

Q2 2023

Hello everyone. Here is my quarterly newsletter. This quarter, I focus on the strategy I use for achieving your investment goal along with a few introductory comments on performance of the financial markets.

Financial Market Performance

The financial markets and particularly the stock market performed well this quarter in spite of multiple headwinds. The prospects of a post-pandemic downturn, the risk of continued inflationary pressures, further disruption of certain supply chain channels, and continued geopolitical tensions all presented significant risks. Given these varied disturbances, market indices have delivered impressive returns year-to-date.

I am continually amazed at how resilient the stock market is in the face of seemingly gloomy forecasts. Watching and listening to the news media can be downright depressing. I attribute positive market performance to the ever-present ingenuity of humanity especially here in the USA where a system of strong institutions supports that creativity. We are, indeed, blessed to live in this wonderful country. It's not perfect by any means, but it sure beats the rest of the world, in my opinion. Nowhere else I want to live. This short video makes a strong statement from veterans who understand patriotism: <https://youtu.be/SI3qO0Bsmqw>. Thanks, Ken, for sending.

How I Manage Your Portfolio

Now, let me make a few comments on how I manage your portfolio. The most basic concept to which I subscribe to when making crucial decision on your behalf is diversification. Diversification across multiple asset classes and diversification within each asset class is the key building block. Part and parcel to this important concept is a strong belief that trying to anticipate which direction the stock market will go in the near term is a foolish endeavor.

Every now and then, I get a call from a nervous client questioning whether he/she should continue to be invested in the stock market. My response has been consistent for almost 45 years: stocks have a place in every client's portfolio to some degree. More for some folks and less for others. It depends on what the client is trying to achieve. Empirical studies clearly show that the stock market is the best vehicle for growth over the long-term, and some growth is needed to offset inflation.

Stocks come in two flavors: defensive and aggressive. Younger people who have time to recover from downturns should favor aggressive equities such as technology companies, while older folks who are near or in retirement should favor more defensive equities such as utilities. Again, diversification in the selected sector drives the process.

Keep in mind that investing in equities represents an ownership interest in a specific company. Because nobody has a crystal ball that tells them which companies will perform well and which ones won't, diversifying across many holdings makes sense. Once a measure of overall portfolio

diversification is achieved, including a few selected equities into an otherwise well-diversified portfolio may make sense depending on the client's risk tolerance and overall financial picture.

As important as financial factors are in constructing a well-balance portfolio, the client's awareness of how the stock market can move up and down in strange fits is very important. For folks who become overly anxious watching the market do crazy things day-to-day, I may construct their portfolio with only a few equities and lean more heavily toward bonds where volatility and risk have historically been less pronounced. Over the past year, however, bonds have been quite risky due to violent changes in interest rates driven by fickle inflationary expectations and the Fed's attempt to calm it.

Investing in bonds is more mathematical whereas investing in stocks is more intuitive. The stock market is usually divided into large-cap, med-cap, and small-cap companies, whereas the bond market is usually divided into quality sectors such as Treasuries, Corporates, and High-Yield/Junk Bonds. Duration gives a further sub classification for each quality sector. Putting all this together in a portfolio and managing it over time is truly an art, not a science. I make crucial judgments at each step of the process.

Concluding Comments

I hope this short essay gives you a measure of comfort in knowing how Justin and I operate here at CIM. Our methodology is thoughtful, consistent, and it has worked well in the past and I believe it will continue to work well in the future. Patience is a key requisite. As always, I welcome your comments. All the best,,,Ron