



A New Year's Message

January 4, 2025

Happy New Year! We and our families wish you and yours a happy and healthy 2024!

Global markets recovered strongly in 2023, following steep declines in 2022. To our knowledge, not a single market forecaster nor economist successfully predicted both years.

Nevertheless, the biggest Wall Street firms continue to “forecast” how they think the market will do in the upcoming year. For 2023, chief economists from Bank of America, Citi, Goldman Sachs, HSBC, Morgan Stanley, UBS, and Barclays (to name a few) all missed the mark by more than 15%. Having been so reliably wrong in '22 & '23, we can safely ignore their predictions again this year, knowing if any one of them is correct, it will be luck and not clairvoyance.

We share this not to knock these economists, but to highlight the lack of both precision and usefulness in such predictions. Warren Buffett wrote about what makes forecasting so challenging: “What’s a small probability in a short period approaches certainty in the longer run. (If there is only one chance in thirty of an event occurring in a given year, the likelihood of it occurring at least once in a century is 96.6%.)”

And here’s the paradox: we’ll all be surprised, by definition, if a 1 in 30 event happens in 2024. But if we take 30 such low-probability events, we can be almost certain that at least one of them will happen...and still, we’ll all very reasonably be surprised when it does.

As with every year, the biggest shock in 2024 is something that we’re not thinking about today. Amidst the uncertainty, there are things we can be pretty sure about (even in an election year):

- The economy cannot be consistently forecasted, nor the market consistently timed. Thus, we believe the highest-probability of capturing long-term returns of great companies is to simply remain invested in them. This means that on the day the market makes its next bottom, we will remain invested in it alongside you.
- Declines in mainstream equities, though frequent and sometimes significant, have always been surmounted, as the world’s successful companies constantly innovate. In times of crisis, great companies adapt and survive, and they will do so during the next crisis too.
- Successful long-term investing is goal-focused and plan-driven, and immune from the need for any short-term forecast. Investing well requires acting on a plan, not reacting to current political/economic/financial events.

As for the market whipsaw of the last 24 months, it seems that the massive fiscal response to COVID ignited a firestorm of inflation. To stamp-out that inflation, the Fed implemented the fastest interest rate hike in its history. Both stock and bond markets cratered in response. Despite this, economic activity has remained solid: most importantly, unemployment remains near historic lows. Inflation has come down significantly, but just as a car hitting the brakes continues moving forward, prices of goods and services are rising much more slowly, not falling. Now, the focus is on when and how much the Fed will reduce

interest rates, and if and when a recession may begin. These outcomes are unknowable and, thankfully, unimportant to us long-term investors.

Last, there are three other important items to keep in mind for 2024:

- 1) We've seen a marked increase in both the number and sophistication of scam attempts, and you can be sure that someone will try to scam you (and every American) dozens of times this year. Please keep in mind that every letter, text message, phone call, email, or DocuSign request you receive might be a scam attempt – even if it appears to be from a legitimate source.
- 2) Investors can now earn close to 5% in secure investments like Treasury Bills, fixed annuities, and some bank savings accounts. If you have an excess cash balance earning around 0.01% in the bank, we're glad to help you securely earn more interest.

This year, as every year, let's revisit your most important long-term financial goals. If we find that those goals haven't changed, we'll generally recommend staying with our current plan and rebalancing to make sure your investments remain on the path we set.

As always, we welcome your questions, and we look forward to seeing you in the new year. Thank you for the opportunity to serve you and your family. It's a privilege for us to do so.

With our best wishes for a wonderful 2024,

Your Friends at L&M

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