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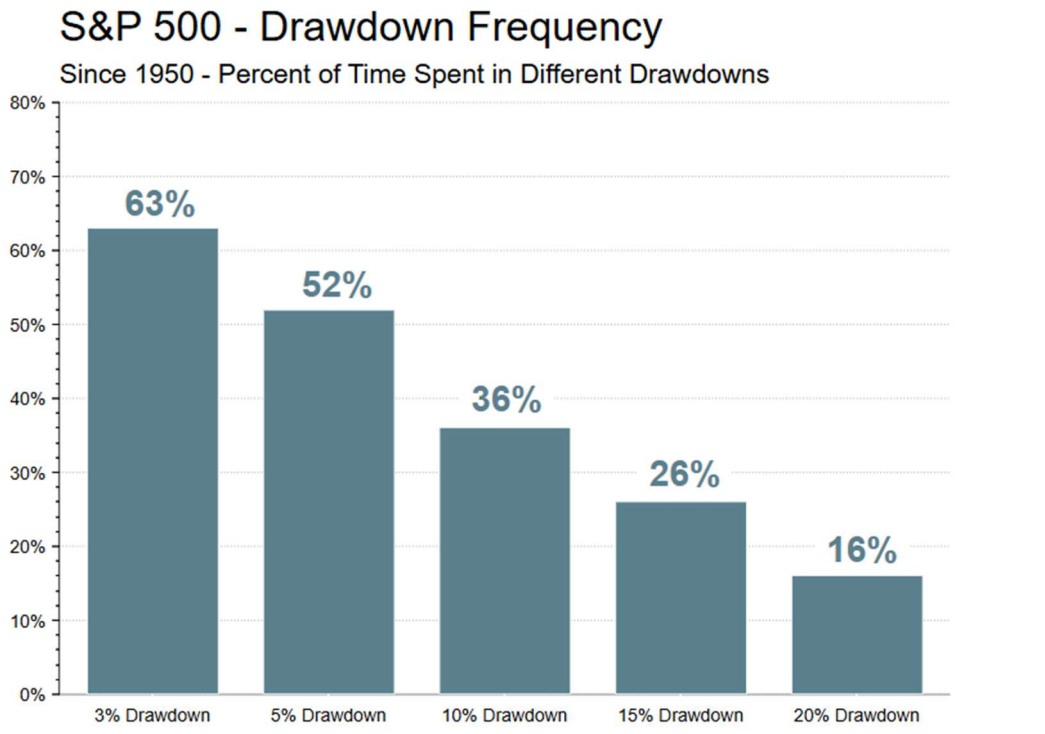
# The Playbook

By Michael McKeown, CFA, CPA

The heat cooled off the weather as summer turned to fall. The same went for some of the hottest trades in the equity market.

The momentum of the Artificial Intelligence trade is slowing as investors question whether revenue will grow fast enough. Under the surface, there is rotation toward healthcare and more defensive sectors. This is healthy to see as performance broadens out to more companies.

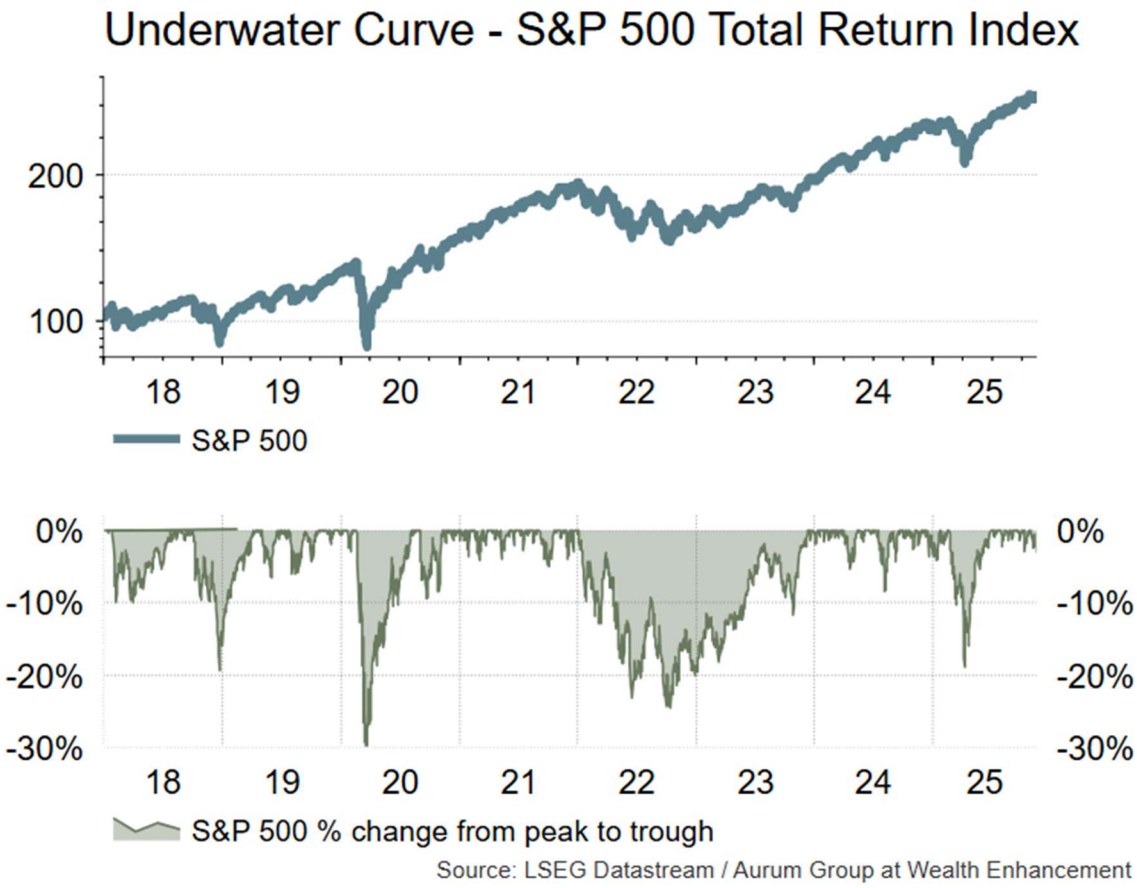
The past few weeks have seen prices decrease from peak to trough of nearly 5% from recent highs. This is normal. Since 1950, the S&P 500 has spent more time in at least a 5% drawdown than not.




Source: LSEG Datastream / Aurum Group at Wealth Enhancement

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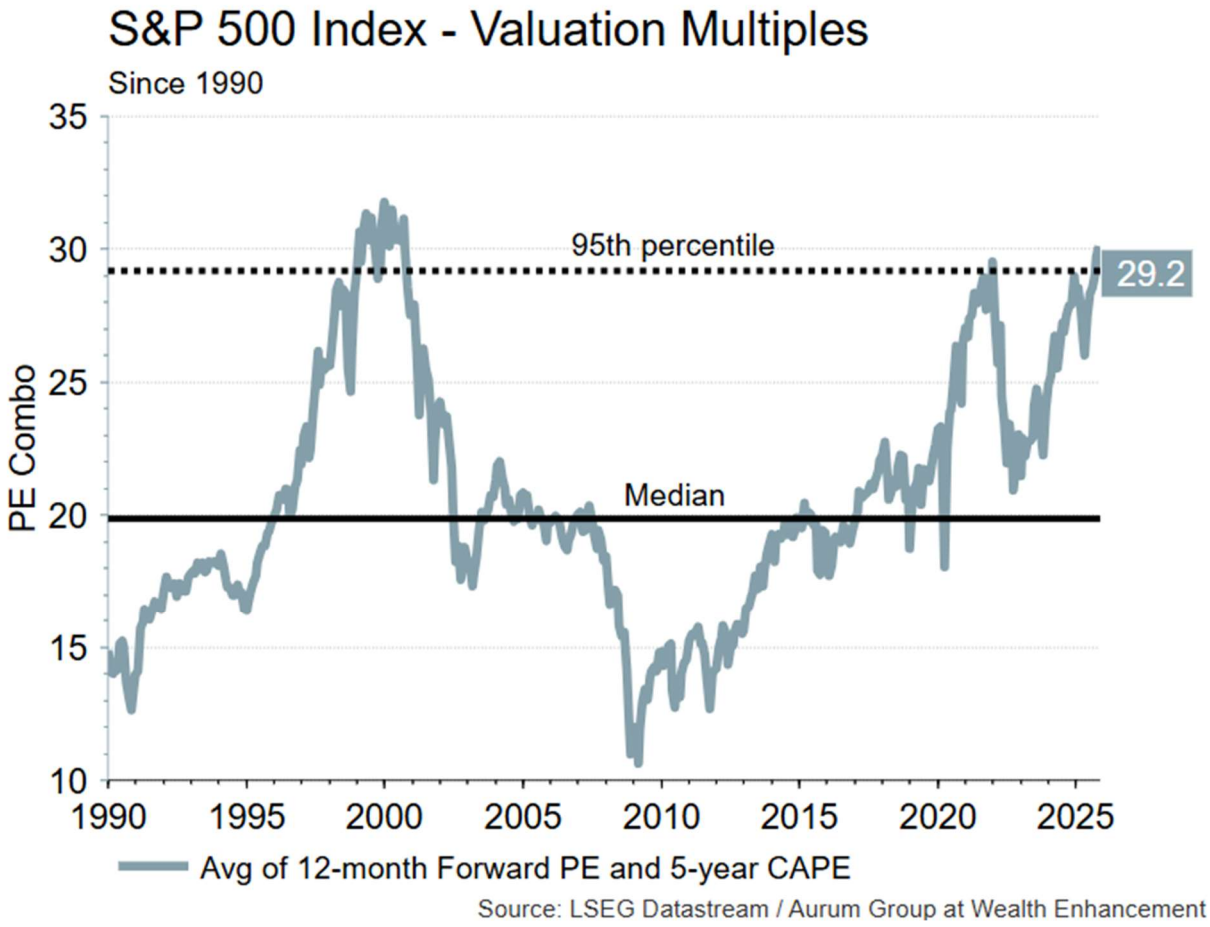
There is a case to be made that drawdowns are becoming more frequent. This is driven by information overload in the media and more leverage in the system. Since 2018, the S&P 500 fell at least 10% seven times. That is an average of almost one per year. Four of those exceeded a 20% drop when including the intra-day moves.




Investors have been handsomely rewarded for the volatility. Since 2018, the S&P 500 nearly tripled. This is above the historical average. Extrapolating the pace of these results to the future would be optimistic in our view.

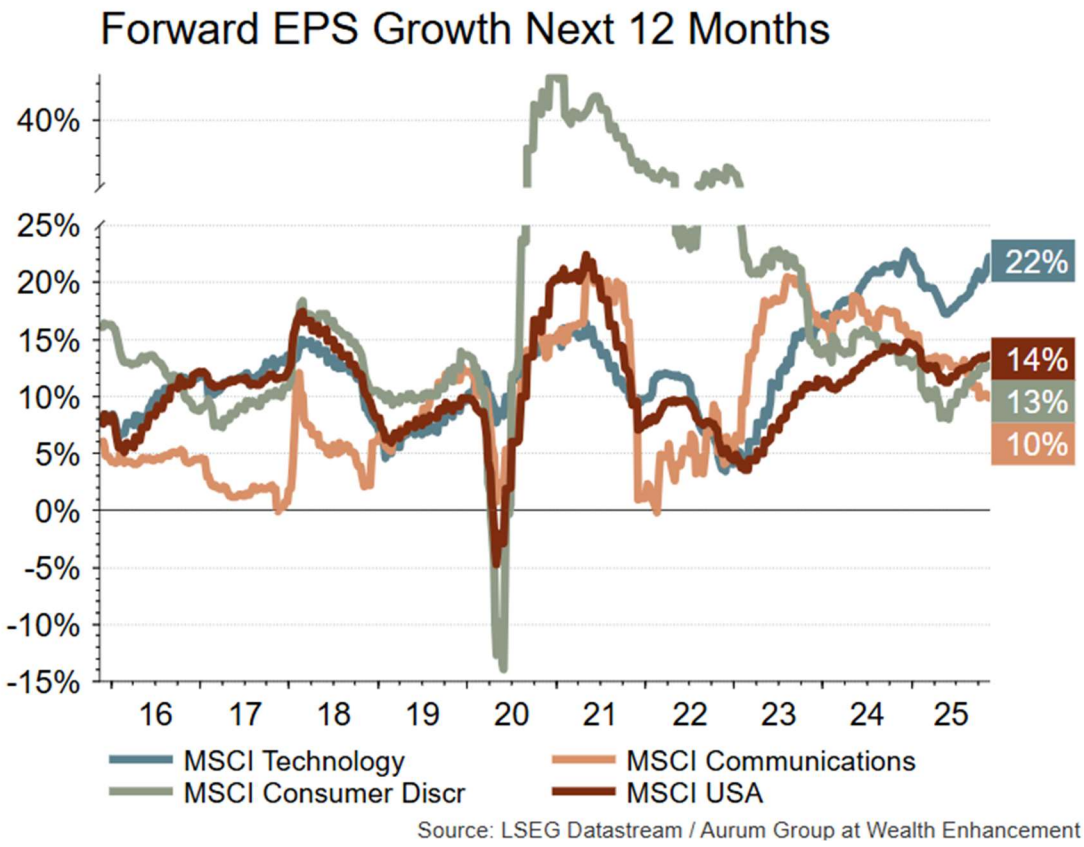
Even after the latest pullback, equities are in the top end of the range of historical valuations. This means a few things. Expectations for earnings and margins have a high bar to exceed. Estimates for future valuation increases should be tempered.

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On the positive side, earnings are expected to grow 14% for the overall market. The technology sector leads the way with expectations of 22%, near decade highs. Still, these were the estimates at the end of 2024 which preceded a price correction.

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Today, the macro story is better in some ways than a year ago. The fiscal stimulus from the extension of tax cuts and lower interest rates is positive. A decline in tariffs rates seems more likely than an increase. We do need to be mindful of the weaker labor market and a potential fall in demand from consumers.

Each quarter, the Aurum Group investment committee reviews and approves the *Guidelines*. We understand the news will be elated as stocks rise and downtrodden if stocks fall. Our process driven approach puts a line in the sand across various markets where we will buy or sell. These serve as a guide for rebalancing portfolios in both upside and downside scenarios.

We have our playbook to *respond* rather than react to market moves. This is our process that has allowed us to manage risk and take advantage of opportunities during past market cycles.

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