MONTAG

CELEBRATING 40 YEARS
1982-2022

Viewpoints

FIRST QUARTER 2023



Tom Toro/CartoonStock—Used by permission

WELCOME

MONTAG welcomes you to our annual spring edition of *Viewpoints*, the quarterly newsletter we produce for clients and other friends of the firm. This particular spring is proving to be especially memorable, in light of our 40th anniversary and the recent relocation of our office from downtown Atlanta to the Galleria office complex — overlooking "The Battery", the home of the 2021 World Series champion Atlanta Braves.

As we emerge from a cold and dreary winter into the warmth and sunlight of spring, we can't help but feel a little like the fellows in the cartoon nearby. We, too, are ready for baseball season and watching the ballpark fill up with cheering fans. On occasion some of us at MONTAG will be among them!

Thanks to the 150+ clients, friends and family who were able to join us during the March "Welcome" event here in our new offices. These guests were able to see first-hand that we're settling in nicely to our new environment. To those unable to make it then, we hope you will visit us soon — and maybe even catch a baseball game? M

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MARKET OBSERVATIONS — *Chris Guinther, Senior Investment Strategist*

Let's begin by noting the 2023 first quarter's market numbers, as of the quarter's close of March 31st:

	Q1 2023	YTD 2023
S&P 500	7.5%	7.5%
DJIA	0.4%	0.4%
NASDAQ	17.1%	17.1%

Equity Investors — A Focus on Earnings Growth

The stock market displayed resilience in the first quarter of 2023 even as earnings forecasts for this year modestly declined. For the quarter, the S&P 500 Index was up 7.5%. At the beginning of 2023, earnings were expected to grow by low single digits for the year. As of today though, 2023 earnings are expected to be down slightly from 2022. Yet, the growth sectors of the economy are dominating like it's 1999! Through 3/31/23, Information Technology was up 22%, Communication Services +21%, and Consumer Discretionary +16%. Mega-cap growth companies are heavily weighted in these sectors and have led the way with outperformance in the first quarter. Investors used the same old playbook, when interest rates fall, high growth securities are bid up. Meanwhile, defensive and cyclical sectors were only slightly up or modestly lower. Financials were the worst sector, down 6%, reflecting the current banking tumult. In general, investors have been solely focused on interest rates as the dominant factor in equity positioning.

Expectations are high for an end to the interest rate hiking cycle in the next quarter. Since the Silicon Valley Bank failure led to a banking crisis in early March, expectations have risen for rate CUTS toward the end of the year. However, let's remember that almost everyone has gotten the rate hike cycle wrong so far. Going into 2022, the Federal Reserve was expected to move the fed funds rate higher by just .75% from zero. Instead, the FED started increasing rates in March, sooner than expected, and ultimately raised

Continued on page 2

interest rates 4.25%. So far in 2023, the FED has increased rates by another .50% to 4.75%. It's been a Shock and Awe campaign to beat down inflation. ALL forecasts from early 2022 were significantly wrong. We've got to be careful thinking that forecasting future interest rates with any precision is possible.

Just like last year, interest rates may well play out very differently from the consensus forecast. Our concern is that some market participants may be missing the forest for the trees. Let's say the Fed does cut rates later this year as inflation subsides and the economy softens. If investors expect that we are back in a 2019 environment where the Fed cuts rates and the market soars, we would disagree and note the numerous differences today. The Fed cut interest rates in 2019 from 2.25% to 1.50% and stocks returned 31.5%, the second-best return since 1997. However, valuations were much lower than today and earnings growth was finally accelerating after the listless growth in the mid 2010's. If the Fed doesn't raise again and then lowers rates .75% in the second half of this year, the fed funds rate would be at 4.00%, not 1.50%. The market currently trades at 19 times this year's estimated earnings. In January 2019, it was closer to 15 times. Earnings growth is slowing, not accelerating. Revenue growth may prove more challenging in an environment where price increases are tougher to pass on. Margins have already been getting hit based on higher wages and other increased costs. Most likely none of this will impact the stock market too negatively, but the data doesn't speak to stronger earnings expectations or an increase in multiples any time soon.

In our view, investors should focus on the windshield and not the rearview mirror. We believe a world of "higher for longer" rates and slower growth than the last four years is much more likely than a return to the abnormally low interest rate environment when long duration growth stocks dominate and high valuations were the norm.

We continue to recommend positioning conservatively to account for a wide range of possible outcomes given the unprecedented inflation and withdrawal of stimulus

We recognize that uncertainty is elevated and that there is a wide range of potential outcomes for the economy and financial markets. That said, we note that bonds, at today's higher yields, offer more ballast in a balanced portfolio should the economy enter a downturn. We believe a cautious approach to risk taking remains appropriate in this environment. M



Chris Guinther is Senior Investment Strategist & Portfolio Manager

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THE CHASE — *Ned Montag, CEO*

The stock of Zoom Video rises from $70 in early 2020, to above $500 by October, drops to $350 in January of 2021, drops again to $150 a year later, only to fall to $70 by the time this article was conceived. Teledoc, the remote medical appointment company, runs up from $80 to $200, then spikes up to $290, only to fall back to $25-30 in 2023. Tesla shares go from $50 to nearly $400, but you needed to buy early… the stock then declined 75% back to about $100 in the final months of 2022. Is this wisdom or madness on display?

I believe that a highly volatile style of investing called "momentum investing" is being used, in one form or another, by many investors to exaggerate the price moves of stocks with exciting stories. The principles of "momentum investing" are basically to buy only stocks with the fastest current earnings per share growth, ideally where that growth rate is accelerating, exceeding the expectations of Wall Street, and where the stock price, like its earnings, will accelerate higher. Momentum investors may place little importance on stock valuation, perhaps with the idea that they

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DID YOU KNOW?

Baseball season, an annual rite of spring, officially began on Thursday, March 30th this year. MONTAG's new offices overlook Truist Park, home of the 2021 World Series champion Atlanta Braves. Our proximity to "The Battery" and the ballpark give us heightened anticipation for the season to come.

How many times did the Atlanta Braves appear in the World Series during the 1990's?

A. 6 times
B. 3 times
C. 5 times
D. 4 times

(Answer on Page 4)

As gravity is to life on Earth, valuation is to the stock market

THE CHASE *continued from page 2*

will sell those stocks before growth slows and the stock's extremely high valuation becomes an important issue.

Momentum investing these days can be accomplished either by people sitting at computer screens hitting "buy" or "sell" buttons, or it can be coded into software, to follow a rules-based exercise, often referred to as an algorithm. Algorithmic management (trading) in the last decade or two has become a dominant force in our markets, and software does not hesitate to sell stocks that are already falling or buy stocks that are already soaring. Thus, transactions that took days to execute decades ago now occur rapidly, in seconds or minutes, sometimes creating overwhelming price moves.

The momentum investment style evolved over time with many contributing to its development. One early systemized approach is thought to have been invented by Arnold Bernhard, who studied the Crash of 1929 and determined that owning only the stocks of the fastest growing companies would be the most effective way of investing soundly. He founded a research company called Value Line Investment Survey in 1936 to implement his theories on momentum, and during the postwar bull market of 1948-1965, this method worked, and Value Line became a global investment resource. (At Bernhard's death in 1987, Value Line had 134,000 subscriptions worldwide.) Value Line's formula for determining the attractiveness of a stock includes valuation, but only with a small weight. The big weights are given to price strength, the rate of earnings growth, "earnings surprise" and earnings revisions. Value Line wants to see Wall Street constantly raise earnings targets, likely to stimulate more buying.

A handful of other investors made fortunes in similar fashion. In the 1960s, this included fund managers Jack Dreyfus and William O'Neil. In the 1980s and 1990s, they included Richard Driehaus and Louis Navellier. The momentum style is tricky. Many more practitioners, including many hedge funds, have failed in their efforts. Stocks owned by momentum managers can turn on a dime, and the style is very high risk, requiring constant attention and a willingness, bordering on ruthlessness, to sell very quickly if these stocks begin to decline. This makes for very emotional experiences, sometimes hard to endure and repeat for the fund investors and fund staff.

For many lay investors, taking losses is likewise wrenching. As a fan of Warren Buffett, I appreciate his more "valuation-based" approach. He seeks to avoid overpaying due to the excitement of a business enjoying a great, but temporary, prosperity that can fade with the business cycle. Thus, if his stocks are not overpriced when purchased, they are less likely to suffer serious declines during his ownership. As gravity is to life on Earth, valuation is to the stock market. It will tend to hold stock prices in a valuation range regardless of recent news, thereby making long-term ownership more palatable and a less stressful position.

At MONTAG, we have the tools to practice a variety of investment styles, including value, growth, GARP ("growth at a reasonable price") and even momentum. Adapting to what the market is rewarding is a must and we evolve with time. But we also believe that focusing on stocks with strong valuation -based premises for their current price is usually the best way to strive for reliable, long-term returns. This is our dominant method year-in and year-out, and is one more reason our motto: **Investing for Generations** remains such a fine fit.



Ned Montag is CEO

MONTAG

MONTAG is Pleased to Offer FINANCIAL PLANNING SERVICES

At MONTAG, a client's relationship typically begins by working closely with their Portfolio Manager to understand their goals and future plans, taking into account just about everything related to assets and income. Many clients then choose to take advantage of other Financial Planning services. Through Financial Planning at MONTAG, we guide clients on other aspects of their financial lives such as insurance coverage, cash flow in retirement, estate planning, philanthropy and much more. Here is how we can help you:



BASIC PLAN

Summarize your net worth, cash flow, insurance, and estate documents for clarity and organization.



MAJOR PURCHASES

Guidance on how major purchases or lifestyle changes can fit within your financial goals.



RETIREMENT PLANNING

Protecting your retirement income and savings strategies.



EDUCATION PLANNING

Education cost projection and funding strategies.



LIQUIDATION STRATEGIES

Navigating the nuances of employee/ founder stock plans in a tax-efficient manner.



PROTECTION PLANNING

Analyze your coverage of life insurance, disability income, and long-term care to determine if you are under– or over-insured.

HOW TO GET STARTED?

Call 404 522 5774

Email your Portfolio Manager

DID YOU KNOW? *(from page 3)*

ANSWER: "C: 5 times"

The Atlanta Braves advanced to the World Series in 1991, 1992, 1995, 1996 and 1999. Of these five appearances, the Braves defeated the Cleveland Indians to win the title in 1995.

Remembering that there was no World Series played in 1994 due to a strike by players, the Braves appeared in 5 of the 9 World Series of the decade — more than any other team. Winning only in 1995, however, the Braves were upstaged by both the New York Yankees (won all 3 of their appearances, 2 of which were against the Braves) and the Toronto Blue Jays (won both of their appearances, 1 of which was against the Braves).

But considering that the Braves' prior World Series appearance was way back in 1948 as the Boston Braves, the 1990's was a decade for the ages in the history of the franchise.

Source: UsefulTrivia.com

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A PARTING THOUGHT

"Never let the fear of striking out keep you from playing the game."

- Babe Ruth (1895–1948)

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