THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Advice for 2024: Don't Chase Last Year's Winners

DAVID A. KATZ, CFA, is Matrix Asset Advisors, Inc.'s President and Chief Investment Officer. He has overall responsibility for the firm's investment efforts. After initially working at Management Asset Corporation (Westport, CT), Mr. Katz co-founded Value Matrix Management with the late John M. Gates in 1986. He served as the firm's Senior Vice President and Chief Investment Officer and was Head of the Investment Policy Committee. In 1990, he merged Value Matrix Management organization into Matrix Asset Advisors. Mr. Katz chairs the Investment Policy Committee and is a Portfolio Manager/Analyst. He appears frequently as a guest on CNBC and Bloomberg Radio. He graduated summa cum laude from Union College with a degree in economics. He also received an MBA from New York University Graduate School of Business.

SECTOR — GENERAL INVESTING

TWST: Could you tell me about the firm?

Mr. Katz: I co-founded Matrix in 1986. Our mission was to prudently run money for individuals and institutions in the financial markets. We have two flagship strategies.

The first, which we've used since the get-go, is a large cap value strategy, which identifies the most attractive areas of the market based on a quantitative, then qualitative analysis. We do an initial screen using eight proprietary models to guide our thinking on valuation and then our team does a deep dive on the qualitative side of the companies that meet our quantitative criteria to set up a high-quality value portfolio.

The second strategy, which we started about 13 years ago, is an offshoot of our opportunistic large cap value strategy with a focus on high-quality dividend-paying stocks. It uses the same valuation models, but the primary overlay is a good and growing dividend, a company's ability to maintain it, and grow it over time.

In addition, we also run fixed income money. And for clients who want a portfolio that complements our value and dividend strategies, we offer a strategy that uses external managers, using ETFs and indexes, which covers the other asset classes like growth or small cap or international.

TWST: And do you have an overall investment philosophy at the firm?

Mr. Katz: Basically, we tend to be conservative. We look at the world through a value prism, whether we're looking at it in terms of our value and dividend strategies, or in terms of the bond market, or other strategies.

We want to look at things sensibly. Things have to make economic sense. We look at the risk/reward. We try to control risk as much as possible.

Our mandate is to work for our clients, to do the best that we can for our clients, grow their wealth in an intelligent way, while reducing risk as much as possible.

TWST: And as we're speaking here in January, do you want to give an outlook on what might happen in 2024?

Mr. Katz: As we enter the year, we are generally upbeat about stocks, but far less upbeat than we were a year ago. Stocks just had a very strong 2023. As a result, we think that stocks have gone from undervalued to fairly to fully priced, with many pockets of undervaluation. We expect the market's return in 2024 to be close to its historic average, likely in the high single digit area.

Within that, we look for a significant rotation in stocks and sectors from last year. We think that last year's leaders are going to slow down in a very meaningful way, and believe many areas that were left for dead last year and lagged significantly, are poised to be much better performers this year.

Areas like health care, which did poorly last year; financials, which had a difficult start to the year but ended strong; and utilities which got beaten up very significantly last year are poised to be leaders. We still like some technology, but think that the returns are going to slow down in a meaningful way because of elevated valuations.

In terms of the bond market, we've been lukewarm on bonds for the last decade. Last year, we warmed up to them in a significant way because you're finally getting a decent income stream from them. And we enter 2024 with the same mindset.

We like bonds now. We think that you're going to do well if you focus on shorter term bonds in the one-to-six-year maturity range which locks in a 4.5% to 5.5% income stream. We remain wary about long term bonds because of the uncertainty about where the yield structure ultimately settles down.

In terms of inflation, the numbers are moving in the right direction, and we think that inflation is going to be manageable in 2024, and that has allowed the Federal Reserve to pivot. We think that the Fed is done raising rates and will start lowering rates this year. We don't have a great conviction or sense on when that starts to happen or how many cuts there will be, but we are confident the next Fed move is to start lowering rates.

And then finally, we do think the Fed has likely orchestrated a soft landing. We think the economy will be OK in 2024 and we think businesses are going to do well, grow their earnings, and grow their dividends.

TWST: Within the large cap value and dividend strategy space, did you want to talk about some individual stocks?

Mr. Katz: A lot of things in both portfolios worked very well last year. The opportunities for 2024 are things that haven't worked yet, where the businesses are doing well, and the stocks are poised to do better. We think management in the companies we are focused on are doing a very good job. In many cases, we're seeing their conviction demonstrated by significant insider buying and we think that's where the greatest opportunity lies in 2024.

TWST: You mentioned FedEx. Anything new on the horizon for them, and how will the company continue to evolve?

Mr. Katz: FedEx is a very interesting business. After decades of having the same founding CEO who was a visionary, they have a new management team focused on running the business as efficiently as possible and driving shareholder value higher.

There's a strong focus on cost cutting. Two years ago, they had a number of operational problems. We think they've resolved those. The current focus is on cost cutting and doing well by shareholders.

We think that they have a very good franchise. There are four players in the industry, **FedEx**, **UPS**, **Amazon**, and the U.S. Postal Service. **FedEx** has a very good niche within there. It sells at a reasonable valuation with a mid-teens multiple.

And another thing that we like there is a laser focus on shareholder value. The company just announced and executed an accelerated share repurchase plan. And the new CFO recently bought about $250,000 worth of stock. So, good business, solid franchise, good earnings that will grow over time, and a very shareholder-oriented management.

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So, focusing on the large cap value portfolio first, we like companies like **FedEx** (NYSE:FDX) and **Raytheon** (NYSE:RTX) and **Zimmer** (NYSE:ZBH) and **PayPal** (NASDAQ:PYPL). On the financial side, **Bank of New York** (NYSE:BK) and **U.S. Bancorp** (NYSE:USB). And then finally, last year we did pretty well on the value portfolio, and part of that was we had bought a number of the Magnificent Seven when they sold off in 2022.

We still like **Amazon** (NASDAQ:AMZN), **Google** (NASDAQ:GOOG), and **Microsoft** (NASDAQ:MSFT) this year. They have great management and business prospects. But we expect their returns to be much less robust than they were in 2023.

Moving to the dividend side, same thesis. Good companies with superior managements growing their earnings, growing their dividends, very favorable prospects, but selling at a well below market multiple.

In the dividend area, we like companies like **Air Products** (NYSE:APD), **Cisco** (NASDAQ:CSCO), **Medtronic** (NYSE:MDT). I had mentioned utilities earlier, we like both **NextEra Energy** (NYSE:NEE) and **AEP** (NASDAQ:AEP).

In consumer discretionary we like **Starbucks** (NASDAQ:SBUX). The firm has a new CEO. We think that he's doing a good job. We think the business is very well positioned for the next two to five years and the stock has not done a whole lot of late. We think that's an opportunity.

And then as mentioned, the financials fit into both strategies. There is an overlap in some of the names that we own. In a perfect world, we love a very inexpensive name with a great dividend history and outlook. So, **Bank of New York** and **U.S. Bancorp** fall into that category.

1-Year Daily Chart of FedEx Corp.

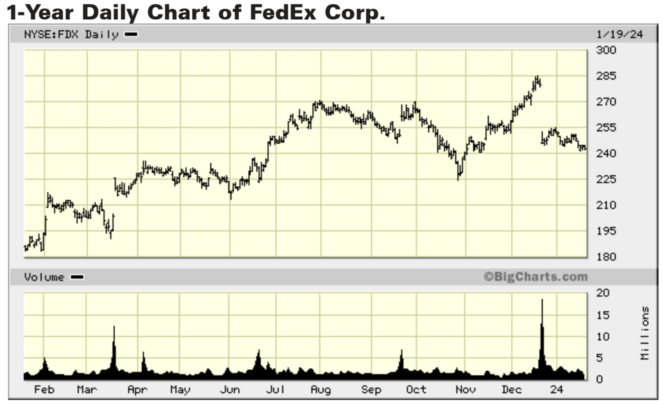

Chart provided by www.BigCharts.com

TWST: Is there going to be any difference in the way they deliver service to customers or new things that will happen at the company that we haven't seen before?

Mr. Katz: Our investment thesis on **FedEx** is that they're not going to do anything significantly different in terms of their delivery, like delivering goods by drones in the near future. Rather, they're going to focus on blocking and tackling.

They're engaged in a major initiative to consolidate express and ground networks. They're going to have more productive staff. They're going to use the IT better to maximize their productivity. They're going to cut costs and they're going to focus on better customers, better paying customers, higher volume customers over time as a way to grow their business.

On top of that, we think that after a slowdown in the U.S. and global economy, we think that the Fed ultimately will start lowering rates, which is going to cause an economic bounce back.

We think some economies outside of the U.S. that are in a recession right now will be doing better in the upcoming year. And all of that will feed into better profitability, better revenues, lower cost, and we think the market will embrace the company's shareholder-focused management and get a higher multiple on growing earnings.

TWST: And do you think some people might misunderstand AI, as sort of a way to eliminate a mass number of jobs and don't really understand what it can do for an industry or an individual company?

Mr. Katz: We think that's a fair question. We think that it is in the very early innings of what is going to be something that will be changing all of our lives for decades to come. Early on, it's evolving so quickly that people don't have a full grasp on what and how it works.

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TWST: We talked about the Magnificent Seven. Is there concern among investors on how high the stock prices can go on some of these holdings, or do you think people are going to keep on paying whatever the stocks cost?

Mr. Katz: Well, in some cases, investors care less about the valuation. We do care about valuation. So, for all of the stocks that we own in our portfolio, we try to identify what their valuation is starting with our eight quantitative valuation models, what their long-term growth prospects are, and then we compare and say, based on that, we like the company's valuation, or we think the company is richly priced.

I had mentioned **Amazon**, **Google**, and **Microsoft**. **Google** is probably one of the most reasonably valued of the Magnificent Seven — that and **Meta** (NASDAQ:META). Whereas **Amazon** and **Microsoft** are a little more richly priced. But we think that they have some very significant growth prospects and that will be fuelled by AI.

Some of the others we're a little bit more wary about. We have a significant position in **Apple** (NASDAQ:AAPL), but we think after great gains last year, it's going to slow down for a while. And we do think that others, like a **Netflix** (NASDAQ:NFLX), or **Tesla** (NASDAQ:TSLA), are fully to richly priced.

TWST: And you mentioned AI. Are companies throughout the economy going to have to embrace AI to remain competitive and find ways to implement it within their processes?

Mr. Katz: Absolutely. We think AI is a game changer for many, many companies. It's a way to increase productivity. It's a way to target customers better. It's a way to fully enhance many facets of the operation. So we do think that there is going to be investment in it.

We don't think that it's going to be like what happened in 1999 with the internet bubble. Rather, companies are looking at it smartly, how it can help growth and productivity.

Microsoft has laid out a roadmap for companies that are using their cloud or using Microsoft Office to roll out AI into various facets of their business in a very economical way where it's cost effective.

We think that many, many companies are going to do that. We think companies that sell to consumers or sell over the internet are going to have AI try to improve their productivity, improve their ads, or move customers to things that will make them happier. So we think the world will move to that.

What we believe is that it can be used to improve productivity of employees. And if that means that you're able to lower your employee count, things like that will happen. But we don't think that's an immediate thing.

If you think about a **McDonald's** drive-through and you have good AI that can intelligently hear what your customer is saying, you might be able to have your AI running your drive-through and one assistant, rather than having two or three assistants.

1-Year Daily Chart of RTX Corp.

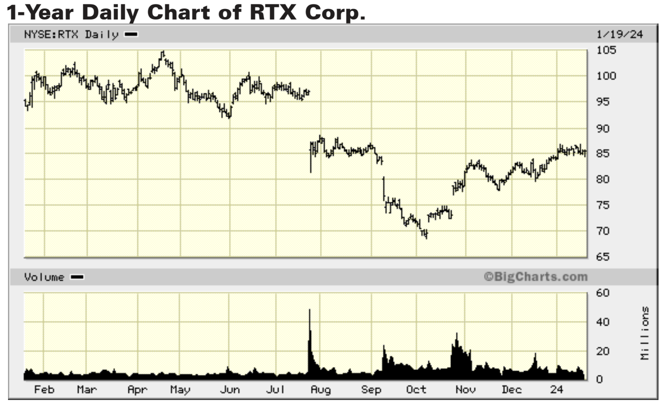

Chart provided by www.BigCharts.com

So there are ways that you will be able to cut costs. But we think that the first step in rolling out AI is going to be improving productivity, improving your customer experience, and then if you can improve your manufacturing process or your cost of delivery process, that will be a significant plus.

TWST: You mentioned some banks when we were talking about financial services. How do places like Bank of New York differ from, let's say, a bank like Silicon Valley Bank?

Mr. Katz: That's a great question. **Silicon Valley Bank** was run in an exceptionally risky manner. They did not have a chief risk officer for some time. Their business was based on getting in customer deposits, they could invest it in a way that might get them a little bit of extra yield, without regard to matching liabilities and assets.

And as long as they kept getting in money indefinitely, it wouldn't be a major problem. But when inflows turned into outflows and they had a bank run, they imploded.

The banks that we focus on tend to have very conservative management teams that are very thoughtful. If you look at **Bank of New York**, they're one of the better run banks with excellent new top management.

They've got a very conservative balance sheet. They are not a significant lender. When you worry about commercial real estate issues that are going to be haunting banks for some time, **Bank of New York** doesn't have that.

They've got some of the best financial ratios in the market, and they have a new CEO for the last few years. And we think he's done wonders in refocusing the culture on providing a great customer experience and doing that in a cost-effective manner.

"We think looking forward, in a slowing economy dividend-payers are going to be something that provides more stability for investors. The valuations are starting the year out at a very attractive 14 to 15 times earnings, and we think in an environment where the Fed will be lowering rates, that all of a sudden dividend stocks become pretty attractive again."

And as a result, they're buying back a lot of stock. They're raising the dividend, and they have a great balance sheet. And we think that if the Fed starts to lower rates, and we're very comfortable that they will be doing that, that they will have the wind at their back.

And in terms of the things that worry people about banks, we don't see much of that happening at **Bank of New York**.

TWST: Why do you think it's a good time for investors to look at large cap stocks or dividend-paying stocks? What's going on in the economy and in their individual financial lives that would encourage that?

Mr. Katz: Dividend stocks were one of the weakest performing areas of the market last year. They held up exceptionally well in 2022, but last year, if you divide the S&P 500 by the top 250 dividend payers and the bottom 250 dividend payers, the companies that didn't pay dividends or pay very low dividends did exceptionally well. Their returns were in the mid-20s to high-20s.

The flip side was the higher dividend payers' returns were significantly behind that, in the mid single-digits to low double-digits. Many of their businesses did well, but the market just was not focused on dividend payers. It was a risk-on year with that focus on technology and AI.

We think looking forward, in a slowing economy dividend-payers are going to be something that provides more stability for investors. The valuations are starting the year out at a very attractive 14 to 15 times earnings, and we think in an environment where the Fed will be lowering rates, that all of a sudden dividend stocks become pretty attractive again.

So, whereas you had an exodus of capital out of those stocks last year, we think you will have that money coming back this year.

A good example of that is health care. Health care stocks did very well in terms of their earnings last year, and in terms of increasing their dividends, yet the stocks were essentially flat for the year. As a result, their valuations have gone from good to very good, and we think that they will continue to grow earnings this year.

If you look at the drug companies, a 4.5% yield, that's growing at a 5% to 8% rate over time, a 12 times PE where the earnings are growing over time, we think that is going to be very attractive in a more uncertain economy, and in an environment where money markets, by the end of the year, are likely going to be paying significantly less than 5%, quite possibly in the 4% or even lower area.

As far as large cap goes, large cap is a broad swath, so we think that there are opportunities in large cap like value and dividends, and we think that there are areas that we'd be much more wary of, like large cap growth. We don't expect a repeat of 2023. We think the risks are much higher, the valuations are more extended, so we're less enthusiastic there.

Now, if you look at the market in terms of small cap versus large cap, we're pretty enthusiastic about small cap. Small cap had a miserable 2022 and last year, up until October 31, was lagging significantly. It's had a great end to the year.

1-Year Daily Chart of Zimmer Biomet Holdings Inc.

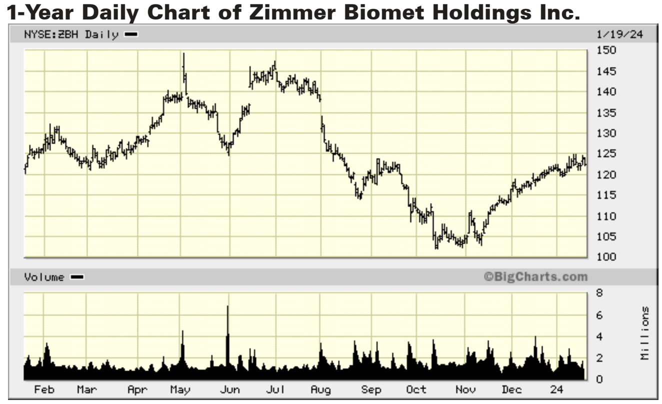

Chart provided by www.BigCharts.com

We think that's likely going to be the beginning of a multi year rally and that small and mid cap is attractive this year. We think value, dividend, small and mid-cap and international stocks are all attractive. We think international stocks, which did OK last year, but lagged the U.S., are poised for better times as well.

International markets have had a fairly miserable decade of performance, both developed and emerging markets. We think they start this year from a pretty depressed valuation on a relative basis, more attractive than the U.S. market.

We think their economies are confronting more issues and have more uncertainty. But we do think they will get through it. And from their current valuations, we think international stocks also will be an attractive way to build returns over time.

TWST: And do you think the fact that it's an election year in the United States is going to impact the market at all?

Mr. Katz: It gets pretty complicated. If you look at election cycles generally, the election year has been OK for stocks. So we're not wary of it on that basis. There are always big picture uncertainties for investors to consider, whether it's what's going on with Russia or Ukraine, with China or Taiwan or in Israel and if the current war in Israel and Gaza were to escalate. Throw U.S. politics and an election year on top of that.

We don't think you can look at the polls and make a determination and try to play the market that way. We think you want to take a long-term investment horizon and focus on good businesses with solid valuations, and that's going to be the best way to make money and to navigate the upcoming environment which in many respects is very uncertain and pretty treacherous.

TWST: And do you think that younger investors are going to start to get more involved in the market, even the millennial generation?

Mr. Katz: We think that the ultimate trend will be for more people to be putting money in the market. That's a good thing. We think some of the vehicles that the younger generation is using to put money in the market or in other financial investments is more worrisome.

The whole investment thesis of playing meme stocks like the **GameStop's** of the world is very worrisome. The whole trend on NFTs is worrisome. We're not sold on Bitcoin as being a long-term way to increase wealth.

People like to speculate. People like to gamble. But that's not a great way to increase wealth over time. From our perspective, if you look at the Dow, when I started in the industry in 1984, the Dow was at about 800. Today it's at 37,000. If you buy a good stock portfolio with good businesses, diversify, set a proper asset allocation, you're going to do well over time.

TWST: And anything we haven't talked about, you care to bring up?

Mr. Katz: We think the biggest thing in looking at 2024 is don't expect a repeat of 2023. Don't chase last year's winners. We would look at some of the things that have lagged, those are going to be better places to be.

Set your asset allocation with a longer time horizon, start investing as soon as you are able, even if it's a small amount, be patient and let the miracle of compounding work for you.

Adjust your risk exposure as your circumstances warrant. If you've had too much money in stocks, the rally over the last two months gives you an opportunity to reduce some of those exposures to right-size for the longer-term asset allocation.

Bonds for the first time in a decade, as I mentioned, are offering attractive returns. But having said that, we like stocks going into this year.

We think you can buy a prudent basket and we're very upbeat about dividend payers for the upcoming year. We think that you can make good money in value, and we'd be a little bit wary about chasing the hottest trends from last year.

TWST: Thank you. (ES)

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Definitions:

The S&P500 ®Index *is a broad-based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. You cannot invest directly in an index.*

Value Strategy *investment strategy that involves picking stocks that appear to be trading for less than their intrinsic or book value.*

Dividend Strategy *investment strategy of only buying stocks that issue dividends thus creating a reoccurring income stream.*

Growth Strategy *is a collection of business initiatives that seek the maximization of a company's value within a period.*

Large Cap Value *shares of the largest U.S. companies, or those with market capitalizations of $10 billion or more, that are considered underpriced based on fundamental analysis.*

Dividend Focused *companies that pay out regular dividends.*

Small-Cap *public companies whose total market value, or market capitalization, is about $300 million to $2 billion.*

Inflation *a sustained increase in the general level of prices for goods and services.*

Recession *a significant, widespread, and prolonged downturn in economic activity*

Fixed Income *types of investment security that pay investors fixed interest or dividend payments until their maturity date.*

ETF's (Exchange-traded funds) *are SEC-registered investment companies that offer investors a way to pool their money in a fund that invests in stocks, bonds, or other assets. In return, investors receive an interest in the fund.*

Developed Market International *companies from countries that are most developed in terms of its economy and capital markets.*

Emerging Market International Stocks s*ecurities from countries with economies that are considered to be emerging.*

Consumer Discretionary *is an economic sector classification of non-essential consumer goods and services.*

Bonds *are a debt security, similar to an IOU. Borrowers issue bonds to raise money from investors willing to lend them money for a certain amount of time.*

Utilities *The utilities sector is an industrial category of stocks, consisting of companies that provide basic everyday amenities, including natural gas, electricity, water, and power.*

Financials *a section of the economy made up of firms and institutions that provide financial services to commercial and retail customers.*

Health Care *all businesses involved in the provision and coordination of medical and related goods and services.*

Information Technology *businesses that sell goods and services in electronics, software, computers, artificial intelligence, and other industries related to information technology (IT).*

Maturities *are the agreed-upon dates on which the investment ends, often triggering the repayment of a loan or bond, the payment of a commodity or cash payment, or some other payment or settlement term.*

Qualitative analysis *uses subjective judgment to analyze a company's value or prospects based on non-quantifiable information, such as management expertise, industry cycles, strength of research and development, and labor relations.*

Quantitative analysis *is the use of mathematical and statistical techniques to analyze financial & economic data and make trading, investing, and risk management decisions.*

Artificial Intelligence *the ability of a digital computer or computer-controlled robot to perform tasks commonly associated with intelligent beings.*

The Magnificent Seven *Large tech-oriented companies. The group includes Apple, Microsoft, Alphabet, Amazon, Nvidia, Tesla, and Meta.*

Balance Sheets *a statement of the assets, liabilities and capital of a business or other organization at a particular point in time, detailing the balance of income and expenditure over the preceding period.*

Market Valuation *the value of an asset based on the price that would be paid for it if it were sold at a certain time-*

Slowing Economy *a period of slower economic growth, typically characterized by a decrease in the rate of growth of real gross domestic product (GDP).*

Productivity *measures how efficiently goods and services can be produced by comparing the amount of economic output with the number of inputs (labor, capital, etc.) used to produce those goods.*

NFTs (non-fungible tokens) *are unique cryptographic tokens that exist on a blockchain and cannot be replicated. NFTs can represent digital or real-world items like artwork and real estate.*

Bitcoin *is a digital currency which operates free of any central control or the oversight of banks or governments.*