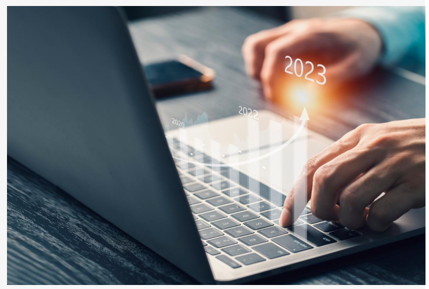
Value Added Partners
Helping clients since 1981

January 2023

The Wall Street Variety Show

We very much hope that your families and you enjoyed the holidays and that the first weeks of 2023 are treating you well.

If you are like us, your in-box and news feed has been stuffed with predictions by Wall Street pundits for the coming year and with suggested resolutions for how best to structure your finances. If you have deleted most or all such entries, you have not missed very much. That is not to say that the predictions will prove wrong or that it is a bad idea to start saving more or paying down credit card balances. It is to say that most of the advice and most of the prognostications focus far too much on the short term. For most of us, it does not make sense to turn our financial lives upside down for a 'trend' whose life span is measured in days and weeks, not months and years.



It is too bad because there are some obvious and important long term trends. At the very least, it has become clear that the decade in which we find ourselves will be very different than the 2010s. The ten years that ended December, 2021 were the best decade for the performance of financial assets that we can imagine and is almost impossible to be repeated anytime soon.

Last year's shift from a world where money was 'free' to one in which you have to pay over six percent on a mortgage is a huge change, with several consequences that will last for quite some time.

For us, the biggest difference between a few years ago and today is a welcome one: diversification is more likely to work. Back in the 20th century, it was considered axiomatic that investors would be wiser distributing their eggs into a number of different baskets. The notion was that, because different assets perform better at different times, spreading your investments should smooth your returns. It has been a cornerstone of how we advise clients, and it was with some dismay that we watched it work less well during the time that interest rates were so low. Low returns made bond investments, particularly long term bond investments, less attractive. Low yields also created an environment where the companies with growing revenues and low, or even no, earnings performed best. Shares in mid-sized and small-sized domestic companies, blue chips that pay good dividends, and foreign stocks did well. However, they did not perform as well as the largest US entities, especially those in the tech sector.

2022 brought us into a new world, which we believe will persist for some time. A year ago, the returns on short term Treasury Bills were laughably low. Now, they return over 4%. Lending money to companies, banks and municipalities via bonds became far more lucrative. And stock returns were all over the place. The stocks that had performed so well during the pandemic lost roughly 30% in value, while blue chip dividend payers lost less than 10%. Mid-sized domestic and European companies also held their value better, while the emerging markets were dragged down by China's economic and Covid difficulties. All in all, it was a year when diversification out of large cap growth stocks paid off.

We are very much of the opinion that spreading risk into different sectors and throughout the world should work this decade. While, inevitably, it will mean that we hold some assets that do poorly at certain points, it may help us improve consistency on the overall portfolio. If you have questions about how we are diversifying your holdings, please feel free to reach out to us. We look forward to discussing your particular situation with you. Until then, all of us hope that 2023 is a wonderful year for your family and you.

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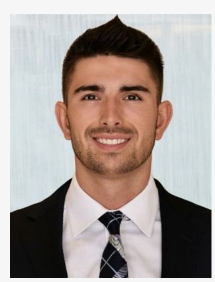

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