FREE

THE CLIENT LETTER

MONTHLY NEWSLETTER

Pinnacle Asset Management
a division of Pinnacle Bank
Brick W. Sturgeon, Jr.

7651 Highway 70 South
Nashville TN 37221

Raymond James Financial Services, Inc
Brick W. Sturgeon, Jr. – Financial Advisor

Phone: (615) 743-8301
Email: brick.sturgeon@raymondjames.com

"What Could Go Wrong… (or Right?) May, 2023

I am always interested when I hear amateur investors talk about the upside of any investment idea they have. I commonly ask, what if you're wrong? This generally causes a puzzled look in which they will emphatically justify their position as if *being wrong* is not an option. Folks, being wrong is not only an option, I can assure you it is a ***guaranteed occurrence*** with some investments.

In our office, we spend as much time thinking about downside, and what could go wrong as we do the upside possibilities. In these letters, I have written previously about the anatomy of a loss. Simply put, if your portfolio loses 10%, it only must achieve 11% return to make up the loss. However, if your portfolio loses 30%, it must generate a 43% return to get back to break even. As a well-known investment strategist once said: "If you manage your losses, the gains will take care of themselves".

In my career, I have been through five recessions and seven bear markets of 20% declines or more. Yet, during this time, the Dow Jones Industrial Average has found a way to go from 3,500 to 34,000. Of course, the DJIA is an index and not necessarily indicative of any single investment experience, but you get the idea.

During my 33 years, there are several things I have learned:

1. *Most clients hate losses with greater emotion than they like gains.*
2. *Losses are inevitable, even in conservatively, balanced strategies.*
3. *Historically, markets generally recovered losses in a shorter period than what many investors remember.*
4. *When investors make changes out of fear or panic, they are rarely the correct long-term moves.*
5. *Some of our most successful investing clients have made the fewest changes over time.*
6. *An investor's spending habits are far more important in retirement than their absolute rate of return each and every year*.

Right now, there are a lot of things that could go wrong. The federal reserve has raised interest rates from 0% to 5% in a year. This is a historic rate hiking campaign. Doing so has put pressure on bank balance sheets, causing several bank failures, and in some cases, a run on deposits.

With the federal reserve intent on reining in inflation, they run a very realistic risk of slowing the economy into a recession. This would likely cause layoffs and reduced corporate earnings - and stock prices are generally a reflection of expected future corporate earnings. More bad news.

The consumer is already showing signs of stress with reduced retail sales and savings rates dropping. Again, a necessary component to reduce inflation, but also a contributor to possible recession.

But with all the possible bad news, there are also other factors on the other side of that. Consider this:

Any possible recession may be the most anticipated recession ever, so markets have possibly had time to adjust.

Corporate America appears to be already downsizing in an effort to meet earnings expectations, or at least reduce the impact of any slowdown.

The Fed timeline to fix inflation may be running up against a Presidential election in 2024. No administration wants a hard landing recession on their watch.

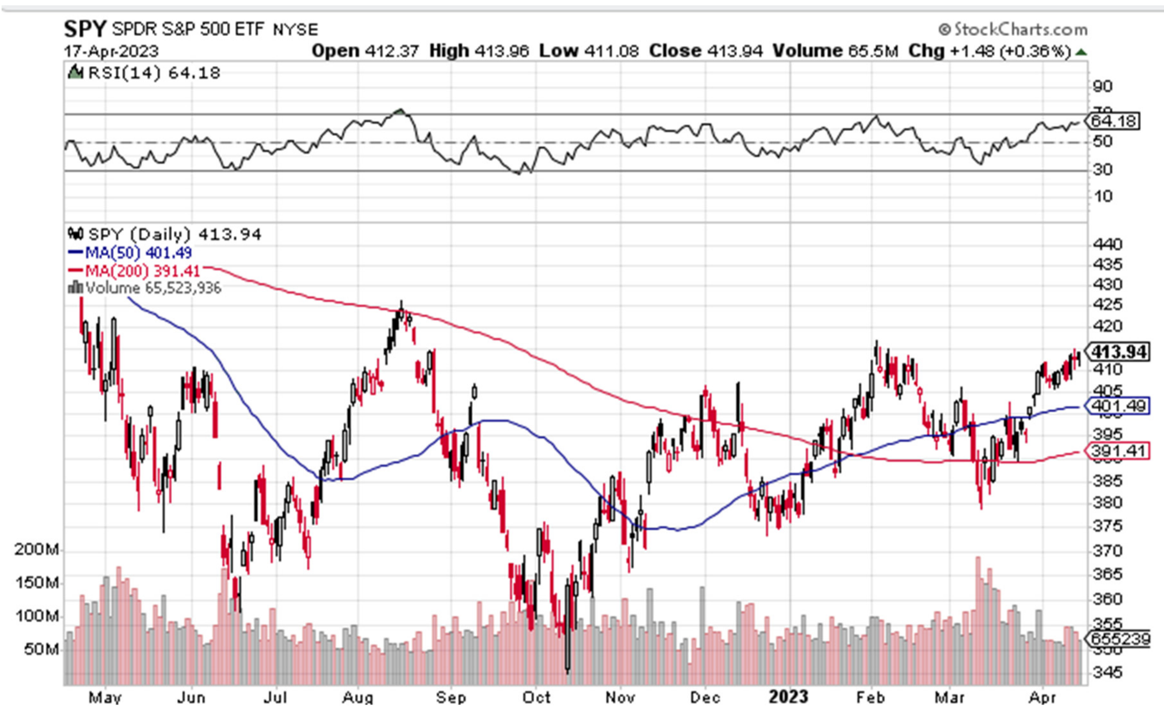
Lastly, investor sentiment is still very cautious, and many clients are as defensive as they have been in a long time. We also see many investors holding a lot of cash, money market funds and bonds. And why wouldn't they? These instruments are now providing much more attractive interest rates. But this caution is actually a bullish sign for the future as it may mean anyone who was going to sell stocks has already done so. My friends, stocks generally bottom when there is no one else left to sell them and when markets do not decline as much on bad news.

I do not know if we are there quite yet, but the chart below indicates what could be a bottoming "process". I would not be surprised if we are in the 6th or 7th inning of the market reaction to a forthcoming recession.

Remember, markets generally react, 6-9 months ahead of the economy. Therefore, they are forward-looking, and returns are calculated on a *forward-looking* basis. To that end, I think the current environment bodes well for a balanced portfolio going forward. With bonds contributing 3-5% as I wrote in last month's letter, it means stocks do not necessarily have to do all of the heavy lifting going forward.

So, the question is not are things good or bad right now - instead, the question is, are we starting from a more attractive point today than we were before? My guess is we are.

Yes, we worry about what could go wrong, but we also want to make sure we are in position in case something goes right.



Cole's Corner

We never know where we're going for certain, but we ought to know where we are. I'm confident interest rates aren't about to decline as much as they have in the last 40 years and I believe higher inflation could take a bite out of real returns. We quickly went from a low return world to a full return world and investors can now potentially achieve reasonable returns from bonds/fixed income investments without taking on large amounts of undue risk. In addition, dividends may be a greater contributor to overall equity returns than they have been previously. We believe it's more important than ever to maintain balance, not only in portfolios, but in life as well.

I recently had the opportunity to attend the 2023 Navigator Men's Retreat in Beersheba Springs, TN. It was nice to get away from all of life's distractions for a moment and simply be in God's word and reflect. I didn't realize how much I needed a break and was quickly reminded of the importance of maintaining balance. Balance in one's life is a necessity. There's always more work to be done, spouses, kids, and grandkids to love, businesses to run, friends to play golf with (nod to Brick), employees to manage, clients to help, causes to support, etc, - the list is endless. And while all are good causes, we must work hard at maintaining balance. My hope is that this message will be a good reminder to be more intentional about balance within one's own life…and we can take care of the balance in your portfolio.

As always, we thank you for your business, your friendship and the trust you place in us. Feel free to share this letter with anyone you feel may benefit – we appreciate the many referrals we have received over the years. Edie, Cole and I are happy to answer any questions you may have. Until then, wishing you health and happiness.

Regards,

B. S J

Brick Sturgeon, Jr.
Financial Advisor, RJFS
Pinnacle Asset Management
A Division of Pinnacle Financial Partners
7651 Highway 70 South
Nashville, TN 37221
615-743-8301
615-646-4538 Fax

"2017 RJFS Chairman's Council Member"
"2019, 2021, 2022 Forbes Best-in-State Wealth Advisor Tennessee"
"2019 Bank Investment Consultant Top 100 Bank Advisors"

Forbes BEST-IN-STATE WEALTH ADVISORS 2022 SHOOK RESEARCH

Opinions expressed are those of the author and not necessarily those of Raymond James. All opinions are as of this date and are subject to change without notice. The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee that it is accurate or complete, it is not a statement of all available data necessary for making an investment decision, and it does not constitute a recommendation. Investing involves risk and you may incur a profit or loss regardless of strategy selected, including diversification and asset allocation. Past performance may not be indicative of future results.

There is no guarantee that these statements, opinion or forecasts provided herein will prove to be correct. Future investment performance cannot be guaranteed, and investment yields will fluctuate with market conditions. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Dow Jones Industrial Average (DJIA) commonly known as "The Dow" is an index representing 30 stocks of companies maintained and reviewed by The Wall Street Journal. Individuals cannot invest directly in any index and index performance does not include transaction costs of other fees, which will also affect performance. Individual investor results will vary.

RJFS Chairman's Council Member
Membership is based on prior fiscal year production. Re-qualification is required annually. The ranking may not be representative of any one client's experience, is not an endorsement, and is not indicative of an advisor's future performance. No fee is paid in exchange for this award/rating.

Best-In-State Wealth Advisors (2019, 2021)
The Forbes ranking of Best-In-State Wealth Advisors, developed by SHOOK Research, is based on an algorithm of qualitative criteria and quantitative data. Those advisors who are considered have a minimum of seven years of experience, and the algorithm weighs factors like revenue trends, AUM, compliance records, industry experience and those who encompass best practices in their practices and approach to working with clients. Portfolio performance is not a criteria due to varying client objectives and lack of audited data. Out of 29,334 advisors nominated by their firms, 3,477 received the award. This ranking is not indicative of an advisor's future performance, is not an endorsement, and may not be representative of an individual client's experience. Neither Raymond James nor any of its financial advisors or RIA firms pay a fee in exchange for this award/rating. Raymond James is not affiliated with Forbes or Shook Research, LLC.

Top 100 Bank Advisors (2019)
To compile the list, multiple variables were combined into one composite score. The six categories used are: (1) assets under management; (2) trailing-12 month production; (3) percentage increase in AUM from the previous year; (4) percentage increase in T-12 production; (5) amount of fee business; and (6) the ratio of production-per-AUM. (Note: 2018 AUM was defined as the amount an advisor had as of Aug. 31, 2018. Likewise, for T-12 production, the 12-month period ending Aug. 31, 2018, was used.) The nominees were ranked by each of the six categories and then six different scores were calculated based on where they ranked. Those six scores were used to compile the final list. The ranking may not be representative of any one client's experience, is not an endorsement, and is not indicative of an advisor's future performance. Neither Raymond James nor any of its Financial Advisors pay a fee in exchange for this award/rating. BIC is not affiliated with Raymond James.