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Issue 119 *Spring Quarter, 2022*

Volatile quarter. The Ukraine war, inflation, rising interest rates, spiking oil prices, shortages of goods and materials, all this and more was the backdrop for a tough quarter.

Financial Planning. We are pleased to offer financial planning for you, our clients, at your request for no charge. Since we do not sell anything, i.e., annuities, insurance, or anything whatsoever on commission, it should be a completely objective look. We have no hidden agenda and we are not selling anything. We are simply endeavoring to provide more services for our clients. We carefully researched the software and your plan would be developed by what we believe is among the finest software financial planning programs available. Matthew Blades, our financial planner here in our office, is the individual who will implement this program for you if you wish. If this is something you feel may be helpful, please contact Matthew, again at no cost.

Standing Instructions. This is the fastest easiest way to withdraw funds from your account here with us. You may have already established "Standing Instructions" but if not, with a simple Fidelity form, you can call into the office and request funds be moved to your checking account. Typically, money will be moved into your checking account within a day or two. Please let us know if this would be helpful to you.

Reminder. Our office hours are 8:30AM – 5:00PM daily, we are closed for all NYSE (New York Stock Exchange) holidays and weekends.

Tax reporting deadline is Monday, April 18th this year. We are pleased to provide any cost basis information and we are also pleased to speak with your tax preparer but we require your permission to do so.

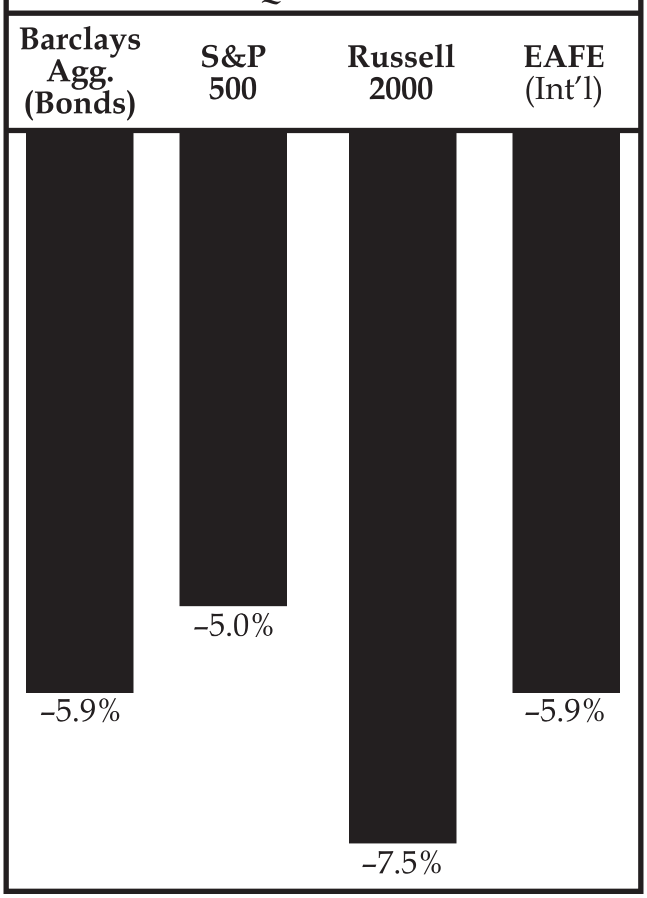
U.S. Only Portfolio. Due to ongoing international turmoil and continued outperformance of domestic equities, we have developed a U.S. only portfolio. Many of our clients have requested this over the past months. If any of you would like us to transition your portfolio away from international stocks and exclusively into U.S. investments, we would be pleased to do this for you. Simply give us a call and we will discuss it in more detail with you. Please note the change may trigger a taxable event.

Market Review and Forecast. The bond market declined the most it has in 40 years. The Barclay's Aggregate Bond Index fell by nearly 6% in just one quarter. We had the worst inflation in 40 years as commodity prices such as corn, wheat, gold, oil, and more surged to somewhat remarkable highs.

In March 2021 the U.S. government put too many dollars into the economy with giveaways and programs on top of excessive, often wasteful, Covid spending. Combine that spending with Russia invading Ukraine and things got really ugly on the inflation front.

The S&P was down nearly 5% in the first quarter, the NASDAQ and Russel 2000 were even worse, down around 8%. At one point in the quarter, the NASDAQ was off over 20% (technology stock consolidation).

The Major Indices
First Quarter – 2022



You are likely aware we have been reallocating for some months going back into 2021. We have shifted towards value in our stock allocations, away from growth and technology. Growth and tech have had nearly 14 years of outperformance. We believe that we are seeing a regression to the long-term mean in that sector. For the most part we have shortened maturities in bond portfolios so as not to lose money in the rising rate environment as well. Close to the top of the rally in our Market Leaders Stock Portfolio at quarters end we sold a number of stocks, perhaps our largest reallocation in that portfolio ever. We are seeking better opportunities at better prices; we are going to slowly reinvest the funds as we feel the stock market may have some additional consolidation in the near term.

Where do we go from here? It is difficult to say, but we doubt the pain is over yet. Earnings estimates seem to be continually revised downward by analysts. Fossil fuel prices will likely continue to rise, or at the least they are unlikely to decline significantly. Fossil fuels are critical to not only the transportation of goods and materials but also as a major manufacturing component. For example, more than 75% of the cost of fertilizer (the nitrogen component in fertilizer) comes from natural gas, so watch the price of farm commodities (your food costs) increase correspondingly. Plastic bags, roof shingles, makeup, toys, computers, pesticides, packaging, paint, carpet, tires, antiseptics, soap, toothpaste, deodorant, and so much more, pretty much, you name it, fossil fuels are part of it.

However, in conjunction with that, 20% of the world wheat supply comes from Ukraine. Add to that pressure the cost of fertilizer, the diesel cost running tractors, the transportation of farm commodities, along with a shortage of critical chemicals like "Roundup" and others, these factors will likely result in an increased shortage of food and yet higher prices to come. These factors concerning food shortages will almost certainly result in mayhem and regime changes in less stable parts of the world.

The old saying goes "the markets climb a wall of worry" and from our experience it is true. Here is the 'but'; but sometimes the markets drop even lower down before they start to climb that wall. The first quarter was an example of the decline. However as is often the case, the stock market rallies at quarter end and it did. We believe there may be additional consolidation in the 2nd quarter and downside for stocks combined with some pretty serious interest rate hikes by the Federal Reserve would lead to lower stock and bond valuations. There is always the unknown. The "black swan" event such as China attacking Taiwan or other disaster that could impact us further negatively.

Early estimates for S&P 500 earnings growth in 2022 were generally around 8%. Since markets correlate well with earnings growth, we were reasonably confident in a decent year. But as stated, many analysts are now reducing estimates. On the bright side, we are still in a somewhat robust recovery. Nevertheless, we feel 2022 will likely be a long slog in the stock market and a very negative year in the bond market. As we see it, the next time the bond market rallies significantly, it will be the signal for a recession.

When you hear on the news about the yield curve inversion and a recession, we believe that is premature and media drama. The economy could of course fall into a recession, but the fact that the ten-year treasury note yield is below the 2-year note at 1st quarter end is of questionable relevance. When the 30-day T-bill is at a mere .17%, (less than 2/10ths percent) and the 2-year and 10-year Treasury notes about even at 2.50%, that is hardly an inversion of the yield curve. The media loves drama.

Interest Rates. An Inverted Yield Curve is a term that until recently was only mentioned among those of us in the investment/financial industry and in business schools. However today it has become a household word like its cousins, Inflation and Fed Funds Rate. The yield curve is a graph that shows the yields (the return an investor makes on a bond) of similar bonds (like Treasuries) over different maturities (the date on which a bond ends).

A normal yield curve shows higher yields on the longer-term maturities. An inverted yield curve occurs when the shorter-term bonds have a higher yield than longer dated bonds. This is an "economic red flag" as it can signal a recession sometime in the next 24 months. Historically, inverted yield curves have been followed by recessions 75% of the time while all recessions that have occurred, came after the yield curve inverted. This is why so many people are now talking about the inverted yield curve.

The benchmark 10 Year Treasury started 2022 yielding 1.51% and as of the writing of this newsletter hit a high of 2.63%. A stark reminder to readers that rates are going up and quickly. The 30-year mortgage hit a 4.67% quarterly high after starting 2022 at 3.22%. As a result, loan refinance applications have dropped and are down 60% from one year ago.

The Federal Reserve raised rates for the first time in March by 25 basis points (.25%). This was the first of many rate hikes planned for this year as inflation (according to the February Consumer Price Index) continues to grow, recently hitting a 40 year high of 7.9%. At this point it is widely expected that the next two rate hikes, which will come before July, will be ½ point increases each.

As inflation continues to increase, reaching year over year growth levels not seen since 1983, a strong consumer and continued supply chain jams left over from the government mandated Covid 19 shutdown, have and will continue to weigh on the economy. Add to that an extremely large supply of M-2 Money from the Covid government stimulus handouts and high gas prices at the pump, consumers may find inflation sticking around for a while. The Federal Reserve wants to avoid this from happening and has indicated they are going to aggressively attack the inflation problem. Hopefully they can avoid causing a recession but the odds are unlikely.

This rising interest rate environment puts pressure on bond prices and causes bonds to sell off. The Bloomberg U.S. Aggregate Bond Index lost -5.9% in the first quarter. Bond investors have moved from the 5 to 6-year duration range of the aggregate bond index and sought shelter on shorter end of the yield curve contributing to this fixed income selloff. We have done the same thing for our clients, but we started our move into short term bonds last year in anticipation of this very event. The Federal Reserve expects to raise rates to 2% by the end of the year and continue to 3% in 2023. Bonds are normally a relatively safe place for investors to put assets…except when interest rates rise. When investors move into shorter maturities, they give up yield for less volatility and more safety.

If you have any other questions about your account or any concerns, please give us a call at 336-998-7000. We always enjoy talking with our clients.