Alexis Investment Partners, LLC

Practical ✧ Tactical

January was turbulent and finished mixed. A pullback was widely anticipated after a strong finish to 2023, yet stocks remain resilient. The S&P500 ETF (SPY) gained +1.59% in January, but the average stock in the index fell, as evidenced by the equal-weight S&P500 ETF (RSP) which lost -0.85%. Globally, the All-Country World ETF (ACWI) was up 0.28%. Yields rose modestly, as cash (SWVXX) gained +0.4% while the aggregate bond ETF (AGG) fell -0.15%. (more performance info on page 2).

Among the many things that can confuse and frustrate investors is the inconsistent response between markets and economic news. **Sometimes good news is good for stocks, and other times markets seem to reward a more sluggish outlook. Recent stagflation (slower than average growth, with higher than average inflation) is better than recession but hardly ideal. Investors are hoping that soft data will allow the Fed to ease rates.** More on page 3.

Some of you are already working to prepare your tax documents. **Please note that 1099 forms become available in batches.** For retirement account distributions, 1099r forms were out in January. Taxable account 1099 forms won't be available until mid-late February. We are happy to help you estimate income and realized capital gains as needed.

Your portfolio is designed to meet your long-term goals based on your resources and preferences. It's easy to be complacent after a good year, but **please schedule time to review your portfolio and performance and update us with regards to any concerns and/or change in circumstances.**

Our models, indicators, and analysis continue to confirm a Bull market. Earnings continue to come in better than forecast, and supply chains are improving. Inflation is slowing as productivity slowly improves. Although the pandemic stimulus has been revoked, the Fed is likely to be less restrictive in the months ahead. **The first few months of an election year tend to be choppy.** That said, election years have generally been positive for stocks.

We look forward to learning more as the year unfolds. We have no crystal ball – thankfully, we have the flexibility, discipline, and experience to adapt to a broad range of potential outcomes which has allowed us to thrive through full market cycles.

What to Expect in Portfolios

Last month we wrote: "**We tactically sold some stock holdings in late December but remain marginally overweight stocks.** Scaling back gives us the flexibility to buy dips should we see early weakness. **This is not a sign of concern, just normal risk management following windows of strong performance.**"

January was volatile. To manage volatility, it helps to act proactively so we don't feel compelled to take defensive action reactively.

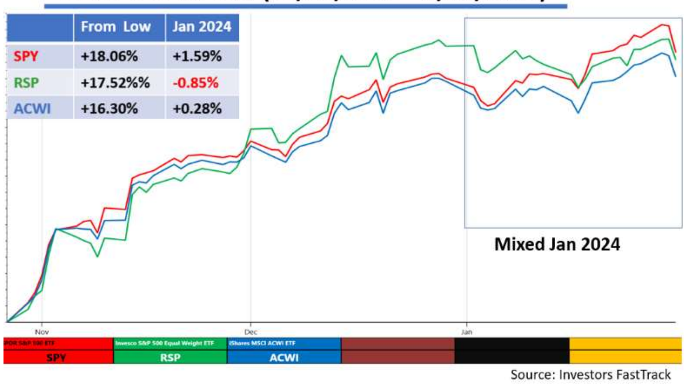
Stocks are overbought but remain resilient. We are prepared to buy pullbacks or trim exposure into strength. We remain long-term optimistic, but also respect potential near-term risks.

Contents

Since the 2023 lows, the S&P500 ETF (SPY - red), equal-weight S&P500 ETF (RSP - green) and All-country World ETF (blue) have enjoyed strong gains.

January, however, was mixed, as **investors wait for more clarity regarding the timing and pace of anticipated Fed easing.**

Since Oct '23 Low (10/27/2023 – 1/31/2024)

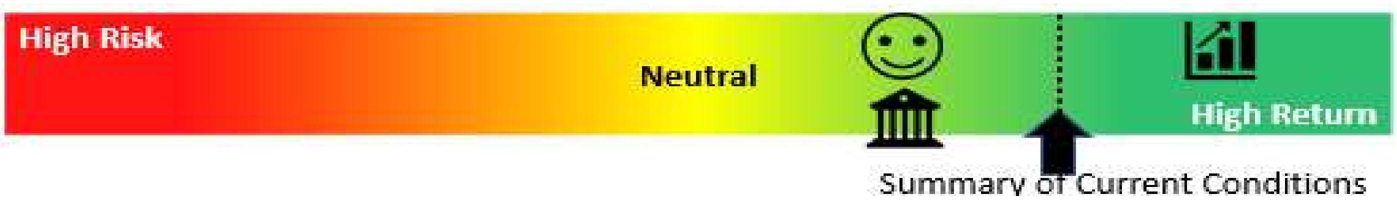


Source: Investors FastTrack

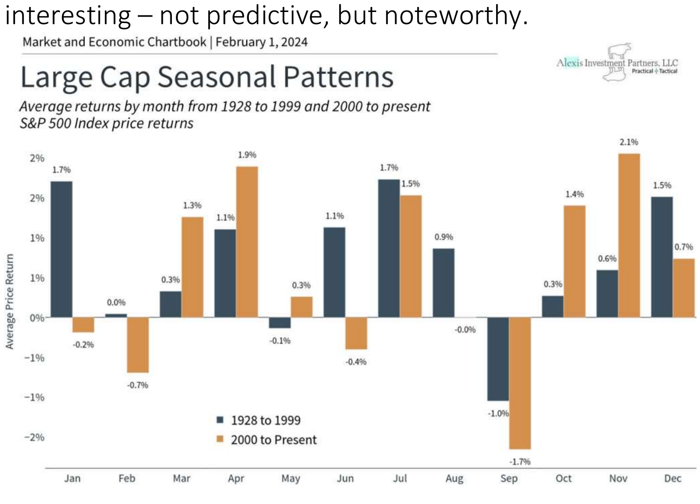
The chart below shows the net performance of **our most popular composite** since inception (120 accounts – see disclosures on page 4).
The last four+ years have included the COVID crash and 2022 bear market. **Our strategy and discipline led to greater participation in gains than declines, allowing us to add value through this volatile time.**

Insights and Commentary

Investing can be an emotional roller coaster leading to costly mistakes. To navigate effectively as we seek greater participation in advances than declines, we have found it helpful to monitor a series of indicators and models based on 3 key tenants, (Don't Fight the Fed, Don't Fight the Trend, Follow Sentiment Except at Extremes) summarized in the chart below:

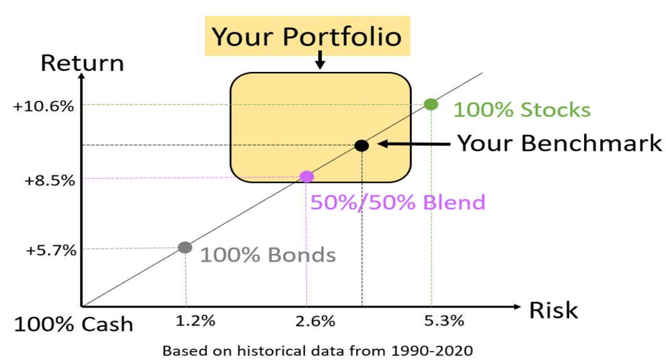


February has earned a reputation for lackluster performance. We find seasonal patterns like this interesting – not predictive, but noteworthy.



When we consider this within the context of a recent spike in sentiment and uncertainty around when the Fed will begin easing, we are prepared for possible near-term volatility. We also stress that **pullbacks and corrections within bull markets tend to be shallow and short-lived.**

Risk/Return Expectations



This graphic serves as an important reminder that our goal is to add value (generate higher risk-adjusted returns) through full market cycles by allowing our portfolios to deviate from benchmarks. **We base allocation decisions on an assessment of both risk and return potential.**

Portfolios are based on client needs, goals, and preferences.

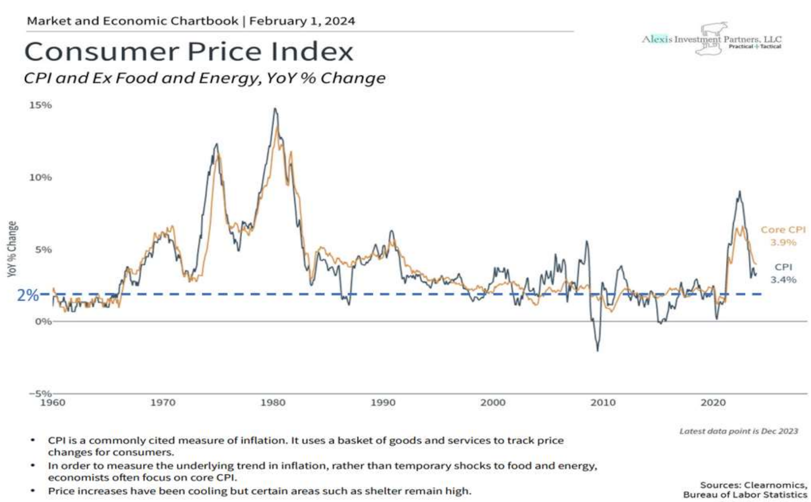
Update, Observations, Indicators and Outlook:

In terms of our Market Pulse (right), **the Bull Market case remains intact.** In bull markets, we anticipate and manage pullbacks and corrections, but our focus is to participate in the growth potential of various investment that trend higher.

We don't make money avoiding risk – we manage risk, so we have the confidence and capital to make and maintain prudent long-term investments in securities that are inherently volatile and through environments that are uncertain and sometimes uncomfortable.

We believe the reason markets are so focused on the Fed and therefore seem to favor signs of slowing over strength is that **Fed policy is restrictive (pressuring economic growth to tame inflation).**

The chart below shows that **inflation is easing.** The dotted blue line is 2% inflation (as measured by the CPI, which is higher than the Fed's preferred PCE indicator). The Fed understands that very high and persistent inflation in the 1970s included multiple spikes and fears a resurgence if they pull pressure back prematurely.



Productivity is the key to sustainable growth. The Fed risks stifling productivity if they stay restrictive too long. We believe they will begin normalizing rates in the months ahead.

2 signs that the bull market is sustainable will be normalization of the yield curve (long-term rates yielding more than short-term rates) and markets shifting to favor good news (earnings and GDP growth…) over bad news (layoffs, other signs of stress). This also tends support broadening leadership. This will take time.

We appreciate your continued confidence and look forward to your questions and comments.

Market Pulse:

We try to avoid jargon, but a few terms are helpful when describing financial conditions.

Bull Market: markets trending up (making higher highs on rallies and higher lows in periods of decline). **We can expect periodic pullbacks and corrections, but these should be relatively short and shallow – followed by resumption of the up-trend.**

Consolidation: after a period of strong gains or steep declines sometimes markets become range bound, moving up and down by 3-5% over several weeks. After consolidation, the prior trend resumes.

Pullback: a decline of 3-5% that generally happens at least twice per year. Pullbacks often resolve within a few weeks.

Correction: a decline of 5% to 10% that typically happens once per year. Like pullbacks, markets recover quickly after corrections, generally within 3-6 months. **The 2023 Sept/Oct correction is over.**

Bear Market: a decline of 20% or more. Many bear markets are fully recovered within 18-24 months, but severe bear markets like 2000-2003 and 2007-2009 can take 5-7 years or longer to recover from. **The October lows marked the trough of the 2022 Bear Market.**

Bottoming Process: After a correction or bear market, stocks often bounce and re-test lows multiple times before recovery.

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Closing Comments:

Several clients have recently been speaking with friends who are looking to make a change either because they are nearing a life transition or have been unhappy with their current advisor.

We appreciate your referrals and are pleased that our company continues to enjoy steady growth. Our focus is always on providing exceptional service and performance and we are very grateful for your confidence and support!

Although our focus is on financial planning and investments, we also have relationships and resources to help with life and LTC insurance and annuities.

Jason acts as a 3(38) Fiduciary Advisor to 401k plans and has been able to help several small business owners reduce costs, significantly improve their plans and offload some of their liability as plan sponsors while creating a better experience for employees.

Please call and/or email me personally for most of your account servicing needs and especially when you have questions or concerns.