The Chance Financial Quarterly

Amazingly, we have made it through half of 2024 and neither the economy or the stock market has collapsed. The stock market, in fact, is doing quite well. Dangerously well. That means “I have no idea why the market hasn’t pulled back yet.” The economy is just so-so. Could the market be anticipating a Trump victory? Who knows? But let’s take a look more closely, as I try to summarize for you what happened in the 2nd Quarter of 2024. My goal is always to tell you the high points in simple language.

Making Sense of Markets and the Economy

First, your money. The S&P 500 rose 3.9% in the 2nd quarter. That’s an annual rate of almost 16%, which is pretty high by historical standards. Coupled with the 1st quarter’s gain, the market is up for six months by 14.5%, which is an insane level and implies almost a 30% rate for a year. If you like that, fine. But it bothers me, because there is just not enough optimism I can see to justify it.

What’s driving the market is corporate profits. Companies are making megabucks. We continue to shop like there’s no tomorrow. The PE (price/earnings) ratio of the S&P 500 is just 16.7, a bit low by historical standards. That number averages around 20 over the long run, so the market could be even higher. In other words, corporate profits are driving the market. It’s not crazy investors paying too much for stocks.

And Nasdaq, the index of newer more high tech companies is up over 18% this year. While I don’t doubt that the demand for and excitement over artificial intelligence will continue to fuel this sector of the market, I am kind of hoping it will cool down and be relatively flat the rest of the year. I’ll happily take the 14.5% we’ve earned so far and zero the rest of the year.

On other economic news, inflation remains a bitter pill to swallow, continuing to run at more than 3% a year. Though cooling a bit in the last few months, it still remains too high. The scary fact is that the Fed said it will be satisfied with 2% inflation.

Really? Would you be satisfied if the value of your money eroded 2% every year for no reason whatsoever? I am sure you don’t worry if there are up and down years in the stock market. You recognize that downs come with ups. But to accept a 2% inflation rate is to accept an automatic loss of your money of 2% with no benefit. At least when the market is down, it’s a reflection of companies taking risks, for which rewards usually pan out. Inflation virtually never flips over to the negative (deflation) range.

Inflation is a horrible tax that delivers nothing in return and, sadly, hits the poor the hardest. Better policies would target and hopefully achieve a near zero rate. But, of course, they’re not listening to me.

Interest rates remain high, a Fed policy designed to combat inflation. If you want to buy a house, it’s a tough time, with prices high and rates over 7%.

GDP (Gross Domestic Product, a measure of economic output) has taken quite a dip in the last several months averaging less than 2% and around half what it averaged in the first quarter. This drop in GDP has made the Fed more willing to hint at a rate cut later this year. I'm not holding my breath.

Our economy also remains not fully employed. The unemployment rate, now a little over 4%, has been ticking up. It's almost impossible to expect that to fall below 3%. It hasn't since the 50s, but we ought to aim for 3%. There are truly a lot of people not working involuntarily but refusing to work. Ther are still plenty of jobs out there.

Some people are saying that the strong dollar is good. At $1.08 per euro, it is indeed historically strong. For those taking European vacations, that's good. But, a strong dollar is really bad overall. It makes American goods and services more expensive to foreigners. We always want to bring more money in than we send out, and a strong dollar isn't favorable to cutting that ratio, always in the red, down.

A Teaching Moment: Are You Being a Good Investor?

Being a good investor means knowing that if you take care of your money, it will take care of you. If you don't take good care of your money, someone else will. I am reminded of a fantastic commercial from several decades ago for the low-cost broker, Charles Schwab. It showed a large expensive house plus a fancy car parked in front of it. It said "Your money bought all of this. Except it's not yours. It's your financial advisor's."

Being a good investor involves just doing a small number of things.

Like starting early. I am reminded of a great line from a Crosby, Stills, and Nash song, "Wasted on the Way," that goes, "I am older now, I have more than what I wanted, but I wish that I had started long before I did." The sooner you start investing, the more money you'll have years later. Related to this, it also means getting your children started early. I had my two girls invested in the S&P 500 when they were 16.

And as for you, you may be thinking, "I have IRAs, 401(k)s, etc., so I'm good on this." But is the totality of your investments just the money invested through your employer's plan? I once asked a non-finance academic colleague where they put their excess cash. The reply was, "Well, we just let it sit in the bank."

OMG.

Not a good investor. Because listen folks. The bank takes all of your money, pays you very little interest((less than 1% on a Chase savings account), puts about 10% as reserves at the Fed, earning about 5% interest on that, and lends the other 90%, earning a whole range of rates but roughly around 8%. So if you leave $100,000 sitting in a bank savings account, the bank is making $7,000-$8,000 a year in interest off of you. For that kind of profit, your banker should be sending a limo to your house and taking you to a fine dinner several times a year.

Being a good investor means recognizing that you can invest in the market outside of your retirement funds through your employer. This is what you call after-tax investing. You've already paid the tax on the money, and you'll have taxes on capital gains and dividends. But that is better than letting the bank make money off of your money.

Another characteristic of a good investor is that they pay attention to costs. I covered this in the 2nd issue of 2023, which you can download and read again (see link at the bottom)

And finally, good investors don't panic. They don't buy and sell in anticipation of catching rallies or missing bear markets. They invest consistently throughout the ups and downs, firmly believing that in the long run, the American economy will grow. It is the panicky investors that cause the ups and downs, and they hurt themselves by all of their trading but don't realize it.

Good investors are greedy, but they have a different kind of greed. They want to get rich, but they know that it takes time and discipline. Bad investors want to get rich and don't have the patience to wait. So they do a lot of stupid and costly actions. And they just keep doing them again and again.

Be a good investor.

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