



## 3<sup>rd</sup> Quarter 2023 Newsletter

### Can we predict the market?

- ❖ At the start of 2022, Goldman Sach's chief equity strategist David Kostin forecasted the S&P 500 would gain 9% by the end of 2022. Of course, the S&P dropped about 20% last year.
- ❖ Although many economists predicted that a recession would occur in 2023, GDP grew in the first two quarters of 2023.
- ❖ A study by Morningstar<sup>1</sup> shows that investors missed out on about 1/5th of their fund investments' average net returns. This is attributed to investors jumping in and out, rather than staying invested.
- ❖ Accurately predicting the market is a difficult task. Adding to stocks on dips, and trimming profits on rallies, is more effective.

Uncertainty around interest rates, risk of a government shutdown, and the stability of the economy have all contributed to a market downturn in August and September. Meanwhile, the 10-year treasury note yield has increased above 4.7% to its highest level since 2007.

Beginning in 2024, the annual gift exclusion will increase to \$18,000/year and the \$100,000/year Qualified Charitable Deduction (QCD) limit will start to increase with inflation year to year.

1: "Bad Timing Cost Investors One Fifth of Their Funds' Returns," Jeffrey Ptak, Morningstar. August 2, 2023. <https://www.morningstar.com/funds/bad-timing-cost-investors-one-fifth-their-funds-returns>.

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## News and Observations

- ❖ The Federal Reserve held interest rates steady in September, but kept open the option of another rate hike in the near term. They forecasted that rates may stay above 5% through 2024 due to a resilient labor market.
- ❖ Strikes and lockouts accounted for 4.1 million missed days of work in September, which is the highest monthly total since 2020. This is even before the recent UAW strike in automaking.<sup>2</sup>
- ❖ Oil prices continue to climb as they reach a yearly high. OPEC continues to limit supply while demand remains steady, as the strength of the consumer remains a positive for the economy.
- ❖ Cybersecurity attacks are on the rise with more than 2,200 firms targeted in the first half of 2023. Some notable victims were MGM Resorts International, Caesars Entertainment, and Clorox.

2: "The U.S. Lost 4.1 Million Days of Work Last Month to Strikes," Peter Santilli, The Wall Street Journal. September 16, 2023. [https://www.wsj.com/business/the-u-s-lost-4-1-million-days-of-work-last-month-to-strikes-92c6a9f7?mod=series\\_uawstrike](https://www.wsj.com/business/the-u-s-lost-4-1-million-days-of-work-last-month-to-strikes-92c6a9f7?mod=series_uawstrike)

### Market Index Returns

### Q3

### YTD

S&P 500 (Large Cap)	-3.27%	13.07%
Russell 2000 (Small Cap)	-5.13%	2.54%
MSCI International Index	-4.02%	7.26%
MSCI Emerging Markets	-2.79%	2.16%
US REIT Index	-7.40%	-2.05%
Bloomberg Commodity Index	4.71%	-3.44%
BofA 1-3 yr Corporate & Govt. Bond Index	0.78%	1.93%

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## Can AI be Utilized for Investing?

- AI programs have been used for years to retrieve and process data in an attempt to gain an informational edge on markets.
- Tools that can be used to gather text from company financial reports or gauge investor sentiment from social media were used years before ChatGPT existed. If these programs obtain new information, they incorporate it into market prices.
- AI's forecasting shows to be accurate when assessing patterns that are stable. However, financial markets are intrinsically complex, and it is impossible to gauge the impact a single piece of information will have on the price of securities.
- Securities pricing reacts to thousands of simultaneous inputs which makes AI pricing predictions much like a self-driving car trying to read road signs that have words, shapes, and colors that are changing all the time.
- For example, the AI-Powered Equity ETF (launched in 2017) utilizes IBM Watson's AI with the purpose of analyzing public information to pick stocks that will outperform the market.
- Shown by the graph below, the Watson-powered ETF has severely lagged the broad U.S. market and the U.S. technology sector since its inception.
- Although AI may be utilized for automated processes like the execution of trades, the aggregate knowledge of millions of investors trading each day is still superior at accurately pricing securities.

### AI Powered Equity ETF vs. Russell 3000 Index and S&P Technology Select Sector Index

Cumulative returns, November 1, 2017–May 26, 2023



Source: FactSet. Sample period begins with the first full month of returns for AI Powered Equity ETF. Past performance is not a guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. S&P data © 2023 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.