Summer Doldrums

I know I've talked about this in the past – many years ago probably. But the old saying goes "Sell in May and go away". Historically, markets have increased more from November to April. Well, maybe we need change that to "Sell in April". Last month, the S&P 500 was down 4.08%. Of course it has recovered, gaining over 3% so far month to date. The tech rich Nasdaq is hitting new highs. As my son constantly reminds me, it's not about timing the market, but time IN the market. (I've trained him well).

Artificial Intelligence (AI) is in and will probably remain in the news for years to come. Something like internet stocks 25 years ago. The internet, and other technology wonders will continue to develop and change our lives. It always has. It always will. Some will take a bit longer. Pure Electronic Vehicles (EV's) are taking a bit longer to see adaptability. It doesn't mean that in 20 years, it will remain a far distant 3rd in the types of fuel vehicles sold. Currently, 82% of vehicles sold rely solely on gasoline or diesel fuel. 18% are either hybrid, Battery Electric Vehicles, or plug-in hybrids. And as a potential recession loom, a further decline in sales could be in the cards. Most EVs are luxury cars – something that maybe owners of Nvidia, or maybe Bitcoin can afford.

Interestingly, Utility stocks have done very well. Once a defense investment (low volatility, steady income, etc.), it is the new Artificial intelligence (AI) play. As companies are spending more money for AI, this requires a lot of power. Utilities, especially clean energy utilities, such as NRG, and Vistra Corp., are up staggering amounts. Vistra alone is up more than 144%. NRG Energy is up nearly 58%. Some of these stocks might be a bit overbought (like maybe the Meme Stock of GameStop Corp). But it is a reminder that AI will continue to influence the markets for years to come.

I wanted to write a bit about some specific portfolio holdings that many of my clients hold. The largest holding in many portfolios is the DFA U.S. Core Equity Portfolio. This Large Cap Blend is the core holding for exposure to US Securities. It holds a whopping 2618 securities, less than half of the total available. Dimensional Fund Advisors (DFA) is a bit unique as it almost acts as an index fund without the handcuffs. While index funds must hold what the actual index holds, DFA does not have to. So, when new securities move in and out of the index on a quarterly basis, there is a lot of buy and sell pressure. DFA has a world-class trading desk that contributes to its return, instead of detracting.

This fund offers broad exposure to stocks of all sizes listed in the US. But it has some mild tilts toward those with lower valuations, higher profitability, and smaller market capitalizations. It still holds Microsoft, Apple, NVIDIA, Amazon, and all the Mega caps. But the market weight of those 4 is only 15.35% in the US Core Equity fund vs 23.38% of the S&P500. It is an actively managed fund, but more quantitative, giving it an expense ratio similar to index funds. But with its value tilt, along with its smaller cap tilt, it has not kept up with the growth / mega cap tilt of the S&P500.

Nevertheless, it has still had a solid performance. As of April 30th, its 3-year annual return has been 7.20%, outperforming the Russell 3000 TR by .85%. It has lagged the Russell 3000 5-year return (12.40%) by only .03% but lags the 10-year return by .50% at 11.31%.

Overall, this fund has done what it was supposed to do – be a great diversifier while tilting toward factors that have historically been associated with superior long-term returns. But with the Magnificent 7 having such a large weight within the S&P500, and any large cap index, it simply can't outperform during this investment cycle.

Morningstar ranks thousands upon thousands of securities worldwide. They break it down into two categories. They are:

> Star Rating – compares an investment against its peers on a risk adjusted basis. So, if it has a 4 or 5 star, it outperforms. If it has a 1- or 2-star ranking, it underperforms its peers.
>
> Analyst Rating – a forward looking indicator focusing on qualitative traits, broken down by People, Parent, Process, Performance, and Price. It's an assessment of a fund's ability to outperform its peer group or a relative benchmark on a risk-adjusted basis over a full market cycle. Silver is earned being in the top 35% - 50%. Gold is earned by being in the top 15%

The DFA US Core Equity is a 3-star fund and holds a Gold rating.

Briefly, Bitcoin still simply amazes me. I'm not a big crypto fan myself. Part of that is because it's a newer asset class. True, a portfolio can have crypto as a good diversifier (it has little correlation to stocks). But the uncertainty just doesn't fit into my investment scheme. It recently underwent a halving – one can only mine half as much as before. This is planned and occurs every 4 or so years. There is a limited amount of bitcoin (21 million). To that point, there is only so much gold as well. But with Bitcoin, we know how much there is, and when the last of it will be mined. Miners, like Riot Platforms and marathon Digital Holdings have huge mining farms and warehouses of super computers. And do you know what? Their utility bills are outrageous.