November 25, 2022
Letter #111

INVESTMENT INSIGHTS

Finkelberg INVESTMENTS of RAYMOND JAMES®

Eleven Good Questions

In the last edition of Investment Insights, Davis explained the importance of not relying on feelings when flying an aircraft or managing one's investments. In this article, I will attempt to offer frank answers to some of the questions that you have asked (and some that you are likely thinking about but haven't asked) regarding this year's stock and bond market declines. You might say that I am going from "plane" answers to "plain" answers. Interspersed, you will find cartoons that I have been saving over the years that are not necessarily relevant to anything being discussed. I just think they're funny and hope you do too. We all need a bit of laughter to offset the news and noise, so here goes:

Q1: If the stock market just goes up and down, what's the point?

A1: Historically, the stock market does go up and down, but in an upwardly sloping fashion. Picture someone playing with a yo-yo while walking up a hill. Stocks have historically been like the yo-yo going up and down, but ending up in a higher place.

Q2: Is knowing the short-term direction of the stock market important?

A2: If one could know what the market is going to do over the next week, month, or year, it would be very important, as would knowing the winning number before

Our Mission

"To guide our clients to and through retirement with a minimum of worry, and with expertise and kindness."

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DJIA **33,292**	3-Month T-Bill **2.88%**
S&P **4,199**	10-YR Treasury Bond **3.03%**

the next Powerball drawing. No matter how unpredictable short-term market fluctuations are, there is something about human nature that makes us think otherwise.

Q3: How low? How long?

A3: Questions about short-term stock market volatility generally take the form of "how far will the market drop?" and "How long with it take to turn?" Disappointingly and truthfully, I respond, "I don't know" and "I don't know." Additionally, I suggest to you that neither does anyone else, no matter how confident they may sound.

Q4: Why don't I just sit in cash until the dust settles and then get back into stocks?

A4: This sentiment is understandable but not helpful. Typically, stocks move ahead of news. So by the time the dust settles and the news is better, an investor sitting on the sidelines may miss the biggest part of the rally.

Q5: Why should I invest when I am worried about inflation, recession, nuclear war, politics, climate change, Covid, safety, etc., etc., etc.?

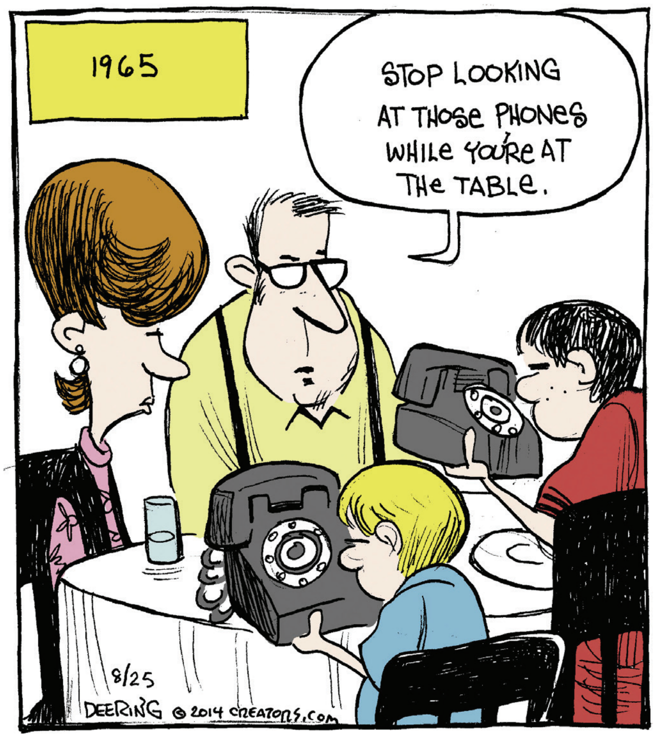
A5: Worry can be a difficult emotion to master. There are times when worry is justified, and experiencing worry helps us to plan and prepare. An example might be when your city's water supply is cut off. Then there are times when worry is just worry. It is certainly understandable for folks to feel anxiety and concern. The real question is what we do or not do based upon the worry. I maintain that worry related to investing is the type of worry that should not be acted upon.

Keeping in mind that we tend to remember when we are right about something and conveniently forget the times we are wrong, try to be objective and answer the following: Has your sense of discomfort in the past actually correctly anticipated market movements? Would you have been better off selling your investments when you were feeling worried? Even if you answered "yes," some of the time you would have been better off selling, would you have been prescient enough to buy back in before the next upturn?

My point is that the reason to invest even when we are deeply concerned about the current or future state of events is that free markets adjust and the world doesn't end. And our feelings of worry are often fleeting when we enter a better economic cycle. But the consequences of acting upon those strong but fleeting emotions may be permanent and financially hurtful/disastrous. The reason we invest (or stay invested) during times of worry is to strive to reap the benefits of long-term investing in the financial markets. We, as investors, are more likely to change behavior due to worry than the financial markets are likely to change direction due to whatever it is that we're worried about. The key is to master our reaction to the emotion.

Q6: Why is knowing that your investment horizon is NOT short term important?

A6: While one cannot predict the short-term direction of the stock market, returns realized over a decade-plus time frame have historically been fairly consistent and positive. History may not repeat itself, but since the U.S. stock market has always come back and set new highs, it seems like a bad



bet to think otherwise. The 1927 New York Yankees, perhaps the most famous team in baseball history, included Babe Ruth, Lou Gehrig and five other future Hall of Fame players. Collectively, they were known as Murderers' Row. The 1927 Yankees may have had a bad game or even a bad week, but betting against them to reach and win The World Series was not wise. Admittedly, this is not a perfect analogy, but hopefully you get the idea that while the short term may be random, the longer term has some predictability. With stocks, the predictability is even greater than with the famed Bronx Bombers of yesteryear.

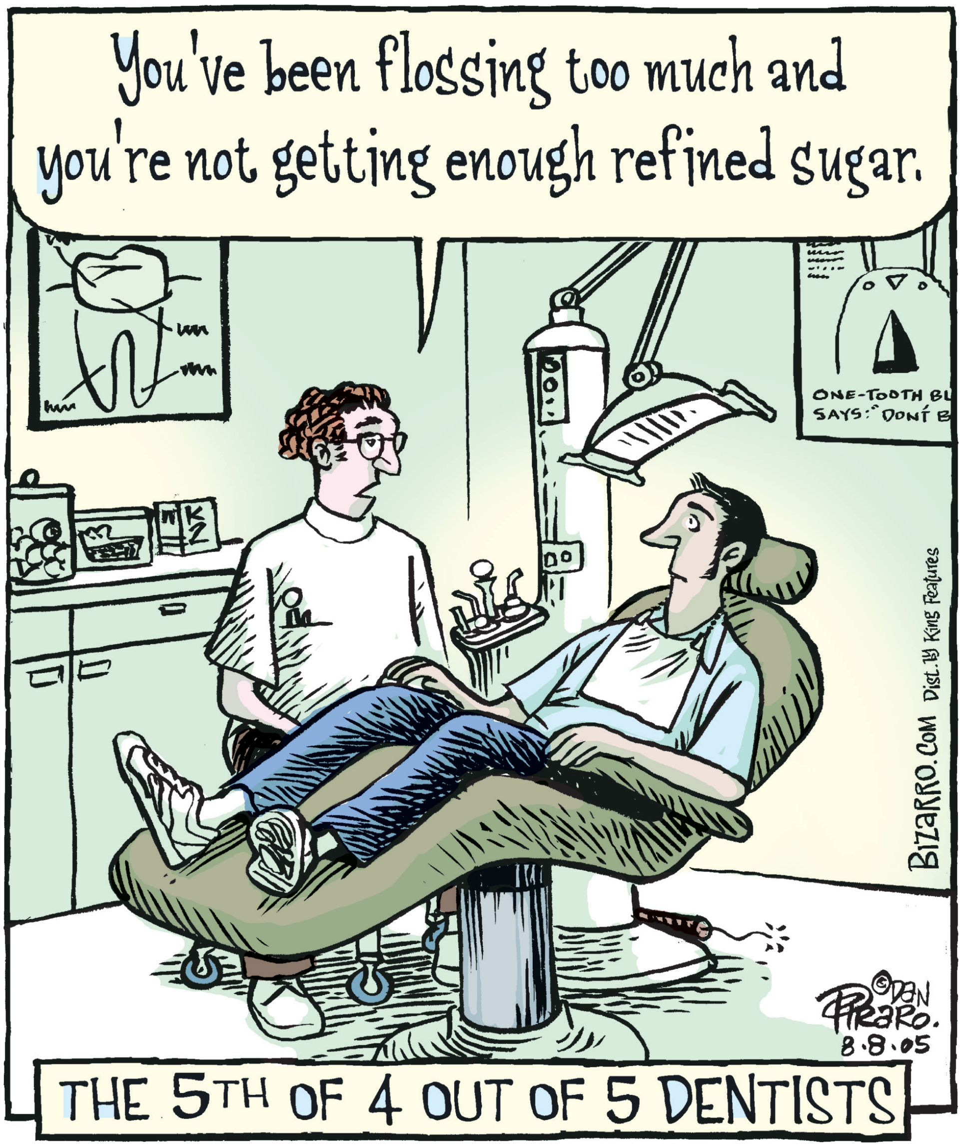
Q7: If the short-term stock market direction is not knowable, why should I invest in stocks?

A7: If we're talking about investing for a time frame of only a few years or less, stocks may not be part of the solution. For example, if someone is saving money for a down payment on a home with the intent of closing in 6 months, I would suggest that safety takes priority over return, and therefore stocks would not be suitable.

However, investors are generally saving for longer term goals like retirement. And even if retirement is going to occur soon, usually only a small percentage of the retirement nest egg is going to be spent during the initial year. Retirement money is meant to support one's lifestyle over the course of a lifetime, possibly the lifetime of a spouse, or possibly to pass on to heirs. So generally, retirement investing covers a decades-long time span and the investments should reflect that.

Q8: With inflation and uncertainty, isn't this a good time to buy gold or bitcoin?

A8: These alternative investments, often advertised as inflation hedges and shelters during uncertain times, have lost money this year. I'm guessing crypto trading platforms, particularly after recent news, will not be the main sponsors for next year's Super Bowl.



Q9: I hear that rates are going up. Shouldn't I invest in only short term bonds? (Or alternatively, the rate on short-term bonds is higher than long-term rates. Shouldn't I invest in only short term bonds?)

A9: Trying to predict interest rates may be more ludicrous than trying to predict the short term swings of the stock market. I don't believe that anyone, including the Chair of the Federal Reserve, has a clue. And, incidentally, what the Federal Reserve does with short-term rate setting may or may not impact longer-term rates.

Also, many of you are old enough to remember the very high rates that bonds offered back in the late 1970's and early 1980's. I clearly remember that investors could have locked in risk-free rates in the mid-teens, but most chose short-term maturities because they "knew" rates would continue to rise. Oops. The problem with keeping 100% of bond investments short term is that you run into reinvestment risk. What if the rates are lower when the short-term bonds come due?

Q10: I've noticed that for my retirement savings, you and your team recommend laddering over a 10-12 year time frame for the safer portion of the portfolio. Why?

A10: Because the bond portion is generally the safer part of the portfolio, we don't want to speculate on the direction of interest rates. That would be risky. With a laddered portfolio, typically bonds

would come due on an annual basis. If the proceeds are not needed for expenses or rebalancing into stocks, funds would be rolled over to the longer part of the ladder. If rates are higher, we take advantage of this fact. If rates are lower, thank goodness we have bonds with rates locked in for a longer time period. We normally hold an average 5-6 year maturity as that allows us to capture the bulk of the long-term interest rates while experiencing less volatility than the long-term bond. Again, with bonds, our primary objective is safe investing, not speculating.

Additionally, we use individual bonds instead of bond funds because we can always point to the bond's maturity date when, barring an unlikely bankruptcy, the face value will come due. Since we intend to hold to maturity, we are not bothered when bond prices go down as they have done this year.

Q11: Will there be a soft landing in the economy?

A11: Easing one's posterior into a comfortable chair is my definition of a soft landing. What the Federal Reserve is attempting to do through manipulation of interest rates and money supply is not, in my opinion, likely to feel soft.

This and That

SAVE THE DATE

The 2023 CFA Forecast Dinner will be held February 23, 2023 at the Country Club of Jackson. Invitations will be sent to you in January.

END OF YEAR REMINDER

If you plan to do any end-of-year charitable gifting, such as Qualified Charitable Distributions from your IRA, donating appreciated stock, or gifts from your Donor Advised Fund, please let us know as soon as possible so that we can get these processed for you.

BEST WISHES TO WILSON NICHOLS

Wilson Nichols has decided to be an advisor here in this Raymond James office on his own. The team thanks Wilson for his contributions over the past year and wish him much success. If Wilson was serving as your service contact, we will be in touch with you shortly.

Happy Anniversary

69th B. and D.B. of Palm Harbor, FL
66th B. and P. D. of Hoover, AL
65th L. and J.Y. of Gainesville, GA
62nd D. and J.P. of D'Iberville, MS

Special Birthdays

100th O.G. of Ridgeland, MS
95th L.S. of Madison, MS
94th F.S. of Ellisville, MS
92nd J.E. of Madison, MS
91th C.S. of Flowood, MS
91th J.E. of Terry, MS
90th C.M. of Madison, MS
90th W.J. of Pearl, MS
85th P.D. of Hoover, AL
85th G.D. of Natchez, MS

Out of Town Visitors

D. and D.J. of Austin, TX
J.G. of Vicksburg, MS
D. and C.S. of Corinth, MS

Depending on when you receive this, we hope that you and your loved ones have or had a festive, safe, and delicious Thanksgiving!

Until Next Time,

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