AUGUST 5, 2024

RZHadvisors

RZH INSIGHTS

MID-YEAR-ISH UPDATE AND OBSERVATIONS

Dear Clients and Friends of RZH:

As always, I cannot believe we've well-passed the mid-point mark of the year. I've started to write this mid-year memo a few times since June 30th, only to have dramatic geo-political events and extreme intraday market volatility throw a wrench into the narrative and make my comments seem untimely.

However, at RZH we know to expect the unexpected, and therefore continue to stay vigilant and focused on our mission:

We empower our clients to live life to the fullest by striving to optimize their wealth and seeking to ensure market fluctuations are irrelevant to their financial security. We aim to meaningfully enhance financial success, creating a positive impact on the futures of our clients and their loved ones.

Delivering on this, irrespective of drama from current events and the media's shrieking, can be challenging. Combined with the realities of human nature, ignoring market volatility may not always be possible – I get it. However, a key to generating, preserving, and endowing multigenerational wealth is to avoid believing that "this time it's different" and instead embrace the words "this too shall pass" – even if you can't immediately see how or when the current "crisis" will end.

Our portfolios and financial plans are built with the goal of making current events and market volatility irrelevant to your financial security. So, as I usually do in these reports, I ask that we remember a handful of what I regard as timeless truths about enduringly successful wealth management. Then we can proceed to some more current observations.

General Principles of the RZH Advisor's Investment Philosophy

We are goal-focused and planning-driven, prioritizing long-term investment success through consistent implementation of a plan, rather than reacting to market events. History shows that the economy cannot be reliably forecast, nor markets consistently timed. As long-term investors, we work towards your lifetime goals without attempting to predict markets, which historically has a low success rate. Knowing this, we believe that the only way to be sure of capturing the full premium return of stocks is to ride out their frequent, but ultimately temporary declines.

Factors which add a significant amount of value to an investment plan are: (i) keeping costs low, (ii) being diversified, (iii) focusing on tax efficiency, (iv) staying liquid, and (v) matching asset allocation and investments with objectives.

We believe the focus of planning-driven portfolio management remains unchanged:

- The performance of a portfolio relative to a market benchmark is largely irrelevant to long-term financial success.
- We believe the only relevant benchmark is the one that indicates whether we are on track to accomplish your goals.
- Risk should be measured as the probability that we will not achieve your goals.
- Investing should have the exclusive purpose of minimizing the risk of not achieving your goals.

Current Commentary

The first part of 2024 can simply, but accurately, be summed up in two observations. (1) The U.S. economy continued to grow, however modestly.[1] (2) The equity market, responding to accelerating earnings growth and dividend increases, did very well - the S&P 500 rose more than 15% by June 30th.[2]

Economic growth remained marginally positive, continuing to avoid recession, while job growth continued relatively strong.[3] Inflation slowed modestly, providing the Federal Reserve with no urgent prompting to reduce interest rates.

Monetary policy remains gently but quite firmly restrictive - that is, the fed funds rate is well above the inflation rate - this is beneficial for long-term investors. Getting inflation down to the Fed's target of two percent remains the priority.[4]

Tsunami Warning

However, this exact narrative (which led to all-time highs in the S&P 500 and NASDAQ) was quickly tested over the last week.[5] In a split second, news last week of the Fed holding interest rates steady, suddenly created fears of a recession. In addition, something called "the unwinding of the Japanese Yen carry trade" resulted in US markets selling off quickly - with international markets fairing even worse. The Japanese stock market fell by more than 12% today alone!So much for the celebrated “soft landing!”

As we have coined it: “the velocity of volatility” is once again on full display this week.

However, downturns and corrections are completely normal. A 5% downturn has occurred in 94% of all years since 1928.[6] A 10% correction has historically occurred in around two-thirds of all years.[7]

Even so, corporate earnings and dividends are at record levels.

Earnings and dividends are the variables that ultimately drive the long-term value of our core equity investment strategy: ownership in a broadly diversified portfolio of enduringly successful companies. Not the national debt; not the looming election; not the presence or absence of Fed rate cuts; not war(s); not the onset of the next regularly scheduled government shutdown, or whatever “crisis” comes next.

I continue to believe that the more we focus on the fundamental strengths of our portfolio construction and core assets, the more we are able to tune out the noise, and the less danger we will be in of emotional overreaction to gyrations in the stock market.

During these uncertain times, and more than ever…

- I believe in our planning.
- I know that our portfolio construction process is resolute.
- I love what we own in our portfolios.
- I am supremely confident in our ability to deliver on our mission statement.

Thank you, as always, for being our clients. It is a privilege to serve you.

Best wishes for a wonderful continuation of your summer,

Carl

P.S. With less than 100 days until the election, the volume is going to get turned way up and anxiety and uncertainty can run high. As my colleague Brendan McEwan **wrote about last month**, please avoid the temptation to let politics interfere with your portfolio. Call us if you need to discuss your feelings or inclinations to do something with your investments. Regardless of the outcome, in time the great companies will navigate through it, or around it.

1. US economic growth for last quarter is revised up slightly to a 1.4% annual rate. AP News. June 27, 2024.
2. S&P 500 Index performance as measured for the period January 1, 2024 – June 30, 2024, assuming dividend reinvestment.
3. Another month of robust US job growth points to continued economic strength. AP News. April 5, 2024.
4. The Fed left rates unchanged in July but may still make a cut before the end of the year. Here's what it means for your money. Fortune. July 31, 2024.
5. All 3 major stock indexes close at record highs as inflation slows down. The Hill. May 15, 2024.
6. This is Normal. A Wealth of Commonsense. August 4, 2024.
7. High Corporate Profits Go to Dividends and Cash Stockpiles. Forbes. March 20, 2024.

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