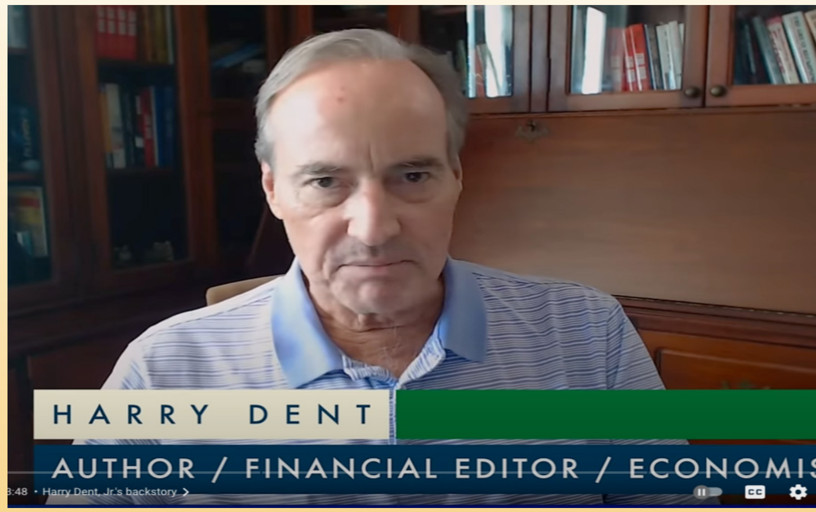
October Effect, Ltd.

December 2024 Financial Market Report

Prepared Especially for
Our Clients and Friends



Q4 MARKET NEWS PLAYLIST

Danielle DiMartino Booth: Real Recession Data Is Only Coming Out Now
Harry Dent: Economy Now on Life Support
Adam Taggart - Thoughtful Money: Guest, Michael Pento

October Effect, Ltd.
Registered Investment Advisor

Presented by
The Tehel, Moravek, and James Team
Your Retirement Planning Specialists

Frank
Team Leader
CFP®, CLU, EA, CRPC®,
BS, Accounting
MS, Financial Planning
MS, Financial Analysis

Frank.Tehel@oeltd.co

Kevin M
Portfolio Planner
BS, Business

Kevin.Moravek@oeltd.co

Kevin J
Financial Planner
MBA

Kevin.James@oeltd.co

Neely
Tax Planner
MBA, EA

Neely.Elstrodt@oeltd.co

Let us help you with all your financial planning needs in a holistic approach.

The Tehel, Moravek and James team, a dynamic team with big results.
Call 757-390-3341 for a consultation.

Reading the Market
December 13, 2024

Master Allocation

	D	A
STOCKS	▶	H
BONDS	▼	H
COMMODITY	▶	H
CASH	▶	L
$DXY	▶	L
FXE	▲	H

Stock Allocation

	D	A
DIA	▲	H
IYT	▼	S
SPY	▶	H
QQQ	▶	H
IWM	▶	H
EFA	▲	L
EEM	▶	H

Bonds Yield Allocation

	%	D	A
BIL 90 DAY	4.16	▶	H
US2Y	4.3	▼	H
TNX 10Y	4.35	▼	H
TYX 30Y	4.5	▼	H
VTEB TAX F	3.08	▶	L
HYG JUNK	5.43	▶	H
MORTGAGE	7.28	▼	S

Commodity Allocation

	D	A
DBC	▲	L
USL	▶	H
GLD	▶	H
FCX	▲	L
MOO	▼	S
CUT	▶	H
VALE	▼	S

Key:
D = Direction: ▲ ▼ ▶
A = Action Index: (L)ong, Buy; (S)hort, Sell; (H)old

Inflation: 2.6%

With 25 years in the financial industry Kevin has held several management and analysis roles with some of the country's top firms.

After completing his MBA in Finance in 2008, Kevin made the transition from management to advisory business.

Kevin James is an Investment Advisor Representative with October Effect, LTD, and is responsible for the preparation and ongoing management of client financial plans, annual financial updates and investment portfolio reviews, recommendations, and implementation.

His expertise is in comprehensive financial planning, tax, cash flow, retirement planning, insurance and estate planning, portfolio analysis and investment policy development.

Kevin resides in Virginia Beach, Virginia with his wife Amy, and their daughter Marley.

Spotlight
ON KEVIN JAMES
Investment Advisor Representative

757-390-3335 | Kevin.James@oeltd.co

Financial Planning Matters ...

ASK THE EXPERTS!

Q. What affects your choice of portfolio assets?

A. Financial planning begins with understanding and managing your risk. As you build and accumulate assets for retirement, it's crucial to safeguard them so they're available when you need them.

Financial planning and property protection go hand in hand. As you build and accumulate assets for retirement, it's crucial to safeguard them so they're available when you need them.

In September, I had the privilege of attending the Financial Planning Conference in Columbus, Ohio, where the keynote speaker was Roccy D. Francesco. Roccy is the author of *The Five Pillars of Asset Protection*, a book that offers valuable insights into protecting the assets you've worked hard to accumulate for retirement. His discussion on risk and asset protection provided me with clear strategies for how fiduciaries should act in their clients' best interests moving forward.

The first half of Roccy's presentation focused on identifying risk. He emphasized understanding your:

- Risk tolerance: How much risk you're comfortable taking.
- Risk capacity: How much risk you need to take.
- Portfolio risk: Whether your portfolio's risk level aligns with your tolerance and capacity.

This framework is now integrated into the October Effect, Ltd.'s website. After completing the questions in Key One, you'll receive your risk tolerance score. I'll calculate your risk capacity score, and if you provide me with your current portfolio (which I may already manage), I'll prepare a portfolio risk score report.

Each year, during our review of your financial affairs, we'll revisit your Investment Policy Statement (IPS). Our updated IPS now includes sections for all three risk considerations. The new investment plan summary will feature a "three-bucket plan" to help align your portfolio risk with your risk tolerance and capacity.

Our website also provides educational material for each step in the process. Key Four, which focuses on property protection, highlights Roccy D. Francesco's Five Pillars of Asset Protection. These pillars address the primary threats to your assets: Bad luck, income tax obligations, stock market volatility, long-term care expenses, and death (a reality none of us can avoid).

To address these concerns, we're hosting monthly workshops throughout the Tidewater area. These workshops are held at local public libraries during convenient hours. Contact our office to find an event near you and learn more about safeguarding your financial future.

Is your retirement DREAM working?

Know the Five Keys to Your Future Dreams!

Do you see a dream in your mind's eye for retirement and wonder how to make it REAL?

Scan the QR Code to discover the Five Keys and discuss your portfolio health with one of our trusted advisors.

Let our family of planners help to build your family's financial future.

757-390-3341

octobereffectlimited.com | Frank.Tehel@oeltd.co

October Effect, Ltd.

One Columbus Center, Suite 651A | Virginia Beach, VA 23462

2025 Q1 MARKET READ

Investment Strategy #2: Attribute Diversification

What is an Attribute? An attribute is defined as a quality or feature regarded as a characteristic or inherent part of someone or something. In the context of a portfolio, the number of stocks is an attribute. In our last newsletter, we explored how many stocks are necessary to reduce risk. Two academic studies provide insights into this question:

- December 1968: Diversification in the Reduction of Dispersion: An Empirical Analysis by John L. Evans and Stephen Archer concluded that a diversified portfolio requires between 12 and 40 stocks.
- September 1987: How Many Stocks Make a Diversified Portfolio by Meir Statman determined the number to be no more than 30 stocks, chosen from a broad pool of large-cap companies.

When selecting investments to hold, other attributes must also be evaluated, including:

- Fundamental accounting
- Technical analysis
- Asset allocation
- Kelly's Criterion (a formula for risk optimization)
- AI-powered insights, leveraging modern computing to process vast amounts of data

Traditionally, audited financial statements have been a reliable starting point for investment evaluation. For example, my Intermediate Accounting textbook (Third Edition by Walter Meigs, Lawson Johnson, and Keller) highlights **15 financial ratios** critical for assessing a company's performance (pages 941–942).

Yet, according to Joel Greenblatt, author of The Little Book That Beats the Market, many of these metrics are no longer widely used. While modern technical analysis often dismisses financial ratios, Greenblatt asserts that two fundamental factors remain essential for identifying valuable companies:

- Profitability: Is the company generating cash profits?
- Management Quality: Is the leadership building a strong franchise and increasing the company's net worth?

Greenblatt emphasizes focusing on Return on Assets (ROA) and Earnings Before Interest and Tax (EBIT) as starting points for selecting the 12 to 30 companies worth holding.

Building on our last newsletter, let's consider concentrated portfolios. The book Concentrated Investing: Strategies of the World's Greatest Concentrated Value Investors by Allen Benello, Michael Van Biema, and Tobias Carlisle highlights how investors like Warren Buffett and Charlie Munger leverage concentrated strategies. For deeper insights, Benjamin Graham's work emphasizes the importance of value investing, such as:

- Buying companies with low Price-to-Earnings (P/E) ratios.
- Targeting businesses with products that remain essential, even in inflationary environments.

In 2025, we have cutting-edge technologies at our disposal. Companies like Nvidia are producing extraordinarily powerful processors, and AI-driven tools can sift through vast pools of information to identify investment opportunities. By consolidating traditional financial metrics with modern AI insights, it's possible to craft a focused portfolio of 12 or fewer stocks. Such a portfolio can meet your retirement goal of 7–8% annual returns while minimizing the impact of inevitable market corrections.

If you're ready to invest in the future of your financial health, call us today and discover how our team of trusted advisors can help.

The Tehel, Moravek, and James Team
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