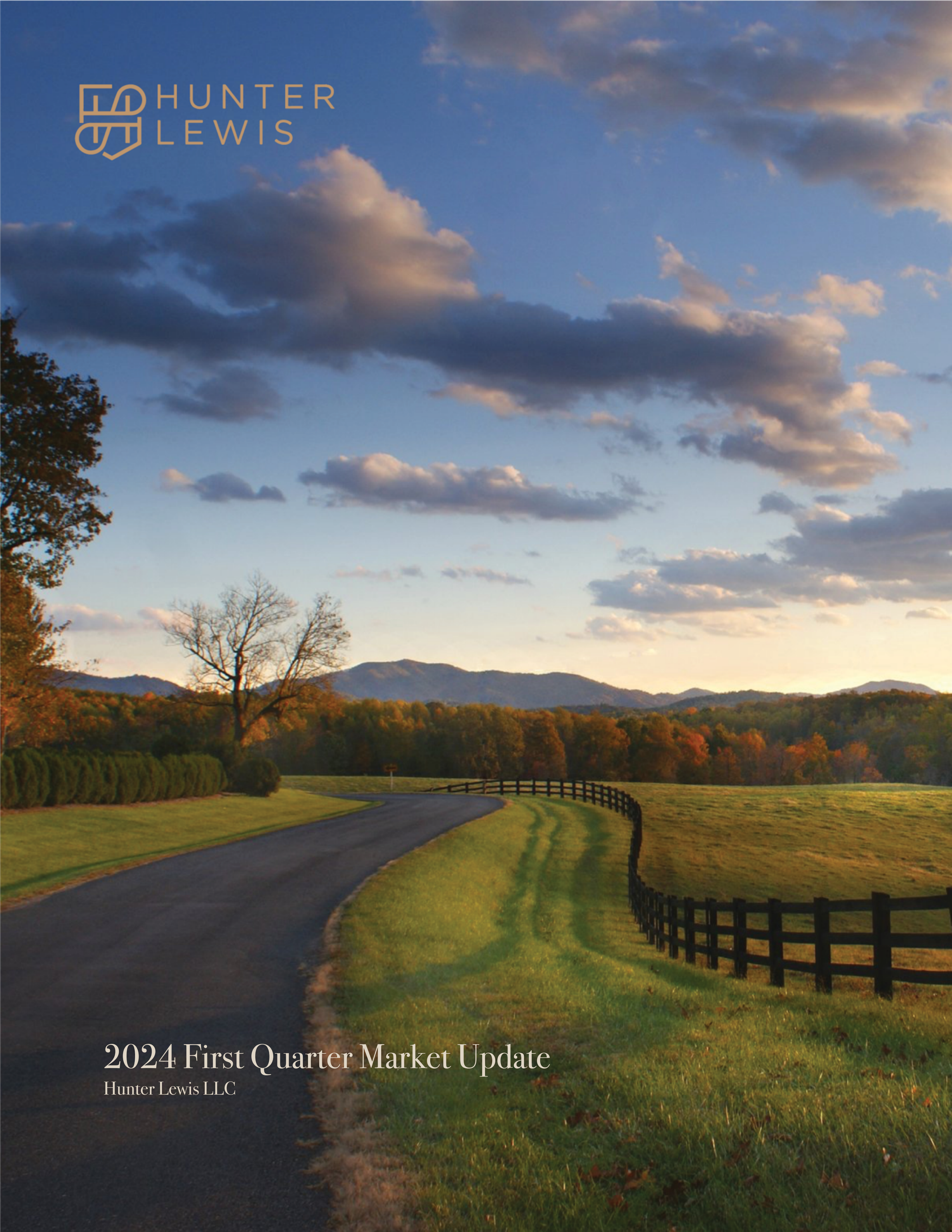

HUNTER LEWIS

# 2024 First Quarter Market Update

Hunter Lewis LLC

# 2024 Q1 OVERVIEW

The leading investment strategies of the day are:

- **The university investment model**, currently emphasizing non-marketable investments, which I pioneered but which has now become too crowded.
- **Momentum investing**, in which you or your algorithm buy whatever seems to be going up.
- **Indexing**, also a form of momentum investing because most index funds are capitalization weighted.
- **Risk Parity**, which tries to realize equity like returns from fixed income through leverage, although this has faded after the 2022 debacle.

For some time we have had a Momentum Market, both in stocks and some commodities. What had gone up has continued to go up, in some cases a lot. Despite exceptions, especially in recent weeks, it has now become commonplace for large companies ($10 billion or more market capitalization) to enjoy price to sales ratios of 20-97x sales.

There are many examples of momentum driven, manic markets: the years leading up to 1929, 1973, 2000, and 2022. Not all stocks were expensive, but the momentum stars were hyper-expensive.

Then as now, corporate executives were selling. The executives may not be selling directly to their own shareholder “bosses,” but given the high level of company share repurchases, the net effect may be the same.

## Some Math from the Dot-Com Bust of 2000

The worst Momentum Market bust was of course 1929 and aftermath. Investors buying in at the top then would have had to wait half a century for their market values to catch up with a portfolio of treasury bills, although far fewer years if dividends were reinvested. What about the dot-com bust in 2000, the one following a tech driven market eerily like our own? How bad was it?

*Bear market change, March 27, 2000 – October 9, 2002:*

- S&P 500: -49.03%
- Nasdaq: -82.84%

But is this the whole story?

The bubble had looked like it might be bursting in 1998:
*July 20, 1998 – October 8,1998:*

- S&P 500: -18.97%
- Nasdaq 100: -22.99%

Then the Nasdaq in particular staged a spectacular comeback:

*October 8, 1998 – March 27, 2000:*

- S&P 500: +58.83%
- Nasdaq 100: +316.76%

What if you had invested in Nasdaq in the first half of 1998? Yes, you would have taken a hit in the second half, but you then would have experienced the huge gains of 1999 before falling into the 2000 collapse. How would you have fared under that scenario:

*(First half of 1998 high to end of bear market) July 20, 1998 – October 9, 2002:*

- S&P: -34.40%
- Nasdaq: -44.92%

What if you got really lucky and came in just after the 1998 correction but before Nasdaq soared 300%, then held on through the dot-com bust?

*October 8, 1998 – October 9, 2002:*

- S&P: -19.04%
- Nasdaq: -28.48%

So even a 300% gain for Nasdaq shortly before 2000 would not have protected you from the major loss that followed.

Many of the stars of the dot-com era fell forever in the bear market of 2000. A few barely survived, remained in the wilderness for many years, then eventually returned as members of today's Magnificent Seven (or Six or Five or whatever it has now morphed into).

For example, Amazon rose 21 times from the beginning of 1998 to its 1999 peak, fell 92% from 2000 to 2002, essentially returning to where it started. By the end of 1999, Microsoft had a market capitalization of $620 billion based on a $33 share price, $20 billion in sales, and a 38%

profit margin. After the collapse in 2000, it took fourteen years for the share price again to hit $33.

## Buy and Hold?

This implies that buy and hold might not be a rewarding strategy for new investors or new money. On the positive side, major opportunity awaits on the far side of a bust.

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