LEWIS
WEALTH MANAGEMENT

**Newsletter**

---

**January 15, 2025**

---


Executive Summary

Market volatility has returned. Stocks are currently overvalued and have just completed an impressive two-year run. A pullback would not be unusual.

Concerned about inflation, the Fed has effectively postponed further rate cuts.

The new Trump administration has proposed various policies on tariffs, deregulation, taxes, and fiscal matters. At this point, it is difficult to distinguish between what is merely proposed and what might actually be implemented. We will have to see. Try to keep politics out of your portfolio.

In addition to your asset allocation, consider dividing your portfolio into a core allocation and tactical satellites. This approach is helpful if you are attempting to deal with certain risks and/or opportunities.



*Lewis Wealth Management*
*(855) 353-3800*
*www.LewisWM.com*


**Market Data as of December 31, 2024**

| | | 2024 |
|---|---|---|
| US Equities | S&P 500 ETF | 24.87% |
| International Equities | MSCI EAFE ETF | 3.43% |
| Emerging Markets Equities | MSCI Emerging Mkts ETF | 6.94% |
| US Bond Market | iShares US Core Bond ETF | 1.37% |
| Commodities | S&P GSCI Comm ETF | 8.25% |
| Real Estate | iShares US Real Estate ETF | 4.48% |

***The Return of Volatility***

Market volatility has returned. After the election, markets surged by about 7%, only to give up those gains in the past few weeks. Investors are concerned about several risks currently facing the markets.

***Stocks Are Overvalued***

Stocks have been overvalued for some time. The S&P 500 earned 26% in 2023 and 25% in 2024. This two-year ride has been relatively smooth. It is easy to forget that the S&P 500 was down 18% in 2022. As investors, we have very short memories. In any event, it is quite normal for stocks to correct from time to time, especially after an extended rally when stocks become overvalued.

***Monetary Policy Is in Flux***

Monetary policy seems to be in flux. Worried that inflation may reignite, the Federal Reserve has effectively paused further rate cuts. This unexpected development has caused interest rates to rise, increased bond yields, and decreased bond prices. This has stock investors concerned.

***The Incoming Trump Administration***

The transition to the Trump administration has presented some uncertainty and perhaps some opportunities. I recently attended a call with Schwab's Washington-based analyst Michael Townsend. According to Townsend, the following issues concern investors: tariff policy, deregulation, tax policy,

and the debt ceiling.[1] All of these issues could have positive or negative impacts on the markets, but some investors are concerned that some policies may be inflationary and trigger additional deficit spending. To be sure, policy risks are elevated, and it is unclear how this will play out.

***Playing the Forecasting Game***

In times of uncertainty, one of our first instincts is to try to forecast the future. If we are smart enough, we figure we can predict the future, make money, and avoid losses.

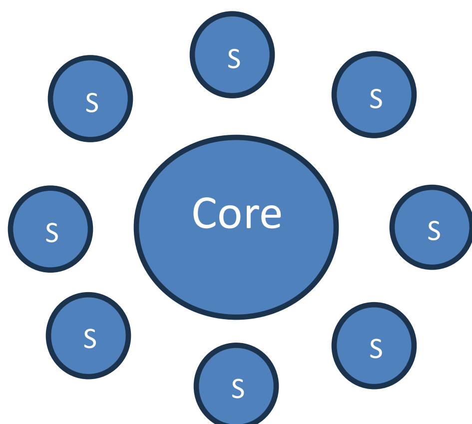
The problem is that we are awful at forecasting what markets will do and when. Jason Zweig of the Wall Street Journal recently reported that every December Wall Street analysts make their predictions for the following year. Every January, those predictions begin to be proved wrong. For example, in 2024, the average return forecast for the S&P 500 was 7.4% by stock analysts and 1.3% by market strategists. The actual return, including dividends, was 25.02%.[2] This happens every single year.

Even though forecasting the market is a futile endeavor, many of us refuse to stop trying. Maybe it's human nature. I frequently get asked for my prediction on how markets might perform. I try to tell people that I do not believe in forecasts, but they still want to know what to do. Fair enough. Here are some recommendations.

***Core and Satellite Portfolio Construction***

In this newsletter, I have frequently spoken about the need to use an asset allocation for your investment portfolio. Here is another important concept that can be employed in addition to your asset allocation.

Consider dividing your portfolio into two parts: a strategic core and tactical satellites.




[1] Of course, there are other issues in the transition, but these are the ones that Townsend believed were the most pertinent to investors.
[2] Zwieg, Jason, "How You Can See Through Wall Street's Ritual of Wrong," Wall Street Journal, January 10, 2025.

***The Core Portfolio***

The core portfolio is a strategic part of the asset allocation that should comprise about 70% of your total portfolio. This part of the portfolio is designed to provide the returns necessary to meet your long-term financial objectives. I prefer diversified, passive-style investments for the strategic core portfolio. It should follow an overall asset allocation with different classes dedicated to US stocks, international stocks, and bonds. This is really a complete portfolio solution for those who want a stable, elegant, and efficient solution. This could very well be 100% of your portfolio.

***Satellite Positions***

Satellite positions are a tactical, optional part of the portfolio designed for investors who crave more active management. They should comprise no more than 30% of your overall portfolio. These investments are more short term in nature. Each satellite investment should not comprise more than 5% of your total portfolio. At least half of the satellite investments should be targeted at reducing overall portfolio risk. The other half can be dedicated to investments that may outperform the overall market.

Here are some examples of satellite investments that may reduce certain risks with the goal of reducing overall portfolio volatility:

1) Treasury inflation-protected government securities, or TIPS, to hedge against inflation.
2) Long-short funds or other strategies that attempt to lower market volatility using derivatives and futures contracts.
3) Dividend-paying stocks that are usually (but not always) less volatile than the overall market.
4) Short-duration bonds that retain value better if interest rates increase.
5) Cash positions and short-term Treasury bonds to hedge against geopolitical and policy risk.

Here are some examples of satellite investments that could attempt to earn additional returns (because these investments typically increase overall portfolio risk, these are not my favorite, but some investors always seem to be drawn to them):

1) Technology stocks if you feel there will be greater returns in this sector.
2) Real estate investment trusts.
3) Precious metals.
4) High-yield bonds.
5) Cryptocurrency.

***A Key Question for Any Investment***

When evaluating potential satellite investments (or any investment, for that matter), I always ask myself, What is the price of being wrong? What if your forecast is incorrect on direction or timing (or both)? What is the potential downside? If you can pay that price and not compromise your long-term goals, then it is easier to justify taking that risk in the first place. If being wrong lands you in serious financial peril or if you would suffer serious regret, it is not worth the risk, in my view.

***Keeping Politics Out of Your Portfolio***

As a general rule, I believe you should keep politics out of your portfolio. Politics frequently bring passions and other unwanted emotions to the table that are not necessarily helpful when objectively evaluating your portfolio and whether it is supportive of your long-term goals.

***Conclusion***

Passive investing is easier than active investing. Passive investing simply seeks to capture the long-term return of certain asset classes efficiently and economically. Passive investments should accurately track the return of their underlying benchmarks. If you are a patient long-term investor who can be disciplined about periodic rebalancing, this is about all you really need to have a successful investment experience.

That said, many investors are constantly seeking an edge. This is where active investing is involved. This is where things get more complicated and potentially expensive. Some forecasting may be involved, which is a difficult endeavor at best. However, there are certain risks that may be hedged, and other opportunities may be exploited. Overall portfolio returns may be marginally enhanced and risks managed.

If you are inclined toward active investment, I suggest you set aside a portion of your portfolio for satellite positions that support the core portfolio. As always, this newsletter should not be relied on until your individual situation is taken into consideration by an experienced advisor (read below).

Investing always involves risk. Risk brings us return, but it also brings the potential for loss. Your investment portfolio should complement your long-term objectives and your own unique tolerance for risk. If you need guidance, please give me a call.

Thank you.

D. Austin Lewis

This is an educational newsletter expressing opinions only. This newsletter should not be relied on until your individual situation is taken into consideration by an experienced advisor. This newsletter is not designed or intended to give you individual investment, tax, or legal advice. We strongly recommend that you consult with your own financial/tax advisor and/or legal counsel for information and advice concerning your particular situation. If you are a client, please give us a call. Past performance does not indicate or guarantee future results. Investing involves substantial risks, including loss of principal.