2024 Rebalance Recap

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This week marked the end of our 2023 portfolio management due diligence process for 2024. We finalized rebalance decisions last week and traded client portfolios on Monday, November 13th. As a client, you may notice additional activity and trade confirmations from Schwab in the next two weeks as we finalize some year-end tax loss harvesting in our Resilient America and Dividend Equity portfolios. The Stenger Investment Committee has worked hard the past few years to right size high level asset allocation decisions which made this year's rebalance relatively straightforward, but still incredibly important. Our guiding philosophy of buying high quality, large, U.S. companies hasn't wavered. Neither has our avoidance of volatile long-term bonds. All presentations from 2024 Investor Day were recorded and will be available shortly via our website. If you were unable to attend the event, we encourage you to watch the replays for a deeper dive into the Stenger rebalancing process, which will reach its 43rd anniversary in April of 2024.

We continue to make the case for disciplined, goals-based asset allocation, as opposed to risk-based asset allocation. A risk-based approach allocates capital according to buckets such as conservative, moderate or aggressive. A goals-based approach starts with financial planning and cash flow needs, investing short term assets conservatively, and long-term assets more aggressively. Many portfolio managers that take a risk-based approach have used the traditional 60/40 portfolio to allocate capital. Problem is, a lot of them got the 60 and the 40 mixed up. Our belief is that stocks are the growth engine of the portfolio, not bonds. Therefore, risk should be taken with equities, not fixed income. If you get the two backwards, you end up with a portfolio that can't beat inflation but is just as risky as a stock portfolio in declining markets. With that in mind, we evaluated 5 key themes in this year's rebalance.

#1 – Technology is Deflationary: Companies facing rising costs leverage technology to reduce input costs, thereby boosting their margins. Not all tech companies are created equally. We continue to distinguish between high-octane, exploratory tech vs. established, Big-Tech. In many cases, buying early-stage tech companies requires more risk taking than necessary. We've continued to buy tech companies after they've climbed to a higher position in the S&P 500 Index. We also buy companies we feel can benefit from technological transformation, including healthcare and financials.

#2 – The Big Get Bigger: While we think stocks will do well in 2024, we still want to own the best high-quality names as opposed to lower quality small and mid-cap companies. Small and mid-cap stocks can do well over time, but correlations have become so strong between the top and the bottom, we feel the reward isn't worth the risk. The biggest names have been preparing for a downturn and we feel are adequately positioned to weather any potential downturns next year.

#3 – Equities Beat Inflation: Bond yields rise during high inflation periods. Because of this, real returns on bonds are usually around 1.5-2.5%. At the same time, long term research from Dr. Jeremy Siegel shows stocks compounding at a real rate of 6% per year. Over time, stocks are the best inflation hedge, not bonds, gold or cash.

#4 – U.S. Beats International: While international stocks are cheaper than U.S. stocks on an absolute basis, they're still expensive on a relative basis. Europe and China have very few companies worth buying. Japan has a handful of strong companies, but without currency hedging, produces meager results over time. The U.S. is home to some of the best companies and entrepreneurs on earth, a phenomenon we don't see changing anytime soon.

#5 – Short Term vs. Long Term Bonds: While long term bonds are down nearly 50% since peak-2020 levels, we continue to believe fixed income's role in the portfolio is downside protection and should be conservatively allocated. While we may miss some upward momentum in long term bonds, we aren't willing to bet the farm when we can earn over 5% with little risk on short-term Treasuries.

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