Alexis Investment Partners, LLC

Practical ◊ Tactical

Summary

Despite a weak start, **November was a superb month for investors** within the context of an ugly year. The **S&P500 ETF (SPY) gained +5.6%** for the month and is +14.1% above the September lows. Even with this great run, however, **the index remains down -13.2% year-to-date.**

We have been more optimistic than most and **continue to see increasing likelihood that this is more than just a bear market bounce and may instead be the early phase of a new bull market.**

Less profitable growth stocks are more volatile but have not led the rebound as the Nasdaq 100 ETF (QQQ) gained +5.5% in November but only +9.8% since the September lows. Year-to-date, QQQ is down -25.9%. If the rally continues through December, it will be interesting to see if tech plays catch-up or continues to lag, confirming a longer-term trend change in market leadership.

Foreign leadership has our attention. US stocks have led the world for most of the last decade, but **foreign developed markets (EFA) surged +13.2% in November** and emerging markets (EEM) gained +15.6%! **Since the September lows, EFA is up nearly +20%** while EEM gained +13%. There have been several false starts here, but this is an area we will be watching closely, and **we expect to incrementally add foreign exposure should this leadership become more of a trend.**

We made significant changes to Black Diamond requiring new logins. Some of you still need to log in to set up access. We will re-send invitations and are here to help as needed. **The Black Diamond vault is a secure portal where we deposit performance reports and share other documents. We are considering moving from quarterly to monthly performance reports next year and making other enhancements we hope you like.**

It's not too late to do year-end planning. **We encourage you to schedule some time to check in, update us on your plans, goals, and any concerns, and review performance.** We are almost done with RMDs. It is critical to complete these before year-end.

Mutual funds are paying distributions. It may be surprising and frustrating to face sizeable taxable distributions in a down year. One of the key reasons we structured LEXI as an ETF is significantly greater tax efficiency. LEXI is expected to pay only a qualified dividend distribution this year (no capital gains).

What to Expect in Portfolios

Last month we wrote: "**We remain tactically overweight stocks… The pace of rebalancing will be based in part on our assessment of the market's reaction to the Fed and mid-term elections.**"

The market remains resilient, and we have held our tactically overweight stock exposure.

We expect the year-end rally to continue and we may be in a new bull market. Bull markets include periodic corrections, and **we plan to incrementally rebalance to a more neutral allocation in the coming months** to take advantage of higher bond yields and manage risk.

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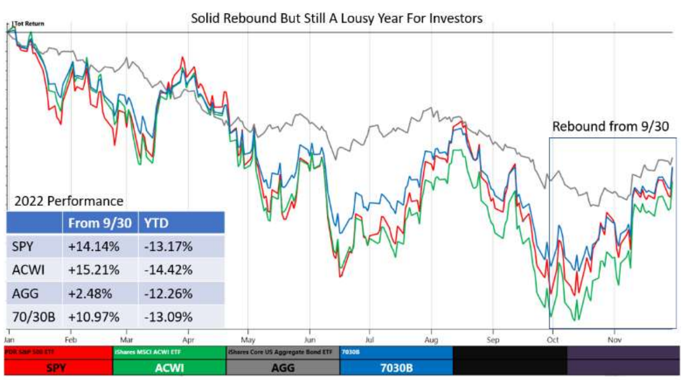
Stocks and bonds continued to rebound in November as yields eased based on hope we are nearing the end of Fed rate hikes as inflation slowly ebbs. **Foreign stocks outpaced US stocks** as the US dollar weakened marginally. Most stocks and bonds remain well off 2022 highs.

The last few years have been challenging to say the least. **The chart below shows the net performance of our most popular composite** (120 accounts – *see disclosures on page 4). Considering gloomy news and the drag of this year's market, we find these results encouraging.



7030B is 35% SPY, 35% ACWI, 30% AGG   Source: Investors FastTrack

Insights and Commentary

Investing can be an emotional roller coaster leading to costly mistakes. To navigate effectively as we seek greater participation in advances than declines, we have found it helpful to monitor a series of indicators and models based on 3 key tenants summarized in the chart below:

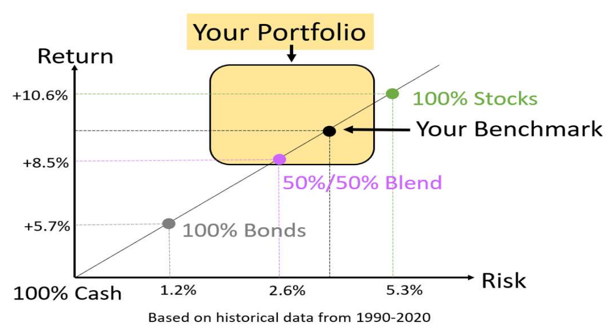
One reason stocks surged in November is that **the Fed has started to acknowledge that monetary conditions have tightened** due to rapid rate hikes and it is therefore appropriate to transition to a slower pace of rate hikes.

The Fed's goal is to slow inflation by removing the excess demand caused by the stimulus of ultra-low interest rates and easy access to credit. Rates are now more "normal" than we've seen in years, growth is slowing and infation is beginning to decelerate. We expect to see the Fed hold rates "higher for longer" but a lower terminal rate.

We have been tactically overweight stocks and remain so as we believe the recent rebound should continue and the worst of the bear market is behind us.

We acknowledge that **cash and short-term bond yields offer an alternative to riskier assets and volatility is likely to remain elevated** as the market works through uncertainty. Many **bonds continue to face headwinds as yields rise and default risks also increase.**

Risk/Return Expectations



We kept this graphic as an important reminder that our goal is to add value (generate higher risk-adjusted returns) through full market cycles by allowing our portfolios to deviate from benchmarks. **We base allocation decisions on an assessment of both risk and return potential.**

Portfolios are based on client needs, goals and preferences.

Update, Observations, Indicators and Outlook:

Based on current patterns and mounting signals from several of our historically reliable models and indicators, **we believe the market is working through a bottoming process that began with the June lows.**

The November surge pushed several major stock indexes above their 200-day moving average – an encouraging sign of a potential intermediate-term trend change. **We removed the highlight from Bear Market but left the outline, just as we outlined Bull Market – indicating that it is too early to call but we are increasingly optimistic.**

So far, it looks like the September lows marked a successful retest of the June lows and the worst of the 2022 bear market should be behind us. We expect continued setbacks and volatility, but also recognize resilience and that many investors are positioned cautiously relative to their long-term goals and allocation plans.

The Fed has made significant progress tightening monetary conditions. **We expect further rate increases but that we are nearing the end of this tightening cycle.**

We expect the economy to slow and earnings growth to fade in the near-term. **Many believe recession is a foregone conclusion** at this point. **We recognize that markets anticipate considerable weakness and are therefore more vulnerable to positive surprises than negative news.**

There is real economic pain from both inflation and higher interest costs. It will take time for inflation to slow and for consumers to get used to higher interest rates.

Our tactical portfolio is overweight stocks, which has allowed us to participate more fully in the recent rebound than had we adopted a more defensive allocation. We plan to rebalance incrementally to a more neutral allocation in the months ahead.

Higher cash and short-term bond yields mean that we are more actively investing in money market funds and t-bills vs "cash". This is a welcome change from recent years.

We continue to expect volatility as we pursue attractive long-term opportunities. If you have any questions or concerns about your portfolio, we encourage you to send us an email or schedule a call.

Market Pulse:

We try to avoid jargon, but a few terms are helpful when describing financial conditions.

Bull Market: markets trending up (making higher highs on rallies and higher lows in periods of decline). **It is early to declare a new bull market, but we are optimistic pending a confirmed trend change.**

Consolidation: after a period of strong gains or steep declines sometimes markets become range bound, moving up and down by 3-5% over several weeks. After consolidation, the prior trend resumes.

Pullback: a decline of 3-5% that generally happens at least twice per year. Pullbacks often resolve within a few weeks.

Correction: a decline of 5% to 10% that typically happens once per year. Like pullbacks, markets recover quickly after corrections, generally within 3-6 months.

Bear Market: a decline of 20% or more. Many bear markets are fully recovered within 18-24 months, but severe bear markets like 2000-2003 and 2007-2009 can take 5-7 years or longer to recover from. **We believe the bear market lows were September 2022.**

Bottoming Process: After a correction or bear market, stocks often bounce and re-test lows multiple times before recovery. **The market continues to trace out a bottoming process that appears to have started with the June lows and September re-test.**

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Closing Comments:

Several clients have recently been speaking with friends who are looking to make a change either because they are nearing a life transition or have been unhappy with their current advisor.

We appreciate your referrals and are pleased that our company continues to enjoy steady growth. Our focus is always on providing exceptional service and performance and we are very grateful for your confidence and support!

Although our focus is on financial planning and investments, we also have relationships and resources to help with life and LTC insurance and annuities.

As an Accredited Investment Fiduciary (AIF), Jason acts as a 3(38) Fiduciary Advisor to 401k plans and has been able to help several small business owners reduce costs, significantly improve their plans and offload some of their liability as plan sponsors while creating a better experience for employees.

Please call and/or email me personally for most of your account servicing needs and especially when you have questions or concerns.