January 2023 – Consistency is Key

"The individual investor should act consistently as an investor and not as a speculator."
– Benjamin Graham

Storm Clouds

There is always a headline, current event, or negative economic trend that any prudent investor can point to as a cause for caution or increased risk. The more important realization is that this will always be the case. There will never be a day when all signals are green. The question is what are we as investors to do about it in this imperfect and chaotic world?

2023 begins with plenty of its share of gloomy news:

- Our government is divided and increased political polarization threatens to limit the government's ability to govern and raises the possibility of a government shutdown
- Inflation remains elevated and interest rates are expected to continue to increase
- The world continues to struggle with Covid three years in with new outbreaks and variants
- The Ukraine war, while not a world war, is affecting the entire world. It has caused global food and energy disruptions with severe food shortages affecting millions if not billions of people
- The era of globalization and global cooperation is waning as major governments (and nuclear powers) are acting counter to one another with the continuous threat of escalation ever-present

However, plenty of trends are running counter to the gloom:

- Unemployment is at its lowest rate since 1969 and non-farm payrolls and total private employment have reached all-time highs in the United States
- Gas prices are lower than they were when the Ukraine War started and several commodities (notably lumber) are back to their pre-Covid levels
- Increased interest rates have already reigned in much of the rampant speculation in tech stocks and cryptocurrency and we might be beginning to see signs of normalization in housing
- Higher rates allow savers and investors to finally start to earn a decent return on cash and fixed-income investments, provided inflation continues to normalize

Riding Out the Storm

Over the years we have often returned to the theme that investing in stocks for the long term historically has provided us with the best returns. In Jeremy Siegel's *Stocks for the Long Run*, he provides a chart showing that among stocks, bonds, Treasury bills, gold, and inflation; stocks outperform bonds, the next best performer, by 3.4% annually for the last two hundred years. That compounding difference makes stocks the single greatest vehicle of wealth creation available to most of us.

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An excellent way of thinking about this is that people who used their tax-deferred 401k plans appropriately have managed to accumulate significant assets by investing consistently and in a tax-advantaged way. For example, if you participated in a 401k plan for forty-five years, for each $1,000 you contributed on a monthly basis, and your investments earned the average stock return (+8.4%), you would have accumulated approximately $2,500,000 when you retired. Some of these monthly investments would occur during booming economic times and bull markets. Some would occur during recessions and bear markets. The way to achieve attractive long-term returns is to continue investing through the good times and the bad. Consistency is the key.

Many investors spend most of their time focusing on which investments to choose, but the decision to have an investment plan and to stick with it through good times and bad is far more important to investing success. Regular 401k and IRA contributions, paying down mortgages, and a recurring monthly savings/investment plan are all good ways to be a consistent saver and investor.

The Death of "T.I.N.A."?

While stocks have provided the best returns historically, diversification and balance in a portfolio decrease volatility and increase the probability that an investor can maintain a consistent plan and strategy.

The Federal Reserve raising interest rates so much so quickly has caused a lot of pain for investors, borrowers, and business owners in the last year. But as rates for money market funds, treasuries, and fixed-income investments begin to approach and exceed 4% and 5%, investors finally have a decent alternative to stocks. The acronym T.I.N.A. (<u>T</u>here <u>I</u>s <u>N</u>o <u>A</u>lternative… to Stocks) was coined during the zero-interest rate era when savers and investors were forced to own more in stocks than they otherwise would prefer in order to achieve satisfactory returns and cash flow. For investors who do not need or want a 100% allocation to stocks, higher rates on fixed income give these investors an additional tool in their portfolios that has been basically absent for almost 15 years.

Consistency is extremely important for a successful financial plan that will meet your objectives for a continued increased standard of living and comfortable retirement. In an improved interest rate environment, fixed-income securities can provide another alternative for income and liquidity needs.

Three points summarize this letter: (1) stocks provide a real advantage to all other asset classes when it comes to total return, (2) income needs can now, for the first time in a long time, be provided by an allocation to fixed income investments, and (3) a consistent investment plan is critical to success.

Thank you for allowing us to serve you and help you achieve your financial goals.