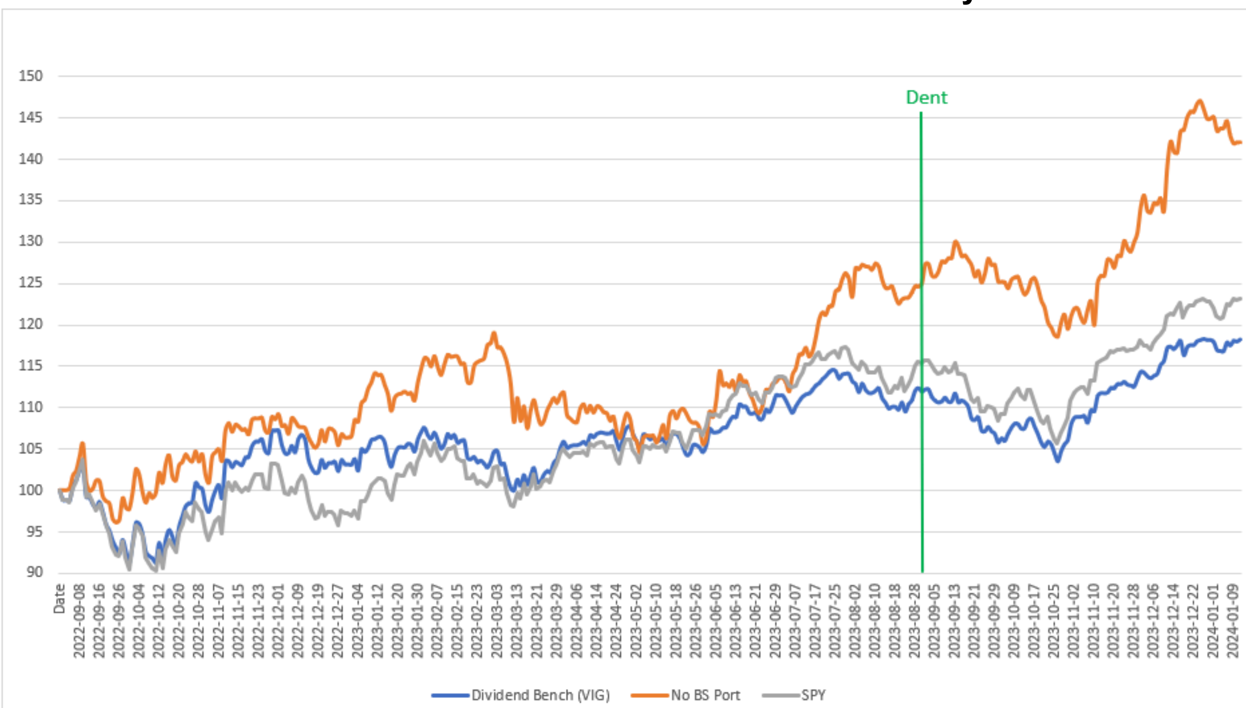
January 15, 2024

The NO BS Growth and Income Portfolio

By John Del Vecchio



New Trades this week: No new trades

As earnings season gets under way there are likely to be a bunch of trades. It's also a good opportunity to add capital to the portfolio during a modest drawdown.

Current Portfolio January 15, 2024

Ticker	Name	Return	Days Held	Sector
AVT	Avnet, Inc.	-2.32%	123	Technology
CGEAF	Cogeco Communications, Inc.	-7.93%	151	Telecommunications
CIVB	Civista Bancshares, Inc.	15.05%	67	Finance
FISI	Financial Institutions, Inc.	31.36%	60	Finance
HVT	Haverty Furniture Cos., Inc.	34.46%	242	Consumer Cyclicals
MCEM	The Monarch Cement Co.	11.40%	123	Non-Energy Materials
PSX	Phillips 66	41.41%	249	Energy
THFF	First Financial Corp. (Indiana)	21.51%	227	Finance
VLO	Valero Energy Corp.	1.78%	88	Energy
WEYS	Weyco Group, Inc.	24.38%	60	Consumer Cyclicals

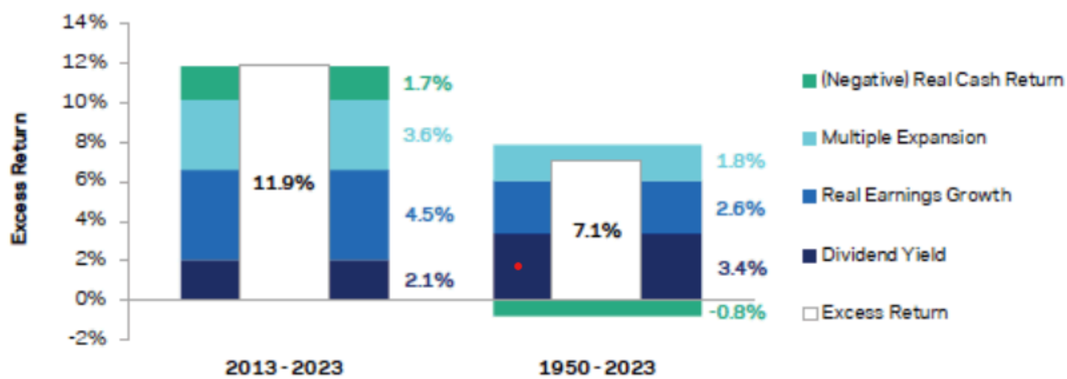
Driving with the Rear-view Mirror

According to research from AQR (a massive money manager), equity returns of the past decade are well into the 90th percentile since 1950.

It will take some heavy lifting to get there again anytime soon. The report is freely available on their website at **aqr.com/insights/research**

Take a look at the chart below:

Exhibit 2: U.S. Equity Return Decomposition, Past 10 Years and Long-Term Historical
January 1, 1950 - June 30, 2023



Source: AQR, Robert Shiller's Data Library. U.S. Equities is the S&P 500 and cash is U.S. 3-Month Treasury Bills. All returns are gross of fees. We use the methodology defined in the body of this note to decompose the trailing 10-year equity excess return into the dividend, earnings growth, multiple expansion, and real cash return components. Past performance is not a guarantee of future performance.

2013-2023 was a fantastic display of financial performance.

Real earnings growth exceeded historical averages.

Valuation multiples expanded at nearly twice the historical rate.

Real returns were 2.5% higher than average.

Real earnings growth exploded.

Only the dividend yield fell short.

That's to be expected.

Dividend yields have fallen as markets have soared higher.

In the past 15 years, companies have aggressively repurchased stock.

Those days may be over as zero percent interest rates become a thing of the past.

Can the next ten years be a repeat of the past?

It isn't very likely.

Profit margins are mean reverting.

As margins compress, it will crimp real earnings growth.

Valuations are at nosebleed levels.

As I just mentioned, buybacks might slow, and corporate liquidity should dry up a bit versus the last 15 years.

Does any of that matter?

Not really.

Whatever the future holds, there will be incredible opportunities in the markets.

That's why trend following is a great strategy and the primary approach to my tax-deferred retirement accounts.

Even if the shit hits the fan, a trend will form.

No matter what happens, a couple of significant trends will develop over the next few years.

We need to get on board and ride the trend.

Regarding the *Microcap Millions* strategy, Wall Street cannot play in this sandbox.

Today's itty bitty company is tomorrow's big company.

Again, trends develop, and more money comes into a particular stock as it gets bigger and becomes a positive self-reinforcing cycle.

One thing is for sure!

Over the next decade, Wall Street will do its best to pick your pocket.

However, if you stay consistent and exploit edges that they cannot (quality small companies) or where their influence has no bearing (following trends in massive asset classes), it will all work out.

We may have much more volatility in the future as the market adjusts to changing interest rates and the various components listed in the chart above.

But volatility can be our friend, too. If markets don't move, we cannot profit.

The *Risk-O-Meter* stays in the "green zone," and the market is not oversold. I'm waiting to pounce on small caps after any market smashes this year.

This strategy worked beautifully last year, and I will continue down this path.

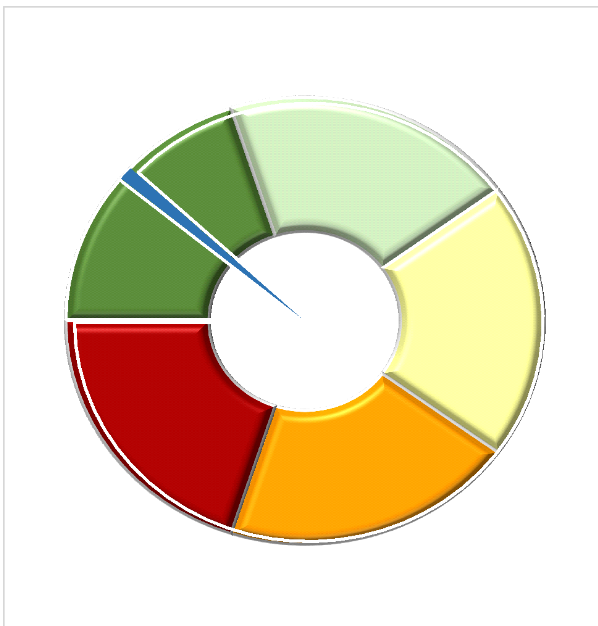
I saw the other day that Microsoft, Apple, Nvidia, and Amazon represent nearly 21% of the weight of the S&P 500.

I don't find the S&P 500 interesting here. That's moving a lot of dirt to push those companies even higher in market value.

I'm not interested in allocating more money to mega-caps here and now.

Next week, I'll share some research I recently conducted regarding the S&P 500.

Stay tuned.



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