GRAHAM
WEALTH MANAGEMENT

2024 Halftime Report to Clients

July 9, 2024

Dear Valued Graham Wealth Management Clients,

As we reach the midpoint of 2024, I want to take a moment to reflect on the journey we've shared so far this year. At Graham Wealth Management (GWM), we have navigated a historic first half of the year together.

The AI Boom has been a significant driver of market activity, with Nvidia leading the charge with an impressive 181% rise from January 1 to its June 18 peak. Microsoft, Meta, Google, and Amazon have also reached new highs this past week. Additionally, Amazon became the fifth company to reach $2 trillion in market capitalization. Even Tesla has shown remarkable growth, climbing 42% from June 1 to July 5.

Despite these gains, we've also faced challenges. Interest rate volatility in the bond markets, the Federal Reserve's policy decisions, and whispers of a potential recession have kept us vigilant. Adding to this, heightened political uncertainty looms following a notable first presidential debate. Inflation remains a focal point for consumers, corporations, and policymakers. This year has indeed been marked by volatility and uncertainty in the direction of the economy, consumer confidence, interest rates, politics, and inflation.

Given these circumstances, you might be wondering, “What Do We Do Now?”

We NAVIGATE. Throughout history, great investors, businesspeople, and corporations have successfully navigated their economic environments, allocating their capital wisely. At GWM, we are committed to doing the same. We are prepared to ride the bull market higher or weather an economic slowdown, capitalizing on high-quality assets at attractive valuations.

You may ask, “How do we accomplish this?” Foremost, cash is still king. Inflation rates have steadily been coming down since the Fed started raising interest rates two years ago. An investor can earn 5.5% on their cash while inflation is holding at 3%. This is a 2.5% real yield, meaning investors have been able to earn a positive return on an inflation-adjusted basis. We are now in our twelfth month with the Fed Funds Rate at 5.25%-5.50%, allowing our clients to benefit from low-volatility, ultra-short-duration US Treasury Bills.

This value investing posture serves as a hedge against potential economic and stock market slowdowns and volatility. It allows our clients to sleep well at night by collecting consistent interest while maintaining some equity exposure to capture market upside with less downside risk in their balanced portfolios. Additionally, these investments provide consistent interest, avoid stock market volatility, and keep liquid capital ready for buying opportunities.

At GWM, we continue to exercise controlled, risk-adjusted exposure in our clients' portfolios. Currently, we have focused on income investing primarily through dividends and interest returns during this higher interest rate environment. This is because mature, established businesses with substantial cash flows continue to return dividends to their shareholders at a higher rate than growth companies that may rely on financed debt to grow and improve their operations. When considering the economics of higher interest rates, it becomes evident that income investing can stack rapidly in this environment.

This doesn't mean we completely avoid growth stocks; we still maintain exposure to those areas. There are sectors within the economy where growth companies excel without high debt loads, continuing to grow revenues by over 20% year over year. To manage risk, we have begun reducing exposure and realizing gains in highly appreciated sectors such as AI, similar to the actions taken by many CEOs and corporate insiders in their public transactions. We then redeploy these gains into discounted companies in areas like small-cap stocks, communication stocks, and longer-dated high-quality bonds.

Taking gains from highly appreciated positions, such as AI, and redeploying them into discounted assets allows us to reduce risk from potential pullbacks in valuations of rapidly appreciated assets. This strategy aligns with the fundamental principle of "Buy Low, Sell High." Additionally, it ensures that we secure gains for our clients and rebalance their portfolios to stay in line with their core allocation goals.

As we move forward, it is crucial for us to remain aligned in our investing philosophy. Some clients are in the early innings of their investing careers, while others are in the eighth or ninth innings. We take each client's entire financial situation into account when investing their money.

Our younger investors have the advantage of time to save and compound their net worth rapidly. Meanwhile, our veteran investors are at or nearing their golden years. It's vital that we stay on the same page regarding each client's investment journey and timeline. We aim to ensure that our younger investors do not miss out on valuable long-term compounding interest and that our veterans do not lose their hard-earned capital in their most crucial years.

When you chose GWM as the steward of your capital, we did not take this responsibility lightly. Like Allie says [https://youtu.be/EJ9yR79dldw], we care about our clients and lead with your needs as our first and only priority. That's the value of working with Graham Wealth Management.

On behalf of GWM, I want to express our gratitude for your trust. We will continue to lead the way in helping you achieve your financial goals, navigate volatile markets, and face whatever uncertainties lie ahead. Together, we will accomplish much, and I am thankful for our continued partnership. Here's to the next six months!

Sincerely,

Connor Graham, MBA, CRPC®
Chief Executive Officer | Head of Investment Management

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