

nvest insights

September 30, 2022

A FRESH PAIR OF EYES

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The earliest attempts to create eyeglasses occurred in the 1200s. Can you imagine going through life with everything out of focus? Today, when we think of things out of focus, it's pictures and videos. In the days before corrective lenses there was nothing that could be done if one was near or farsighted. It would be like watching an out-of-focus film every waking moment. Imagine trying to catch food for dinner or step on rocks to cross a stream; it could be challenging without help. Amazing how we often take for granted the significant health and medical/optical accomplishments that enhance our lives.

As investment reports are opened, it may feel appropriate to remove the glasses and avoid seeing any detail; close your eyes. September lived up to its often horrid reputation with the S&P500 declining - 9.2%. And for the 3rd quarter, both stock and bond indexes lost roughly 5%. No place to hide so far during this bear market. While bonds are down roughly half as much as stocks YTD, they are not providing their usual benefit/hedge - now 3 consecutive quarters for both bonds and stocks producing negative total returns. That has not occurred since 1976 (187 quarters). There is no joy in achieving history with negative experiences.

This year remains all about rates, rates, rates... interest and inflation. The price pressure in stocks is a reflection of turmoil about high inflation and rising rates in the bond markets. The Fed raised rates 5 times during this year, with the last 3 being "triple-sized" 0.75% hikes; the Fed claims more rate hikes are coming. Central banks around the world are following the similar script - raising rates aggressively to battle high inflation that is broadening into "sticky" areas. Key question: will governments (central bankers and government policy makers) collectively do too much too fast and thereby create an economic challenge?

Do your eyes sometimes play tricks on you, on what you think you saw? If confusion sometimes sets in, like "what's happening?" consider this thought from Matthew West's "Wonderful Life" - "It's a broken and beautiful; Gone mad and magical; Awfully wonderful life." Are those lyrics relatable? Life events can create confusion; financial markets often create confusion. 2022 financial market action appears confusing and out of focus. For investors with experience, they understand confusion, particularly during storms cause loss; but it is only temporary IF you remain invested. The challenge is waiting, continuing to look with "eyes afresh" for indicators that components of confusion are lifting. Another quote also seems appropriate: "Many an optimist became rich simply by buying out a pessimist" - Laurence Peter, Maxims of Wall Street.

ALWAYS LATE

"Timebenders" struggle with punctuality. Every group knows one person who is "the late one." Invariably, we all miss a deadline, miss an appointment; but repeatedly...? There are few habits as annoying as making others wait. How do others react to someone always being late? Perceptions of unpunctual people are almost always negative. Jokes are even shared that they will be late for their own funeral. To alter always being late, take the punctuality challenge - become disciplined at starting tasks or departing for appointments early, before due; and avoid trying to do that "one more thing" quickly (that's me; stop).

So, what's it like to be always late? Maybe we should ask the Fed (Chairman Powell)? Maybe it's easy to look back and raise questions. Was there too much stimulus applied to boost the economy during Covid; was Fed accommodation of no/zero interest rates and QE too much and too long? Inflation is the product. Was the Fed perspective of "transitory" inflation a detrimental interpretation? Did "being late" make their next actions (reactions) late? Now, as inflation is proving "stubborn", is the Fed acting from behind, trying to catch up? If so, will the Fed raise interest rates and initiate Quantitative Tightening that is too much, with the results not known until too late? Do government policies that alter spending, taxes, and regulation cloud tighter monetary policy and further raise odds the Fed is "late"? The Fed appears resolved to "wrestle inflation to the ground." They are about 1% away from being "neutral" - where interest rates and core inflation are anticipated to be similar - around 4% to 4.5% (moving rates above that level would imply that policy is then restrictive). It's probable that historians will debate how we arrived at this time in international finance, wherein interest rates were suppressed (zero) for nearly 10+ years. Is the bill for those years now coming due via higher interest rates and inflation?

The big challenge with Fed monetary policy is its lag effect. The impact of tight policy will not be fully known for 12 to 24 months. As the Fed institutes tight monetary policy to curb demand, creating time for supply shortages to catch-up, they will likely see inflation drop because economic growth declines. Some inflation components are already slowing; but wage, rent/housing inflation is sticky.

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“Because inflation is the biggest concern... good economic news is viewed by the markets as ‘bad’ because it means the Fed must continue to be aggressive with its tightening monetary policies.”

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Ultimately, that will set up the historical pattern where interest rates will then be reduced, which on average occurred about 8 months after the Fed “paused” its rate increase campaigns. High interest rates tend to break a “weak link in the chain.” What will that “weak link” be this cycle? Perhaps it’s some over leveraged (too much debt) financial player(s) who will require financial reorganization. At that point, markets will message the Fed that actions were too much. When a “weak link breaks”, at that point the Fed is again “always late” and usually offers rescue by cutting interest rates. Significant bad events are often buying opportunities; often the start of a new bull market. Investors’ mood is pretty pessimistic and washed-out; maybe approaching exasperated. With the speed at which the markets (currencies, bonds, stocks, and etc) are moving, that point may not be too far away; avoid panic and don’t be late.

THE TIMES THEY ARE A CHANGIN’

What’s the market saying about the future? What can help the markets stabilize? What can turn the negative trend of the markets around?

It is not lost on us that this song by Bob Dylan may be the most referenced for financial market commentaries of any. But alas, “the times they are changing”; the investment landscape is in transition. The markets drop subtle clues which allow one to attempt to assemble a macro puzzle. I often claim to being a “jigsaw puzzle” maker; making a “financial markets puzzle” without a box top picture to show what it should look like. And, the jigsaw puzzle picture is never one that is viewed in total; the financial market picture is always evolving.

Stocks are known as leading indicators for the economy; leading the economy by 6 to 9 months on average. At the moment, market direction speaks of anticipated economic slowdown; maybe a recession (more a question of “when?” because they do happen). At some point while news is still negative stocks will begin a new rally and ultimately a new bull market; it will begin before economic news turns positive. The challenge: knowing when. No one can accurately forecast the “baddest” low point.

What can change the negative market trend; what can help the markets stabilize? Here are several macro items to watch:

- Inflation rates slowing year-over-year; moving toward the Fed’s 2% to 3% targets. It is believed that this will only be accomplished with some rise in unemployment to lessen inflationary wage pressures (“sticky” inflation). This would allow the Fed opportunity to pause from its recent rapid, large rate increases.
- Clarity about the Russia/Ukraine conflict, and easing of geopolitical tensions. Energy and food are presently being “weaponized”, disrupting supply chains and challenging efforts to curb inflation.
- Less political uncertainty in the US. Gridlock is often preferred by Wall Street because it reduces the speed at which policies (regulation, tax, spending) can change. The upcoming midterm election may usher in such a period of gridlock relative to today.
- Slowing economic growth will repair supply chain challenges.

Because inflation is the biggest concern for businesses, citizens... and the market currently, good economic news is viewed by the markets as “bad” because it means the Fed must continue to be aggressive with its tightening monetary policies. Alternatively, bad economic news is viewed as “good” because it suggests the Fed may be nearing its end point of raising interest rates. During “bad” news moments, the stock/bond market will rebound; rallies will appear like this is the new advance. Or, “good” news will cause prices to fall/drop. Unfortunately, single data points can cause fast market swings up or down (volatility). We’re not rooting for “bad” news because it implies broadening pain in everyday life; yet it does signal progress is occurring to reduce inflation and inflation expectations.

Bottoming in the financial markets takes time. It requires testing the lows. Investors may be conditioned to see a low and believe a “V-shaped” recovery will occur. But rallies off the low are often capped. “Dead cat bounces” are those rallies that are broken by “good” news (viewed as bad) and they are unable to break through the “ceiling” where the last market high existed; they’re capped. Testing the lows sometimes looks more like a “U” (long, drawn out recovery) or a “W” (up/down/up/down/up) pattern over time. Lows create a “floor” for testing upon which the market base is formed, and from which a new bull market ultimately develops. Time is a key requirement – it just takes time which is most difficult to quantify.

ANNOUNCEMENTS:

- Early October - 4Q 2022 fees collected and performance reports sent.
- October 10 - Columbus Day; stock market open, bond market, banks, and many Gov’t offices closed.
- November 11 - Veteran’s Day; stock market open; bond market, banks, and many Gov’t offices closed.
- November 24 - Thanksgiving Day
- **December 1 - Save the Date for our annual Client Appreciation Event @ Wedgewood Golf & CC.**
- December 26 - Christmas (observed)
- December 31 - End of 2022. Quarterly reports sent early January.
- **Our ADV Part 2A & B as required by the SEC & Ohio (and other states) is available to you anytime upon request.**

INVEST INSIGHTS

If the “times are changing”, ...If the investment landscape is changing in 2022 and into 2023, what investments will do well? Given the degree of inflation (high prices from years of low interest rates and government stimulus) that is built into the system, it may be that the next bull market foundation will be built on solid fundamentals. TINA (“there is no alternative”) promoting own “all” stocks is over (see chart on bottom of Pg 4). High interest rates are providing income investors a new opportunity to manage portfolio risk. Bonds, now sporting higher and more normal yields, are the most attractive in years. They will provide better diversification benefits too. Because higher yields will slow economic growth, owning stocks that provide increasing (growing) dividend returns may become favorites. High-risk assets, non-dividend paying stocks with fast growing revenues (and if they are with high debt leverage) – “Fang & Friends”, and even Bitcoin – are unlikely to be what new market leaders will look like. Further, index strategies may not prove rewarding because they own everything – both the well capitalized and overleveraged names without discretion. Actively managed funds/ETFs that utilize a proven investment process should be better positioned to generate attractive total returns because they can select those investments that meet quality criteria.

During changing times, there will be stress, concern, and worry because of the unknown. No one knows the time when “feeling” better will occur. Caution is appropriate, but it is unwise to make radical changes; small adjustments are not inappropriate and we pursue them. Wise investors understand that *time is their greatest ally*. Investors must stay the course, or for certain, they will be “Always Late” (like the Fed appears today). Being late as an investor means selling after the storm is underway, and not being invested when the market turns/rebounds. It will turn. Late investors will miss a lot. Their subsequent investment return experience is low and uninspiring. Historical stock and bond returns are 10% and 5.5% respectively. That only occurs when an investor stays invested through the market ups/downs; through recessions which do occur – it’s just a matter of when (time). Rip Van Winkle did investing right; he took a nap for 20 years to awaken with the explanation, “WOW”!! Van Winkle no doubt, awoke to a different looking time. [He earned historical returns. He did not “see” all the up/down worry of the markets.] The strategy is simple, but it sure isn’t easy!

BUCKETS OF TIME - DEAD, OR ALIVE?

Jordan Ranly & Steve Henderly, CFA | Nvest Wealth Strategies, Inc.

Perhaps the most unsettling aspect about 2022 is not the degree to which the stock market is experiencing pain (not that unusual), but it’s the “double whammy” of also seeing meaningful depreciation in traditional safe fixed income. A recent headline, “The worst year in US history for the 60/40 portfolio”, underscores there being no place to hide in this bear market. During these challenging days, we continue to encourage maintaining a longer-term perspective. One way to do that is recalling “buckets of time” investing. Our well-seasoned clients may recall our “buckets of time” framework to unemotionally establish the investment objective (asset mix) for each account. This process helps align a client’s time horizon and purpose to investing the account.

As we journey through the various stages of life - from being a “person at work” to a “person living off money at work”, and during other seasons (events requiring money) - the buckets of time approach may adjust the investment mix accordingly. This buckets of time approach advocates that individuals maintain short-term money needs in cash and attempt to “live life” (day-to-day, month-to-month) primarily at the bank; investable monies that exceed what is needed in 1 year or less; budgeting the monies needed in 2-5 years can be confidently invested in bonds; and the excess amounts are deemed to be 5+ year money that can be invested among growth-oriented assets (stocks, real estate, etc). History shows the chance of losing money in the fixed income (bond) “bucket” during 5 years is highly improbable; while the 5+ money invested in “growth” achieves higher long-term returns, which can “pour over” into other buckets to refill them, maintaining the investment objective (stock/bond mix).

With bonds experiencing their worst stretch in over 40 years, one may wonder – does the “buckets of time” approach remain appropriate in today’s market environment? From our perspective, the answer is a resounding YES. Keeping perspective on the purpose and time horizon for portfolios is intended to remove emotion from investing. The discipline of buckets of time investing does help remove emotion from making ill-advised timing decisions.

During this “goofy” time for bonds, we must avoid the temptation to assess their merit in the rearview mirror. Following the swift rise in yields, expected *forward* returns from bonds are higher today than they’ve been in a long time. Current Treasury yields are around 4%; these kinds of yields seemed improbable a year ago. Yet, these yields are much more normal by historical standards. For the first time in a long time you can earn meaningful yield in your portfolio with an asset that’s relatively safe. This higher yield rewards bond investors going forward. While stocks remain the best investment over the longer term to battle our dual enemies of inflation & taxes, the fixed income portion of portfolios can again add meaningful income to the 2-5 year “bucket” and provide significantly more stability than stocks (that’s diversification).

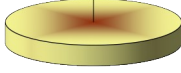
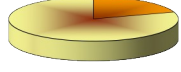

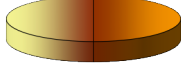



For those still unconvinced of the benefit of bonds (or the merit of “buckets of time”), be aware that after a -20% return for the 60/40 portfolio (a very rare occurrence), such a mix went on to produce *double* its normal return over the next 5 years on average (the interesting study can be found here: [MarketWatch.com](https://www.marketwatch.com))

Maintaining a disciplined approach to portfolio management rewards investors time and time again. We are happy to meet anytime to share additional thoughts and color around this important topic, including a review of whether your “buckets of time” are still appropriately sized for each account’s anticipated time horizon and purpose.



BENCHMARKING AS OF SEPTEMBER 30, 2022

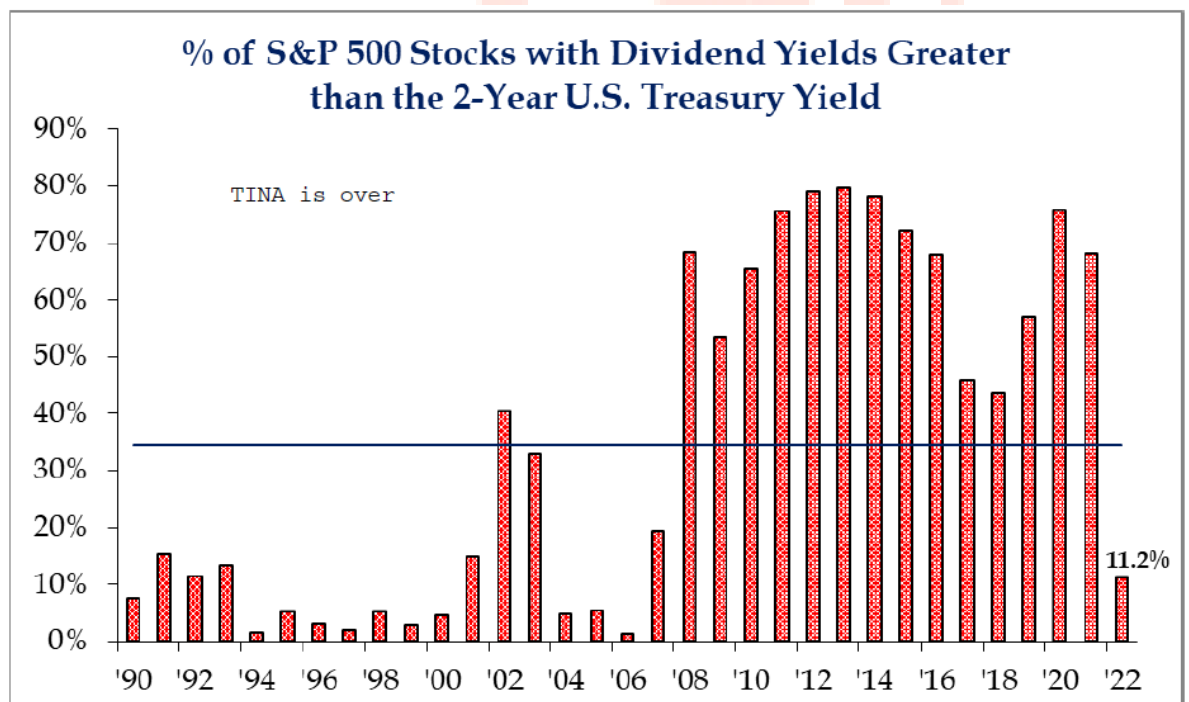
Summary of index portfolio returns compiled by Nvest Wealth Strategies, Inc.

INDEX PORTFOLIO	STOCK/BOND ALLOCATION	TOTAL RETURN THROUGH 9/30/2022					
		Cumulative Annualized	3RD QTR	YTD	12 MTHS	3 YEARS	5 YEARS
 Capital Preservation	0% / 100%		-1.4%	-5.6%	-6.0%	-1.5%	3.6%
 Income	20% / 80%		-2.4%	-9.8%	-9.3%	1.0%	7.5%
 Balanced Conservative	35% / 65%		-2.8%	-11.7%	-10.6%	2.4%	9.8%
 Balanced	50% / 50%		-3.4%	-14.5%	-12.7%	4.7%	13.6%
 Balanced Growth	65% / 35%		-4.1%	-17.4%	-14.9%	6.5%	16.5%
 Growth	80% / 20%		-4.6%	-20.2%	-16.9%	9.0%	20.7%
 Aggressive Growth	95% / 5%		-5.0%	-22.1%	-18.4%	10.3%	22.6%

The index returns reflect returns of various mutual fund averages compiled by Morningstar and allocated as follows: Capital Preservation: 90% Bond Average, 10% Treasury Bill Index; Income: 80% Bond, 10% Large Cap, 3% Mid Cap, 2% Small Cap, 5% International; Balanced Conservative: 65% Bond, 15% Large Cap, 5% Mid Cap, 3% Small Cap, 7% International; Balanced: 50% Bond, 24% Large Cap, 7% Mid Cap, 4% Small Cap, 10% International; Balanced Growth: 35% Bond, 30% Large Cap, 9% Mid Cap, 6% Small Cap, 15% International; Growth: 20% Bond, 38% Large Cap, 12% Mid Cap, 8% Small Cap, 17% International; Aggressive Growth: 10% Bond, 40% Large Cap, 15% Mid Cap, 10% Small Cap, 20% International. You cannot invest in these indexes or averages and all above indexes/averages include a 5% allocation to the Treasury Bill Index, reflecting a nominal level of cash. The level of diversification represented by these benchmark averages may be materially different than actual client accounts; therefore, clients may experienced different levels of performance volatility. Past performance is no guarantee of future results.

"TINA" No More?

For the decade-plus since the Great Financial Crisis ('07-09 bear market), stocks benefited from a phenomenon referred to as the "TINA" factor. TINA, an acronym meaning "There is No Alternative" to stocks - that whether one was looking for growth or yield, stocks were the only traditional asset class of appeal. Now with rates more historically normal, only 11% of the S&P500 stocks provide a yield greater than Treasuries. Today, both bonds and stocks offer many portfolio benefits.



SELECTED FUNDS - TOTAL RETURN PERFORMANCE SUMMARY

As of September 30, 2022

BOND FUNDS - TAXABLE	STYLE	3RD QTR	YTD	12 MTHS	3 YEARS	5 YEARS
<i>Taxable Short-Term Bond Average</i>		-1.6%	-6.3%	-6.8%	-0.6%	0.7%
<i>Taxable Intermediate Bond Average</i>		-4.7%	-14.7%	-14.9%	-3.2%	-0.4%
Allspring (fka Wells Fargo) Ultra Short	AS	1.4%	-4.5%	-3.8%	2.0%	2.6%
Vanguard Short Federal	HS	-2.0%	-5.7%	-6.3%	-0.6%	0.6%
American Century Short Duration	HS	-1.2%	-4.9%	-5.2%	0.1%	1.0%
Pioneer Short-Term Income	HS	-1.1%	-4.9%	-5.4%	-0.7%	0.7%
DoubleLine Low Duration	HS	-0.8%	-4.0%	-4.2%	-0.4%	0.8%
Vanguard Short-Term Investment Grade	HS	-1.9%	-7.4%	-8.1%	-0.8%	0.7%
American Funds Bond Fund of America	HI	-4.6%	-14.4%	-14.2%	-2.0%	0.2%
American Century GNMA Income	HI	-5.3%	-13.0%	-13.6%	-3.9%	-1.1%
BrandywineGlobal Corporate Credit (fka Diamond-Hill Corp Cred)	LI	0.1%	-12.0%	-11.4%	0.8%	2.8%
Miller Convertible	LI	-3.9%	-14.6%	-11.5%	2.9%	2.7%
BOND FUNDS - TAX EXEMPT						
<i>Tax-Free Intermediate Bond Average</i>		-3.0%	-11.2%	-10.7%	-1.8%	0.4%
Vanguard Muni Limited Term	HS	-1.6%	-4.9%	-4.8%	-0.3%	0.7%
T. Rowe Price Tax Free S/I	HS	-1.8%	-5.7%	-5.8%	-0.6%	0.3%
Vanguard Muni Intermediate Term	HI	-2.8%	-10.3%	-9.8%	-1.4%	0.7%
Vanguard Ohio Long-Term	HL	-4.6%	-15.3%	-14.3%	-2.4%	0.5%
STOCK FUNDS - DOMESTIC						
<i>S&P 500 Index</i>		-4.9%	-23.9%	-15.5%	8.2%	9.2%
<i>Equity Fund Average (Morningstar Mgr Agg US Core EW)</i>		-4.3%	-23.4%	-18.7%	5.5%	5.5%
Schwab Large Cap Growth	LG	-3.7%	-31.6%	-24.2%	10.6%	11.9%
Parnassus Endeavor	LG	-7.5%	-24.2%	-17.5%	11.7%	9.0%
T.Rowe Price Dividend Growth	LV	-4.2%	-19.0%	-9.8%	7.5%	9.8%
WisdomTree US Quality Dividend Growth	LV	-5.5%	-17.0%	-6.6%	8.4%	9.5%
American Century Equity Income	LV	-4.5%	-12.0%	-6.0%	2.9%	5.0%
Hennessy Focus	MG	-10.1%	-30.2%	-25.0%	0.7%	4.3%
John Hancock Multifactor Mid-Cap	MB	-3.5%	-23.0%	-16.8%	6.0%	6.9%
John Hancock Disciplined Value Mid-Cap	MV	-4.6%	-18.1%	-11.9%	5.2%	4.9%
SPDR S&P600 Small Cap Growth	SG	-3.4%	-26.3%	-21.3%	5.4%	5.4%
Neuberger & Berman Genesis	SB	-2.3%	-24.2%	-17.8%	5.9%	7.4%
American Centry Small Cap Value	SV	-7.5%	-22.8%	-17.6%	7.2%	5.3%
Avantis US Small Cap Value	SV	-2.8%	-16.1%	-10.9%	11.4%	N/A
SPDR S&P600 Small Cap Value	SV	-6.8%	-20.0%	-16.5%	5.0%	3.9%
STOCK FUNDS - INTERNATIONAL						
<i>Morgan Stanley EAFE Index (Foreign)</i>		-9.4%	-27.1%	-25.1%	-1.8%	-0.8%
Oakmark International	LV	-14.9%	-31.4%	-30.7%	-4.5%	-5.2%
Schwab Fundamental International Index	LV	-10.1%	-21.5%	-20.4%	0.3%	-0.1%
John Hancock International Growth	LG	-12.1%	-34.9%	-33.5%	-1.8%	0.4%
Thornburg Developing World	LG	-12.0%	-31.8%	-33.2%	-3.1%	-1.1%
Harding Loevner International Small Company	SG	-6.6%	-33.5%	-31.6%	0.0%	-0.1%
Hennessy Japan	LB	-6.7%	-37.5%	-40.5%	-6.5%	-1.3%
STOCK FUNDS - SPECIALTY						
Invesco S&P500 Eq Wt Energy	MV	0.2%	31.0%	39.9%	14.8%	4.9%
Direxion Auspice Broad Commodity ETF	N/A	-3.6%	7.9%	9.7%	14.5%	9.0%
Salient-Forward Select Income (REIT)	MV	-6.7%	-15.8%	-13.5%	-1.9%	0.0%
Neuberger Berman Real Estate Securities	MV	-10.8%	-28.9%	-17.4%	-0.5%	5.0%

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