THE COOK REPORT

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THE PERPETUAL ROLLERCOASTER

The rollercoaster of 2023 is in the books. It was a wild ride, but one that ended on a high note as markets rallied to finish the year strong (see the chart below). Lest you believe we are off the rollercoaster, we come bearing news that the ride continues as the calendar turns to 2024. Like many rollercoasters, it promises to be a year of great joy, occasional fear, and some uncertainty about what's around the corner. Fortunately, the company is good and the safety harnesses are top-notch.

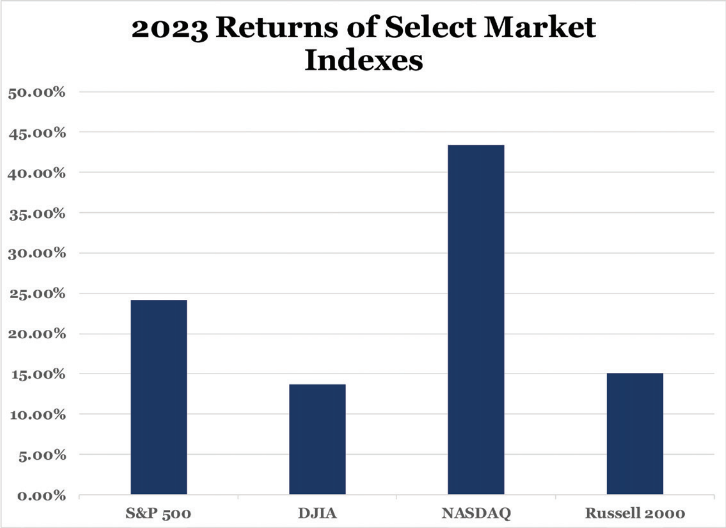
In this edition of *The Cook Report*, we reflect on key events of 2023, offer thoughts on what's in store for the new year, and end with some Charlie Munger wisdom.

RECESSION WHAT?!

Predictions of an economic slowdown in 2023 were all over the place. With the banking meltdown during the first quarter, it appeared that the economy was headed for a rough patch. The Federal Reserve stepped in quickly to reassure deposit holders that they would have access to their deposits, which seemed to relieve fears of further bank runs.

Markets reacted negatively to the bank situation but recovered following breakthroughs in Artificial Intelligence that boosted tech stocks. Nvidia led the way, supporting the newly named "Magnificent Seven" tech companies. By some estimates, those seven companies accounted for 30% of the S&P 500's 2023 market value and were responsible for much of the index's gains.

Concerns over banks and excitement over AI transitioned to a focus on the Federal Reserve and questions over its monetary tightening course. Four interest rate increases of 0.25% were implemented during the year, with the final one enacted at the Federal Open Market Committee's (FOMC) July meeting. While inflation appeared to be trending down, it was still higher than the FOMC's 2% target, leaving the door open for further increases later in the year. The Hamas terrorist attack in Israel brought international events into focus and markets had a tough October.



INSIDE THIS ISSUE:

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At its December meeting, the FOMC kept interest rates in the 5.25-5.50% range established in July. Fed Chair Jerome Powell's post-meeting comments indicated that some members thought rate cuts might be in order in 2024, which helped fuel a burgeoning year-end rally. Officials soon walked back the comments, noting that it was only a small number of FOMC members who thought rate cuts could be possible, but the message was clear: the days of rate increases were likely over during this tightening cycle.

AROUND THE BEND

The coming months will tell the story on inflation and whether it has truly been tamed. An economic slowdown has been avoided so far and the prospect of steady — and potentially falling — interest rates will be a buoy that could lead to the soft-landing many are now predicting. Nevertheless, there are headwinds that necessitate caution as the calendar turns.

International events always have the potential to surprise. On top of the wars in Israel and Ukraine, Iran's proxies are becoming more assertive in strategic waterways vital to international trade. Add in a continued reevaluation of China as an economic partner and the ingredients are in place to push prices for energy, goods, and food higher, thus complicating the inflation fight.

Bank balance sheets also deserve continued monitoring. If the economy slows and businesses find it difficult to meet loan obligations or refinance at favorable rates, banks could be left with significant losses.

With election season in full swing in the U.S., it is unlikely that we will see major policy breakthroughs from a divided Congress. Increased deficit spending over recent years, combined with the sunsetting in 2025 of many provisions of the 2017 Tax Cuts and Jobs Act, could lead individuals and businesses to alter their behavior in anticipation of a less favorable tax environment on the horizon.

We maintain our eternal optimism that 2024 will be a good year, knowing that there are always bumps along the way. Understanding what is happening in the economy and the world is important for a long-term investor, but changing course due to short-term events is not wise. We look forward to working with you over the year to weed out the noise and set you on the path to prosperity.

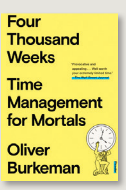
CHARLIE MUNGER

Speaking of prosperity, we end with some insight from Charlie Munger, Warren Buffet's remarkable and wise long-time investing partner who passed away in November at 99. At Berkshire Hathaway's annual meeting in May 2023, Munger had this to say about success:

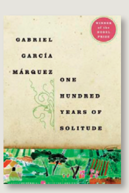
> *"It's so simple. You spend less than you earn. Invest shrewdly, and avoid toxic people and toxic activities, and try and keep learning all your life, etcetera etcetera. And do a lot of deferred gratification because you prefer life that way. And if you do all those things you are almost certain to succeed. And if you don't, you're gonna need a lot of luck."*

With those words in mind, we wish you good health, happiness, and success in 2024 and beyond!

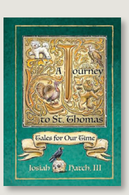
READER'S CORNER



Four Thousand Weeks: Time Management for Mortals, by Oliver Burkeman (Farrar, Straus and Giroux, New York, 2021) reminds us that 4,000 weeks leads us to age 80 and deals with avoiding distractions on the way to a meaningful life.



One Hundred Years of Solitude, by Gabriel Garcia Marquez, Gregory Rabassa, translator (Harper Perennial Modern Classics, New York, 1967/2006) who is a recipient of the Nobel Prize for Literature has written a masterpiece, dealing with the human condition.



Journey to St. Thomas/Tales for Our Time, by Josiah Oakes Hatch III (Fulcrum Publishing, Wheat Ridge, CO, 2023) uses a cruise to St. Thomas to provide contemporary vignettes in a poetic form reminiscent of *The Canterbury Tales.*

IN THE NEWS

- "Longevity/In Search of Forever" (*The Economist,* Technology Quarterly, September 30, 2023) deals with a subject of serious research and investment. People are living longer and enjoying a longer quality of life.
- "The Best Books and Podcasts in 2023 About Aging and Retirement," by Diane Cole (*The Wall Street Journal*, November 10, 2023) will help you make the most of the years available!
- "Four Lucrative Tax Deductions That Seniors Often Overlook," by Lori Ioannou (*The Wall Street Journal*, November 29, 2023) provides a useful review.
- "My Parents Have a Lot of Stuff in Their House. I Don't Want Most of It," by Allison Pohle (*The Wall Street Journal*, November 1, 2023) speaks the truth for those of us who have recently been downsizing!