
Sound Investments Inc.

4th Quarter 2023

DJIA 37,680 S&P 500 4,7569 Nasdaq 15,011

Summary

As outlined above, we feel the S&P 500 is trading on the high side based on forward looking earnings, of over 20 times profit. We feel that companies that disappoint with their results or guidance will be vulnerable to selective profit taking and will go down. We look to investments in funds and stocks that feature companies that have a history of steady earnings and cash flow.

Accumulating wealth takes time and we may face many challenges along the way.

Comeback Year

While 2023 proved to be a volatile year, the market witness its strongest gains in the final two months. Three pivotal factors contributed to this year-end surge: a robust economy, better-than expected corporate earnings, and a halt to interest rate hikes. Although the stock market experienced a remarkable, albeit concentrated, comeback, we are just back to the level we were at two years ago. (refer to attached chart)

The impressive performance in the last two months was largely driven by technology stocks, particularly the "Magnificent Seven" – Nvidia, Apple, Microsoft, Alphabet, Amazon, Tesla, and Meta. These seven stocks now constitute 30% of the S&P 500, collectively achieving a 26% gain in 2023. The Dow Jones, advancing by 16%, set seven record closes in the final days of the year.

At the beginning of 2023, concerns loomed over a substantial slowdown in the job market and broader economy due to rising interest rates. A year prior, pessimism prevailed among investors, with most strategists predicting a recession. Contrary to expectations, inflation steadily decreased, with the Federal Reserve's preferred measure falling to 2.6% from its peak of 9.1% in 2022. Consumers maintained their spending habits, and the unemployment rate dropped to 3.4%, marking the lowest level since 1969. The resilience of consumers, coupled with a robust job market, played a pivotal role in supporting equities towards the end of the year.

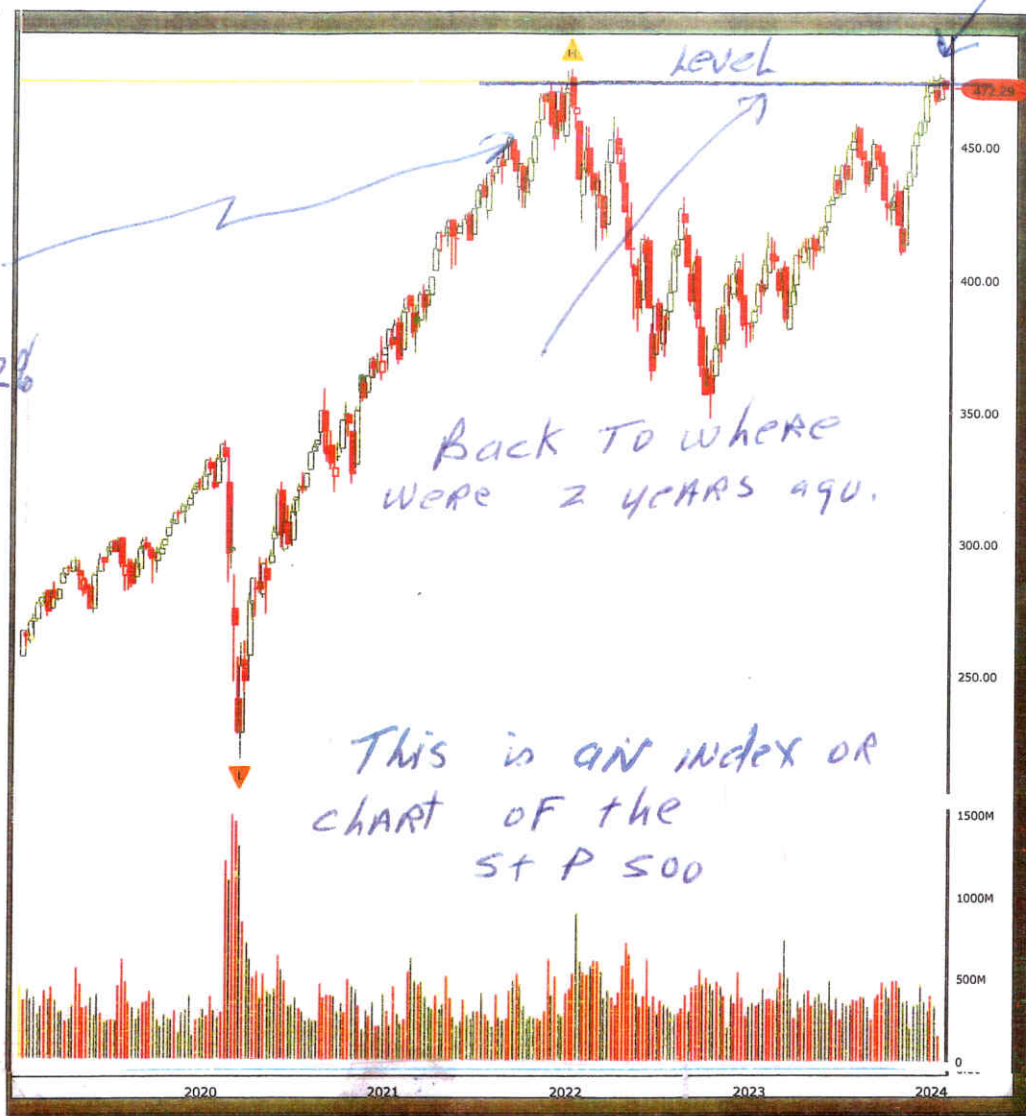
The Path Forward

In the initial 9 months of 2023, markets grappled with turbulence, primarily driven by concerns about higher interest rates and a 1970s-style inflation. Drawing from

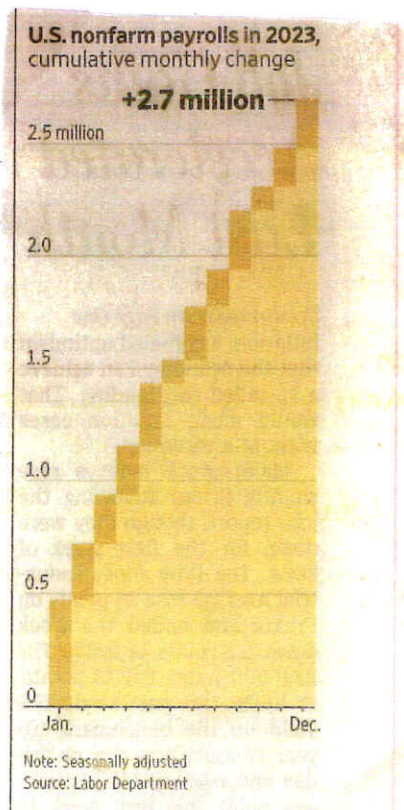
This investment letter is mailed quarterly to our clients and friends.

Sound Investments Inc. / Kenneth A Gilpin CFP
913.908.4366

IN
2022
interest
Rates
were in
the 3-3 1/2%
Range



SAME Level
as 2 years
Ago but now
interest
Rates
are in the
5 to 6%
Range.



EVEN in a slower
economy New jobs are
being Added. This is
good News but tends to
push up inflation.

their long memories, questioned the possibility of a similar scenario unfolding.

Referencing the chart on the back of page one reveals that the markets have retraced to levels observed two years ago, with one significant distinction. Two years ago, interest rates ranged from 3 to 3 1/2%, whereas now they fall within the 5 to 6% range. Investors are faced with a choice: opt for short-term bonds yielding 5.2% or invest in the stock market, hoping for a more substantial return. We believe that for the market to go higher, interest rates and inflation must decrease. Let's delve into labor and inflation trends.

Inflation: Defined as a continual rise in prices, inflation has been a prevalent factor. The stock market is averse to high interest rates and inflation. In July, the inflation rate reached 9.2%, leading to a 21% market drop. Since then, inflation has gradually subsided to 3.7% in December, and equities have rebounded to their all-time highs. The Federal Reserve Bank's interest rate target is 2%, and achieving this level took a decade in the 1970s. While we believe inflation can come down to 2%, the challenge lies in maintaining it at this level.

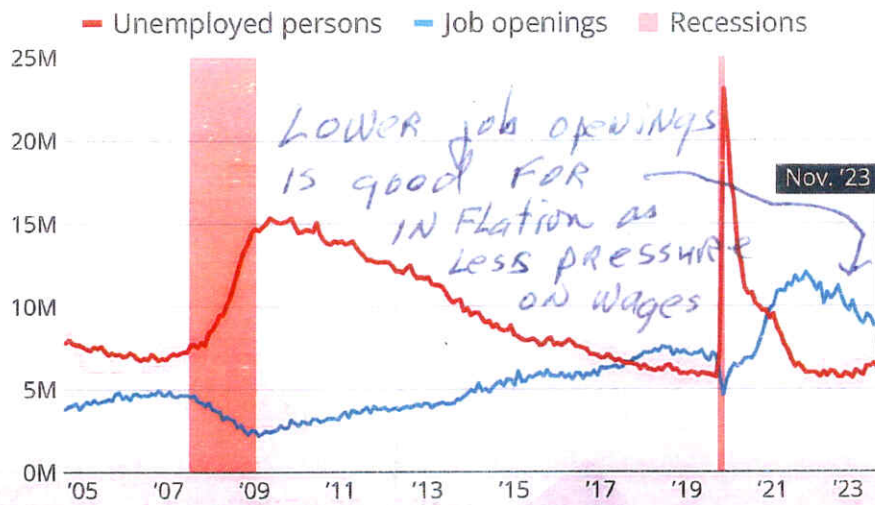
Wages: December saw solid hiring, concluding a year of steady job market growth in 2023 (refer to the chart). However, job openings have decreased from 10.5 million to 8.8 million in 2023, with only 6.3 million unemployed individuals. This translates to 1.4 unfilled positions for every job seeker. Jerome Powell, the Fed Chair, emphasizes the need for the labor market to balance out to alleviate upward wage pressure and reduce inflation. Although the economy is slowing down, it may take time for job openings to align with the number of unemployed individuals. The trend towards slower employment hiring is expected to reduce inflation and interest rates, supporting the stock market—positive news, albeit with a timeframe.

Earnings: As of this writing, the fourth quarter earnings have commenced on a positive note, with several banks reporting solid profit growth. Earnings are forecasted to grow respectably, and a 29% surge in consumer confidence over the last three months further supports this trend.

Conclusion

As outlined above, we feel the S&P 500 is trading on the high side based on forward looking earnings, of over 20 times profit. We feel that companies that disappoint with their results or guidance will be vulnerable to profit taking and will go down. We look to investments in funds and stocks that feature companies that have a history of steady earnings and cash flow. As mentioned before accumulating wealth takes time and we may face many challenges along the way.

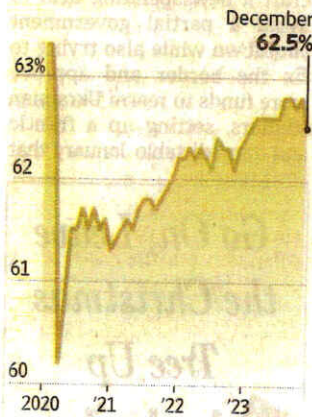
We welcome your calls. We have posted the new tax brackets for 2023 on our web site at www.Soundinvestments4.com,



Source: U.S. Bureau of Labor Statistics

Currently there are more jobs than workers which tends to bid up wages. This gap is narrowing which should help reduce inflation.

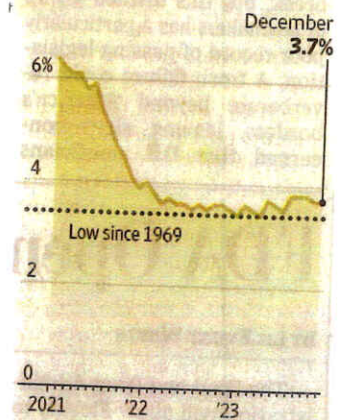
Labor-force participation rate



More people are getting back in the work force.

This is good news but there is not enough workers!

Unemployment rate

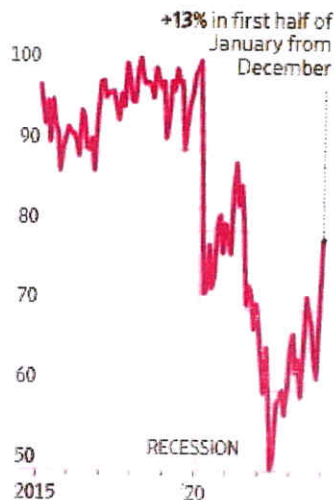


ry 2010 to January 2020. *Latest available data are not seasonally adjusted. Wage data are ave

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Consumer sentiment index*



Consumers are becoming more optimistic

What Warren Buffett Is Up To

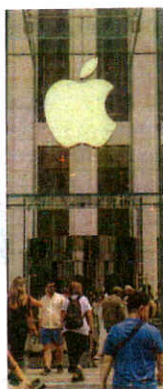
Berkshire Hathaway sold more stocks than it bought in the second quarter.

BY DAN BURROWS

WARREN Buffett's Berkshire Hathaway initiated positions in three homebuilders, added to a couple of existing stakes and cut or closed out bets on eight other stocks during the second quarter of 2023. Before we get into the stocks Berkshire bought and sold in Q2, it's helpful to note that Buffett has always run a highly concentrated portfolio. **Apple (symbol AAPL)** alone accounted for 51% of Berkshire's total portfolio value as of June 30. Berkshire's five largest holdings made up about 80% of the portfolio; the top 10 positions accounted for 90%.

On the buy side of the ledger, Berkshire opened a small position in homebuilder **D.R. Horton (DHI)**, acquiring 6 million shares worth \$726.5 million as of June 30, representing 0.2% of Berkshire's portfolio. Buffett also nibbled on **NVR (NVR)**, buying 11,112 shares worth \$70.6 million (0.02% of the portfolio), and he bought 152,572 shares of **Lennar (LEN.B)** worth \$17.3 million (0.01%).

Berkshire's new homebuilder stocks fit with a number of its other stock positions and wholly owned subsidiaries. For example, Berkshire holds stakes in **Louisiana-Pacific (LPX)** and **Floor & Decor Holdings (FND)**. Housing-related subsidiaries owned by Berkshire include Acme Brick, Benjamin Moore, Clayton Homes, Jordan's Furniture and Nebraska Furniture Mart, among other businesses.



Apple alone accounted for 51% of Berkshire's total portfolio value as of June 30.

Elsewhere in the plus column, Buffett added 12.4 million shares of **Occidental Petroleum (OXY)**, boosting the number of shares Berkshire holds in the company by 5%. Buffett has typically added to Berkshire's Occidental stake when the share price falls below \$60. At 224.1 million shares worth \$13.2 billion as of June 30, the stock accounts for 3.8% of Berkshire's portfolio, making it the sixth-largest holding. Berkshire owns more than one-fourth of Occidental Petroleum's common shares outstanding.

Buffett also upped Berkshire's stake in **Capital One Financial (COF)** by 25%, to 12.5 million shares worth \$1.4 billion as of the end of the second quarter (0.4% of the portfolio).

Berkshire has dumped most of its bank stocks in recent years, though Buffett remains a fan of **Bank of America (BAC)**.

Stocks Buffett is selling. On the sell side of Berkshire's ledger, the holding company slashed its position in **General Motors (GM)**

by 45%, or 18 million shares. The investment, which is thought to be handled by Ted Weschler or Todd Combs (comanagers of the portfolio), now stands at 22 million shares worth \$848.3 million as of June 30, with a portfolio weighting of 0.2%.

Buffett trimmed Berkshire's stake in **Chevron (CVX)** by 7%, to 123.1 million shares worth \$19.4 billion as of June 30. Chevron remains Berkshire's fifth-largest holding with a 5.6% weighting in the portfolio.

Buffett slashed Berkshire's stake in video game publisher **Activision Blizzard (ATVI)** by 70%; he now holds 14.7 million shares worth \$1.2 billion. Buffett's interest was as an arbitrage play—a bet that regulators would approve Activision's acquisition by Microsoft. The deal has cleared most regulatory hurdles, but U.K. authorities have yet to approve it.

Berkshire also reduced its position in **Celanese (CE)** by 39%, to 5.4 million shares worth \$620.5 million as of June 30 (0.2% of the portfolio). And Buffett sold 60% of his stake in **Globe Life (GL)**. The insurer accounted for 0.08% of Berkshire's portfolio as of June 30.

Finally, Berkshire exited positions in pharmaceutical distributor **McKesson (MCK)**, insurance company **Marsh & McLennan (MMC)** and **Vitesse Energy (VTS)**. ■

If you have questions or comments, please e-mail feedback@kiplinger.com.

WARREN'S FAVORITES

Berkshire Hathaway's Top Holdings

	Symbol	% of portfolio
Apple	AAPL	51.0
Bank of America	BAC	8.5
American Express	AXP	7.6
Coca-Cola	KO	6.9
Chevron	CVX	5.6

As of June 30. Source: WhaleWisdom