FREE

THE CLIENT LETTER

MONTHLY NEWSLETTER

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Three Simple Questions

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I want to thank everyone who came to our client dinner in October. We had approximately 120 guests. The food was great and the beautiful sunset from the back of Old Natchez country club provided a stunning visual for the evening.

The guest speaker, Chris Jenkins, is a treasured friend I have known for 25 years. I respect him not only because he is a genuinely good person, but also because he is a student of market history. This allows us to geek out together when we meet.

He posed a clever riddle that night that I thought bears repeating. Three simple true/false questions:

1. **The market has fallen by 20% or more before in the past. True.**
2. **In every previous incident, the market recovered. True.**
3. **In each recovery, the market went on to set a new high. True.**

Here was the interesting part. If all three of those questions are true, ***how in the world is it possible to EVER lose money in the stock market?***….

The simplicity of this logic has a lot of truth but also highlights the most detrimental characteristic of long-term investing. It's not the president, the federal reserve, interest rates, inflation, war, or any other newsworthy data point. ***It is our own behavior***.

Behavioral finance theory dictates that we are hardwired to avoid pain and seek safety. This probably goes back to man's origin in which that characteristic likely served him well. After all, it's much safer inside a cave with a fire than it is taking on a sabretooth tiger.

Investing is a different matter. This is because forward-looking returns are generally a function of one's starting point. If you purchased real estate at the depths of the 2008 financial crisis, you likely enjoyed attractive forward-looking returns. Not because of investing brilliance necessarily, just a function of the price paid on the front end.

Conversely, someone buying a house at the peak of the market may not enjoy quite the magnitude of forward-looking returns. This doesn't mean that both can't make money on their investment, just that the latter will likely need to hold their investment longer and may not have quite the eye-popping returns as someone who was fortunate enough to buy more cheaply.

This brings me to the current market environment. Stocks and bonds have endured a difficult year together, which on its own is a very rare occurrence. As mentioned in the last letter, there has never been a calendar year in modern recordkeeping era in which stocks have declined 20% and bonds have declined 15% at the same time.

When I tell clients this, their first reaction many times is worry. However, I take comfort in the fact that this has never happened. Why? Because it means it is not likely to happen again. As CNBC contributor, Josh Brown said: "You generally don't follow up the worst case in history with ***another*** worst case in history."

In my opinion, there are two main culprits to bad decision making that successful investors must overcome. The first is *monthly* statements, and the second is financial media.

Regarding monthly statements, it's simply too often, and doesn't matter for the truly long-term investor. Warren Buffett famously opined: "Investors would be better off if the stock market was only open one day a year". As silly as this sounds, many a truth is spoke in jest. The fact is, the economy does not change on a daily, weekly or monthly basis very much. It takes a long time for the machinations of a complex global economy to change. A monthly statement is no more helpful than jumping on the scales every five minutes when starting a new diet. While statement values are the main source of investment reporting, their values are meaningless by the time it reaches the investor. The only thing I can guarantee about investment statements is that they will be different each day.

Regarding financial media, it's important to understand the reason for it's existence. It's not to make you financially better off, rather it is simply to sell advertising. That's it – to sell ads. This goes for newsletters, or any media outlet, seeking to grab your attention/eyeballs. Here is the simple algorithm:

More eyeballs = higher prices for commercial advertisement = higher profit = happy shareholders at (enter any media company name).

Notice that nowhere in that equation is your financial success. I keep CNBC running in my office because they interview certain analysts I highly regard, but the bottom line is, it can become ***financial pornography*** if you allow it. The most successful investors do not pay much attention to the steady drumbeat of financial media sensationalism.

Current Outlook

In my opinion, the economy is readjusting to normal after many exogenous and artificial influences from the pandemic and government stimulus. This is likely to cause some growing (or shrinking) pains as we have experienced this year. The good news, in my opinion, is markets are returning to more normal correlations and behavior.

Previously, when interest rates were zero, it was difficult to build a truly balanced portfolio including bonds or other income-generating returns simply because interest rates could not generate enough return to add to the portfolio. Now that interest rates are normalizing, a balanced portfolio may behave more traditionally going forward. Example: If an investor's target rate of return is 7% and 1/2 of their portfolio in bonds earning 4%, it means the equity portion of their portfolio does not have to do all the heavy lifting to reach their target return as it did in the past. This is the more normal environment in which I developed portfolio building skills earlier in my career. I don't hate it.

Does this mean we are out of the woods? I don't think so. We may have another round of selling to retest the previous lows from June and September. This isn't necessarily a bad thing either - it is the normal bottoming process. Will it scare the hell out of some short-term investors? Sure. Markets try to inflict the maximum pain on as many people as possible at any given instance (much like the Titans). I urge you to resist that temptation as I personally think the next leg down could be the last and allow markets to set the stage for a Fed pivot in 2023, which could mark the end of the bear market and start of the recovery of the next business cycle – something that could happen well before the actual economy bottoms or improves. After all, if you want to catch a wave you have to first grab a surfboard and get in the water.

Note from Edie

Please let us know of any meaningful financial or life changes. This includes things such as:

Change of banks
Change of name due to marriage/divorce
Change of address
Change of beneficiaries

Also, anyone who is currently in “required distribution” phase of their IRA, Raymond James can set this up to pay out automatically each year in any mode you wish (monthly, quarterly, annually). In addition, Raymond James will recalculate the correct amount each new year and adjust the payment accordingly. Many of you are already using this, but if you are not and would like to set this up, please let me know. Edie.reeves@raymondjames.com. Thanks.

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,

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“2019, 2021 Forbes Best-in-State Wealth Advisor Tennessee”
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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.