

Market Observations April 2024

It's often hard to tell the difference between relevant market information and noise. That's why every quarter our Market Observations newsletter lets you know what articles our advisors are using to form ideas and shape opinions. Take a look at what caught our eye this quarter!

Wall street journal

Hey ChatGPT, why isn't my AI Fund up like Nvidia?

When a single investment trend — like AI — receives a disproportionate share of media coverage, it's easy to get caught up in the idea that you need to react quickly as an investor to ride the wave and trade the headlines. However, it often surprises investors to learn that even if you could accurately pick these trends in advance, your investment results may differ from what you would have expected. Despite the attention paid to AI in 2024 and the outsized performance of a small handful of stocks, 14 out of 17 ETFs specializing in Artificial Intelligence have underperformed the broad-based S&P 500 this year (as of the article's writing on 3.15.2024).

There are many reasons for this, from the concentration of returns within a sector to how many indices and sector ETFs are constructed, but a surprising lesson is that investors can often capture the momentum of "market winners" by owning the S&P 500 or other diversified strategies. While some AI ETFs have struggled because they were underexposed to Nvidia's outsized performance, the S&P benefited from its large weighting to the biggest companies, with the top 10 companies in the S&P 500 making up about a third of the index and Nvidia alone accounting for around 25% of the index's return in the first quarter. Further, with a diversified pool of investments, investors maintain access to the broader economy, and as this article author points out, "If AI does turn out to be as big a deal as everybody expects, many other industries will benefit — perhaps even more than the pure-play AI companies."

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NPR

Japan had a vibrant economy. Then it fell into a slump for 30 years.

While the US Federal Reserve appears to be near the end of a series of interest rate hikes, Japan's central bank just raised interest rates for the first time in 17 years. This fascinating Planet Money episode looks at the last three-plus decades and how Japan went from having an economy that was the growth story of the 1980s to having one of the slowest-growing major economies of the last 30 years. Moreover, Japan's experience has influenced how we view the US economy, and the lessons learned from Japan's attempts to revive its economy have greatly influenced economic and monetary policy decisions in the United States.

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Morningstar

Daniel Kahneman: the unlikely economist

Last month, Nobel prize-winning economist Daniel Kahneman passed away at age 90. Kahneman was a pioneer who helped create the field of "behavioral economics." He challenged the traditional economic belief that assumes humans will make rational decisions to optimize their financial outcomes. Instead, Kahneman demonstrated scenarios where people react based on biases and heuristics (or mental shortcuts) to make decisions. One of the Kahneman's most famous concepts was that of loss aversion, or the idea that for many, the pain of losing \$100 hurts about twice as much compared to the joy one gets from winning \$100. In this article, Morningstar's John Rekenthaler looks back at the career of Kahneman and how his self-doubts and the studying of his own mistakes led to Kahneman's discoveries. The article wraps with five of Rekenthaler's favorite Kahneman quotes.

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Published April, 2024

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