Large Cap Growth

Reflecting on 25 Years

March 8th marked the 25th anniversary of my first day at JAG. In early 1999, my wife Chris and I had just turned 30 years old. Our son Norman ("Buddy") IV was 2 years old, and we were pregnant with our son Danny, who would arrive in early June. Our daughter Tess was born in late 2001. As I write this commentary, more than a few things have changed over the intervening quarter-century. Chris and I are 55-year-old empty nesters. She looks much younger than her age. I look every day of mine. Buddy is an Army officer, and he and his beautiful wife Abby have a four-month-old son Norman ("Bennie") V. Danny is working in investment banking in California, and Tess is finishing up her senior year of nursing studies at Marquette University. From a family standpoint, we are well and truly blessed.

The S&P 500 closed at 1,282.73 on March 8, 1999. Although we did not know it then, stocks were entering the final stages of the Internet Bubble which would eventually pop in early 2000. The equity market then entered the first of two career 50%+ bear market declines. The second one - during the 2008-2009 Great Financial Crisis – gained momentum just as I was named CEO, and directly corresponded with the permanent departure of approximately 30% of my hair. Despite these calamitous and painful episodes, the S&P 500 generated an average total return of 7.8% between March 1999 and March 2024, and closed out last quarter at 5,254.35. This represents a cumulative return of more than 551% (including reinvested dividends).

I had spent almost five years in the investment industry by 1999 and had earned an MBA from Washington University. Back then, I thought I knew a fair amount about investing. More than two decades later, I realize that successful investing goes hand-in-hand with lifelong learning. Here are a few things I have learned from a quarter-century of portfolio management:

- **Successful investing is simple, but far from easy.** Left alone, $100,000 invested in the S&P 500 on my starting day at JAG would have grown into more than $900,000 by the end of March 2024. But many academic studies - and my own hard-won experience - have shown that a surprisingly small minority of investors are able to stick with their investment plan through good times and bad. The normal, all-too-human tendency is to reduce their stock exposure during periods of crisis, only to re-enter at higher valuations during bull market phases. In practice, this means that investors collectively tend to "sell low" and "buy high," which dramatically reduces their overall returns. Investment writer Carl Richards calls the delta between *investor* returns and *investment* returns the Behavior Gap, and he and others have noted the enormous costs in foregone gains that stem from allowing our emotions to interrupt the long-term power of compound interest. *One of our most-important jobs at JAG is to minimize the size of the Behavior Gap for our clients.*

Performance*	Q1	1 Year	5 Years	10 Years
LCG Pure Gross	14.0%	46.0%	15.0%	14.6%
LCG Net	13.6%	43.6%	12.8%	12.2%
Russell 1000 Growth	11.4%	39.0%	18.5%	16.0%
S&P 500 TR	10.6%	29.9%	15.1%	13.0%

- **Preparation trumps prediction.** Although many pundits loudly make claims to the contrary, no one can predict the short- to intermediate-term path of stock prices or interest rates. This means that successfully "timing" the market is essentially impossible. The best thing we can do is prepare our portfolios for a wide range of outcomes. There are lots of components to proper preparation, including avoiding leverage, adhering to a sensible asset allocation plan, and matching one's portfolio exposures to one's actual tolerance for volatility. In my experience, most investors should not be 100% invested in equities, because very few investors can tolerate the pain of significant bear markets. Most clients are better served by a diversified portfolio that includes bonds and a reasonable amount of cash equivalents. Such an approach may produce modestly lower total returns over a 20-30 year time horizon, but it increases the odds that one will be able to adhere to their investment plans through good times and bad. *At JAG, we avoid predicting what is going to happen in the markets. Instead, we specialize in preparing and positioning client portfolios for long-term success.*

- **Costly over-diversification is rampant in the investment industry.** Many institutional and individual investors have too many investments in too many vehicles, all at too high a cost in fees. Common examples include portfolios containing dozens of mutual funds or Exchange Traded Funds (ETFs), each of which offers exposure to hundreds or even thousands of underlying

*Returns are presented pure gross and net of fees and include the reinvestment of all income. **Past performance should not be indicative of future performance.** Please refer to our Q1 2024 full performance disclosure for additional information. Pure gross returns are shown as supplemental information, as bundled/wrap fee accounts are presented gross of all fees and transaction costs. Net of fee performance was calculated using the highest applicable annual wrap fee during the applicable performance period, applied monthly. Wrap fee schedules are provided by independent wrap sponsors and are available upon request from the respective wrap sponsor. Other than brokerage commissions, bundled/wrap fees include investment management, portfolio monitoring, consulting services and, in some cases, custodial services. The highest annual wrap fee used for Net of fee performance calculations may differ from fees listed in this paragraph due to the fee schedule of the sponsoring firm.

securities. Also, and increasingly in recent years, I have noticed a proliferation of a variety of alternative investments in client portfolios. Many of these are illiquid, opaque, and expensive private funds. Because many of these investments are not "marked to market" like stocks, bonds, ETFs, and mutual funds, they typically exhibit little price volatility. This approach to diversification may be better described as "diworsification." As all too often, the result is predictably mediocre returns, diminished even more so by the (several) layers of expenses borne by the client. From where I sit, optimizing an investment portfolio for low volatility rather than for long-term prospective returns is often a recipe for expensive mediocrity. *As long as I am running JAG – which I hope is for many more years – we will do our best to provide clients with competitive long-term compound returns by managing focused but diversified portfolios at a fair and transparent fee. This may mean that we will work harder than some of our peers to help our clients navigate the inevitable bumps and bruises that financial markets dole out from time to time, but I strongly believe our approach carries a much higher probability of successful long-term outcomes for our clients.*

Performance Review

Stocks continued to rally in the first quarter of 2024, fueled by a positive combination of stable economic growth, hopes for potential Fed rate cuts later this year, and continued optimism over the benefits of artificial intelligence (AI). The S&P closed above 5000 for the first time ever, bringing its total return over the past twelve months to 29.9%.

Equity market strength in Q1 was much more evenly distributed compared to 2023's relatively narrow outperformance by mega cap tech and adjacent stocks. Ten of the 11 S&P 500 sectors finished the first quarter with a positive return. The best-performing sectors in the market last quarter were Communication Services, Energy, Information Technology, Financials, and Industrials. That sector mix reflected the influences of artificial intelligence (AI) enthusiasm, strong earnings results, solid US economic data, and rising optimism towards a rebound in global economic growth. The only S&P 500 sector to log a negative return for the first quarter was the Real Estate sector, as it continues to be weighed down by concerns about the health of the commercial real estate market. Specifically, terrible quarterly earnings from New York Community Bank reminded investors of the sustained weakness in the commercial real estate space and that weighed on the segment. The Consumer Discretionary sector also lagged as numerous retailers warned about a potential slowing in consumer spending as we entered the new year.

Our Large Cap Growth strategy generated positive and absolute returns during the first quarter. Top contributors included NVIDIA (NVDA), Meta Platforms (META), and Amazon (AMZN), all of which are benefitting from the growing enthusiasm for AI. Our largest portfolio detractors included Tesla (TSLA), Apple (AAPL), and Lululemon Athletica (LULU). To put it mildly, Tesla has been a frustrating position for us. On the one hand, the company is – by far, in our opinion – the leading manufacturer of EVs in the world outside of China. But amidst a softening global market for EVs, the company has chosen to cut prices to maintain their market share. This may prove to be the correct strategic choice in the long run, but we are skeptical. In our experience, it is difficult for companies to successfully make the round trip from premium prices to price discounts, and back again. For now, we have stepped to the sidelines. We have also liquidated our position in Lululemon after management noted slowing North American sales momentum during their most-recent quarter. Although LULU's international sales continue to grow smartly, we believe they may be experiencing competitive challenges from newer athleisure brands like Alo and Vuori in the domestic market. In our opinion, LULU's premium valuation is unlikely to withstand any meaningful cooling of their "brand heat" in coming quarters, and we exited the position to raise capital for better ideas.

Outlook and Positioning

The market's mood continues to improve as we enter the 2nd quarterly stanza of 2024. Stock investors are benefiting from improving corporate earnings, surprisingly resilient economic data, and the never-to-be-underestimated spending power of the American consumer. After more than a decade in the zero-interest rate policy (ZIRP) wilderness, bond investors and savers can once again earn reasonable, low-risk yields. We admit to being surprised by the stubborn strength in the economy and the magnitude of the rally in stocks over the past 18 months. Like many investment professionals, we expected the Fed's tight interest rate policy could result in a slowdown in economic growth and dampen corporate earnings. This has not (yet) happened, despite the tragic fact that there are ongoing wars in Europe and the Middle East.

Our outlook remains cautiously optimistic. As we have written extensively, we believe the advent of **AI** is one of the most significant technological and societal trends of the past 100 years. The fact that many investors agree with us is contributing to the strength in several areas of the stock market. In addition to technology and adjacent companies that are first-order beneficiaries of AI, we believe that a broad array of companies outside will also benefit from deploying AI tools in their businesses. Indeed, like the Internet itself, we expect that AI strategies will become "table

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stakes" for almost all companies – regardless of their industry, products, or services – over the next several years.

Another potentially positive catalyst includes **new treatments for diabetes and obesity**. Given the 40%+ rate of obesity in the United States and the wide range of ailments and diseases that arise from obesity, widespread use of these treatments could drive a whole slew of societal and economic benefits in the coming years.

We are also bullish on the government and corporate sectors' rediscovered commitment to robust supply chains. This is driving a huge wave of reinvestment into American manufacturing and infrastructure capabilities, creating many attractive investment opportunities.

At the same time, it is important for investors to avoid becoming too complacent. As I noted earlier, preparation trumps prediction for long-term investors. As most would agree, there is no better time to prepare for potential storms than when the sun is shining. In investing, bull markets create a wonderful opportunity to revisit portfolio allocations and rebalance exposures. There are any number of developments that could create some unpleasant volatility in the coming months. The geopolitical situation remains tenuous, and wars tend to play out in unpredictable ways. Inflation continues to moderate, but prices remain high for most consumer goods. Combined with high mortgage, credit card, and automobile loan interest rates, consumer spending could eventually come under pressure. And no one needs to be reminded that we are on the cusp of what promises to be a tumultuous Presidential election cycle. All these risk factors keep our optimism in check. As always, we will do our best to prepare our portfolio for a range of outcomes.

Norm Conley
CEO, Chief Investment Officer & Portfolio Manager

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Top 5 Contributing Stocks

Company	Symbol	Catalyst
NVIDIA Corporation	NVDA	Generative AI applications drove outsized demand for accelerated computing solutions.
Meta Platforms	META	Enthusiasm surrounding shareholder return initiatives and successfully navigating Apple advertising privacy clampdowns.
Amazon.com	AMZN	Continued expense management led to better than expected operating margins.
Uber Technologies	UBER	Guidance for EBITDA to grow at c. 30-40% over the next three years and a new $7 billion buyback authorization.
Eli Lilly and Company	LLY	Excitement surrounding growth potential for GLP-1 treatments for diabesity.

Bottom 5 Contributing Stocks

Company	Symbol	Catalyst
Tesla, Inc.	TSLA	Company is reacting to softening EV demand by cutting prices.
Apple Inc.	AAPL	Weakness in China and weaker-than-expected Q2 guidance pushed shares lower.
Lululemon Athletica	LULU	Disappointing forward guidance and questionable traffic trends are raising concerns about competition.
Adobe Inc.	ADBE	Softer-than-expected Q2 guidance and perceived competitive threats from new AI entrants.
Take-Two Interactive	TTWO	Weaker-than-expected booking guidance and uncertainty around the timing of the GTA VI launch.

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The Large Cap Growth Composite is comprised of retail, institutional accounts and a mutual fund that invests in growth companies with an average market capitalization of over $10 billion. Companies typically exhibit significantly faster historical earnings growth than that of the S&P 500 and/or their peers. The composite was created in March of 2001. Two index comparisons are appropriate for the following reasons: The Standard & Poor's 500 Total Return Index is an unmanaged index consisting of 500 companies generally representative of the market for the stocks of companies in leading industries of the US economy. As of 1/1/10, the firm changed from the S&P 500 Adjusted return index to the S&P 500 Total Return index to better reflect the composite strategy; the Russell 1000 Growth Index is an unmanaged benchmark that assumes the reinvestment of all distributions and excludes the effect of fees and expenses. The Russell 1000 Growth Index measures the performance of the largest 1000 securities in the Russell 3000 with higher price-to-book ratios and higher forecasted growth values. It is generally representative of the large-cap growth segment of the US equity market. Performance is reported in US Dollars. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.

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Ownership: Fifty-one percent ownership by a Veteran or Veterans. The applicant must share in all risk and profits commensurate with their ownership interest.
Control and Management: Proof of active management of the business. Veteran must possess the power to direct or cause to direct the management and policies of the business.
Contribution of Expertise and Capital: Contribution of capital and/or expertise by Veteran owner(s) to acquire their ownership interest shall be real and substantial and be in proportion of the interest acquired.
Independence: The Veteran owner(s) shall have the ability to perform in their area of specialty/expertise without substantial reliance on non-Veteran-owned businesses.

About JAG

JAG Capital Management (JAG) actively invests for institutions and individuals in highly selective, customizable, and nimble equity and fixed income strategies. JAG is a boutique, independent, employee-owned investment management firm in St. Louis.

Learn More About JAG

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