The Gorton Wealth Management Group of Wells Fargo Advisors

2024 Mid Year Review

August 2024

An update of performance, trends, research, and topics for the long-term investor

Relevant rates of return a/o:	12/31/2023	6/30/2024
Russell 1000® Growth Index:	+42.7%	+20.7%
Russell 1000® Value Index:	+11.5%	+6.62%
Bloomberg U.S. Agg Bond Index:	+5.5%	-0.71%
S&P 500 Index:	+26.3%	+15.29%
S&P 500 Equal Weighted Index:	+11.56%	+5.08%
Russell 2000® Value Index:	+14.6%	-0.85%
MSCI EAFE® Index:	+18.9%	+5.75%

Russell 1000® Growth Index: *Stocks within this index include: Amazon, Facebook, Google (Alphabet) Home Depot, Visa

Russell 1000® Value Index: *Stocks within this index include: Berkshire Hathaway B, Exxon Johnson & Johnson, JP Morgan

*These companies represent a sample of the overall makeup of this index and are provided for informational purposes only. They do not represent a recommendation.

Practice News

We are very fortunate to have added a new team member, Ross Gompertz, Associate Financial Advisor. Ross has spent the last 14 years in industrial and technology focused construction. After graduating from Cal Poly in San Luis Obispo, he started as a mechanical field engineer and worked his way up to management. Until now, he was a Senior Manager of technical programs at Tesla and before that he worked at Bechtel. At Tesla, his team led the construction of manufacturing and research infrastructure in California.

Ross grew up in west Marin and after years of traveling for work has returned to Nicasio where he lives with his wife, Katherine (a pediatric ICU nurse) and two children, a 2 ½ year old girl, Kiyome, and a ten month old baby boy, Charlie.

Please join us in welcoming Ross to the team!

"Invest for the long haul. Don't get too greedy, and don't get too scared." —Shelby M.C. Davis[1]

Behavioral Finance: Biases, Emotions, and Financial Behavior

There has been a plethora of books written on the subject of how biases and emotions affect decision making. Concepts like overconfidence, Herd mentality, loss aversion, anchoring, and confirmation bias are terms used to describe this subject. As we all focus on politics and the upcoming election, our team is receiving many questions about potential/expected changes to portfolios based on the outcome, and we are not only asked to predict the outcome of the election but its impact on the economy, markets, and the country. While elections are important, you may be surprised to learn that they often have little impact on the long-term market returns.

Focus on Elections?

Behavioral finance studies reveal that emotions and cognitive biases often drive decision-making. Candidates historically relied on debates and TV ads to present their visions for the future. However, with the rise of social media, tactics have shifted to personalized feeds designed to evoke emotional responses and motivate voter turnout. This shift has created a highly polarized environment, and we anticipate that emotions will continue to run high as we approach November.

When investing, these same emotions and biases can and do affect decision making, i.e. "maybe I should sell everything if x or y happens." We are born with the same DNA and our team works hard every day and strives to eliminate these biases from our decision-making process. That is why we endeavor to construct portfolios with a high probability of long-term success, as free from biases and emotional influences as possible. To achieve this, we've formed an investment committee of four members (Michael Gorton, Managing Director-Investment Officer, Brian Gallagher, Financial Advisor, Jonathan Gorton, Financial Advisor, and Ross Gompertz, Associate Financial Advisor) to identify individual biases and remove potential blind spots or emotional influences and making the best investment decisions with the information available.

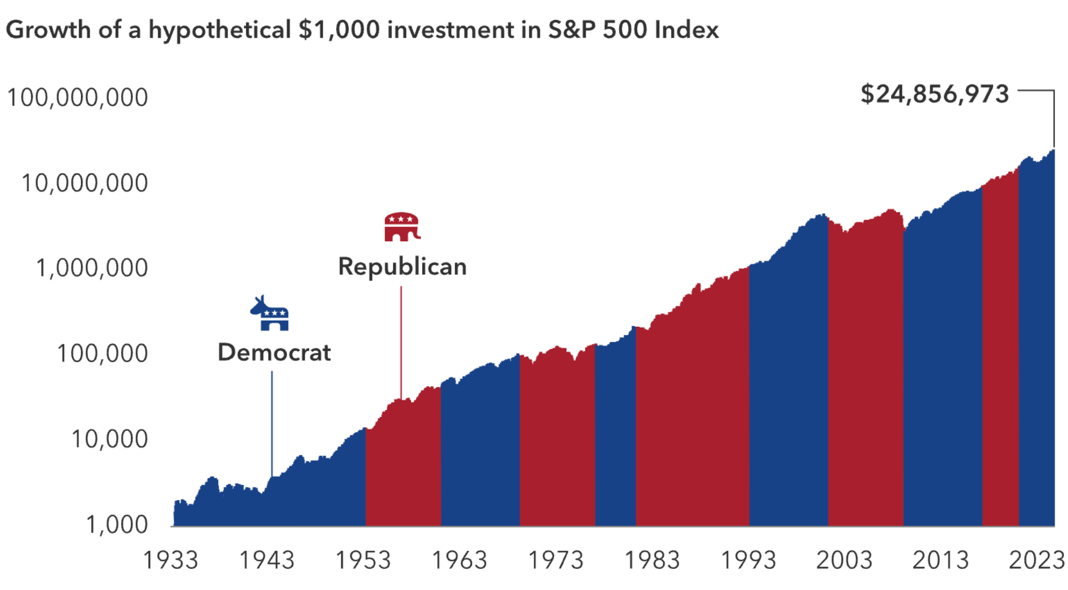
Still worried about your portfolio? Call us to schedule a risk assessment to make sure your portfolio aligns with your long-term goals and objectives.

Will the Election Impact Your Portfolio?

Yes, the election will have some impact, particularly in terms of regulation, tax policy, etc. However, it is unlikely to significantly affect your portfolio and long-term returns. We remain focused on a long-term strategy, adapting portfolios and investment plans as necessary in response to ever-moving changes in regulations and policies and own companies that have the ability to do the same.

The long-term, efficiency-equality economic cycle that we have written about multiple times in past newsletters may have greater impact on future than any individual election. To quote from last year's letter "An efficiency cycle is marked by reduced regulation, higher immigration, lower tax rates, reduction in tariffs, expansion of trade and low inflation." I think we are seeing the unwinding of a lot of those things as we swing towards the Equality cycle. More regulation (tech, crypto), higher taxes, more tariffs, less global trade, more inflation...

We will leave you with the chart below that illustrates how the market has historically performed in the years following an election vs which party was in office.



Sources: Capital Group, RIMES, Standard & Poor's. Chart shows the growth of a hypothetical $1,000 investment made on March 4, 1933 (the date of Franklin D. Roosevelt's first inauguration) through June 30, 2024. Dates of party control are based on inauguration dates. Values are based on total returns in USD. Shown on a logarithmic scale. Past results are not predictive of results in future periods.

So, on to other subjects:

AI perspective- AI sparked a Market Revolution and now we await the profit. It is estimated that companies will have spent over $180 billion dollars on AI this year alone and approaching 1 trillion will have been spent overall in the next few years, but only a bit over 3 billion in revenues have been generated from those investments. To be fair, these same companies developing AI expect to have some cost savings as they use AI to run their operations more efficiently. (The Artificial Intelligence (AI) market includes software, hardware, and services that enable organizations to develop and deploy AI applications.) This is early phase technology, and we will look forward to seeing the winners and losers as each emerges and look to invest in the companies that can make a reasonable return on investment As history shows, most early phase companies do not survive, let alone ever make a profit. Next time: Dark Factories....

Energy Anecdotes (a new section as the energy world evolves)

Did you notice we had a heat wave here in CA and we didn't experience brownouts or a large shutdown of parts of the power grid?

Battery energy storage systems are a critical part of our power grid's transition to more renewable power generation. These systems provide backup power, stabilize energy prices, and reduce energy generation demands. California currently leads the country in installed capacity with about 10GW of installed capacity.[2] This is roughly equivalent to the output of the Hoover dam for 8 hours, or enough to power one million homes for that time period.[3] Texas is a close second in installed storage capacity and catching up quickly. These battery systems charge during the day when solar energy is abundant, and energy is less expensive. Then discharge at higher energy prices in the evenings to meet peak demands as solar drops off. The stabilizing benefit of this stored energy has been most felt during our recent summer heat waves and the solar eclipse earlier this year when the batteries carried the shortfall as solar generation dipped. In fact, battery storage systems are directly displacing natural gas generation in California, particularly during the evenings.[4] Despite the overall demand for energy growing, natural gas power generation decreased from 2021 through 2023. (We plan to incorporate this changing energy world into our clients' portfolios over time).[5]

What we are thinking about on the horizon:

Probable Changes in Medicare, SS and estate taxes coming.

What we worry about:

- The regional banking system being put under more stress around commercial property/office buildings.
- Continued world instability creating more conflicts/prolonged war.
- As we have discussed in past newsletters, we are always worried about China creating instability in the world, i.e. attacking Taiwan.
- Federal debt.

High probabilities in our opinion:

- Equities outperform fixed income over the market cycle.
- Interest rates start to decline.
- Inflation moderates but expectation is for it to be more volatile.
- We hope the fed does not lower rates too quickly and reignite.

So, why did I get kicked off the island? (and no-one did)

We recently had a client ask this question in reference to my not delivering their annual review. The answer is that the island is growing, allowing us to be more responsive to our clients. We hope to start incorporating client updates more than once per year as well as provide more robust planning with our new eMoney® planning software. I still plan to lead our investment committee and portfolio management, but now have a larger team to help do the research. I don't plan to deliver all of our annual reviews, but instead, work closely with Brian, Jonathan and Ross to ensure a high-quality review process to ensure we are on the same page with you and that you have a successful financial life to look forward to. As a great example to emulate, Warren Buffett, who just turned 93, has spent a decade or more building a team to succeed him when he is no longer able to manage his company. I am in the process of doing the same for our practice and hope I last as long as Warren....

We hope this finds you enjoying the summer!

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Sources:

[1] Davis, Shelby M.C. Quote retrieved 8/6/24 from www.goodreads.com

[2] Nyberg, Michael. California Energy Commission. Electric Generation Capacity and Energy. Retrieved 8/6/24 from www.energy.ca.gov

[3] California ISO. Today's Outlook. Supply. Retrieved 8/6/24 from www.caiso.com

[4] Batteries Taking Charge of the California Grid. 5/7/24. Retrieved 8/6/24 from https://blog.gridstatus.io/caiso-batteries-apr-2024

[5] U.S. Energy Information Administration. Today in Energy. As solar capacity grows, duck curves are getting deeper in California. 6/21/23. Retrieved 8/6/24 from www.eia.gov

Description of Indexes:

An index is unmanaged and not available for direct investment.
S&P 500 Index - a market capitalization-weighted index, composed of 500 widely held common stocks, including reinvestment of dividends, that is generally considered representative of the US stock market.
Russell 1000 Growth Index - offers investors access to the large-cap growth segment of the US equity universe. The index is constructed to provide a comprehensive and unbiased barometer of the large-cap growth market. Based on ongoing empirical research of investment manager behavior, the methodology used to determine growth probability approximates the aggregate large-cap growth managers' opportunity set.
Russell 1000 Value Index - measures the performance of those Russel 1000 companies with lower price-to-book ratios and lower forecasted growth values. These stocks are selected from the 1000 largest companies in the Russell 3000 Index.
MSCI EAFE Index - the MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US and Canada.
Russell 2000 Value Index - measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.
Barclays U.S. Aggregate Bond Index - an index comprised of approximately 6000 publicly traded bonds, including U.S. Government, mortgage-backed, corporate, and yankee bonds with an approximate average maturity of 10 years.