

FLAGSTONE

FINANCIAL ADVISORS, INC.

MARKET REVIEW CALENDAR YEAR 2024

What Happened:

A year ago, we wrote that good years usually follow great years. That certainly played out in 2024. It was a terrific year for stocks. In fact, it was the best two-year stretch for the market since 1997-1998. Buoyed by enthusiasm for artificial intelligence, most of the gains were concentrated in the tech sector, and particularly, the Magnificent Seven stocks. Other styles and sectors of the market also saw gains, but those returns were more modest by comparison. More on that below.

Cryptocurrencies such as Bitcoin have dominated the headlines lately. We have resisted getting involved and only a few of our clients have expressed an interest. Intellectual curiosity, however, keeps us glued to the action from the sidelines. We wonder why so many people and businesses are willing to put so much money into something with no underlying value and no ability to generate income. It resembles gold that way. To us, it seems to be a speculative bubble based on the greater fool principle where one person buys Bitcoin at the current inflated price in the hopes of finding another person willing to pay an even higher price. It resembles the tulip mania of 1634 that way. Despite our reservations about Bitcoin, it is a popular investment choice among many investors and speculators, especially the younger crowd. Their enthusiasm and investment dollars pushed up the price dramatically in 2024, more than doubling. It is a fascinating story, and we will continue to watch, albeit from the sidelines.

Calendar Year 2024 Performance:

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| S&P 500 Index (large stocks) | 25.0% |
| Russell 2000 Index (small stocks) | 11.5% |
| MSCI EAFE Index (international stocks) | 3.8% |
| Bloomberg U.S. Aggregate Bond Index (bonds) | 1.3% |

Prognosis:

The consensus among investment professionals is for the bull market to continue into 2025. This consensus is supported by expectations for strong corporate earnings growth of 12.8% and GDP growth of 2.5% in 2025. Further, employment, interest rates and inflation all seem relatively stable.

While we expect a decent year for the markets in 2025, we are concerned about risk and safety. In particular, the dramatic rise in tech stock valuations in recent years is a point of concern. We share investors' enthusiasm for technology and artificial intelligence, but prices are beginning to look stretched. As we mentioned above, many areas of the market have been largely overlooked, which presents opportunities for investors bothered by sky-high tech stock prices. We like value stocks, small-cap stocks and international stocks because many trade at deep discounts to their intrinsic value. They offer great upside potential with more stability and less risk than the tech darlings. The good news is that our clients' diversified portfolios are already well-positioned to take advantage of this upside opportunity. We are ready and excited for 2025.

Wishing you all a happy and prosperous New Year!

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