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INVESTMENT MANAGEMENT

SLIMMON'S TAKE > TAKEAWAYS & KEY EXPECTATIONS

Equity Market Commentary

SOLUTIONS & MULTI-ASSET | APPLIED EQUITY ADVISORS TEAM | SLIMMON'S TAKE | JANUARY 2023

Five Ideas for 2023

Please mark your calendars to join me for our full 2023 Market Outlook/2022 Review webcast on Tuesday January 17th at 12pm EST.

In the meantime, here are five investment ideas for 2023:

1) Pessimism is rampant.

This reminds me of a great quote from Warren Buffett:

The most common cause of low prices is pessimism. We want to do business in such an environment, not because we like pessimism but because we like the prices it produces. It's optimism that is the enemy of the rational buyer.¹

Consider:

The S&P 500 just produced a miserable -18% year. (That was far worse than my “lackluster year” prediction from a year ago.) The NASDAQ was worse, down -33%. EAFE was down -15%, and emerging markets were down -21%.²

Yet:

- a. Sell side strategists are less optimistic for 2023 than where they started 2022.³
- b. Over half of all economists expect a recession in 2023.⁴

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¹ 102 Warren Buffett Quotes on Life, Success, & More. December 21, 2022.

² Bespoke Investment Group. January 2, 2023

³ Bank of America Securities Sell Side Indicator. Wall Street is bearish. This is bullish. January 3, 2023.

⁴ Philly Fed Survey, Wall Street Journal. December 2022

- c. The put/call ratio hit an all-time high in December.⁵
- d. Global asset allocators are overweight bonds to equities for the first time since May 2020.⁶
- e. The stars of the business media are now the bears. Be optimistic and you are practically laughed off the set or worse...cancelled!

Perfect for one more Uncle Warren quote:

*It's been an ideal period for investors. A climate of fear is their best friend. Those who invest only when commentators are upbeat end up paying a heavy price for meaningless reassurance.*⁷

We expect 2023 will not be nearly as bad as consensus believes.

2) The “great company” list of opportunities is growing.

When we screen for companies that have compounded on a long-term basis by over 20% a year but are down from their peaks by over 40% and have very reasonable P/Es.... the list of these secular winners is getting long.

The last time this occurred for us was spring 2020.

Buy secular winners who have already experienced a cyclical bear market.

3) S&P 500 cap-weighted has a problem.

The S&P 500 is overly concentrated in mega-cap tech stocks. To be clear, these are wonderful companies. Given they were largely woeful performers in 2022, this brings them mostly down to fairly reasonable valuations.

However, government regulators in DC and Brussels are turning up the heat on these companies. Not only in questioning the dominance of their businesses, but also by limiting their ability to continue growing through acquisitions.

History shows that it is almost always governments who knock the biggest companies off their pedestals.

S&P 500 equal-weighted or active stock picking will likely outperform the S&P 500 cap-weighted index in 2023 and beyond.

⁵ Bespoke Investment Group. December 2022

⁶ Bank of America Global Fund Manager Survey, December 2022.

⁷ 102 Warren Buffett Quotes on Life, Success, & More. December 21, 2022.

4) Investors are exhibiting classic recency bias.

Chasing the darlings of the previous bubble after it bursts (“buying the dip”) is one of the most common errors investors make.

Although uber growth stocks are down a lot, they are still very expensive.

Yet the memory of the ‘easy’ money is simply too tantalizing.

In 2022, *more money flowed into the ARK Innovation ETF than into all US value strategies*. Extremely reminiscent of 2001-2002.

Ignoring what you pay for a stock is not an enduring investment strategy, even if it can work in frenzied bull markets.

5) China and emerging markets are in the early stages of outperforming.

Because the ravages of the previous bear market hurt so many, and initial attempts to ‘buy the dip’ failed, recency bias is yet again keeping investors skeptical.

However:

- a. What is the one major central bank not tightening rates? Peoples’ Bank of China.
- b. The Communist party had to pivot from zero COVID. Locking citizens in their houses is not exactly consistent with the goals of “common prosperity”.
- c. The dollar’s unrelenting climb has been a major headwind for emerging markets. That bull market finally broke in Q4.
- d. See #2 above.

We expect investors will turn more optimistic only after prices rise further.

As we move into 2023, in my 36 years in the investment business, I cannot think of a year that is better defined by the age-old adage:

Be greedy when others are fearful.⁸

Andrew

⁸ 102 Warren Buffett Quotes on Life, Success, & More. December 21, 2022.

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