Disciplined Wealth Management

09/30/2023 Quarterly Newsletter

Discipline is the key to success

With every approach to the stock market, bear in mind that there will always be periods of over-performance and periods of under-performance. Here at Disciplined Wealth Management (DWM), our goal is to concentrate your portfolio in the leading asset classes while avoiding the performance-sapping lagging asset classes; over the long term, our approach strives to provide you with better performance compared to the overall stock market average (the S&P 500) and with less risk. In summary – stay disciplined during times of under-performance; don't become emotional and abandon a proven long-term strategy during a usually short period of under-performance, but stick with it and let the strategy work for you. If someone says they are never wrong, they have just proven themselves otherwise.

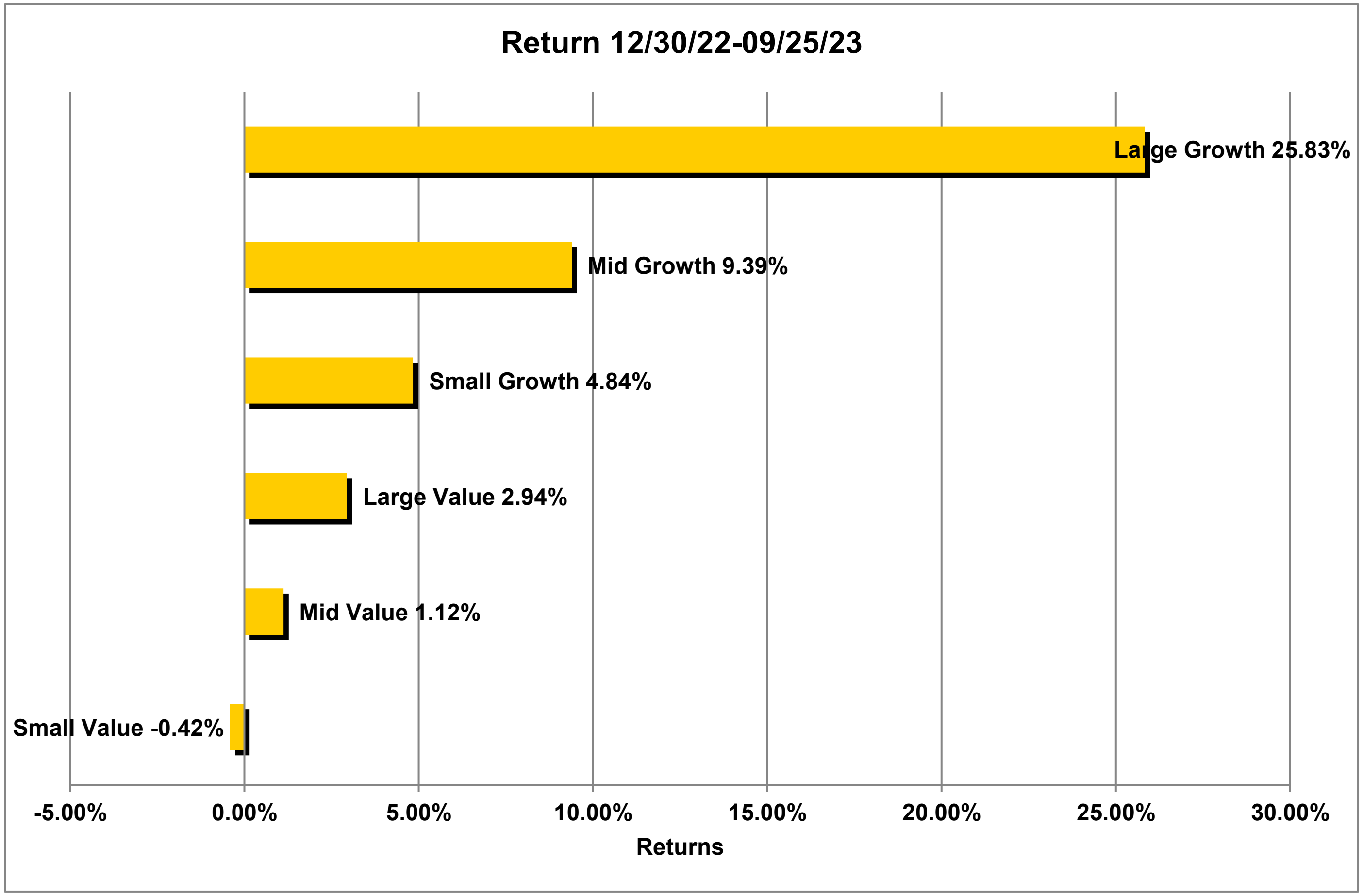
General Commentary—

A surge in gasoline prices in August boosted consumer price growth both versus the prior month and versus a year ago. Core annual inflation continued to moderate, largely driven by slower price growth in core commodities prices, including another decline in used car and truck prices. The disinflation impact from used cars and trucks, however, is expected to dissipate in the coming months. Medical care inflation is also turning up, as the pandemic distortions are now largely behind us. Shelter inflation has budged little and is still high. Furthermore, super-core inflation picked up last month. All of this suggests that the disinflation path will turn bumpier ahead. While the Fed stood pat this week, we still lean toward another rate hike later this year, most likely in December.

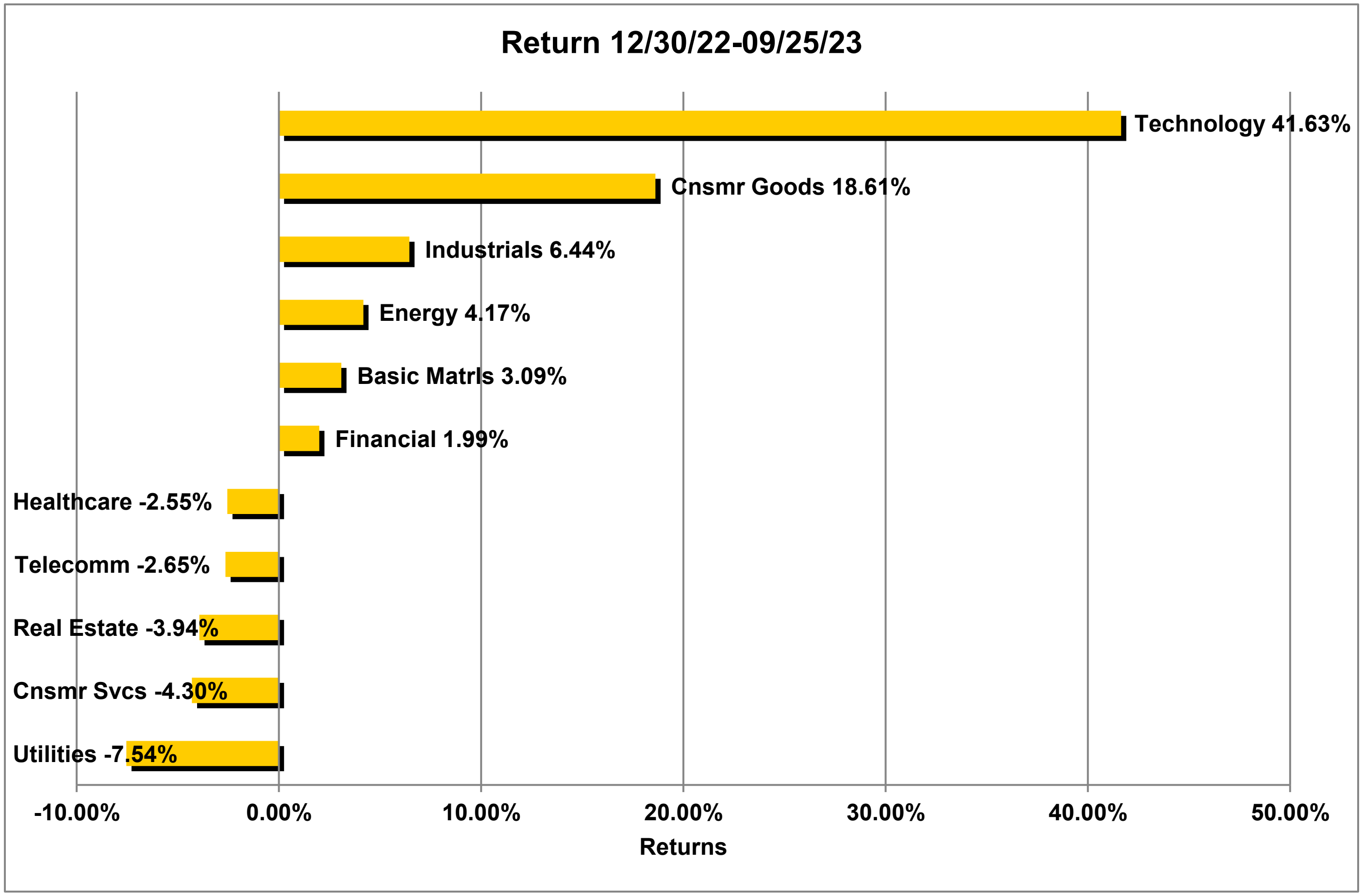
The Consumer Price Index (CPI) jumped 0.6% in August, the most since June 2022, matching the consensus. About half of the increase was attributed to a 10.6% jump in gasoline prices. All other energy components, including electricity, natural gas, and fuel oil, rose as well. Energy prices overall climbed 5.6%, also the most since June 2022. Food prices rose 0.2%, the same as in the previous month, but markedly softer than the 1.0%+ monthly gains in mid-2022.

As we go to press, the overall Market Environment Indicator (MEI) remains bearish, along with the Individual Fund Signals (IFS). We will continue to monitor these indicators and make the necessary adjustments. For an individual performance review, please call 303-471-5189. Please note that, in the following pages, the performance charts for certain asset classes showing year-to-date returns, are for illustration purposes only and do not reflect our Relative Strength Analysis (RSA) system.

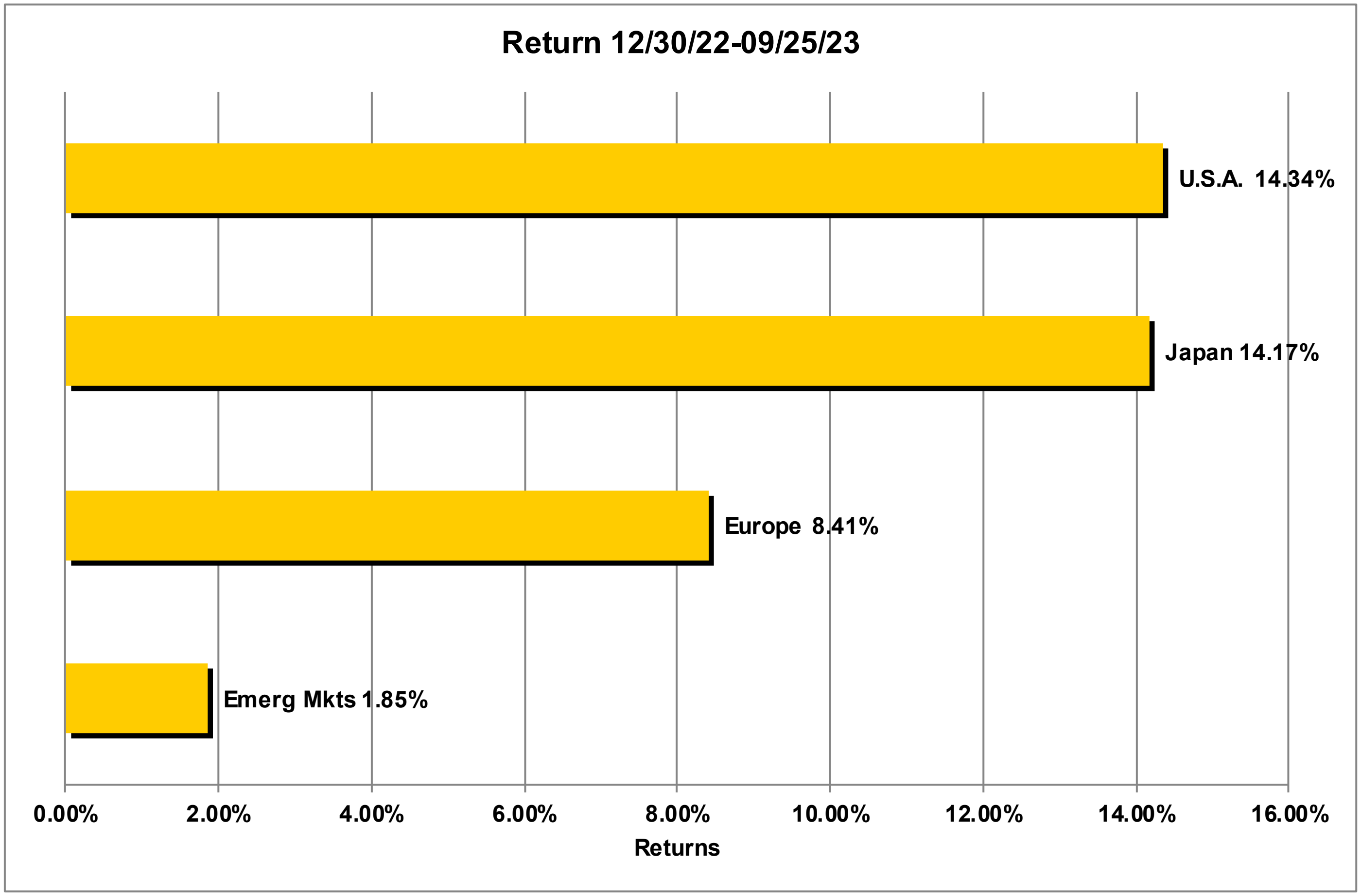
Style Boxes — As of September 25, 2023, large growth experienced no change in my RSA from last quarter, as it maintained its stronghold on the number one position. Large value experienced the largest climb in my ranks, jumping three spots to claim the number two position. Mid growth fell one spot to finish in third place. Small growth jumped two spots to close out the top four positions. Small growth was hit hardest, falling three positions to finish dead last in my RSA.   As usual, we will continue to rely upon our time-tested RSA to guide our investments in Style Boxes.



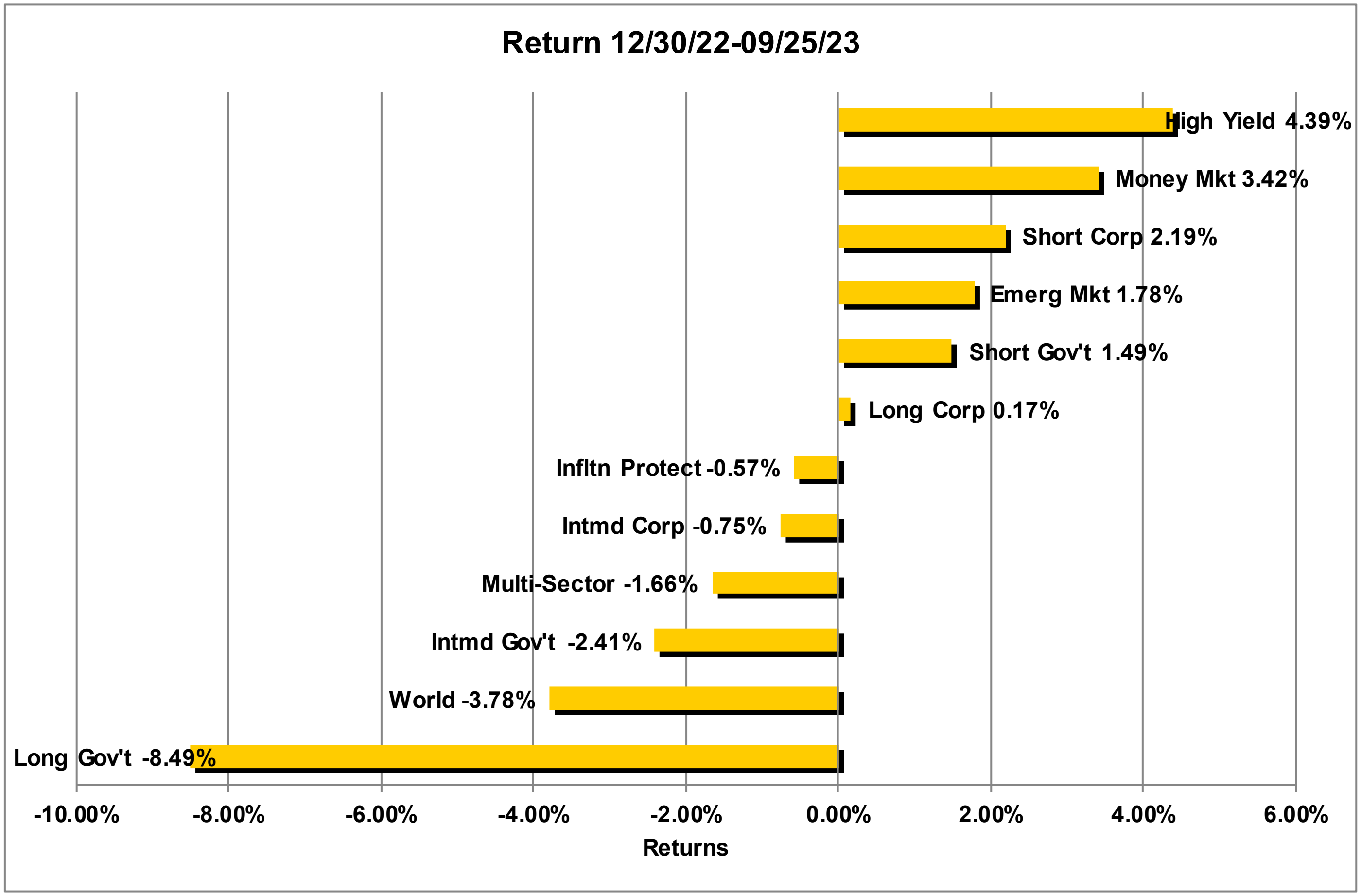
Sectors — As of September 25, 2023, technology maintained its stronghold on the number one spot. Energy experienced the largest hike in my RSA, jumping nine spots to claim the number two position. Financials jumped four spots to claim the number three spot. Consumer goods fell two positions to round out the top four in my RSA. Real estate and telecommunications both dropped the farthest in my RSA, falling five spots respectively to claim the bottom two positions. As usual, we will continue to rely upon our time-tested RSA to guide our investments in Sectors.



Internationals — As of September 25, 2023, there was absolutely no change in my RSA surrounding internationals from last quarter. The USA maintained its stronghold on the number one position. Japan came in second, Europe third, and Emerging Markets was in last place at number four. As usual, we will continue to rely upon our time-tested RSA to guide our investments in Internationals.



Bonds — As of September 25, 2023, with interest rates rising, bond prices move inversely to rates. With inflation hitting the highest level in forty years, it comes as no surprise that the safest bond play (money markets) came in first place. This is a rare situation. Still, when this happens, that will be the only position to concentrate on as all the others are losing value, and money markets are currently yielding more. So why expose yourself to any risk? As usual, we will continue to rely upon our time-tested RSA to guide our investments in Bonds.



Forecast — If the 2023 Market Pattern Rhymes with History, Expect More Gains!

Ned Davis Research did a compelling historical study, and if 2023 acts like prior cases, the market could move higher. The study went back almost 100 years and found that:

- After strong YTD returns of over 10% through July followed by an August pullback, the S&P 500 tended to post big additional gains through year-end.
- The road higher will have some rough spots, expect some short-term weakness before the year-end rally.

After >10% Gain thru July & a Down August, have been followed by big gains thru year-end. S&P 500 Index			
Year	Average 12/31-7/31 (%)	August Return (%)	8/31-12/31 Return (%)
1938	17.5%	-2.7%	9.5%
1954	24.5%	-3.4%	20.6%
1955	21.0%	-0.8%	5.3%
1964	10.9%	-1.6%	3.6%
1967	18.0%	-1.2%	3.0%
1975	29.5%	-2.1%	3.8%
1976	14.7%	-0.5%	4.4%
1985	14.2%	-1.2%	12.0%
1988	10.1%	-3.9%	6.2%
1995	22.4%	0.0%	9.6%
1997	28.8%	-5.7%	7.9%
1998	15.5%	-14.6%	28.4%
2013	18.2%	-3.1%	13.2%
2019	18.9%	-1.8%	10.4%
2023	19.5%	-1.8%	???
Mean	18.9%	-3.0%	9.9%
Secular Bear Market	20.6%	-1.8%	5.9%
Secular Bull Market	18.5%	-3.3%	10.9%

Source: Ned Davis Research 9.6.2023

Strong Finish for 2023

"The table above shows all the cases since 1926 when the S&P 500 index rose at least 10% year-to-date through July and declined in August. From Augst 31 through year-end the S&P 500 has risen 14 out of 14 times by an average of 9.9%." Ned Davis Research

For a slightly different view, we took the data one step further and separated the years if they occurred in a Secular Bear or Secular Bull Market. In Secular Bears the final four months rose 3 out of 3 times by an average of 5.9%, While in Secular Bulls, returns did almost twice as well, rising an average of 10.9% in 11 out of 11 cases. 2023 falls within a secular bull market, starting back in 2011. If the S&P 500 was able to achieve a 10.9% gain from the close on August 31st through December 31, that would put the S&P 500 at a new high of 5,000!

Expect some short-term volatility!

The historical study indicated that investors should expect some short-term choppiness during the strong four-month returns.

Year	Max Drawdowns
1938	-11.4%
1954	-3.3%
1955	-10.6%
1964	-3.6%
1967	-6.6%
1975	-5.5%
1976	-8.4%
1985	-4.2%
1988	-7.0%
1995	-2.5%
1997	-10.8%
1998	-10.0%
2013	-4.1%
2019	-4.1%
2023	??
Mean	-6.8%
Secular Bear Market	-8.4%
Secular Bull Market	-6.1%

The table shows the maximum drawdown in the S&P 500 during the September-December period when the January-July period rallied over 10%, followed by a loss or no gain in August.

During Secular Bull Markets the average Max. Drawdown is 6.1%. Not a fun prospect, but if it were to occur that would be a pullback to 4250, with the S&P 500 finding support at its 200-day moving average.

That would leave the S&P 500's current bullish rally intact and would represent a good buy-on-the-dip opportunity.

Regardless of the historical studies, DWM will continue to follow its strict risk management rule set: staying invested in the leaders when the indicators are positive and reducing exposure when the same indicators turn negative.

Source: Ned Davis Research

Will this be the case? No one knows for sure and only time will tell. DWM, for one, will continue to rely upon its tactical tools to stay in line with the market's fluctuations. Always remember: the key to investment success is to stay disciplined and flexible in an ever-changing market environment. The moment you start to second-guess your decisions is usually when you shouldn't.

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Sources: Style box data = i-Shares Russell Indexes. Source: Investors FastTrack.Sector data = DJ US Sector Indexes via I-Shares. Source: Investors FastTrack. International data = i-Shares for Emerging Markets, Europe, pan, S&P 500 Index for U.S.A. Source: Investors FastTrack.
Bond data = various bond exchange traded funds (ETF). Source: Investors FastTrack.