

Bracket Madness or Market Madness Q1 2024 Commentary

It's such a big business for the NCAA that the term "***** Madness" is trademarked and we aren't allowed to use it! However, it captivates sports enthusiasts, and even those typically agnostic to college sports results. The office pool can pull in everyone to the ever-present drama of NCAA basketball with blue bloods like Kansas, Kentucky, and Duke, pitted in David vs. Goliath matchups against much smaller underdog teams. This year's championship runner-up, the Purdue Boilermakers, lost in the first round to Fairleigh Dickinson in 2023. The perennial powerhouse, Kentucky Wildcats, have lost the last two years to extreme underdogs.

Many of us old timers have experienced the '87 crash, the tech bubble in the 90's, and the financial crisis in 2008, and we have scars. In business school when you're running mock portfolios, there is no reward for playing it safe and no real penalty for betting big. However, when you have a fiduciary duty to your relationship, and even more importantly, you are personally vested in seeing them succeed, the losses matter. Every investor has a different risk tolerance and runway for their goals. We don't want to be betting the house on Fairleigh Dickinson for your future (I am sure it's a very nice university).

Over the past year, the market has been betting heavily on a few stocks. The magnificent 7 have become the darlings of Wall Street and the drivers of the equity markets. The top 10 stocks in the Standard and Poor's 500 Index represent 33.5% of the entire S&P 500 valuation at the end of the first quarter. The darling of last year, Tesla, has dropped by half since a year ago, with EV sales softness.



Over time, sectors of the market, capitalization (size of companies), and global diversity can rotate dramatically over time.

As the sector performance chart shows on the next page, the purple information technology and communication services sectors have been dramatic performers in 2023 and year-to-date. However, in 2022, they were the worst performers, with some names like Amazon and Meta (Facebook) losing more than -50% to -75%, respectively.

Our team at the Brechnitz Group always attempts to prudently diversify portfolios to provide a more consistent series of returns over time. This usually translates into not participating fully on the upside when markets get frothy in one sector or asset class. However, our goal is not to participate fully when the market decides to punish those out of balance in the latest bubble.



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PERIODIC TABLE | AS OF MARCH 31, 2024



S&P 500 Sector Performance

ANNUAL PERIODS										ANNUALIZED		
2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 YTD	3-YEAR	5-YEAR	10-YEAR
Consumer Discretionary 10.1%	Energy 27.4%	Information Technology 38.8%	Health Care 6.5%	Information Technology 50.3%	Information Technology 43.9%	Energy 54.39%	Energy 65.43%	Information Technology 57.84%	Comm. Services 15.82%	Energy 29.79%	Information Technology 25.36%	Information Technology 21.94%
Health Care 6.9%	Comm. Services 23.5%	Materials 23.8%	Utilities 4.1%	Comm. Services 32.7%	Consumer Discretionary 33.3%	Real Estate 46.14%	Utilities 1.56%	Comm. Services 55.80%	Energy 13.69%	Information Technology 18.98%	S&P 500 Index 15.03%	S&P 500 Index 12.95%
Consumer Staples 6.6%	Financials 22.7%	Consumer Discretionary 23.0%	Consumer Discretionary 0.8%	Financials 32.1%	Comm. Services 23.6%	Financials 34.87%	Consumer Staples -0.62%	Consumer Discretionary 42.30%	Information Technology 12.69%	S&P 500 Index 11.48%	Comm. Services 13.66%	Consumer Discretionary 12.53%
Information Technology 5.9%	Industrials 18.8%	Financials 22.1%	Information Technology -0.3%	S&P 500 Index 31.5%	Materials 20.7%	Information Technology 34.52%	Health Care -1.95%	S&P 500 Index 26.29%	Financials 12.45%	Industrials 10.39%	Materials 13.28%	Health Care 11.66%
Real Estate 4.6%	Materials 16.7%	Health Care 22.1%	Real Estate -2.2%	Industrials 29.3%	S&P 500 Index 18.4%	S&P 500 Index 28.71%	Industrials -5.51%	Industrials 18.08%	Industrials 10.97%	Health Care 10.00%	Industrials 12.92%	Industrials 11.10%
Comm. Services 3.4%	Utilities 16.3%	S&P 500 Index 21.8%	S&P 500 Index -4.4%	Real Estate 29.0%	Health Care 13.5%	Materials 27.28%	Financials -10.57%	Materials 12.55%	S&P 500 Index 10.56%	Financials 9.46%	Energy 12.75%	Financials 11.00%
S&P 500 Index 1.4%	Information Technology 13.8%	Industrials 21.0%	Consumer Staples -8.4%	Consumer Discretionary 27.9%	Industrials 11.1%	Health Care 26.13%	Materials -12.28%	Real Estate 12.19%	Materials 8.95%	Consumer Staples 7.99%	Financials 12.68%	Comm. Services 9.35%
Financials -1.6%	S&P 500 Index 12.0%	Consumer Staples 13.5%	Comm. Services -12.6%	Consumer Staples 27.6%	Consumer Staples 10.8%	Consumer Discretionary 24.43%	S&P 500 Index -18.11%	Financials 12.10%	Health Care 8.85%	Materials 7.86%	Health Care 12.04%	Consumer Staples 9.26%
Industrials -2.6%	Consumer Discretionary 6.0%	Utilities 12.1%	Financials -13.0%	Utilities 26.4%	Utilities 0.5%	Comm. Services 21.57%	Real Estate -26.21%	Health Care 2.06%	Consumer Staples 7.52%	Comm. Services 6.85%	Consumer Discretionary 11.51%	Materials 9.22%
Utilities -4.8%	Consumer Staples 5.4%	Real Estate 10.9%	Industrials -13.3%	Materials 24.6%	Financials -1.8%	Industrials 21.10%	Information Technology -28.19%	Consumer Staples 0.52%	Consumer Discretionary 4.98%	Consumer Discretionary 4.32%	Consumer Staples 9.95%	Utilities 8.35%
Materials -8.4%	Real Estate 3.4%	Energy -1.0%	Materials -14.7%	Health Care 20.8%	Real Estate -2.2%	Consumer Staples 18.63%	Consumer Discretionary -37.03%	Energy -1.42%	Utilities 4.57%	Utilities 4.14%	Utilities 5.87%	Real Estate 7.89%
Energy -21.1%	Health Care -2.7%	Comm. Services -1.3%	Energy -18.1%	Energy 11.8%	Energy -33.7%	Utilities 17.67%	Comm. Services -39.89%	Utilities -7.08%	Real Estate -1.11%	Real Estate 3.14%	Real Estate 5.13%	Energy 4.69%

Source: Bloomberg
 On September 28, 2018 the Telecommunication Services sector was renamed Communication Services.
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 The Brechnitz Group



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IMPORTANT DISCLOSURES:

All investments are subject to risk, including loss. There is no assurance that any investment strategy will be successful. Asset allocation and diversification does not ensure a profit or protect against a loss. It is important to review the investment objectives, risk tolerance, tax objectives and liquidity needs before choosing an investment style or manager.

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ASSET CLASS RISK CONSIDERATIONS

Equities: Investors should be willing and able to assume the risks of equity investing. The value of a client's portfolio changes daily and can be affected by changes in interest rates, general market conditions and other political, social and economic developments, as well as specific matters relating to the companies in which the portfolio has invested. Companies paying dividends can reduce or cut payouts at any time.

Fixed Income: All fixed income securities are subject to market risk and interest rate risk. If fixed income securities are sold in the secondary market before maturity, an investor may experience a gain or loss depending on the level of interest rates, market conditions and the credit quality of the issuer. There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices generally rise. Please note these portfolios may be subject to state, local, and/or alternative minimum taxes. You should discuss any tax or legal matters with the appropriate professional.

International investing involves additional risks over developed countries and is greater in emerging markets. Additional information is available upon request. The S&P 500 is an unmanaged index of 500 widely held stocks. You cannot invest directly in an index.

Companies engaged in business related to a specific sector are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. Biotechnology companies are affected by patent considerations, intense competition, rapid technology change and obsolescence, and regulatory requirements. Investing in the energy sector involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors. International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

Forward-looking statements are subject to uncertainties that could cause actual developments and results to differ materially from the expectations expressed. Price Earnings Ratio (P/E) is the price of the stock divided by its earnings per share.

You cannot invest directly into any index and past performance doesn't guarantee future results.

This is not a recommendation to purchase or sell the stocks of the companies pictured/mentioned.

The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal. The S&P SmallCap 600 Index is a stock market index established by Standard & Poor's. It covers roughly the small-cap range of American stocks, using a capitalization-weighted index. To be included in the index, a stock must have a total market capitalization that ranges from \$850 million to \$5.2 billion.

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance.