Quarterly Client Newsletter

4th QUARTER 2021 COMMENTARY

BY ALEC BETHURUM
SR. PORTFOLIO MANAGER

The end of one year and the start of another always brings a plethora of "expert predictions". The last several weeks were the busy season for analysts and strategists. These "experts" provide prognostications on market direction and the world via radio, tv, and print. These predictions are always presented with certainty, a very dangerous way to predict anything. Even tomorrow's weather, predicted with satellite imagery is not a certainty. As Yogi Berra said, "Predictions are hard…especially about the future".

We believe predictions about what may happen to markets in the coming weeks, months or even one year are mostly a fool's errand. Tailoring your investment decisions or asset allocation to an expert's prediction is just downright foolish!

That said, financial planning and investment management entail the need to make assessments about our clients' future and their investments' future. Fortunately, while predictions about what may happen in the short-term are incredibly difficult, predictions about what will occur in the long-term can be relatively simple and have proven very accurate.

Let's review a couple of these long-term predictions and how they relate to your financial plan and investments.

Our first prediction: Over the long-term the stock market will be a reliable source of compound returns. For our younger clients those returns will be an important catalyst for long-term wealth accumulation. For our clients in retirement, they will be a consistent source of income and legacy. How can we make this prediction? Based on index returns since 1872, in any given year the odds of making money from investments in the stock market are about 70%. Meaning about 2/3 of the time you make money*.

However, extending the time horizon out 5, 10 or even 20 years dramatically increases the odds of making money in the stock market. In fact, your chance of positive equity returns over 20 years is nearly 100%*. In the short-term the stock market isn't much more than a coin flip, but over long periods of time it's almost as good a lock as death and taxes.

Our second prediction: By diversifying your portfolio not just by asset class but also by source of return and risk yields a more consistent return stream with less downside risk. As many of you know, we have devoted significant internal resources to identify differentiated sources of return available to non institutional clients.

Why have we been so focused on this? Because by expanding our returns we can make accurate prognostications about our clients' results. As mentioned above, in a single year investor return expectations aren't much better than a coin flip. However, if we can flip multiple coins, each disconnected from the other, we reduce the risk of a single negative event skewing results. By mitigating the downside in this portion of the portfolio we increase overall return predictability. Throw in a dash of long-term thinking and suddenly we have predictions worth listening to!

As you read and see predictions from various pundits in the next few weeks, whether optimistic or pessimistic, remember their primary goal is to drive viewers to their channel or readers to their publication. Remember also, their track record is is unlikely to receive much scrutiny. But, also remember if you can avoid recency bias, if you can keep your nerve and hold steady in your convictions, even in the face of short term volatility, your ultimate success is, in fact, highly predictable.

*Market return source: https://www.visualcapitalist.com/stock-market-returns-time-periods-1872-2021/

MISSION As a fiduciary we commit to excellence and high standards as we deliver tailored portfolios and financial planning to reduce risk, improving the probability of our clients' success.

CORE VALUES
Client-Centric Stewardship
Integrity
Excellence
Team Work

FYI...WHAT IS ESG ?

BY ROBIN STERNECK, PRESIDENT

In the 1980's, a group of CEOs banded together to form the Business Roundtable (BRT), a non-profit lobbyist association that was focused on impacting public policy in ways that were favorable to business interests. Decades later, the organization now includes leaders from Apple, GM, Raytheon, JP Morgan Chase, Cisco, Best Buy, Walmart Kaiser Permanente and many others. In 2019 the BRT shifted its purpose to Stakeholder Capitalism, which is defined as putting the interests of employees, clients, suppliers and communities alongside those of shareholders.

This decree became a rallying cry for the disparate but important emergence of the ESG (Environmental, Social and Governance) Movement. It is believed that these are the key categories that can measure the sustainability and ethical impact of organizations. As investors, regulators and vocal stakeholders further embrace ESG they are demanding that companies take proactive steps with their actions, policies, partnerships and footprints. The investment landscape, analyst considerations and corporate cultures are all beginning to respond. The path to the right balance is not proving to be an easy one. It will take time, energy and buy-in to better understand the interests and needs of a varied group of stakeholders, define universal and measurable metrics, and to execute changes on multiple fronts in cost effective and sustainable ways.

NEW CONTRIBUTION/GIFTING LIMITS FOR THE NEW YEAR

BY AUSTIN DRAKE CFP®, SENIOR WEALTH ADVISOR

The IRS has raised some of the account contribution limits for 2022. If you wish to maximize these limits, please be sure to make the appropriate changes with your employer, etc.

- Maximum employee retirement plan (401k, 403b, etc) contribution up $1k to $20,500
  - employee + employer combined limit up $3k to $61,00
  - 50+ years old catch-up remains $6,500
- Simple IRA individual maximum contribution increased $500 to $14,000
- Annual gift tax exclusion increased $1k to $16,000

2021 IN REVIEW

BY FRANK STERNECK, CO-FOUNDER & CHIEF INVESTMENT OFFICER

As we continue to live in a pandemic world, the financial markets continue to defy the personal gravity so many have had to endure. The US equity market once again was the big outperformer. Drilling down, it is clear that the major indices continue to be dominated by a handful of names that represent a large percentage of the indices. This concentration is a double edged sword and while it has propelled the market higher, it increases the risk when any of these "darlings" will falter or simply correct. As we suspected and wrote about last year, bonds face a number of headwinds and are unlikely to positively contribute to performance in a meaningful way. The US Aggregate Bond Index posted a negative return of 1.54% for the year. We think that return is modest relative to the performance we may see if the Fed not only reduces it's purchase of securities, but actually raises interest rates.

In light of our cautious stance on bonds, we have continued to focus on alternatives (in addition to equities) to provide the diversification and income we seek for many client portfolios. Our basket of alternatives performed well in 2021, generating mid to high single digit returns. This divergence from fixed income (bonds) is material and we expect that return differential to only increase in 2022.

On a personal note, the pandemic has taught us a lot about society and ourselves. My gratitude and appreciation of even the simplest things in life has been elevated. We wish you and all of your loved ones a Happy and Healthy 2022!