<u>The Outlook: Jan. 5, 2024</u>

Surrounded by lies . . . or something.

After a few dozen times around the block in life, it's easy to ask ourselves "If we had the chance, what single piece of advice might we give our young selves, looking back through the decades?" Of course, "<u>single</u> piece of advice" brings us to a screeching stop, pretty much, when we ponder the long list of blunders we usually manage to commit if we just have enough time. But the exercise is kind of useful, anyway. One of Outlook's "single pieces of advice" might be this:

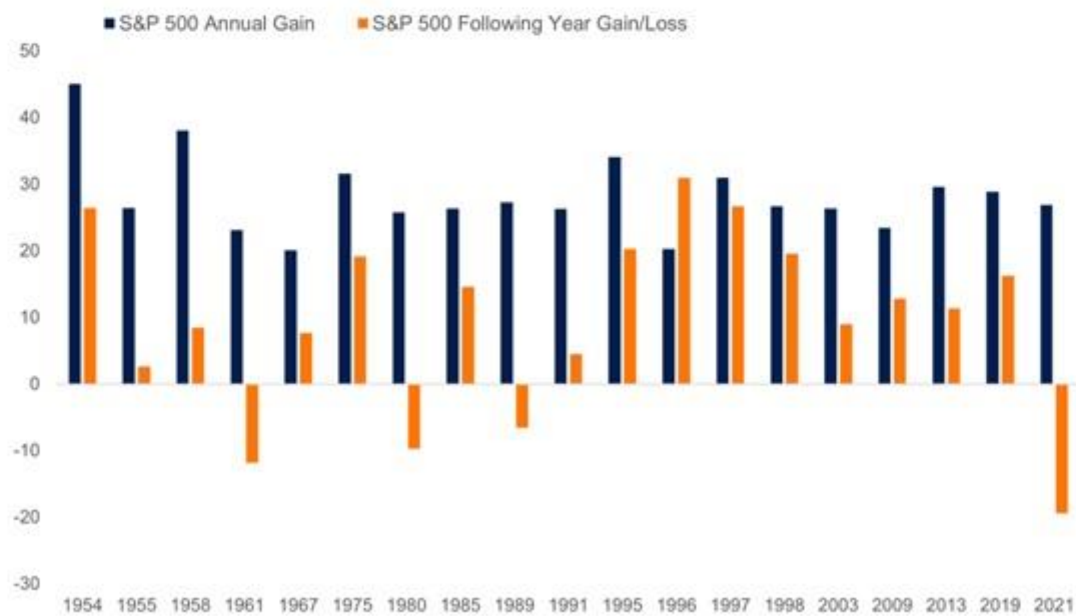
Never forget—never!—that we are surrounded by lies, more or less, every day of the year.

That sounds too cynical indeed. The mild version of it, getting the same message across, would be:

We'll make a lot fewer mistakes if we assume that almost every statement we hear, or every piece of information we are shown, is misleading, distorted, or downright wrong . . . so we <u>must</u> look into it before acting on it.

That's a little friendlier. Here's an example from the investment world today.

29. Encore performances (I). "Taking all years since 1950, when the S&P 500 rose 20% or more — there were 19 of them — we find that the index gained an average of 9.6% during the next year, with positive performance in 15 of those later years."



There are too many bars in this picture to scrutinize. Here's its message, based on 70 years of history: <u>"When the market has a great year, don't expect much the next year."</u> Sounds reasonable. What might be "misleading, distorted or wrong," here, much less "lies"?

Just this. "The market" (the S&P 500) is not what it used to be. It's not even what it was in 2020, much less in 1995 or 1954. The market was up 26% last year . . . and almost the whole thing came from the "Magnificent Seven" companies—Amazon, Meta, Alphabet, Nvidia, Apple, Tesla, Microsoft—which make up <u>30 – 35%</u> of the whole value of the S&P 500 Index. That's a jaw-dropping number, as many observers have noted. So in the 70 years from 1954 to 2023, when the market had a "great year" it meant most of its 500 big companies did "great," or at least "pretty darned well." Last year it meant 7 companies took a trip to the moon, as a group, and most of the other 493 gave us somewhere from "poor" to "fair" to "all right, pretty good" performance. (That last was Outlook's core group.)

So that picture up there, and the hard-working study behind it, aren't "lies" . . . but they sure are "misleading, distorted, and maybe wrong." (2024 will show us that.) The market's nature being what it is, with the betting crowd endlessly jumping on and off the bus, making the roller coaster sharper in both directions—it's quite all right to ask how we can possibly do as well after a "great year." We should be grilling the "Magnificent Seven" with exactly that question today. But we should not be feeling sour about 2024, today, because 2023 was so great. It wasn't so great for most companies, though it was ridiculously great for the "Mag Seven." That 70-year chart and history, up there, told us something useful (somewhat) for 69 years . . . but then the "market" changed dramatically, and it's not useful anymore.

We might have to save "Surrounded by Lies" for the world of politics. "Surrounded by Distortions" works well enough in the investment world. Either way, the principle of "disbelieving until we check it out" would have saved one young analyst from a good list of blunders and bruises—and it's a genuine "Golden Rule" for us investors.

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