

# BRADYCO

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Bradley F. Richardson

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## The year started strong

After a challenging 2022 (-18.1%), the stock market -- as represented by the S&P 500 index (including dividends) -- rose 16.9% during the 1<sup>st</sup> half of 2023 (its strongest performance in 4 years) while the tech heavy NASDAQ index had its strongest 1<sup>st</sup> half performance (+31.7%) in 40 years after falling 33.1% in 2022. The stock market's strong 1<sup>st</sup> half occurred despite continuing interest rate hikes (3 increases totaling 0.75% resulting in an upper rate of 5.25%), a mini-banking crisis, the debate over increasing our country's debt ceiling, and persistent fears of a recession.

Based on the technical definition of a "bull market" (a 20% increase from a recent low), the S&P 500 reached bull market status last month. The index ended up 26% from the October 2022 low. As of June 30, 2023, the S&P 500 index was about 5% below its all-time high (1/3/22).

The stock market's strong 1<sup>st</sup> half performance was largely due to two phenomena. First, the November 2022 announcement by Open AI of a "generative artificial intelligence" chatbot which it called "ChatGPT." Second, the stock market's performance reflected the unexpected strength of America's economy. There have been predictions of a recession for months, yet our economic engine continues to be strong with good GDP growth, low unemployment, and declining inflation. While some long-term statistical patterns would suggest that a recession could still occur, most prognosticators are hedging their bets.

I am much more focused on how the artificial intelligence (AI) phenomenon might impact our companies than on the normal fluctuations of our economy. While economic cycles will come and go, AI has the potential to revolutionize our world in the same way the internet and the smartphone have done. Just how this recent advance in AI technology will play out is unclear. What we can safely predict is that the impact of these recent advances in AI technology is likely to be extremely significant and will impact most, if not all, of our holdings.

What is ChatGPT and what can it do? The acronym GPT stands for "generative pretrained transformer," which is a type of machine language while the word "chat" is used because the software works best when it literally has a "chat" with the user, which enables the user to refine the results. While artificial intelligence has been around for many years, recent breakthroughs enable the technology to have a conversation with the user to create new content in real time based on both old and new data.

Going forward, part of my periodic analysis of our current and potential investments will be to monitor how these companies are taking advantage of these scientific breakthroughs both to boost productivity and increase revenue.

Bradyco Financial  
16 Sargent Street, Cambridge, MA 02140-2514  
TEL (617) 945-1991 ■ [Brad@BradycoFinancial.com](mailto:Brad@BradycoFinancial.com)  
[www.BradycoFinancial.com](http://www.BradycoFinancial.com)

## Scams Continue

Our custodian, Charles Schwab & Co., reports that some of its customers have had pop-up messages appear on their computers that claim to be from either Microsoft or Apple suggesting that the user call a tech support number, which starts a complicated but well-designed fraud. If you receive a similar message that you suspect may be fraudulent, I strongly encourage you to do a web search of the phone number to verify who is actually calling you. Similarly, Amazon also reports new scams in which bad actors are impersonating Amazon employees to steal customer data. The sophistication of fraudsters continues to improve, which makes prevention more and more challenging. Bottom line, you should be extra cautious if someone asks you for information about your financial accounts or wishes to gain remote access to your computer. If you are in doubt, don't hesitate to reach out to me for assistance.

## What's Next?

The stock market's strength during the 1<sup>st</sup> half of 2023 persisted during the month of July even though the Federal Reserve continued to increase interest rates which are now at the highest level they have been in 22 years (which is only slightly more than they were in 2007). As of July 31<sup>st</sup>, the S&P 500 index including dividends had risen 20.7% since January 1, 2023, and is now less than 2% below its all-time high. Some market observers worry that optimism about both AI and our economy's strength may be causing stock market valuations to become too high!

Regardless of what happens to the stock market in the short-term, I am confident our companies will prosper over the long run. Just as America led the world with the creation of the internet and the smart phone, it is leading in artificial intelligence. This dynamism will give our companies the tools that will power our economic future.

Thank you for your confidence.

