



The Year of the "Magnificent Seven"

by Brenda Molen Davis

Seven must be a magic number. At least film aficionados and Wall Street think so. In 1954, the classic film "Seven Samurai" was released in Japan. It became so popular in the U.S., that in 1960 a remake entitled "The Magnificent Seven" about seven powerful gunslingers became an instant western classic.

Wall Street had its own "Magnificent Seven" last year. Seven high performing and influential stocks--Microsoft, Apple, Alphabet (Google), Amazon, Nvidia, Tesla and Meta combined for a 111 percent return in 2023. By year-end, these seven stocks represented 33 percent of the capitalization of the S&P 500 Index. If you owned any of them in 2023, you would have had a good year. Without them, your investment performance likely suffered since 75 percent of the equities in the S&P 500 Index underperformed.

Montana Investment Advisors has significant positions in Apple, Alphabet (Google), and Microsoft in most clients' portfolios so it was a good year. **Our Composite Return that includes all accounts rose 20 percent in 2023.**

After inflation peaked at 9.10 percent in June 2022, the dominant narrative for the Federal Reserve going forward became reducing inflation. That narrative continued in 2023, as the Federal Reserve was challenged to walk the tightrope between tightening mon-



Brenda Molen Davis, President

etary supply and raising interest rates enough to slow inflation, but not too much to trigger a recession.

Inflation declined to 3.4 percent. The economy has remained resilient. Consumers are still spending. Hourly wages increased 4.1 percent in 2023 to partially offset inflation impacts. A recession

is looking less likely, and most investors believe that the economy is gliding toward a soft landing, but there are a few storm clouds on the horizon.

The latest inflation numbers indicate a slight tick upward. More than half of the increase in prices reflected higher housing costs. If this trend continues, the Fed will not be able to lower rates in March as expected.

Consumer debt is increasing, and personal savings is half of historic levels. In November, revolving credit (mostly credit cards) soared by \$19.5 billion. That is the 3rd highest monthly increase according to records since 1943.

Geopolitical risk has become a constant with China/Taiwan, Russia/Ukraine and now the Middle East with risk of the Israeli Gaza War spreading.

For those reasons, we at MINTtm are cautious investors. We will slightly pare our equity position in the first quarter and use that cash to buy high yielding (5.25 percent) treasuries. As always, we appreciate your trust in our management.

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Impressive Fourth Quarter Powers Gains

Guest Editorial by Justin Saslaw, CFA

Montana Investment Advisors Inc. Advisory Board Member

The S&P 500 finished 2023 +26%, including a +12% move in the fourth quarter alone. The returns were driven primarily from (i) multiple expansion with roughly 18% of the 26% a result of an increase in the price to earnings multiple going from 17.0x to 20.0x, (ii) earnings growth with 6% attributable to better earnings than forecasted a year ago, and (iii) dividends accounting for 2%.

The S&P valuation ranks in the 90th percentile all-time, all but pricing in a soft landing for the economy. The economy has remained resilient on the back of record low levels of unemployment and a strong consumer; much of which has been fueled by government stimulus and record levels of deficit spending. While inflation has come down quicker than some had feared, the year-over-year comparisons start to get more challenging. The wars in Ukraine and Middle East provide risk for a renewed rise in commodities and shipping inflation, which could result in stickier-for-longer inflation and higher-for-longer rates.

With short-term rates still north of 5%, nearly equivalent to the earnings yield on the S&P 500, elevated cash levels offer a compelling alternative and prudent risk management for long-term investors.

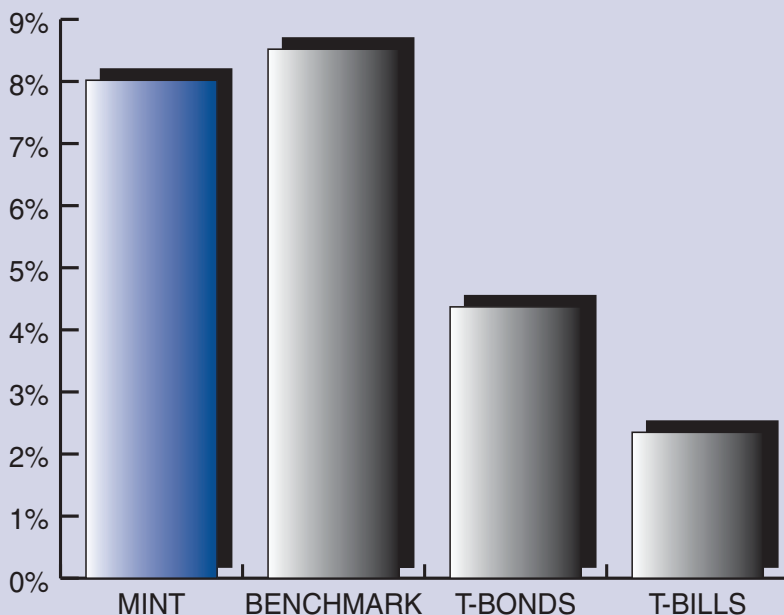
30 Second Investment Update

Inflation: Inflation cooled in 2023 from 6.5% to 3.4%. Latest figures indicate a slight tick upward which may delay the Federal Reserve's March rate cuts to later in the year.

Equity vs Fixed Income: With Treasuries yielding over 5% and consensus S&P Earnings per Share (EPS) forecasts of 243 in 2024, short-term rates are nearly equivalent to the earnings yield of the S&P 500 Index.

Federal Funds Rates: The S&P 500 at 4800 is pricing in 5 1/2 interest rate cuts in 2024. Unless the economy significantly weakens, that will be optimistic.

Montana Investment Advisors (MINTTM)
31-Year ANNUALIZED PERFORMANCE
(3/31/92 to 12/31/23)



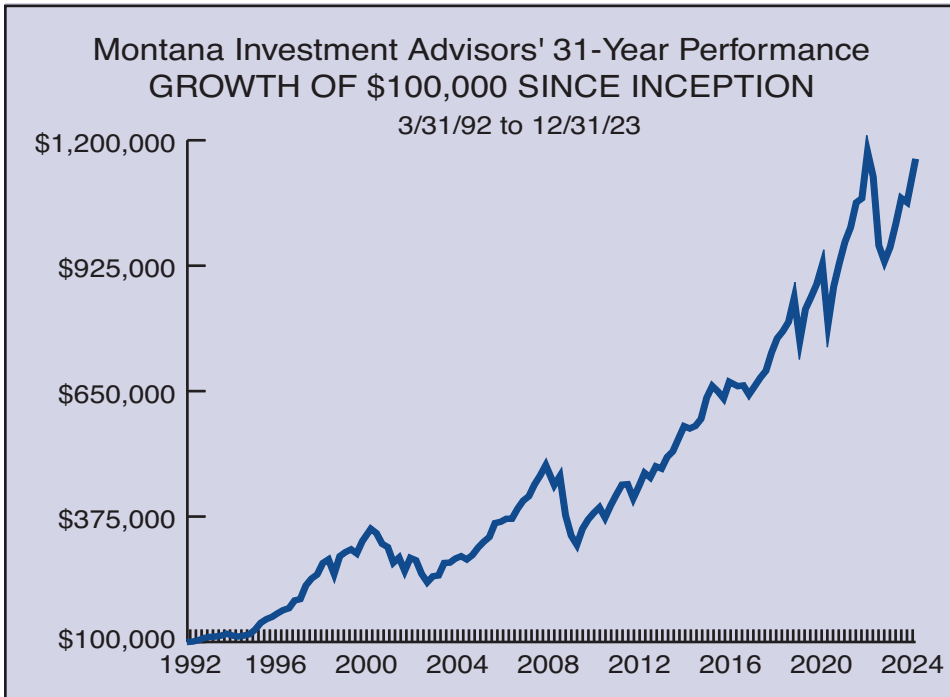
Benchmark=70% S&P Index +20%Salomon Treasury Index +10% T-Bills
(MINTTM's Average Asset Allocation during time period) All indexes are total return.

Stock, Bond & MINT Performance

The total return (with dividends reinvested) of the technology-heavy S&P 500 Index gained 26% in 2023. After lagging the S&P 500 most of the year, the Dow Jones produced a late run and closed up 16% for the year.

After peaking in mid-October at a nearly 5 percent yield, the 10-year Treasury Bond yield declined to 3.88 by year-end.

Montana Investment Advisors's Net Composite Return of all managed accounts gained 20% in 2023.



Financial Indices

Index	12/31/22	12/31/23	Percent Change
S&P 500	3839.22	4769.83	+26.2
S&P Yield	1.74	1.47	-15.52
Prime Rate	7.50	8.50	+13.33
10 yr US treas yld	3.88	3.88	0.00
1 Troy Ounce Gold	1871.79	2078.40	+11.04
1 Barrel Oil	85.91	71.65	-16.60
DJ Commodity Index	1048.69	957.80	-8.67

Q & A

Are there any indications that the economy is slowing down?

Manufacturing remains weak. For the 14th consecutive month, the ISM manufacturing data is negative. Although consumers continue to spend, there are indications that finances are tightening. Credit card debt is increasing and personal savings is declining.

What are the concerns about interest rates staying too high, too long?

The Federal Reserve Fed Funds rate is currently 5.25-5.50. The Fed chose to keep interest rates at the same level for the last 3 meetings, but the Fed Funds rate is historically high. If inflation is "stickier" and doesn't decline to the targeted 2.5% ranges, the Federal Reserve will keep rates high. This will especially impact any industries or segments of the economy that consumers finance including cars, houses and big ticket items. If interest rates are kept too high for too long, the economy will slow down too much and result in a recession.

The data and predictions in this newsletter have been prepared and presented from published data we believe to be reliable but we make no representations as to their accuracy or completeness.

Who We Are

Montana Investment Advisors is a fee-based investment advisor. We create and manage investment portfolios for our private clients, which include individuals, corporations, charities and retirement funds. These portfolios include a select list of diversified holdings in the best growth companies and industries we can identify with a 3-5 year time horizon. Our minimum account is \$250,000. Annual fees are 1% on the first \$1,000,000 of asset value and 0.50% on assets exceeding \$1,000,000. For further information, call (406) 586-7711.

PERFORMANCE


Montana Investment Advisors' performance where mentioned in this newsletter is always NET of management fees and commissions. It includes the reinvestment of dividends and earnings. Accounts included in performance are all fee paying, discretionary accounts of Montana Investment Advisors which have been managed for at least one complete month. MINT™ performance does not include any mutual funds or unit trusts held in client's accounts until 2001. The asset allocation in client accounts may not exactly match the benchmark. Performance of individual accounts will vary as a result of differing investment goals. **Past performance is no guarantee of future results.**



Friend Ed

The above sketch shows me and my old hoss we are both has-brens through there was a day when this pony - was some cow hoss, but time has played Hell with both of us. I dont doubt he tells his cyuse friends what a whirl wind he was an Ed I'm not the kid you knew and rode with 20 years ago on the "beor paw" range. I never was a lark but to day I'm plum harmless

but Ed cow business is almost history now an there's no need for men like us you punch cows in a show and I ride on canvis

Ch Russell  1910 your old compathrie Russ

Charles Russell, Montana impressionist painter, wrote many letters to his frontier friends with great humor and often marvelous art. We will show some of these extraordinary illustrated comments on the back page of future issues of the Advisor, and they are available courtesy of The Montana Historical Society, which may be visited at the state capitol in Helena, Montana.