The "BUCK" Stops Here!

March 2023 **Letter No. 116**

Let's get to the good news right away. Most tax-related documents that you have been waiting for have now been sent or can be accessed online. If you aren't finding them, you may call our office and we will do our best to ensure you are getting what you (and your tax advisors) need. March is the month where we spend a good deal of our administrative efforts working overtime to help each of you get through this annual endeavor!

Here's a second item. Some of you with whom we've had a long relationship have begun to ask certain questions about my future. It is only fair that this gets addressed, so let's do that now. I love the career that I've chosen, and I look forward to coming to work each and every day to help others with their investments and long-term planning. Although I am in my late 60s, my health is great, and I feel really fortunate for that. Sometimes I take a little heat (mostly from my dear wife!) because I haven't developed a lot of outside interests, and as such, I am prone to making my career a hobby, if you know what I mean. I really like to do puzzles, and to me, the biggest puzzle of them all is the stock market. Solving that has me hooked! However, just as I have always done my best to help each of you plan for your financial futures, there needs to be a plan in place for your uninterrupted service in the event that I (or others who support my work) are taken out of position for a while, even if just for a short time. Our staff has been working on a solution to that.

President Truman prided himself on his ability to make hard decisions. He boasted that this often meant dozens a day. He had a sign on his desk that read, "The Buck Stops Here," a reference to his decision-making. Well, we made decisions too. A few years ago, we had a financial advisor from our office retire. That opened the prospect to bringing in someone new and to provide them with an immediate book of business to help in the transition. That new person was **Buck Kipper**, a seasoned financial advisor of more than 15 years who came with an extensive background with insurance products as well as other investments. Buck is from Rhinelander and is married to Ann, a division administrator with the Wisconsin Department of Natural Resources. Buck also

raised three wonderful kids, the youngest of whom will be graduating high school in just a few short months. Like me, Buck loves his career choice and has had three solid years on the Stifel platform, serving and growing his base of clients. Now we can also say, “The Buck Stops Here!”

The time has arrived to join forces and support each other so as to give each of you the best that we have to offer. Starting this month, you are going to see Buck’s name on your statements, and over the course of the rest of this year, I will be spending a part of each day reviewing and familiarizing him with your accounts. Although we will be working as a team going forward, I will still be your primary contact. I have no current plans to reduce my commitment to our business. As stated, this is being done to ensure long-term continuity. In the event I am not immediately available and you need instant attention, Buck is here to serve you too! Many of you have already had the opportunity to talk to

him because I'm here early and he prefers to stay late, so he's been here for some of your 'late-day' calls. Please welcome Buck the next time he answers!

The Markets:

I have recently been describing the overall market environment like this:

"The line of least resistance is … up"

Nothing has occurred (yet) to change that. Most of the 4th quarter (2022) earnings reports are now out. Stifel's CIO office noted that about 69% of companies that have reported to date have topped expectations. [One year ago that figure was 77% *(Stifel Bits, 2/15)*. Hmmm.] I also mentioned last month that more and more companies are announcing layoffs. This is one of the fastest and easiest ways to make necessary adjustments to their balance sheet and allow them to meet prior forward guidance/expectations. Unfortunately for many, this involves some pain for those out of a job. Last month I tried to connect some dots for you with this. As more are let go from the work force and fewer are hired back elsewhere, there might be a somewhat limited time period wherein this simmers under what otherwise might appear to be a relatively robust economy. But, somewhere ahead, as the numbers of the newly unemployed potentially continues to grow, there might be a lag effect on the greater economy that can foment future disappointment.

The primary characteristic of markets is that they are efficient, and they are "discounting the future." They look forward, but do so in the present. When I say that the line of least resistance is "up," I'm saying the market is already looking ahead and it likes what it sees, for now. What does it see? Essentially the aforementioned layoffs could work to support more sustainable earnings for many companies through early- to mid-2023. Further, interest rates are only expected to rise another one-half of one percent in the coming months, at which time the market is discounting a "pause." This has more or less been telegraphed by various members of the Federal Reserve. The market appears to like the idea that the push for interest rate increases might soon be given a rest, and some believe rates might even go back down in the latter half of the year. If that were to happen, the assumption might be that lower rates could be a stimulus for more borrowing for purchases again, something that

has the potential to re-ignite the economy. No doubt, there are a lot of "maybes" in this last paragraph, but it's those maybes that sets prices.

The case could be made that if the layoffs subside and consumers find more confidence to spend, then the markets might continue to recover from a generally awful experience for many investors in 2022. But, a lot has to go in the right direction, so there is risk to all of this. I mentioned in my opening remarks last month that the **primary trend** of the U.S. stock market is "down." Even though stocks began to sell off hard sometime in mid-to-late 2021, the bear market "confirmation" didn't occur until a decline of more than 20% was registered in mid-2022. By then, many stocks were already down by more than 50% off their earlier highs. Just as every major bull market experiences new peaks followed by corrective pull-backs (so as to alleviate the "over-bought" conditions), every major bear market does just the opposite, experiencing a series of new lows punctuated with periodic "relief rallies" designed to work off the short-term "over-sold" conditions that develop. I should add, I believe this is where the markets stand currently.

Primary bull markets run until they end in euphoria and exhaustion at the top, while primary bear markets drop until they have destroyed a major amount of capital, ending in panic and despair for many participants. For the astute investor, these often short-lived rallies are an opportunity to reduce risk and reallocate away from equity. In my opinion, there's more work ahead until we arrive at that point. A key component to long-term success is to be well aware of the major trend, be respectful of the potential harm that a bear market can deliver, and have a plan in place of how to navigate forward. We don't have to hold cash all of the time nor do we need to be fully invested in stocks all of the time. Diversification has always been a good model, but I believe occasional reallocation is more important. Further, the ability to recognize severe "overbought" and "oversold" conditions can be a guide to a more successful reallocation plan. Ideally, (and depending upon your individual strategy) it might be desirable to take a little off the table when certain assets get way overbought and move more into assets that get way oversold. It is part science, part art, and a lot might come from plain old experience.

Here is my suggestion. With short-term interest rates hovering now between 4 and 5% on many lower-risk, high-quality fixed income assets (such as Treasury Bills and Notes, corporate bonds), this could be the opportunity to move some of your lower-yielding cash assets. Further, with the recent stock rally that launched back in October of last year, now may be a time to reduce some of your equity risk as well. No one can predict the future, and consequently, there is no way to know how high this current stock rally phase might last. We may want to respect the current primary trend until we have more evidence that it has changed. For the S&P 500, any break above 4,300 might mean the primary trend has been interrupted, but at this time we are only at about the 4,100 level (up from 3,500 at the October 2022 low). I would expect that 3,500 level to give way to lower levels somewhere ahead if the dominant bearish trend remains in place. Lastly, I still like the precious metals complex and would retain exposure there, as well as both the equity and fixed income opportunity in Emerging Markets. As always, please call us at any time at (715) 362-1719 if you want to do a review of your current allocations.

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Past performance is not indicative of future results.

The Standard & Poor's 500 Index is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market.

Diversification and asset allocation do not ensure a profit or protect against loss.

There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events.

Investing in emerging markets may involve greater risk and volatility than investing in more developed countries.

The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage that is often obtainable in commodity trading can work against you as well as for you. The use of leverage can lead to large losses as well as gains.