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FIRST QUARTER MARKET OVERVIEW

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I deeply appreciate your trust and support. Your introductions are the cornerstone of TAGStone's success, fueling its growth and impact. If you have friends or colleagues who could benefit from my expertise in investments or financial planning, I would be honored if you would introduce them to my services.

I greatly value my relationship with you.

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TAGStone CAPITAL INC

First Quarter **2024**

Market Reflections: The Urge to Chase Hot Trends

In recent times, our investment guidance has often stressed the importance of maintaining a steady investment strategy, even amid market fluctuations that might tempt one to react impulsively.

This year, we've witnessed a significant shift. Many broad markets have shown impressive gains, ranging from acceptable to remarkable. Alongside this, there have been enticing trends like the surge in NVIDIA (NVDA) stock and the introduction of crypto ETFs, adding a layer of distraction with their appeal.

While strong market performance is encouraging, it can also trigger a less favorable response within the investment community. On the opposite end of the spectrum from selling during market downturns, some restless investors might be tempted to chase after speculative trends, no matter how closely they resemble past "Fear of Missing Out" (FOMO) frenzies.

Understanding Recency Bias

Fear of Missing Out has earned its acronym for good reason—it's a remarkably common affliction. When combined with recency bias, humans are especially prone to sabotaging their own best interests, regardless of market conditions.

SELECTED 2024 EQUITY INDICES

	Mar. '24	1st Qtr.	YTD
S&P 500 Total Return (Large-Cap Stocks)	3.22%	10.56%	10.56%
Russell 2000 Total Return (Small-Cap Stocks)	3.58%	5.18%	5.18%
MSCI EAFE (Developed International Stocks)	3.29%	5.78%	5.78%
MSCI Emerging Markets (International Emerging Stocks)	2.48%	2.37%	2.37%

SELECTED 2024 FIXED INCOME INDICES

	Mar. '24	1st Qtr.	YTD
Bloomberg U.S. Aggregate (Broad Domestic Bonds)	0.92%	-0.78%	-0.78%
Bloomberg 1-5 Yr. Credit (Short-Term Domestic Bonds)	0.65%	0.51%	0.51%
Bloomberg 5-10 Yr. Credit (Intermediate-Term Domestic Bonds)	1.29%	-0.29%	-0.29%
Bloomberg U.S. TIPS (Treasury Inflation Protected Securities)	0.82%	-0.08%	-0.08%
FTSE World Gov't 1-5 Yr. Hedg'd (Short-Term Global Bonds)	0.48%	0.26%	0.26%

The allure of recent events can amplify recency bias, where the latest news gains disproportionate importance. We might begin to believe that current market developments are more significant than the countless similar occurrences throughout the history of capital markets.

It's essential to remember that before today's tech stars like NVIDIA and AI trends, there were the prior eras of industrial innovation in the 1920s, the Nifty Fifty blue chip era of the 1970s, and the Dot-Com boom of the 1990s—each heralded as unstoppable market forces with the familiar refrain of ***"This time, it's different."***

There's almost always something new and supposedly unprecedented that stokes investors' FOMO. However, it's crucial not to give excessive weight to recent high-flyers.

While the latest innovations can be genuinely transformative, the patterns of how capital markets integrate them into long-term returns tend to be more constant.

Regardless of market conditions—whether up or down—one principle remains consistent:

Neither hot nor cold streaks among stocks, sectors, or markets provide sufficient reason to abandon a well-built portfolio.

Avoiding the Pitfalls of Performance Chasing

Long-term investors resist abandoning underperforming segments instead of chasing the hottest trends due to rational investment principles. While panic selling during a market decline poses the greatest risk of permanent capital loss, performance chasing is a close second.

Selling solid but currently out-of-favor investments to pursue popular yet potentially overvalued sectors goes against sound financial strategy. Additionally, selling appreciated assets generates capital gains tax that could otherwise be deferred indefinitely. The goal isn't just short-term outperformance; ***it's about steadily compounding wealth over the long run.***

Furthermore, performance chasing often leads investors to narrow their portfolios to a few sectors or stocks, ***exposing them to increased portfolio volatility in pursuit of returns they may not necessarily need***.

This lesson was underscored by Warren Buffett during a 2007 talk to MBA students at the University of Florida when discussing the collapse of Long-Term Capital Management in 1998. Buffett emphasized the importance of not risking what is essential—for example, financial security—for unnecessary gains. He stressed that incremental wealth does not significantly enhance one's life or legacy beyond a certain point compared to the risk of incurring lifestyle-changing losses. Prioritizing personal contentment over the relentless pursuit of financial gains is crucial.

The Importance of Diversification and Rational Investing

It's easy to be captivated by a single hot asset or market segment and question the need for diversification. However, broad diversification is not just conservative—it's a fundamental risk-management strategy rooted in rational investing principles.

By spreading investments across various asset classes—such as small-cap stocks or international markets—we aim to buffer portfolio volatility and capture superior long-term returns.

Despite the recent dominance of U.S. large-cap stocks, diversified portfolios historically offer resilience. Historical patterns suggest that sectors like small-cap or international equities may lead during certain market cycles. Patience is key, echoing Buffett's timeless advice: ***"The stock market is a device for transferring money from the impatient to the patient."***

Aligning Your Investments with Your Financial Goals

In long-term investing, it's important not to let recent high performers dictate your strategy. Instead, focus on your personal financial objectives. As Benjamin Graham, the renowned investor and mentor to Warren Buffett, emphasized:

"The best way to measure your investing success is not by whether you're beating the market but by whether you've put in place a financial plan and a behavioral discipline that are likely to get you where you want to go."

While hot stocks or aggressive strategies have their place, the broader strategy should prioritize sustainable, diversified growth that can navigate market cycles and ultimately achieve long-term financial goals.

Your personal financial goals should guide your investment strategy. Misguided goals can lead to unexpected consequences, as seen in the failure of Long-Term Capital Management. Establishing clear and durable financial goals early on ensures you stay on track to achieve them.

Planning for your financial future in a world of challenges and opportunities may seem daunting. However, lacking well-defined goals only adds to the complexity. Without clarity on how much money you need, when you need it, and why, you may find yourself chasing trends (buying high) or succumbing to market volatility (selling low). This not only results in financial setbacks but can also take a toll on your emotional well-being.

Embracing a Long-Term Perspective

The debate between concentrated portfolios and broader diversification is a perennial topic in investment management. Investors often believe owning recent top performers is the key to long-term success.

However, every investment strategy has limitations, including the risk of underperformance. In reality, very few investors have the temperament to endure market fluctuations without feeling distressed. This stems partly from our natural inclination to seek positive outcomes and avoid negative ones.

This insight underscores the essential role of investment advisors: to guide clients through economic cycles and market fluctuations, helping them to stay on track with a lifetime investment plan.

Diversification is fundamental to this approach. While owning a diversified stock portfolio means accepting that some parts may underperform at times, it also ensures the portfolio includes assets that provide stability and resilience during market volatility.

Past performance does not guarantee future results. All investments include risk and have the potential for loss as well as gain.

Data sources for returns and standard statistical data are provided by the sources referenced and are based on data obtained from recognized statistical services or other sources we believe to be reliable. However, some or all information has not been verified prior to the analysis, and we do not make any representations as to its accuracy or completeness. Any analysis nonfactual in nature constitutes only current opinions, which are subject to change. Benchmarks or indices are included for information purposes only to reflect the current market environment; no index is a directly tradable investment. There may be instances when consultant opinions regarding any fundamental or quantitative analysis do not agree.

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