

# INVESTMENT VIEWS

MARCH 31, 2025

## MAXIMUM UNCERTAINTY

The first quarter of 2025 has ended on a sour note with the major equity indices dropping over 10% from their peaks. Investors do not like uncertainty and right now there is plenty of it.

The new Administration has set an aggressive and unsettling agenda with ramifications – both positive and negative - that are rippling across the economy and financial markets. Many pundits are calling for a potential recession or worse, while decisions about widespread tariffs and reciprocal trade actions dominate the headlines in the financial media. We do not feel that the upcoming April 2nd "Liberation Day" will resolve any of the uncertainty we are currently experiencing. Being transactional in nature means this is just a starting point for negotiations. The view is that the U.S is the largest consuming country in the world and even entities as large as the EU seemingly stand to lose a lot more from high tariffs than the U.S. does. In theory, this gives the U.S. much more leverage in a negotiating process.

Efforts to reduce government spending are at once, both stirring up concern and optimism that Federal budget deficits might finally be reduced. Additionally, recent data points have also hinted that inflation remains above the level that the Federal Reserve has targeted. Various geopolitical situations remain hot, with potential for either escalation or an easing of tensions. In short, investors are navigating through a sea of maximum uncertainty.

This period of time is unique, where the potential for vast changes is right in front of us, but is also threatening entrenched paradigms in the financial markets. Given this, we have become more opportunistic and active in taking profits, making changes and having an open mind. Portfolios should also be positioned for a variety of outcomes without going "all in" on any single outcome.

### GOLDEN ROCKET



As of this writing, gold closed the 1st quarter of 2025 at record highs, well above \$3,100 per ounce, gaining about 20% since the beginning of the year. Gold has been favored around the world for the past few years as uncertainty and global tensions rise. Also, with continued inflationary pressures, gold will continue to be a decent hedge. We believe that gold is set to rise further over time and therefore are maintaining our position, with a small amount of profit taking to manage overexposure.

### INFLATION NOT DEAD

While inflation as measured by the Personal Consumption Expenditures (PCE) has cooled from highs, it is still warm and could heat up further. The same goes for the consumer price index (CPI). The media and even some Fed officials have indicated that they have stemmed the tide, but inflation issues never disappeared and it has been sticky between 3-4%. This will probably keep the Fed on the sidelines from any further rate cuts for now and will further disappoint investors looking for an easing of monetary policy.

### DIGITAL CRASH

We exited our position in the Van Eck Digital Transformation ETF (DAPP) after a complete retracement of gains during the recent correction. DAPP was a vehicle we chose for blockchain exposure as we believe that this technology will have a major role in our future society. However, our risk control practices dictated an exit, which had us take a small loss on the position. It is our plan to replace DAPP with a individual name once the dust of the corrective cycle settles down.

◀ **EXIT** ▶

# TECHNICALLY *Speaking*

Last month we discussed key levels in the market that would indicate there has been a change in character for the S&P 500. That 5700 level discussed was indeed broken and the strength of the selling continued to climb. Our eyes now turn to look for potential future support for the market should the sell-off continue as the character of the market has indeed changed.



The chart shows Fibonacci retracement lines and while a full discussion is beyond the scope of this article, many market technicians use these to give a clue as to potential support and resistance levels due to behavioral/psychological patterns. By no means is this an exact science, but can have some influence on market behavior. The levels most used are 38.2%, 50% and 61.8% retracements. We have plotted this

from the 2022 market low and it shows the key levels at 5126, 4811, 4495 (respective of their aforementioned percentages). The 38.2% retracement from the market bottom in 2022 lines up with the August 2024 lows, making this a confluence of support levels. In general, if you have multiple important technical indicators lining up, this can add strength to the support or resistance (support in this case). This is the level we think could indicate a bottom should this correction continue. At that point, other indicators that we look to (see below article) should also be indicating a bottom is forming.

## NEGATIVE & POSITIVE VIBES

Calling tops and bottoms in the stock market tends to be a futile effort. You can occasionally get lucky, but more often than not, the market will make you look foolish. Unfortunately, on the negative side, we do not see the kind of bottoming signals we would want to see to say that a bottom is starting to form. These signals are indicators we have discussed in newsletters past (market breadth, put/call ratio, etc.) and all are not at levels where we feel comfortable calling an end to market weakness. Surprisingly some of these are not even close to levels that have previously notated important turning points for the market. Thus, we expect weakness to continue for now as economic uncertainty is driving price.

On the positive side, we have seen a couple studies which point to hope in the short and longer term. One such study shows that since 1957, when the S&P 500 has a negative first quarter (which we have this year), the average gain from the first quarter low to year end is over 18%. On top of that, the index has ended the year in positive territory more than 80% of the time after a negative first quarter.

In the short term, since 1950, when the S&P is up more than 2% (this year it was up 2.7%), the month of April was up 29 times versus being down only 4 times. The average gain in April during these period was over 2.5%.

Things could certainly be different this time, but earnings seasons have a tendency to lift spirits as some fears are alleviated. As it usually is, company guidance will be the key and trade issues will likely cloud corporate vision for the next few quarters.

**Recommendation List:** A list of all previous specific investment discussions published over the past 12 months will be provided upon request. Please email [lara@mhandassociates.com](mailto:lara@mhandassociates.com) or call our office for this list.



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