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# Alpha Wealth Monthly Brief

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*“The stock market is a device which transfers money from the impatient to the patient.”*

*- Charlie Munger*

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This month’s edition of the brief is intended to touch on current market valuations, what they tell us about future returns, and a few ideas on other ways to invest. We’ll also highlight Jamie Dimon’s letter to shareholders.

## Market Valuations and Future Expected Returns

As the founder and CIO of CMG Capital Management, Stephen Blumenthal has spent over 30 years helping investors, advisers, and institutions gain a deeper understanding of the forces that are really driving the stock market. His approach is rooted in cutting out the noise that so many investors react to and identifying what actually matters when it comes to making sound investments. Blumenthal’s recent commentary on his “On My Radar” podcast paints a bleak picture of the future expected returns given today’s valuations. He notes that across the board no matter which valuation metric you look at, things range from extremely overvalued to moderately overvalued. The current Shiller PE ratio of 29.27 is off the peak set in 2000 but remains higher than the level reached in 2008. From today’s level, history tells us that the average 10 -year annualized total return an investor can expect in the equity market is 1.3%. With the 10-year Treasury rate currently sitting around 3.5%, there is a very real chance that investors who passively hold stock and bond index funds are looking at flat returns over the next decade.

Shiller PE Ratio



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To combat this, savvy investors are adding more diversification to their portfolios, seeking strategies uncorrelated to stocks and bonds. Active Long/Short strategies, precious metals, merger arbitrage strategies, and managed futures strategies have historically demonstrated the ability to deliver positive returns over a complete market cycle with low correlation to an overpriced stock and bond market. Emerging Market equities continue to look relatively attractive given the lower valuations and higher real return forecasts. High and growing dividend paying value stocks and disruptive technologies centered around agriculture, farmland, genomics, and AI are other ideas to consider. Patience must be had with US market cap weighted indices until valuations reset. An attractive entry point will present itself after the next major market dislocation, although it is difficult to say when this will be.

## Jamie Dimon's Letter to Shareholders

This month, Chairman and CEO of JP Morgan Chase, Jamie Dimon, released his annual letter to shareholders reflecting on a challenging 2022 and the major impacts had on JP Morgan's business and the business of its customers. Check out these five highlights below.

**On the challenges faced by the U.S. domestically and abroad:** "This is the moment when we should put aside our differences and work with other Western nations to come together in defense of democracy and essential freedoms, including free enterprise. During other times of great crisis, we have seen America, in partnership with other countries around the globe, unite for a common cause. This is that moment again, when our country needs to work across public and private sectors to lead while improving American competitiveness."

**On JP Morgan's strong 2022 despite unsettling landscape:** "2022 was somewhat surprisingly another strong year for JPMorgan Chase, with the firm generating record revenue for the fifth year in a row, as well as setting numerous records in each of our lines of business. Adhering to our basic principles and strategies allows us to drive good organic growth and properly manage our capital as we have consistently demonstrated for decades.

**On the recent banking crisis and the necessity for a thoughtful regulatory response:** "As I write this letter, the current crisis is not yet over, and even when it is behind us, there will be repercussions from it for years to come. While this crisis will pass, lessons will be learned, which will result in some changes to the regulatory system. However, it is extremely important that we avoid knee-jerk, whack-a-mole or politically motivated responses that often result in achieving the opposite of what people intended."

**On Artificial Intelligence and its effect on JPM business:** "We already have more than 300 AI use cases in production today for risk, prospecting, marketing, customer experience and fraud prevention, and AI runs throughout our payments processing and money movement systems across the globe. AI has already added significant value to our company."

**On antiquated systems within the U.S. government and the necessity for change:** “In a company, you are constantly setting up your organization for success. We need to find a way to more rapidly reorganize our government for the new world. While Congress can often move very quickly in a crisis, we are unable to move quickly as a government over the medium term. We need to move faster, adopt new technologies and retrain human capital more quickly.”

## Fast Facts

Congress today is older than it has ever been. Across all United States senators and representatives, the median age of the 118th Congress is 59 years old. The median senator is 65 years old, a record high; the median representative is about 58— FiveThirtyEight

The United States is now the biggest supplier of crude oil to the European Union, providing 18% of the bloc’s crude imports. Russia accounted for as much as 31% of EU oil imports until the end of January 2022— CNN

In the U.S. there are an estimated 700 million to 2 billion parking spaces which means there are between 2.5 to seven spaces for every vehicle in the country. Fourteen percent of Los Angeles County alone is dedicated to parking. — USA Today

Apple and Microsoft alone now account for 13.3% of the S&P 500, the highest level on record. Not since IBM and AT&T in 1978 have two stocks made up a greater share of the benchmark- Seeking Alpha, April 5, 2023

From 1970 to 2021, the median U.S. income increased 7.7 times, the median rent by 11 times, and the median home sales price by 18 times. – Heisenberg Report

## Contact Us

As always, feel free to reach out to us if you have any questions regarding your investments or financial plan or would like to schedule a meeting with our advisors.

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