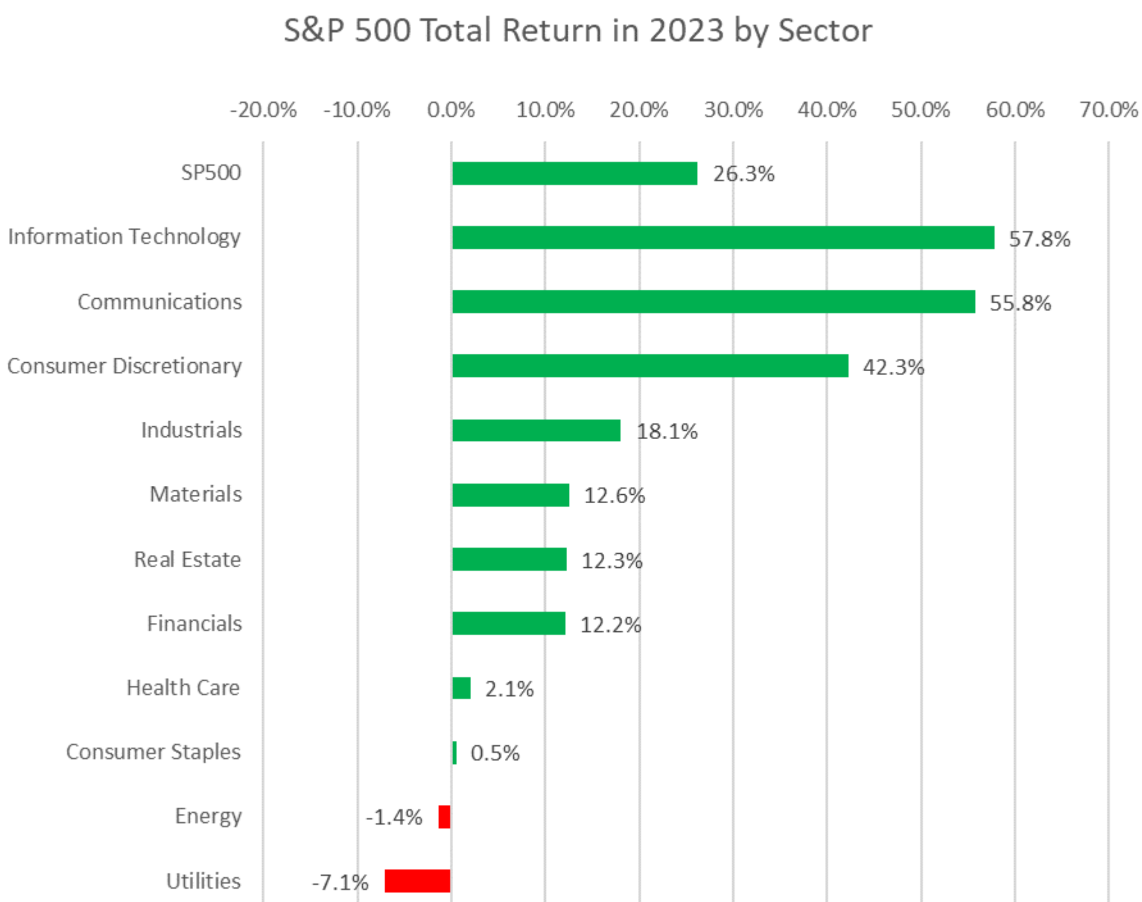
NIEMANN INVESTMENTS

January 8, 2024

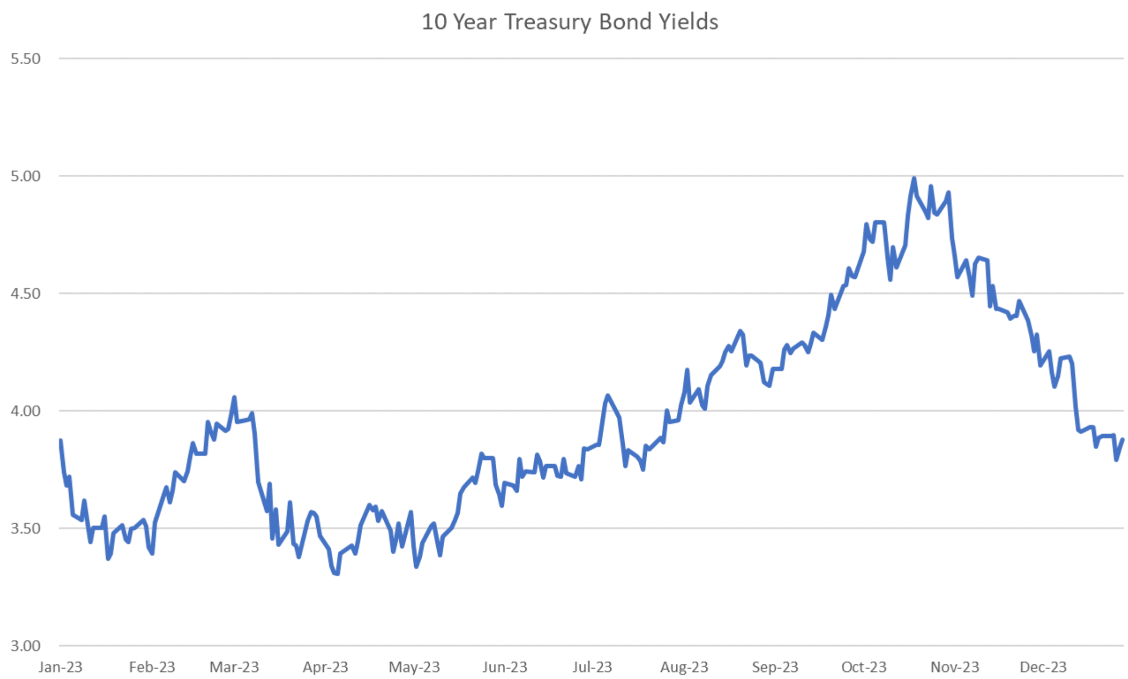
Fellow Investors:

Market Review

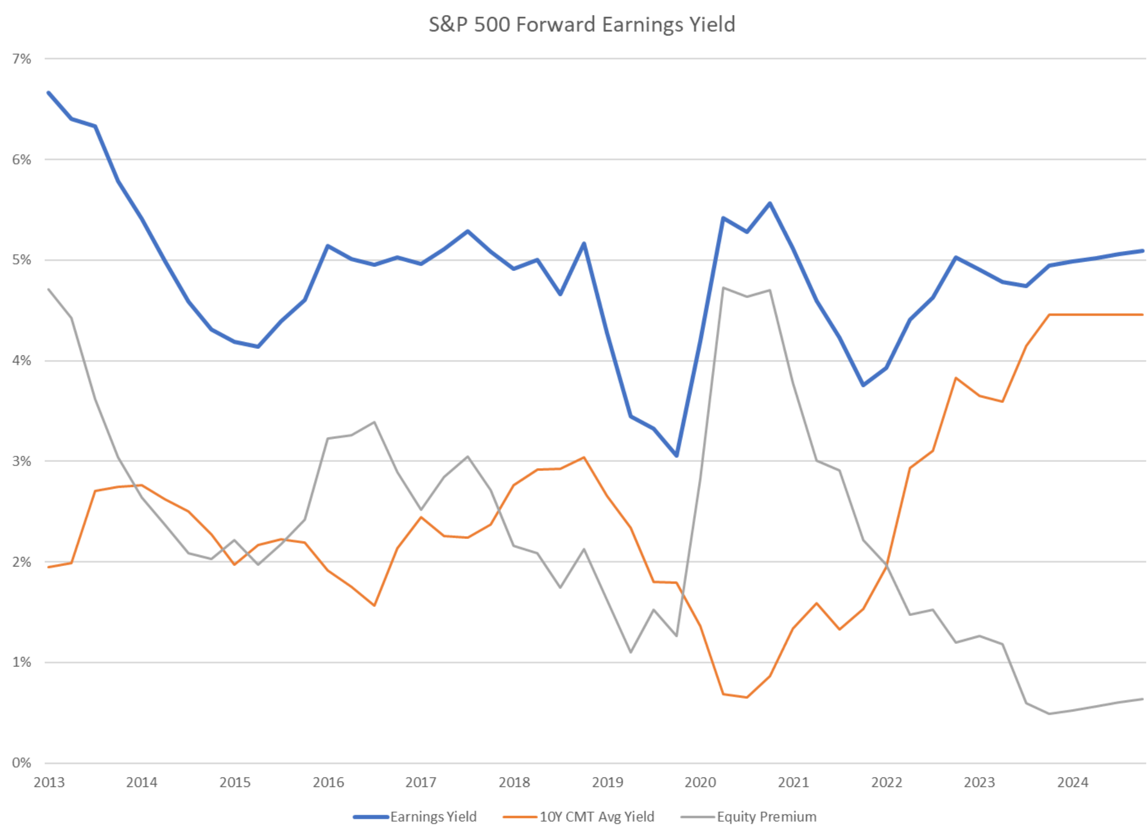
The SP500 Total Return Index returned 26.3% for the year 2023 and has now exceeded its prior peak approximately two years ago. As discussed widely in the media, most of this year's performance came from a handful of large technology-sector stocks. This chart shows the total returns and sector returns. It's interesting to note that, for the most part, the lowest returning sectors in 2022 became the highest returning sectors in 2023.



At the risk of repeating myself, I must comment on interest rates and on the continuing tension between the Federal Reserve and the bond market. Long-term interest rates rose this year from April to October, then declined sharply in November and December. Ten-year treasury rates are now at approximately the same level as a year ago. Despite these large market swings, my views on interest rates have not changed. In brief, I believe the bond market is incorrectly expecting rates to fall much sooner than the Fed has communicated or than the economic data would support. Thus, I expect that short-term rates are unlikely to fall in the near term and that longer-term rates will likely increase.



In my Q1 2023 letter, I said that equity valuations were fair, as judged by the S&P500. Given this year's strong returns and my views on interest rates (higher rates put downward pressure on equity prices), I now feel equity valuations are too high, at least for the market in general. Future return expectations are simply too low. This means that stock indices should decline. Despite this bearish view of the overall market, there are still some stocks that I feel represent good value, but they are not the well-known, highly priced technology stocks. Rather, they are generally small cap companies with high cash flow and low valuations. I especially like companies that return large amounts of cash to shareholders, either via dividends or buybacks. I've adjusted the portfolios in recent months to have higher concentrations of these stocks. If I'm correct and we do experience a general market decline, these stocks (and your portfolios) should do better than average. As always, I cannot guarantee any outcomes, but I do want to share my beliefs. This final chart shows the implied earnings yield and equity risk premium for the S&P500. As explained above, these numbers (grey line represents equity risk premium) are at their lowest levels in at least a decade and, in my judgment, not sufficiently high today to cover the risk of holding equities.



Musings on Quality

About eight years ago, I had a crown put on a tooth. Right from the start, it didn't seem to fit right and hurt terribly for months. This year that crown broke and underneath the tooth had decayed badly. So I got a root canal and a new crown from a different dentist. This second experience was much better; almost no pain and a good fit from day one. My point in sharing this story is to muse about quality in service. I have a limited understanding of dentistry, and I rely on the skill and judgement of my dentist. I can only judge how the results feel to me. By this simple metric, the second experience was far better than the first, but I don't fully understand why.

As you all know, I manage investment portfolios primarily for my friends and family members. The funds for these accounts came in most cases from small savings over many years. Saved money represents both one's labor (trading hours for dollars) and one's self-denial (spending less than one earns). The willingness to place saved money at risk, in hopes of an increase, is no small commitment on your part. Few things in life are as bitter as loss on an investment. Thus, the trust you have placed in me to invest these funds is sobering. Like I did with the dentist, you rely on my skill and judgement. I continue to strive each day to provide you with a quality experience.

Investing is an imprecise business. I cannot guarantee we will never have a loss, but I do continue to believe that we can do well and generate good returns over the long run. I simply ask that you be patient with the market swings as we work toward that goal.

Housekeeping

A few closing reminders:

- As I've said several times now, please do not text me with questions. I simply cannot respond with any information via text messages. Of course, I welcome the chance to chat on the phone with any of you anytime.
- In Q1 of each year, I am required to update my filings with the State of Utah and redistribute certain materials to you. Please watch for this in the coming months.
- Each year, I am also required to conduct an annual review and check in with all clients. Despite many of you being my friends and family, a short interview specifically to discuss your financial situation is still needed. I will be reaching out to schedule these appointments.
- I've emailed out a risk assessment from Interactive Brokers more than once, but unfortunately still have not received a response from everyone. Please try to find this email (check your junk folders) and respond when convenient.

- As a reminder, tax statements will be mailed directly to your address from Interactive Brokers. You can also access and download these statements on the Interactive Brokers website.

As always, thank you for allowing me to manage a portion of your wealth.

Kind regards,
Todd Niemann, CFA