks historically



Source: Morningstar, Federal Reserve, NBER as of 3/31/24. U.S. stocks represented by the S&P 500 TR Index. Tech stocks by the Morningstar technology stock category average, Growth stocks by the Russell 100 growth index, Value by the Russell 1000 value index, Small cap stocks represented by the Russell 2000 index, Quality stocks by the MSCI USA sector neutral NR index from 1/1/2001 to 3/31/2024 and the MSCI USA quality NR index from 11/1/1984 to 12/31/2000. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index.

We will continue to take what the capital markets offer rather than making bold moves based on predictions that are most often counterproductive. The biggest impetus for asset allocation decisions come from changes in client objectives, constraints, and liquidity requirements. So, please reach out if you have any investment policy changes we should know about.

Please let us know if you have any questions. We look forward to talking with you soon.

—Dana L. Crosby, CFA, CFP®

ETF Returns

For the period ending 03-31-2024

Name	Ticker	YTD	1 Month	3 Months	12 Months	3 Year	5 Year	10 Year
U.S. Large Cap								
iShares Russell 1000	IWB	10.16	3.26	10.16	29.66	10.27	14.59	12.53
iShares Edge MSCI USA Momentum Factor	MTUM	19.52	2.91	19.52	36.11	6.60	12.19	13.40
iShares Edge MSCI USA Quality Factor	QUAL	11.95	2.77	11.95	34.19	12.00	14.88	13.14
PowerShares S&P 500 Low Volatility ETF	SPLV	5.73	2.33	5.73	8.22	6.51	6.88	9.19
Vanguard High Dividend Yield ETF	VYM	8.99	5.41	8.99	18.31	9.48	10.59	10.12
VanEck Vectors Morningstar Wide Moat	**MOAT**	**5.93**	**3.63**	**5.93**	**22.82**	**10.25**	**15.40**	**13.38**
U.S. Mid Cap								
SPDR® S&P MidCap 400 ETF	MDY	9.87	5.58	9.87	22.86	6.65	11.45	9.71
PowerShares S&P MidCap Low Volatil ETF	XMLV	6.70	4.21	6.70	10.20	4.61	4.77	8.73
PowerShares DWA Momentum ETF	PDP	15.58	3.83	15.58	30.43	5.41	12.06	10.60
PowerShares High Yld Eq Div Achiev™ ETF	PEY	-1.13	5.12	-1.13	9.07	5.21	7.64	9.74
U.S Small Cap								
iShares Russell 2000	IWM	5.04	3.48	5.04	19.51	-0.33	7.97	7.54
PowerShares S&P SmallCap Low Volatil ETF	XSLV	0.77	2.53	0.77	6.81	0.99	1.34	5.84
REITs								
iShares US Real Estate	IYR	-1.28	1.85	-1.28	8.94	1.92	3.46	6.30
International Large Cap								
iShares MSCI EAFE	EFA	5.99	3.38	5.99	15.17	4.83	7.34	4.77
iShares Edge MSCI Intl Momentum Factor	IMTM	14.41	5.32	14.41	24.32	4.99	9.51	-
PowerShares DWA Developed Mkts Mom ETF	PIZ	8.78	2.58	8.78	16.83	2.28	7.48	3.98
iShares Edge MSCI Intl Quality Factor	IQLT	5.59	2.56	5.59	15.06	5.54	8.91	-
PowerShares S&P Intl Dev Quality ETF	IDHQ	8.05	3.28	8.05	18.92	4.49	8.97	6.80
iShares Edge MSCI Min Vol EAFE	EFAV	2.22	2.12	2.22	8.14	1.74	2.48	4.22
iShares International Select Dividend	IDV	1.03	3.06	1.03	9.31	2.59	4.56	2.50
International Small Cap								
iShares MSCI EAFE Small-Cap	SCZ	2.31	3.40	2.31	9.73	-1.55	4.73	4.6
WisdomTree International SmallCp Div ETF	DLS	2.85	3.41	2.85	11.65	0.97	3.83	3.59
Emerging Markets								
iShares MSCI Emerging Markets	EEM	2.16	2.73	2.16	6.95	-6.18	1.43	2.24
PowerShares S&P Em Mkts Low Volatil ETF	EELV	0.02	0.92	0.02	7.15	4.50	3.72	2.40
PowerShares DWA Emerging Markets Mom	PIE	5.93	3.05	5.93	15.27	-2.24	6.45	3.52

Data source: Morningstar

IMPORTANT DISCLOSURES:

Educational use Only. *The market update published by SC Capital Advisors ("SC Capital") is intended to be educational in nature and is not intended to be a recommendation for any specific investment product, strategy, plan feature or other purposes. Accordingly, it should not be construed by any consumer and/or prospective client as solicitation to effect, or attempt to effect transactions in securities, or the rendering of personalized investment advice for compensation.*

Advertising and Marketing*. Communications such as this are not impartial and are provided in connection with advertising and marketing. This material is not suggesting a specific course of action or any action at all. Prior to making any investment or financial decisions, an investor should seek individualized advice from a personal financial, insurance, legal or tax professional that takes into account all of the particular facts and circumstances of an investor's own situation. No person associated with SC Capital is a licensed attorney or tax professional and the information contained herein should not be considered tax or legal advice.*

Links to Third Party Content. *This Market Update contains links to articles or other information maintained by unrelated third parties. You acknowledge and agree to the following: All such information is provided solely for convenience purposes only because we believe that it may provide useful content and all users thereof should be guided accordingly. We disclaim any responsibility for the link's performance or interaction with your computer, its security and privacy policies and practices, and any consequences that may result from visiting it. We do not control the content published by the third-party; we do not guarantee any claims made on it, nor do we endorse its sponsor or any of the content, policies, activities, products or services offered by any advertiser on the site. SC Capital assumes no liability for any inaccuracies, errors or omissions in or from any data or other information provided by the third party and inclusion or reference by SC Capital to any third-party link should not be construed by any consumer and/or prospective client as a solicitation to effect, or attempt to effect transactions in securities, or the rendering of personalized investment advice for compensation, over the Internet.*

Important Information regarding Registration. *SC Capital Advisors offers Investment advisory and financial planning services through Belpointe Asset Management, LLC, 500 Damonte Ranch Parkway, Building 700, Unit 700, Reno, NV 89521 ("Belpointe), an investment adviser registered with the Securities and Exchange Commission ("SEC"). Registration with the SEC should not be construed to imply that the SEC has approved or endorsed qualifications or the services Belpointe Asset Management offers, or that or its personnel possess a particular level of skill, expertise or training. SC Capital Advisors is not affiliated with Belpointe Asset Management, LLC. Additional information about Belpointe Asset Management is available on the SEC's website at www.adviserinfo.sec.gov.*