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CAPITAL MANAGEMENT

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Mid-Year Market Letter

"It Doesn't Matter"

After a very long time in the investment business, you get used to being asked a lot of the same questions over and over. Among them, **What do you think of the market? What is your opinion on interest rates? Do you anticipate a recession? What will be the impact of the election? Etc.** In our opinion, the answer to these questions and those like them, is for the long-term value investor: ***IT DOESN'T MATTER***. What does matter is being a long-term value investor. That is, investing with at least a five-year time horizon, using the price disciplines of P/E, book value, and dividend yield. History shows that the combination, surprisingly, tends to smooth the unpredictable year-over-year performance of stocks, as you will see later in this report.

While all the troublesome concerns don't matter for the long-term value investor, they do matter a lot for the average investor. To illustrate this view, we show in the table below the performance if one were unfortunate enough to have bought into the market at one of the worst possible points in history, the highs of January 2000. We then compare the performance of value to the S&P 500 for the 2-year, 5-year, and 10-year periods after those highs.

S&P 500 vs. Value (Bottom 20% of S&P 500 by P/E)
Annualized Returns from January 1, 2000

	2-Year (Annulalized)	**5-Year** (Annualized)	**10-Year** (Annualized)
Value	+20.02%	+17.38%	+10.92%
S&P 500	-17.00%	-2.30%	-0.95%

Past performance is no guarantee of future results. For illustrative purposes only.

Some of the highest profile advisors have said that for individual nonprofessional accounts, one may be better off just buying into an S&P 500 index fund. This may be good advice 60% or 70% of the time but as we see in the example in the table above, the advice can be disastrous.

Buy Low – Sell High

It seems obvious to buy stocks when they are at their lows and sell them at their highs. But to do that is probably the biggest challenge facing the investor. Why? Because as markets keep going higher, in a melt-up like the one we have at present, we believe it is very difficult to sell due to FOMO (Fear of Missing Out). Every time there was a correction in the recent market,

it was a buying opportunity. A reversal is very difficult to recognize, and it is equally difficult to sell at a lower price than the recent higher price. Then, when the market finally drops to a level when it has become an extremely attractive buy, the other "F" sneaks into play – and that is FOLE (Fear of Losing Everything). Often, investors then panic as they scramble to get out of stocks and into cash.

Recently, The New York Times highlighted the excitement of the S&P 500 making new highs 14 times just this year and going through 5,000 for the first time. To me, this was a flashback to the 1960s when I was the equivalent of a millennial. After years of the Dow making new consecutive highs in the sixties, The New York Times headline showed the index going through 1,000 for the first time (The photo below is a copy of the article – that is me in the back). It is hard to believe from that time in 1968, the Dow never broke through 1,000 for another 14 years. I believe this illustrates how dynamic and unpredictable markets can be in these melt-up and blow off cycles. **Interestingly, in the 14 years from 1968-1982, while the Dow was flat, the performance of the value stocks (the bottom 20% of the S&P 500 on a P/E basis) was up an astonishing 750% over the 14-year period.**

Stock and Bond Market Tables
U.S. Business Roundup
Economic Indicators and Index
Employment Advertising, Business Opportunities, Wholesale Offerings
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The New Yor

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Dow 1,000

By VARTANIG G. VARTAN

Will the Dow-Jones industrial average close above 1,000 before the end of the year?

The strong momentum of the stock market, buoyed late last week by hints of a new proposal to halt the bombing in North Vietnam, sent Wall Streeters chattering anew about the Dow and its "magic" milestone.

The Dow industrials, composed of 30 blue-chip giants, moved last week to its highest level in the last two and a half years.

On Friday, the average finished with a flourish, gaining 8.58 points to end the week dramatically at 967.49. This puts it within 33 points of a close above 1,000.

On Thursday, with the Dow showing broad strength early in the session, opening-hour volume on the New York Stock Exchange was the heaviest in history, with a turnover of 7.66 million shares. Peace reports, plus prospects of continuing inflation and bright economic news, have fueled the recent rise in blue chips while numerous glamour stocks have faltered.

The record closing high for the Dow was 995.15 on Feb. 9, 1966. Thereupon, this closely watched average declined 25 per cent over the next eight months.

Comments last week on the future course of the Dow included the following:

¶J. Walter Sherman, president of the Sherman, Dean Fund, a mutual fund: "A rise through 1,000 on the Dow is a cinch before year-end with any

The Week in Finance:

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Melt-Up Market

The term melt-up market was coined in the 1980s by Ned Davis whose definition was a market moving up without an intervening 10% correction. As we see it, the present market has all the earmarks of such a market. For example, Morgan Stanley recently highlighted that from November 1, 2023 to March 1, 2024, US equities saw an uninterrupted string of weekly highs, which was the longest in 80 years. The current melt-up was only interrupted with a more than 10% correction back in 2022. If not for that, we believe we would be reaching a point

approaching 1,000 days, which puts us in line with prior bubble-creating eras -- the speculative market of the Roaring 20s lasted about 1,000 days, the 1960s bubble went on 830 days, and the buildup of the dot.com bubble of the 1990s for 1,767 days.

Market history shows that what powers the melt-up periods, and their duration, is different in each case. But once they peaked, what followed was a long period of underperformance of the most popular stocks.

The Advantage of Long-Term Investing

On the first page, we discussed our view on the advantages of the long-term value strategy. There were approximately 50 5-year periods dating back to 1968. Over that time, only three periods were basically flat and the 5 years following each of those flat periods produced powerful annualized returns of +21%, +31% and +35%. See tables below for the annualized 5-year returns.

S&P 500 Bottom 20% by P/E – Annualized 5-Year Returns

Bottom 20% by P/E			
2019 - 2023	10.91%	1993 - 1997	22.50%
2018 - 2022	5.06%	1992 - 1996	18.65%
2017 - 2021	9.82%	1991 - 1995	23.95%
2016 - 2020	7.79%	1990 - 1994	11.85%
2015 - 2019	8.98%	1989 - 1993	15.98%
2014 - 2018	6.36%	1988 - 1992	18.11%
2013 - 2017	17.57%	1987 - 1991	13.05%
2012 - 2016	17.19%	1986 - 1990	10.52%
2011 - 2015	13.69%	1985 - 1989	21.16%
2010 - 2014	17.68%	1984 - 1988	20.04%
2009 - 2013	25.27%	1983 - 1987	20.06%
2008 - 2012	5.64%	1982 - 1986	27.74%
2007 - 2011	2.41%	1981 - 1985	24.79%
2006 - 2010	5.61%	1980 - 1984	24.53%
2005 - 2009	4.81%	1979 - 1983	27.31%
2004 - 2008	0.23%	1978 - 1982	24.39%
2003 - 2007	18.16%	1977 - 1981	20.38%
2002 - 2006	16.16%	1976 - 1980	26.06%
2001 - 2005	15.77%	1975 - 1979	30.73%
2000 - 2004	17.38%	1974 - 1978	21.06%
1999 - 2003	14.30%	1973 - 1977	14.18%
1998 - 2002	7.01%	1972 - 1976	14.06%
1997 - 2001	16.09%	1971 - 1975	7.59%
1996 - 2000	16.63%	1970 - 1974	0.42%
1995 - 1999	19.72%	1969 - 1973	-0.88%
1994 - 1998	18.66%	1968 - 1972	7.96%

Performance (Annualized) Following Difficult 5-Year Periods

Poor Five-Year Periods	Bottoms 20% by P/E	Following Five-Year Periods	Bottom 20% by P/E
1969-1973	-0.88%	1974-1978	21.06% (Annualized)
1970-1974	0.42%	1975-1979	30.73% (Annualized)
2004-2008	0.23%	2009-2013	25.27% (Annualized)

Past performance is no guarantee of future results.

The Ten-Year Bond

Since 10-year bond is a major competitor of the strategy, below are all the rolling 10-year periods for the bottom 20% of the S&P 500 by P/E dating back to 1990.

S&P 500 Bottom 20% by P/E – Annualized 10-Year Returns

Bottom 20% by P/E

Period	Return	Period	Return
2014-2023	8.61%	1990-1999	15.72%
2013-2022	11.14%	1989-1998	17.31%
2012-2021	13.44%	1988-1997	20.29%
2011-2020	10.70%	1987-1996	15.82%
2010-2019	13.25%	1986-1995	17.04%
2009-2018	15.42%	1985-1994	16.41%
2008-2017	11.45%	1984-1993	17.99%
2007-2016	9.55%	1983-1992	19.08%
2006-2015	9.58%	1982-1991	20.17%
2005-2014	11.06%	1981-1990	17.44%
2004-2013	12.05%	1980-1989	22.83%
2003-2012	11.73%	1979-1988	23.62%
2002-2011	9.07%	1978-1987	22.21%
2001-2010	10.57%	1977-1986	24.00%
2000-2009	10.92%	1976-1985	25.42%
1999-2008	7.03%	1975-1984	27.59%
1998-2007	12.45%	1974-1983	24.15%
1997-2006	16.13%	1973-1982	19.18%
1996-2005	16.20%	1972-1981	17.18%
1995-2004	18.55%	1971-1980	16.46%
1994-2003	16.46%	1970-1979	14.58%
1993-2002	14.49%	1969-1978	9.55%
1992-2001	17.36%	1968-1977	11.03%
1991-2000	20.23%		

Past performance is no guarantee of future results.

Conclusion

At the current time, we believe investors should ignore interest rate speculation, election and recession worries, and all the other distractions found in the daily headlines about the market. Instead, we think investors should focus on investing with a value discipline for the long term.

Jim Cullen

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The **S&P 500 Index** is a market capitalization-weighted index of 500 companies in leading industries of the US economy. The index is unmanaged and has no fees. An individual cannot invest directly in an index.

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