KELLEHER FINANCIAL ADVISORS

Newsletter
April 2024

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“ In the Spring, I have counted 136 different kinds of weather inside of 24 hours.” – Mark Twain

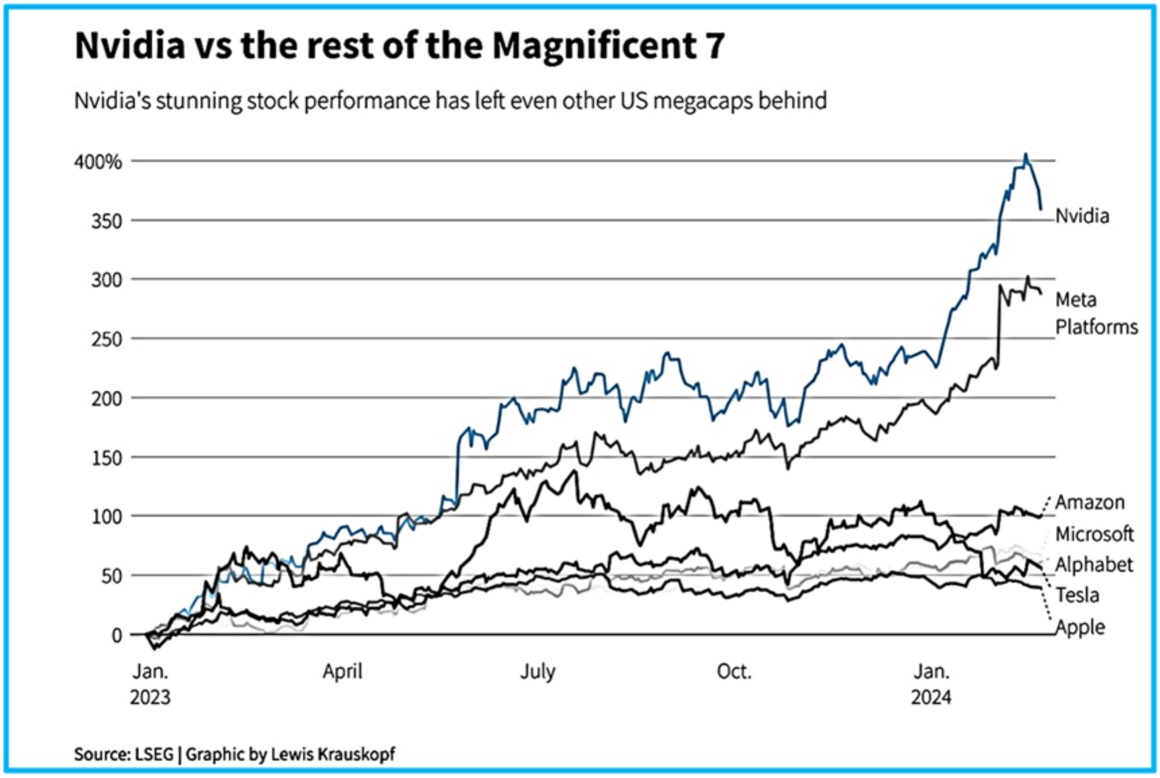
Navigating Highs and Finding Opportunities

By Neil Cataldi, CIO, Starboard Advisors, a Division of Kelleher Financial Advisors

As we begin the second quarter of 2024, the financial landscape presents a vista of both excitement and caution. Our team has been busy during the past three months engaging with many of our clients while delving into the ebbs and flows of the market. The resounding sentiment is that markets are scaling unprecedented heights, which is sparking a blend of optimism and apprehension among investors.

The allure of chasing returns in soaring asset classes, particularly the likes of the mega cap technology 'magnificent 7' and the world of Bitcoin, is undeniable. While market cycles wax and wane, the heart of our approach will always emphasize a dedication to fiduciary responsibility, the management of risk, and the preservation of long-term value. Our commitment to administering these core principles while seeking out value and prioritizing quality within our investments is a guiding light we follow daily.

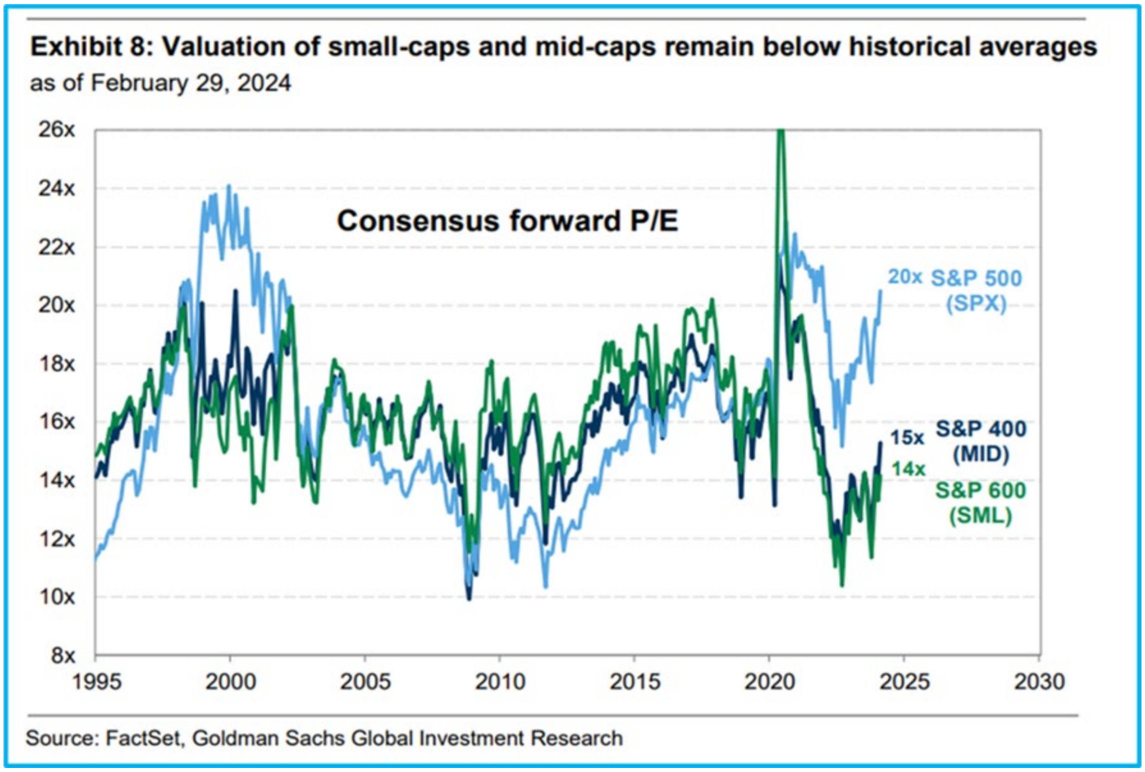
Umbrellas in NYC (Photo by A. Ambrosino)



To that point, we are attuned to the prevailing sentiment among our clients – a reassuring sense of contentment with their portfolios. However, we recognize the importance of tempering exuberance with prudence. These peaks in the market, especially in areas undergoing price discovery, demand a steady hand and a focus on long-term objectives.

The age-old adage of "buy low, sell high" has long guided investors. Today, we refine this axiom, advocating not only for shrewd entry points but also for profit-taking. Our mantra now includes the notion of "trimming high," a nuanced strategy that embodies our commitment to strategic portfolio management.

However, we are not passive observers amidst market exuberance. Instead, we actively advocate for prudent diversification, championing allocations at times in areas such as small-cap equities. We believe the potential inherent in this sector, underscored by favorable valuation metrics offers a compelling opportunity for discerning investors. Why? We are attentive to emerging trends, such as onshoring and the resurgence of earnings growth within this group of companies. Quality and relative value are parameters we seek to find in all corners of the equity universe.



In summary, as we navigate the highs of the market, the team at KFA is here for you with a keen eye on the horizon, ever cognizant of the opportunities and risks that lie ahead. Together, we will move forward with prudence, resilience, and an unwavering commitment to your financial well-being. For those of you we have not had the opportunity yet to see in 2024, we look forward to spending time with you soon. And for those of you we have seen, thank you for the time and trusting us with your future.

My very best regards,
Neil

ON TO THE MARKETS

Analysis and Review co-written by ***Thomas Burnett, CFA****, Vice Chairman & Director of Research and* ***Neil Cataldi****, Chief Investment Officer, Starboard Advisors.*

As indicated in the accompanying table, the first quarter saw robust growth across various equity markets worldwide. Both the Dow Jones Average and the S&P 500 Index reached unprecedented highs, marking a remarkable start to the year. Notably, the S&P 500 Index achieved its strongest first-quarter performance since 2019. In Japan, the Nikkei 225 soared to an all-time high, surpassing the 40,000 mark, a level not seen since 1990. These achievements are particularly noteworthy considering the backdrop of higher interest rates and the absence of rate reductions by the Federal Reserve.

Despite the rise in interest rates, which saw the yield on the benchmark ten-year Treasury Note increase from 3.86% to 4.20% during the quarter, investor sentiment remained positive. Strong economic growth and increasing corporate profits were perceived as critical factors supporting the upward trajectory of stock markets.

INDEX	% Change YTD as of 3/28/2024
Dow Jones Industrial AVG. (TR)	5.9%
S/P 500 Index (TR)	10.4%
NASDAQ Composite	9.1%
Nikkei 225 (Japan)	20.6%
China (Shanghai)	2.2%
EURO STOXX 600	7.0%
GOLD $ per oz.	7.5%
Crude Oil $ per bbl.	16.1%

Source: WSJ.com March 29, 2024

Turning to commodities, the picture was mixed. The Bloomberg Commodity Index remained relatively flat, with gains in gold and oil prices offset by declines in food prices, notably corn (-6.1%) and wheat (-10.7%).

Looking ahead, corporate earnings forecasts continue to be optimistic. FACTSET estimates in March project a 10% increase in earnings for the S&P 500 Index this year, with an additional 12% growth anticipated in 2025.

The prevailing sentiment across U.S. markets remains overwhelmingly positive. The recent rally in indices can be attributed to strong corporate earnings, coupled with expectations of forthcoming interest rate cuts. While the magnitude of these anticipated rate cuts may not align with some earlier projections, we still believe the trend towards lower rates is unmistakable and is likely to provide a supportive tailwind for markets in the coming year.

The markets draw strength not only from robust corporate earnings but also from factors such as heightened productivity, subdued inflation, and groundbreaking technological innovations, particularly advancements in artificial intelligence within corporate America. These factors, among others, contribute to the upward trajectory of market valuations. While recent data indicates some strain on consumer spending, the resilience of the job market offers a solid foundation for our positive outlook moving forward.

Interest rates remain a focal point for markets in 2024. The Federal Reserve is expected to initiate multiple rate cuts starting this summer. However, it's worth noting that historical data suggests a reluctance to implement cuts during election years, with only one instance of a rate cut occurring during the May to November timeframe leading up to an election since 1994 *(ref. Bespoke Investment Group).*

Springtime in NYC (Photo by A. Ambrosino)

In light of these developments, we continue to advocate for balanced portfolios with an emphasis on equity exposure concentrated in high-quality, profitable companies. Despite the volatility in Treasury yields, we maintain our focus on shorter duration bonds yielding around 5% to mitigate risk exposure. Additionally, we are eager to explore new opportunities within the equity universe in the year ahead, with a current focus on small caps, which we believe present compelling relative value despite being an out-of-favor theme.

As always, we remain committed to navigating these dynamic market conditions with your best interests in mind. Should you have any questions or require further clarification on any aspect of your investment strategy, please do not hesitate to reach out.

Thomas Burnett, CFA®
Vice Chairman and Director of Research

Neil Cataldi
Chief Investment Officer

RECENTLY PUBLISHED

Colleen Kelleher Sorrentino, CFA®
Managing Director

Colleen Kelleher Sorrentino, CFA®, Managing Director of Kelleher Financial Advisors, addresses how to retire comfortably in the latest edition of **Advisor Perspectives.** You can read the full article co-written by Colleen and colleague Stacey Mankoff by clicking here:

[Advisor Perspectives Article 04.09.2024]

ABOUT US

Since 1995, our firm has provided clients with thoughtful and personalized solutions in many areas of financial planning. At KFA, we place our clients at the center of everything we do. And while situations and experiences differ, our belief is that every client deserves the very best of what we have to offer.

Our firm acts as both an adviser, formulating long-term strategies, and as a manager, making specific recommendations and implementing decisions in areas such as portfolio construction, estate planning and investment management.

KFA educates our clients, communicating with them and sharing our rationale and analysis about issues that should be considered on an ongoing basis and ensuring that appropriate actions are taken. We do not sell proprietary financial products and are paid solely by our clients. In this way, KFA is able to recommend and incorporate independent investment vehicles and managers into a portfolio as needed.

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