Ridgetop Wealth Management
Market Update - March 2024

Practice What You Preach

- Don't fight the Fed.
- Don't fight the tape.
- Beware of the crowd at extremes.

We do not want to oversimplify, but those three rules are our primary guide to our weight-of-the-evidence approach. It allows us to gauge both risk and opportunity in the stock market. Where this stands today:

1. Bullish: The Fed is friendly. Despite lingering reports of hotter than expected inflation, the Fed appears on track to loosen its restrictive monetary policy and lower rates later this year.
2. Bullish: The tape is strong. The overall markets have built off of a 2023 year-end rally and are off to a strong start to the year.
3. Bearish: the rally we are seeing so far this year has brought a lot of money, and a lot of investors off of the sidelines. The crowd has grown complacent and the longer we have this excess optimism, the more vulnerable the markets are to economic and earnings disappointment.

Overall we remain bullish. We are wary of the crowd but monetary and tape indicators tell us to give the market the benefit of the doubt.

How Healthy Is This Market?

There has been plenty of talk over the last year regarding market gains primarily attributed to just a handful of technology stocks. This has caused some investors to be bearish as a narrow market is a dangerous market. On the surface it seems that these bears make a good point as the Elite Eight (Facebook, Nvidia, Amazon, Google, etc.) have returned nearly five times the rest of the S&P 500 since the end of 2022. But while these bears are right on relative performance, one also needs to be mindful of absolute performance.

Nearly 70% of all cap stocks are above their 200-day moving average. Said otherwise, nearly seven out of ten stocks are on a long-term uptrend and doing well. While the Elite Eight are outperforming, the majority of the rest of the market continues to advance. Market breadth is strong and healthy, and it is okay for mega-caps to lead if they are taking other stocks up with them. This seven out of ten ratio is contrary to prior market peaks when the S&P 500 was hitting new highs but only 30% - 45% of stocks were above their 200-day average.

So What About the Crowd?

New highs have become the norm rather than the exception. As noted in our last Market Update, we were optimistic coming into the year but we expected a short term correction prior to continued new highs. Well, we never got the correction and the crowds have grown complacent. Complacency has been rampant for nearly three months and the longer it goes on, the bigger the risk of short term downside market risk.

The macro evidence looks strong and we do not expect a meaningful bear market any time soon. That said, we would expect and welcome a short term mild market decline to relieve excess exuberance. Perhaps this correction has already begun to unfold as of this week.

Momentum Leads Price

We will end by reiterating the importance of not fighting the tape. The S&P 500 advanced in November, December, January, and February. This consecutive four month rise in the index has occurred 17 times over the last hundred years (including the one that just occurred). Ten months after, (which would take the market through year-end), the S&P 500 has risen 16 out of 16 prior occurrences by a median of +14.6%.

Cheers to making it 17 out of 17.