



# JARVIS® NEWSLETTER: IT'S A BULL MARKET – NOW WHAT?

**Brian Dress, CFA -- Director of Research, Investment Advisor**

## OVERVIEW

For most of the life of this letter, we have spent our column inches giving you our thoughts of how investors play defense. After all, the bear market began in November 2021 when markets topped out. Moving investible assets into value stocks (energy, health care, consumer staples, etc.) and short-term cash equivalents like CDs was the prudent move for most of 2022.

The technical definition of a bear market is one in which the S&P 500 falls 20% or more from its peak. A less technical definition of a “bear market” would be one in which almost no investments seem to work, regardless of the underlying business fundamentals at play.

But ultimately that was all short-term thinking, as investors understandably were looking for ways to preserve capital in an environment where almost nothing was working. At Left Brain, we are, at our core, proponents of long-term thinking in investments. We want to own superior businesses for the long term, confident in our belief that the fundamentals will win out over a long period of time. As we are sensing a shift of the investment landscape back to a bull market, we want to use today’s letter to share our thoughts of how investors should approach markets in their improved condition.

Yes, we have now met the technical definition of a new bull market, with the major indices more than 20% higher than the lows they made in late 2022. But again we want to state things in a less technical way – when we see investors purchase shares in companies after they have less-than-stellar earnings reports and when we get the

### Key Takeaways

- [What’s Working, What’s Not Working](#)
- [Cybersecurity in Focus](#)
- [Why We Pick Stocks](#)
- [What Should You Do Now](#)
- [Conclusions](#)

feeling that a broad swath of investments seem to be working with relative ease, those are the subjective markers of a new bull market.

Remember, also, that (especially new) bull markets climb a “wall of worry”. In investing, we must be forward-looking and think beyond short-term economic considerations to make our decisions. And there is certainly no shortage of worry out there in today’s market. Turn on any news or business programming and I’d bet you’ll hear a constant drumbeat of the impending recession, the Federal Reserve raising interest rates, housing inflation, you name it. But markets are forward looking mechanisms that price in worries like these many months in advance. In our view, 2022 was the year that markets priced in these concerns and there is ample evidence that investors are willing to look through the short-term issues and are optimistic about the future.

With this in mind, we are becoming much more “bullish” here at Left Brain. I know that is a term that is thrown around liberally and often with little context. In today’s letter, we aim to give you some practical steps to address this changing investment environment and hopefully set you up to take full advantage of the reversal in sentiment.

After all, bull markets tend to last much longer than do bear markets, so it makes sense for many investors to take a more aggressive posture in the early days of a bull run. According to research [published in Forbes](#), the average bear market lasts just 289 days, while the average bull market lasts 973 days. If we are, in fact, into the next bull market, we are likely in the very early innings of the next run. To answer the question we have heard time and again in 2023, no, it is not too late to start purchasing stocks to participate.

As markets are starting to show the early signs of a potential bull run and we are optimistic for the direction of things in the back half of 2023. Set time [directly on my calendar](#) and I would love to walk you through what we think is a good strategy for taking advantage of a market recovery. It has been a difficult last two years and the clouds appear to be parting for investors willing to look for attractive opportunities.

Head to [our website](#) and sign up for our mailing list, so you can receive our weekly updates in your inbox every Saturday morning. As always, we are back with new reports from our analyst team for subscribers to our [research service](#) again this week. Remember, subscribers receive 6-8 full length stock reports each month, the type of which we use to make our own investment decisions in-house. Head to our [website](#) to gain access to the research. As a special July 4th offer for our readers, we are **running a special price** for our Basic Research service, allowing you to lock in a \$99/month lifetime price if you sign up in the next two weeks (regular price \$299/month).

**With that all being said, [let’s get into it!](#)**

## WHAT’S WORKING/WHAT’S NOT WORKING

It’s no secret that the market appears to be top-heavy, with the world’s 10 largest stocks delivering a lot of the market gain so far in 2023. This is a theme that we covered in [last month’s newsletter](#) extensively, so definitely give that one a look if you are interested in our thoughts there. The main thrust of what we covered there is that we are seeing overwhelming strength in stocks with a connection to the Artificial Intelligence (AI) revolution that has accelerated markedly in 2023. We do like many of the companies involved in the AI space, but we think there is another area in play due to the rise in AI – Cybersecurity. More on that later!

Now for our recurring segment of what is and what is not working:

For the first nearly six months of 2023, we have three sectors that are dominating in the S&P 500: Information Technology (up 37.63%), Communications Services (up 34.39%), and Consumer Discretionary (up 30.26%). These

are generally considered the “risk on” sectors of the market, which indicate that the sentiment is improving among market participants so far in 2023.

On the other hand, the more value-oriented sectors have struggled thus far in 2023. The three worst performing sectors year-to-date are Energy (down 9.20%), Utilities (down 4.92%), and Financials (down 2.99%). We still like energy as a portion of a portfolio, especially for investors that are in need of income. We also see opportunity in the financial space: with the difficulties in the regional banking sector, it is little wonder that financials have taken a hit. However, to the discerning stock picker, we think there are some very interesting opportunities developing in that sector. Look for some of those ideas in a future piece from us.

For the most part, these trends have continued over the last month. However, one sector has done quite well over the last 30 days, which was not mentioned above: Industrials, which have gained 4.56% over the last 30 days. We think that positive momentum in industrial stocks, which tend to be cyclical in nature, are a strong indicator that investors expect overall economic activity to be strong in the medium-term. Homebuilder stocks, another cyclical industry, are also picking up steam, up 9.40% in the last month as measured through the **SPDR S&P Homebuilders ETF (XHB)**. Bottom line: we are taking it as an indicator of positive sentiment that cyclical stocks are beginning to work in this market.

## CYBERSECURITY COMES INTO FOCUS

I think most investors are very excited about the possibilities we are seeing in the AI space. The ability of AI tools to augment the human element in countless industries could mark the most significant boost in productivity that we have seen since the Internet (or the invention of the wheel) whichever human leap forward you prefer to use as a comparison.

Yes, we may be hyperbolic in saying that, but there is no disputing that ChatGPT and other AI tools offer the promise of great advance in many business and other contexts. But for every positive development in this world, there tends to be a nefarious use case that we all have to find a way to manage. From our point of view, we think the most obvious corrupt use case for AI tools is cyber intrusion. Before AI, cybersecurity is one of the biggest pain points for both individuals and institutions around the world. Now, with AI tools available, the “bad guys” are able to create more sophisticated cybersecurity threats in a multitude of ways.

To make a long story short, this has us turning our investing eye to the cybersecurity space even more intently than we have over the past few years (and this is a theme we have explored here in great detail over the last two years). We have been proponents of investing in the cybersecurity space because this is absolutely an essential expense for enterprises of all shapes and sizes. Even in difficult times for businesses, they are unable (or unwilling) to reduce meaningfully their spend on cybersecurity software.

For the last year or so, we have followed quite a few of these companies and have been active investors in this space. We have seen success for investors in **Palo Alto Networks, Inc. (PANW)**, a leading provider of both hardware and software related to firewalls, which has started to enter the world of cloud-based cybersecurity. **PANW** shares have gained nearly 80% year-to-date, so clearly other investors share our optimism for the business opportunities developing here.

Another winner thus far in 2023 is **Fortinet, Inc. (FTNT)**. Fortinet, too, started in the hardware business, but has expanded its business to incorporate more of a software aspect and develop an integrated solution that businesses can use to keep intruders out of their networks. We think both **PANW** and **FTNT** are strong businesses and with

3-year sales growth averages in excess of 25%, we consider these solid investments for growth-oriented investors. But we also understand the reluctance of investors to pile into stocks that are up this much already.

For this reason, we have recently been taking a closer look at **CrowdStrike Holdings, Inc. (CRWD)**, another cybersecurity leader we have watched closely over the years. As we examine the 1-year charts of these three businesses, clearly **CRWD** has lagged its peers:



CRWD (blue line), PANW (orange), FTNT (teal) -- Source: TradingView

Admittedly, **CRWD** is one of these pre-profit tech stocks that broke out and extended beyond what was reasonable during the 2020 Covid-related stock market rally. As interest rates increased, stocks like **CRWD** experienced steep declines that were the main driver of the bear market in 2022. However, we are taking a fresh look at some of our favorite stocks from 2020 that fell like CrowdStrike did. Of course, many of these will never recover, but in our observation, some of the best-run companies that fell in excess of 50% have emerged stronger than ever out of the bear market and are poised for potential gains in the coming years. Our view is that **CRWD** fits that profile.

One aspect we really like about the **CRWD** story is that the company was built originally in the cloud, in contrast to the two companies we mentioned above. We think that this gives CrowdStrike a head start on its competitors to detect threats where most companies operate in 2023 – within a cloud-based architecture. Beyond that, CEO George Kurtz is one of our favorite CEOs and himself is a pioneer in cybersecurity – he knows this stuff firsthand. Visionary management like this can give companies a leg up.

In the most recent [earnings call presentation](#), **CRWD** again noted that the company's cloud-native model is more nimble and superior to that of competitors and that the company has started to use AI to enhance the already industry-leading technology in place here. The proof is in the pudding here: 273 of the Fortune 500 are customers of CrowdStrike, including 15 of the world's 20 largest banks.

Let's dig into the numbers a bit. The company has delivered Free Cash Flow in every quarter since October 2019, with quarter over quarter growth in that figure in each of the last 4 quarters. Analysts are projecting positive



earnings for **CRWD** in 2023 of just over \$3/share, implying a forward price/earnings ratio of just over 40x. Given the ongoing revenue growth rate in excess of 30%, we think the valuation is manageable here.

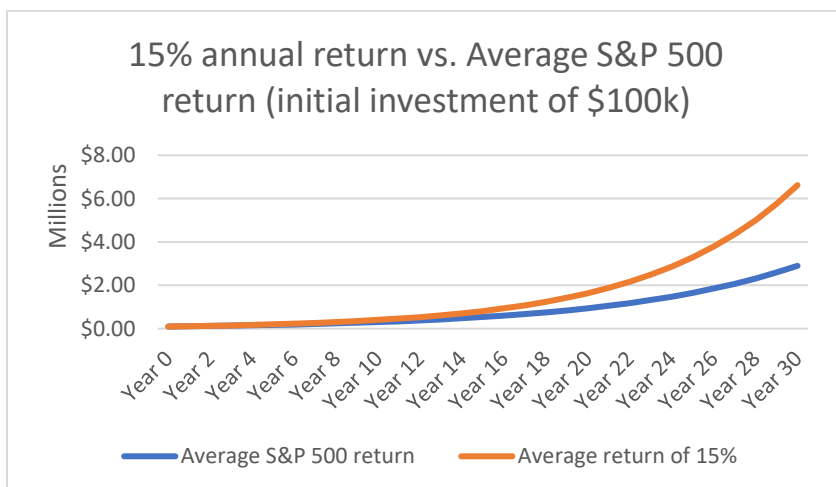
We think if investors are looking for a way into the cybersecurity space, **CRWD** may be an option to consider.

## WHY DO WE SPEND TIME IDENTIFYING STOCKS LIKE CRWD?

Passive investing, that is investing in index funds, has grown exponentially over the last few decades. We understand why investors like index funds – they track the market, which generally does well over time, they are simple and easy and, above all, cheap! There are index funds out there that charge as little as 0.03% annually.

We wanted to show you graphically why we believe in looking for individual stock opportunities with a hypothetical example. Please accept the typical warnings that past results are no indicator of future performance, but we just wanted to illustrate the possibilities that come along with selecting stocks that outpace the market. Note that since 1957, the S&P 500 has generated an average return of 11.88%.

Let's compare the power of compounding of that 11.88% versus say 15% annual return over a 30-year period and in this hypothetical example we will use an initial investment of \$100,000:



As you can see, with the average S&P 500 return, an investor would see the portfolio grow roughly 30 times the initial investment in 30 years, which is a very substantial return. However, at an annual return of 15%, the return is more than double that, at nearly 70 times the initial investment.

Again, this is just to illustrate the point that selecting quality stocks can potentially lead to an above average return that, with the power of compounding, can become quite profound over time. This is the precise reason why we expend so much time and energy looking for high quality companies that can be long-term winners.

## THAT'S ALL GREAT – BUT WHAT SHOULD YOU ACTUALLY DO?

We think it is time for investors to take action to find ways to participate in the next bull market. As we stated above, on average these periods of positive returns last nearly three years, so if this is a new bull market, things are just beginning.

The main point we want to make is that it is time to stop thinking short-term and beginning again to think long-term. In 2022, most of us were in capital preservation mode, and rightfully so. Things were awful last year!

Let's think about things in retrospect. Buying stocks of companies that were likely to be more stable in 2022 was short-term thinking: we were looking for companies that wouldn't fall so long as the markets looked weak. Another example of short-term thinking was buying 1-year CDs (Certificates of Deposit). The thinking behind a move like that again was to preserve capital but, by definition, the hold period was just one year. After the one year ended, we would again have to find another investment vehicle.

Our view is that long-term investing in the most quality businesses is the best way to build a portfolio. But in 2022, the stocks of the most innovative, high growth businesses in our economy, in technology, were sold mercilessly.

We know from working with clients that many investors in retirement don't think they are long-term investors. However, in our practice, we plan for clients to live well into their 90s. That means that if you are just starting retirement or are close to retirement, you likely have 30 years of planning to do ahead of you. If that is your situation, you are a long-term investor!

From speaking with investors, we have come to find out that many of them are still holding significant amounts of cash in the bank which now may be yielding 3-4% (if you're lucky), which is much inferior to the average stock return. We also are aware that many investors have CDs or other short-term cash-like investments that are maturing now or soon. We think now is the time to consider putting those funds back in play in high-quality businesses with the idea to hold those investments for the long-term.

As markets begin to recover, you actually can get a nice bang for your buck in making [Roth IRA conversions](#). We think tax rates are likely to rise in the future (a topic for another day), so paying the tax now on your IRA accounts and converting to tax-free Roth accounts sounds great to us right now! If markets continue to perform, you will hit the ground running in taking advantage of tax-free growth.

We also think taking a look at rolling over 401(k)s you may have left at a previous job where you don't even know how they are invested is something you really should consider doing right now. If you can move those funds into an IRA and get them invested in securities that perform over the coming years, you could be much better off than if you left those funds parked where they. "Out of sight, out of mind" is no way to manage your finances!

If you would like to consider taking any of these steps, please reach out to us directly using the information below and we'd be happy to discuss a plan of action with you to get your portfolio on track! We have all experienced a difficult 2022, so it is time to get a long-term plan in place to secure your financial future.

## TAKEAWAYS

Markets continue to show strength. If we are in fact, the early days of the bull market, the time to reassess investment strategies that we put in place during the lean times of 2022 is now. Long-term thinking is the best way to manage a portfolio and we believe it is time to leave the short-term thought process in the past.

AI continues to be a dominant theme in markets and we will continue to participate. One area we think that investors could see some follow through from this theme comes in the cybersecurity space. With **CRWD** lagging its peers, we think there could be a good opportunity in this stock in the coming years.

Finally, we understand the fear that investors were feeling last year. We think it is time for investors to take proactive steps to secure their portfolios for the future. Moving away from cash instruments, converting to Roth IRAs, and rolling over old 401(k) plans are just a few ways to get started. We are happy to help!

We hope the newsletter helps you make sense of an exciting time in markets! With all the action in markets, this month's newsletter just scratches the surface of our thoughts on the market. We would love to share more with

you in a 1-on-1 meeting and see if our philosophy connects with yours. Contact me directly at (630) 547-3316 or [briand@leftbrainwm.com](mailto:briand@leftbrainwm.com), or schedule time directly on [my calendar](#) if you want to engage a professional money manager like Left Brain to figure out to do with cash in the bank.

Thanks again for your continued support of the Jarvis Newsletter.

**DISCLAIMER:** This report contains views and opinions which, by their very nature, are subject to uncertainty and involve inherent risks. Predictions or forecasts, described or implied, may prove to be wrong and are subject to change without notice. All expressions of opinion included herein are subject to change without notice. Predictions or forecasts described or implied are forward-looking statements based on certain assumptions which may prove to be wrong and/or other events which were not taken into account may occur. Any predictions, forecasts, outlooks, opinions, or assumptions should not be construed to be indicative of the actual events which will occur. Investing involves risk, including the possible loss of principal. The opinions and data in this report have been obtained from sources believed to be reliable; neither Left Brain nor its affiliates warrant the accuracy or completeness of such and accept no liability for any direct or consequential losses arising from its use. In addition, please note that Left Brain, including its principals, employees, agents, affiliates, and advisory clients, may have positions in one or more of the securities discussed in this communication. Please note that Left Brain, including its principals, employees, agents, affiliates, and advisory clients may take positions or effect transactions contrary to the views expressed in this communication based upon individual or firm circumstances. Any decision to effect transactions in the securities discussed within this communication should be balanced against the potential conflict of interest that Left Brain, its principals, employees, agents, affiliates, and advisory clients has by virtue of its investment in one or more of these securities.

Past performance is not indicative of future performance. The price of securities can and will fluctuate, and any individual security may become worthless. A high or favorable rating, rating outlook, gauge, or similar opinion is not indicative of future performance, and no user should rely on any such rating, rating outlook, gauge, or similar opinion to predict performance or potential for return. Future performance may not equal projected or forecasted performance or potential for return. All ratings and related analysis, as well as data, statistics, analysis, and opinions contained herein are solely statements of opinion and are not statements of fact or recommendations to purchase, hold, or sell any security or make any other investment decisions. This report may contain "forward-looking" information that is not purely historical in nature. Such information may include, among other things, projections, and forecasts. There is no guarantee that any forecasts made will materialize. Reliance upon information herein is at the sole discretion of the reader.

THE REPORT IS PROVIDED ON AN "AS IS" AND "AS AVAILABLE" BASIS WITHOUT REPRESENTATION OR WARRANTY OF ANY KIND. Left brain Wealth Management DISCLAIMS ALL EXPRESS AND IMPLIED WARRANTIES WITH RESPECT TO THE REPORT, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE.

The Report is current only as of the date set forth herein. Left Brain Wealth Management has no obligation to update the Report, or any material or content set forth herein.