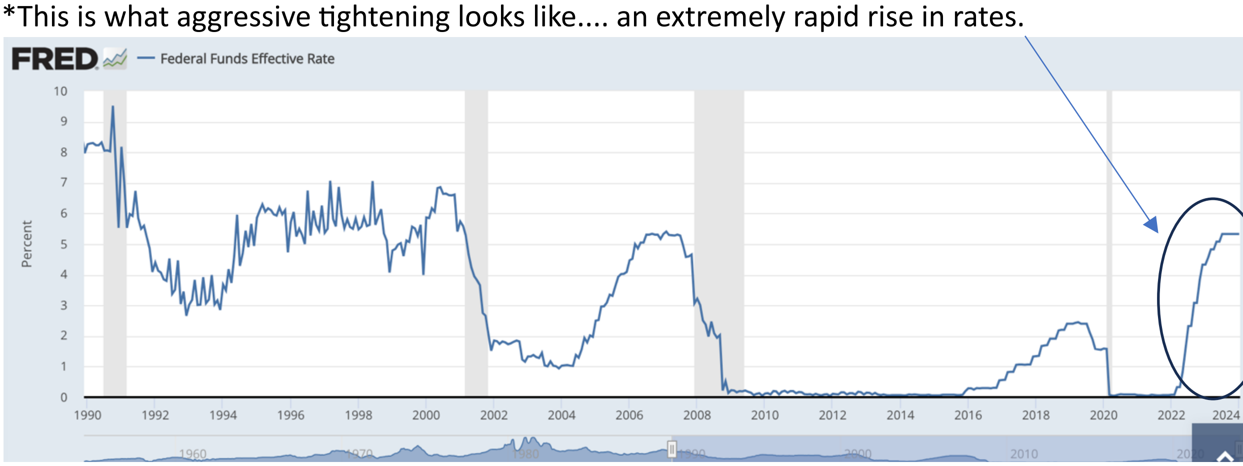
Upper Left Wealth Management, LLC
Q4 2023
What A Quarter

In 2023, our performance was strong, culminating in a robust 13.89% increase. This success was primarily attributed to a remarkable fourth quarter, during which we achieved a 9.58% gain in a mere three months.

This achievement comes in stark contrast to the discussions we had just a quarter earlier, where we lamented what we termed "the worst [bond] bear market of all time," reflecting on the dismal performance of U.S. bonds. However, the fourth quarter marked a significant turnaround, with U.S. bonds recording their second-best quarter in over a decade, soaring by 6.65%. This surge was surpassed only by the first quarter of 2020, during the COVID crisis and the resultant flight to safety. Additionally, international bonds experienced their strongest quarter in more than ten years, rising by 9.21%. Global real estate, with a 15.47% increase, had its most fruitful quarter in a decade, and gold, up by 11.02%, saw its second-best quarter in the same period. The Nasdaq recorded its best year since 1999.

What catalyzed this remarkable global upswing across nearly all asset classes? The key driver was the Federal Reserve. Jerome Powell's suggestion that the Federal Reserve might conclude its most aggressive tightening cycle* in decades fueled market optimism. This anticipation of potential rate cuts in 2024 had a dual effect: it forecasts lowered borrowing costs for companies and a reduction in the rate at which future values are discounted, thereby boosting stocks. Simultaneously, it led to an increase in bond values, as bond prices typically rise when rates decline. This comprehensive monetary policy shift was a pivotal factor in the exceptional performance we witnessed across various asset classes.

*This is what aggressive tightening looks like.... an extremely rapid rise in rates.



Indeed, it's important to recognize that while our analysis sheds light on the impressive gains of the fourth quarter, it doesn't necessarily predict future performance. The old adage in finance holds true: past performance is not indicative of future results. Our commentary serves merely as an explanation of the remarkable surge we witnessed recently, without implying any expectations for future market trends.

A Story From the Last 7 Years

The seven-year trajectory of our annual returns tells a compelling narrative, one that some of you might already be familiar with.

During this period, we experienced four notably strong years: 2017 with an increase of 16.30%, 2019 with 16.49%, 2020 with 14.89%, and 2023 with 13.89%. There was also one respectable year in 2021, showing a 9.01% gain. However, this period was not without its challenges, as evidenced by two particularly difficult years: 2022, with a decline of 14.82%, and 2018, dropping by 7.95%.

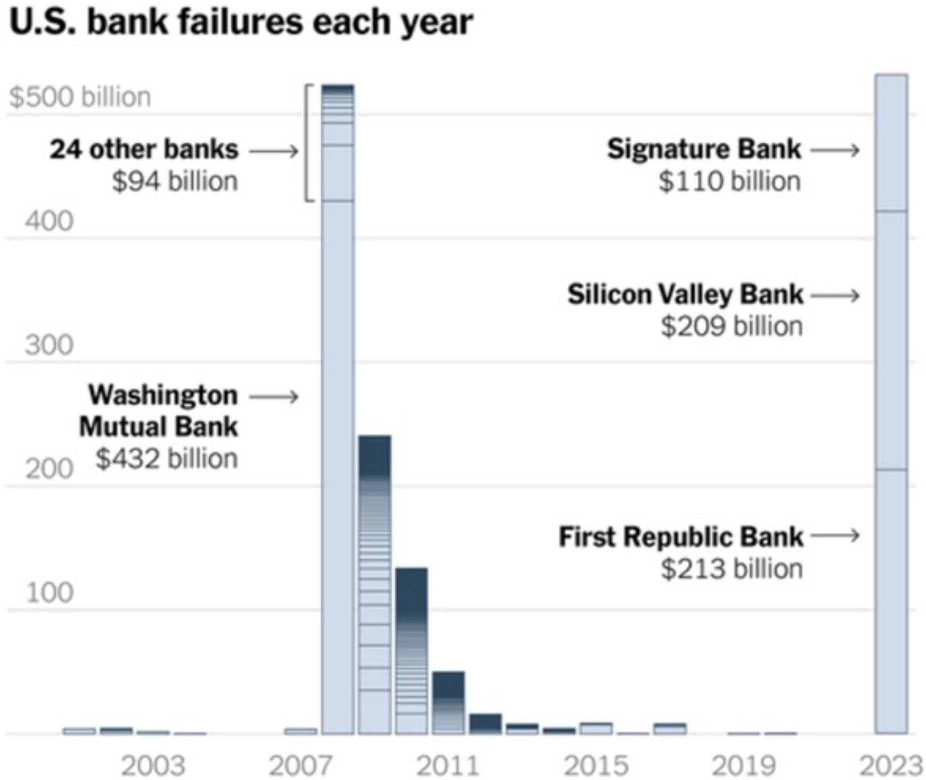
The intriguing aspect of this seven-year span is encapsulated in the performance of the four strong years. Each of these years posted returns that were remarkably consistent, with a narrow 2.6% range separating the highest from the lowest. This consistency is notable, especially when compared to the 10 assets we monitor on our reporting portal. For context, the least volatile asset was International Bonds, which exhibited a wider 5.43% differential between its best and worst years. That range of outcomes was double ours.

This low range of outcomes in our strong years underlines the essence of diversification. Our investment strategy is designed to navigate the often turbulent waters of investing with a more steady and predictable course. By aiming for reduced volatility and more consistent returns, we strive to provide a smoother, more reliable investment experience.

A Conversation With a Client

A client recently asked “What happened to all of the bank failures from the first part of the year?” It was an interesting question. Remember, from March – May, Silicon Valley Bank, then Signature Bank, then First Republic Bank, all went bust?

I thought it would be interesting to look at it with some historical perspective of bank failures. The graph below shows U.S. bank failures by year, and indicates that 2023 was cumulatively as large as the 2008 financial crisis, in terms of bank foreclosures! Note that the below excludes Credit Suisse, which was purchased for pennies by UBS. 2023 was indeed historic.



Given the complexity and unpredictability of financial markets, it's challenging to ascertain whether the issue of bank failures has been fully resolved or if more turbulence lies ahead.

Randy Kurtz
1/15/2024

Disclaimer:

Risk is defined as standard deviation for the purposes of this letter. Diversified portfolio is defined as equally split between U.S. stocks, international stocks, U.S. bonds, international bonds, real estate, gold and commodities, rebalanced annually and excluding fees, taxes, or other costs. This is not a template for how I manage money, but it is a template for how I show the benefits of diversification. The views expressed are the views of Randy Kurtz as of the date on this document and are subject to change at any time based on market and other conditions. This is not an offer or solicitation for the purchase or sale of any security and should not be construed as such. Past performance is not indicative of future performance. Performance quoted is taken from generally representative accounts, is after fees but before any taxes, and individual results will vary, sometimes substantially, from any results discussed here. Any references to historical data refer to the periods 1970-present unless otherwise specified. This letter was edited by ChatGPT. Any information, statement or opinion set forth herein is general in nature, is not directed to or based on the financial situation or needs of any particular investor, and does not constitute, and should not be construed as, investment advice, a forecast of future events, a guarantee of future results, or a recommendation with respect to any particular security or investment strategy.

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