COLORADO FINANCIAL MANAGEMENT®
A Lido Company

Economic & Market Review

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Director, Investments – Mountain West

November 2023

Dear Clients and Friends,

As Of 11/9/23	2023 YTD	Last 5 Years	Last 10 Years
50/50 Balanced World Index	5.1%	4.1%	4.3%
World Equities (ACWI)	11.0%	7.9%	7.4%
U.S. Large Cap Equities (IVV)	14.8%	11.2%	11.5%
Equal Weight S&P 500 (RSP)	-0.2%	8.4%	9.2%
Dividend Stocks (VYM)	-4.0%	6.8%	8.6%
U.S. Small/Mid Cap Equities (IWM)	-3.0%	3.0%	5.8%
Foreign Equities (ACWX)	5.1%	3.8%	3.0%
U.S. Bonds (AGG)	-0.8%	0.3%	1.1%
Global Bonds (IGOV)	-4.1%	-4.3%	-2.5%
Cash & Equivalents (VMFXX)	4.3%	1.8%	1.1%

Sometimes the numbers tell a story. I think this is one of those times. Look at the returns in the table above. The capitalization weighted S&P 500 is up 14.8% YTD[1], but the equal weighted index is down 0.2% -- a 15% difference! For those of you not familiar with the methodology, here's a brief explanation. Let's take the top 10 stocks in the index:

Company	% of Cap Weighted Index	% of Equal Weighted Index
Microsoft	7.3%	0.2%
Apple	7.3%	0.2%
Alphabet Class A & B	4.0%	0.2%
Amazon	3.5%	0.2%
Nvidia	3.1%	0.2%
Meta (Facebook)	1.9%	0.2%
Berkshire Hathaway	1.7%	0.2%

[1] No matter how fast I try to get a letter out this data gets stale. Shortly after getting this written the market staged a strong rally. However, the relationship (spread) between returns remained about the same.

Tesla	1.7%	0.2%
United Health	1.4%	0.2%
Eli Lilly	1.3%	0.2%

What this tells us is that a small handful of stocks have done well this year, but the average stock is flat to down. This has not always been the case. For the 10 years 2013 through 2022, the equal weighted index returned 12.1% annually vs. 12.5% for the cap weighted index – not much difference.

Why is this the case and what are the implications? We honestly don't know all the reasons or implications, but here are a few:

- It would stand to reason that going forward the equal weighted index would outperform at some point and close this gap. It may not be right away, but the recent difference is unusual.
- The cap weighted index is also skewing valuation readings. The top 7 stocks in the cap weighted index trade at elevated multiples of earnings, bringing the total index multiple up to 18x – high by historical standards. But for the other 493 stocks the average is 16x – lower than the historical average[1].
- There have already been grumblings about restricting the very large technology companies. This drumbeat may grow louder. They may not be broken up, but their ability to make acquisitions will almost certainly be curtailed.

The US economy defied recession fears in 2023, and many believe that it may be avoided in 2024. Goldman Sachs recently came out with a prediction of approximately 2% GDP growth for next year – about the same as the long-term average. We continue to believe that a recession is unlikely when the unemployment rate is so low, and while job growth has slowed it is still positive. Leading indicators regarding the job market are not flashing problems yet.

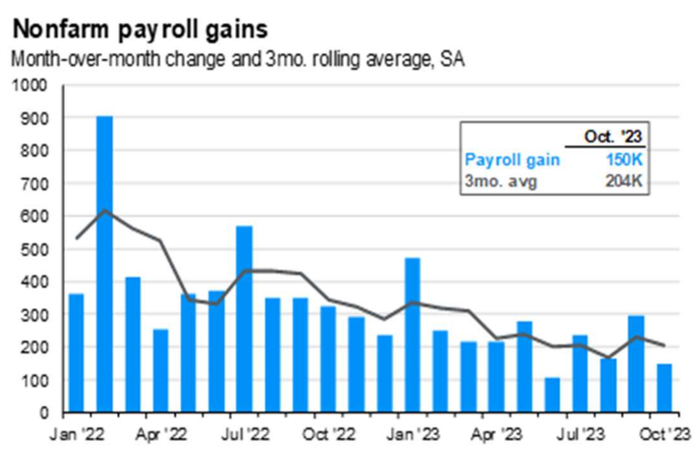
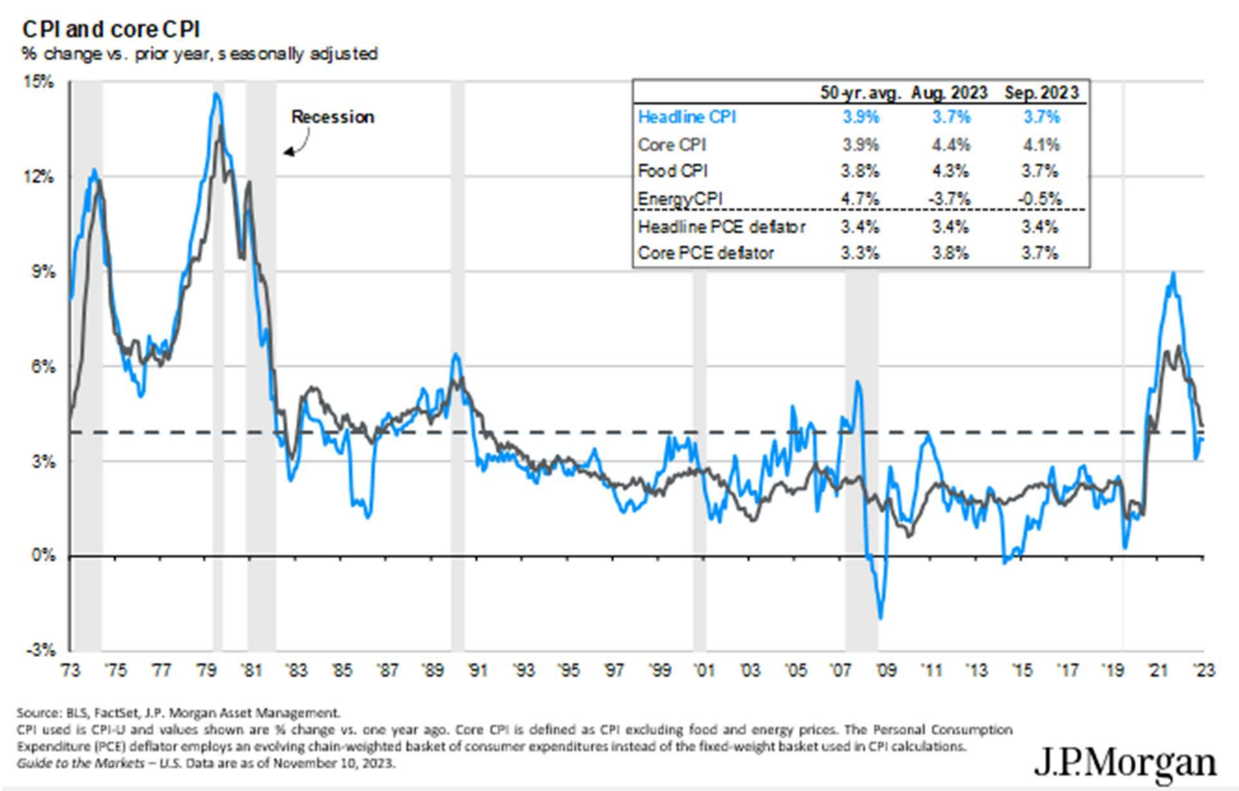


Figure 1- Unemployment Rate

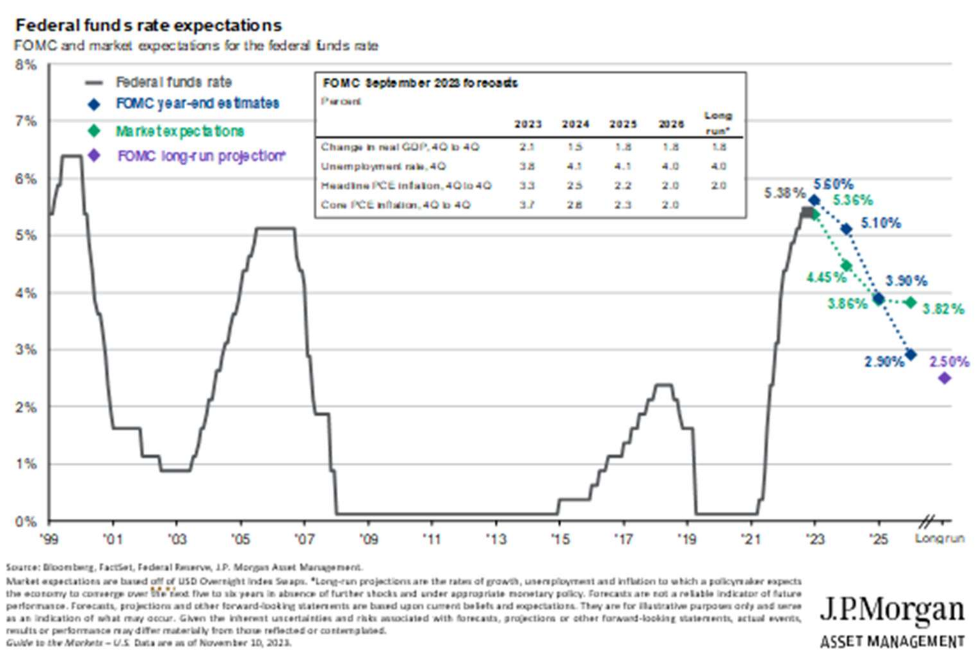
[1] Goldman Sachs research 27 October 2023 "End of Week Market Intelligence"

Inflation has subsided substantially. It was 3.2% for the 12 months ended in October – down from 3.7% in September, and down from 9% in 2021; and is expected to fall further next year. Many of

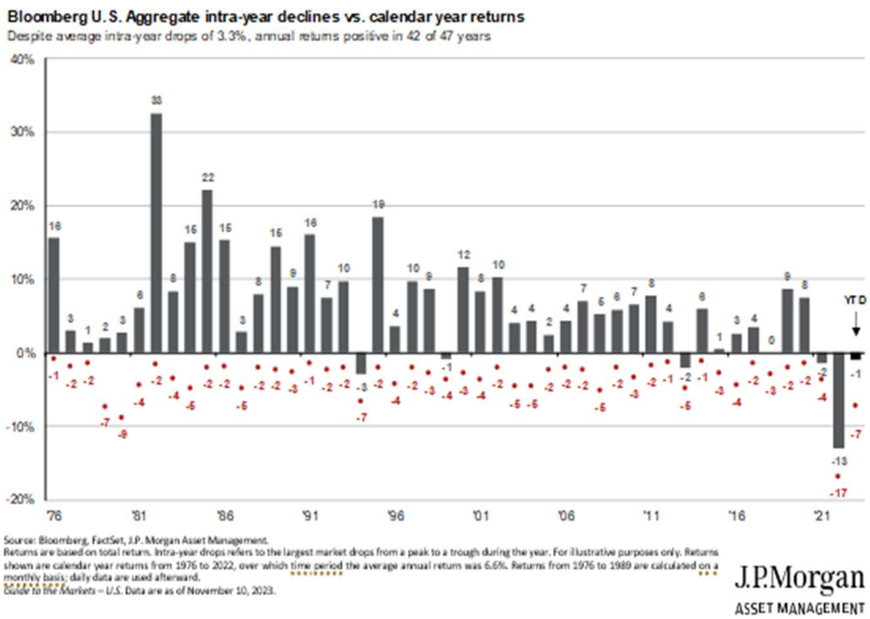


the causes of the spike in inflation such as supply and demand imbalances in autos, housing, and labor markets are normalizing.

As most of you know, one of the main drivers of returns on both stocks and bonds over the last couple of years has been the Federal Reserve driving up interest rates. We have been saying for a while and continue to believe that the Fed has finished (or nearly finished) raising interest rates for this cycle. Analysts and the futures market are now pricing in cuts in rates next year. This is because

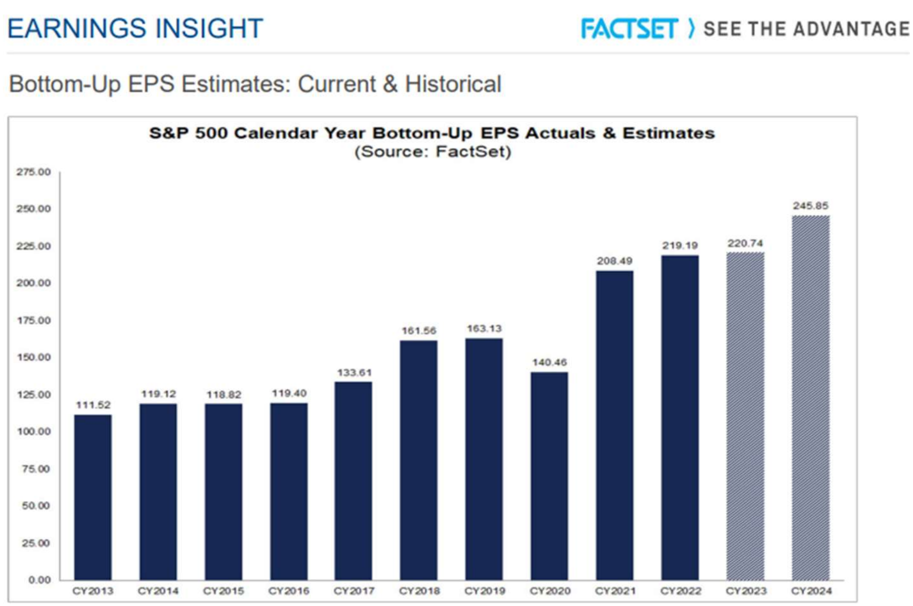


inflation is expected to fall as discussed above.



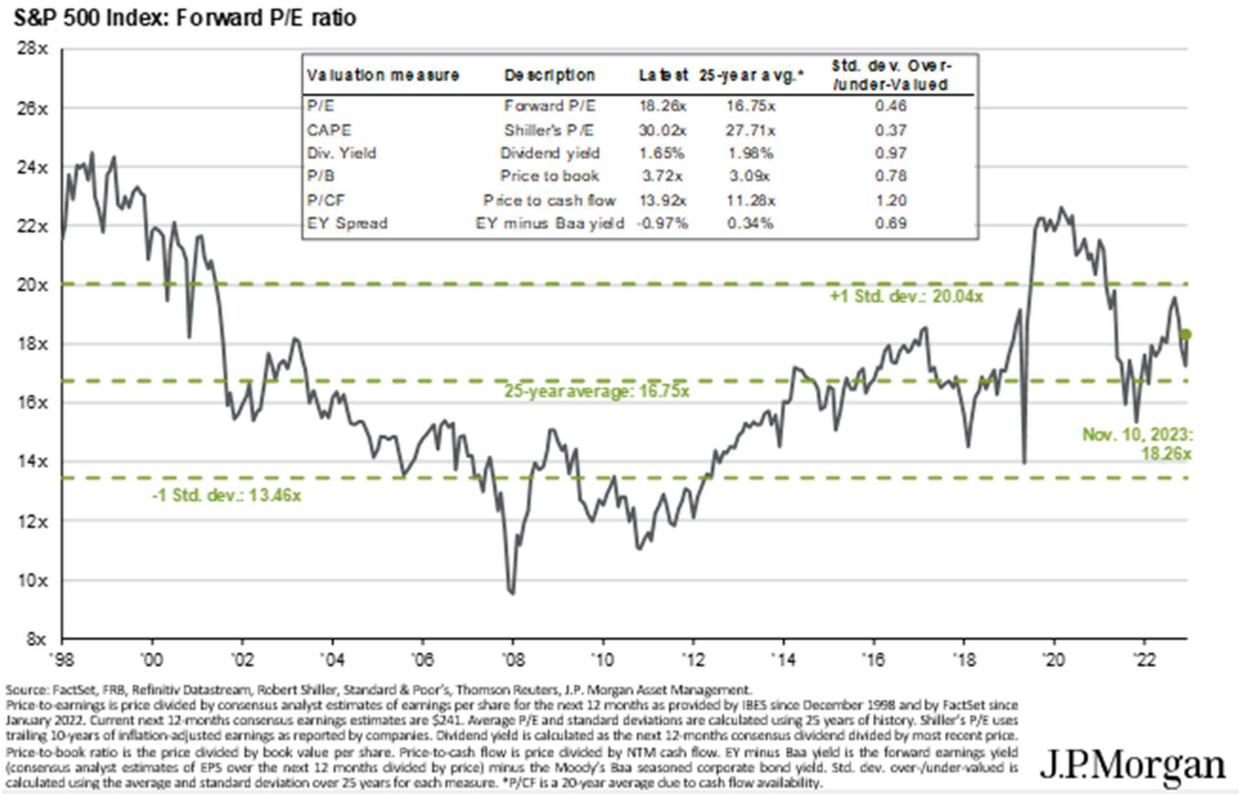
We didn't think that the bond market would show a negative return for 2023 as there had not been 3 negative three years in a row for at least the last 50 years. With six weeks left, the return year to date is -.5% so it could go either way[1], but what has caused negative total returns in the bond market (rising rates) is likely to create positive total returns in the future (falling rates). Even if rates just stay unchanged, the beginning yield is about 5% for most maturities and bonds.

Turning our attention to corporate earnings, like the economy earnings estimates have held up remarkably well for 2023, and there is optimism about 2024. We remain cautious about the 2024 estimates as it is normal for analysts to be optimistic at the beginning of the year and to reduce their estimates as the year progresses. Of course, this is tied to economic growth, inflation, and a number of other factors.



[1] As of 11/21/23 the return is now + 1.0%

Finally, as mentioned above, the forward P/E ratio for the S&P 500 is 18.3x compared to a 25-year average of 16.8x; but this is significantly lower than 22x we saw in 2021 and as mentioned above the average stock is more reasonably valued.



Is 60/40 dead? A 60/40 portfolio (60% equities / 40% bonds) worked pretty well for nearly 40 years (1982 – 2020). This period coincidently is the same as my experience in the financial services industry, so I am biased, but I would argue that just because it hasn't worked for the last 2 – 3 years does not mean it is dead. In fact, I would argue the opposite.

The reason 60/40 hasn't worked recently is simple math. By 2020, rates had fallen to 0% -2% across the yield curve. Low (and falling) interest rates also have a valuation effect on stocks – partly explaining the over-valuation in 2021. When rates rose to 5% during 2021 and 2022, everything worked in reverse – bond and stock returns were negative. But, if you believe (as I do) that rates are more likely to be flat or lower over the next year or so, then bonds should act in their traditional sense as a hedge against falling stock prices. This is predicated on the thesis that inflation has peaked and will trend lower.

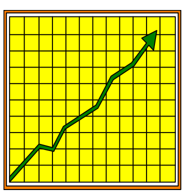
Strategy… while 2023 hasn't been an extraordinary year, it hasn't been all bad either. Bonds have dragged down returns on balanced portfolios, but the setup is pretty good for 2024. And, while the returns on stocks have been uneven, our client portfolios generally have an overweight allocation to S&P 500 stocks. Your portfolio return may not have matched the index exactly since we are always diversified by asset class and style; but portfolios have begun to recover what was lost in 2022. We remain cautiously optimistic about 2024.

Lido / CFM Merger Update… With any merger there are going to be some changes and challenges. A few of our CFM employees decided to leave, which was unfortunate but not unexpected. In recent months, our team has been working hard to contact all of you about updating account documentation, and behind the scenes we have been busy changing computer systems, portfolio management processes, management, etc. We have made great progress and see light at the end of the tunnel. Advisors have had conversations about the exciting part, the additional strategies we now can offer. Those strategies are designed to offer a new element of diversification and risk reduction to portfolios. We have many, many more alternative investment offerings than we had before. Additionally, Lido continues to add resources in support, tax preparation, and financial planning whether directly or through its network of affiliated professionals.

But we remind you that all of us are still the same people that have been serving clients in Colorado for many years (35 years ago!). For me personally, it's natural that I am asked my plans. I have been busy this year supporting our team during this transition. I remain responsible for our legacy CFM investment strategies, I personally manage a number of portfolios and clients, and I am working to integrate our strategies onto Lido's platform, so it is possible to provide tailored investment strategies to our clients. Additionally, I support our Advisors in their efforts. This work is not yet finished. When it will be I cannot say, but when I slow down it is my belief you will be in the best hands with the strongest team anywhere. We look forward to continuing to serve families and institutions here for the next 35 years.

We thank you for your confidence in us. Please let us know if there is anything we can do for you. Happy Thanksgiving and Holidays!

Happy returns,



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And Your Entire Colorado Financial Mgmt. / Lido Team

Standard and Poor's Index: S&P 500: The S&P 500® is an unmanaged index that is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and captures approximately 80% coverage of available US market capitalization.

Colorado Financial Management, LLC (CFM) is wholly owned by Lido Advisors. CFM succeeded registration as Sargent Bickham Lagudis, LLC. Sargent Bickham Lagudis, LLC (SBL) succeeded registration as Sargent and Company. SBL's registration was effective March 8, 1999. Sargent & Company's registration was effective in 1988. Sargent Bickham Lagudis merged with Colorado Financial Management effective January 1st, 2016. For the year 2016 and after, the composite performance will include both firm's households for each asset class. For returns before 2016, only returns from legacy Sargent Bickham Lagudis will be included in the composite.

For further information, please visit:
S&P Index: S&P 500
Fed Yield curves: U.S. Department of the Treasury