

DJIA 33,893 S&P 500 4,374 3-MONTH T-BILL 0.35% 10-YR TREASURY BOND 1.83%

Attacked From All Sides

As of this writing, Russia has amassed a large number of soldiers on the border with Ukraine, but has not invaded. No one knows what actions will occur over the next few days, weeks, and months. This conflict has personal meaning because my father and his family lived in a town 90 miles north of Kyiv, the Ukrainian capital, before fleeing to Brazil and then New York. Back in the 1920's, this region was considered part of Russia, so you can see that the current conflict is many years old and complicated.

I will not attempt to analyze the Ukrainian situation on any level except to note the emotional reactions of the Ukrainian citizens, who understandably show a mixture of fear, anger, concern for the future, and worry about preparedness. I can't imagine how difficult it is to live under the constant threat of war.

Now switch your thoughts over to something far less serious and dangerous – the recent decline in value of investors' portfolios. I am attempting no comparison of these two events other than to note the similarity of emotional reaction. It is as if a drop in the value of one's holdings triggers a war-like reaction. Despite the outsized return of stocks over the past couple of years, the recent drop appears to have made many investors afraid, angry, concerned about the future, and worried about their preparedness.

If human nature causes us to respond to routine and recurring situations in a fashion similar to extremely unusual and dangerous ones, isn't it possible that many of us may overreact to less threatening events? It's almost as if investors feel attacked on all sides when they review their monthly statements. Actually, in a way, investors have recently been attacked on all sides. Because of rising interest rates, the value of stocks has fallen, particularly in sectors where expectations of future growth were high.

Simultaneously, rising interest rates have pushed down the value of bonds that we currently hold. After all, if you bought at 2% bond and rates on a similar bond are now 3%, the price will drop to reflect the discount that we would have to accept in order to sell in this higher rate environment. Or looking through the eyes of the buyer, if one could buy a 3% bond, why buy a 2% bond unless the price was discounted sufficiently?

So the result of higher interest rates is that prices have dropped on both portions of our portfolio. We have been attacked on all sides.

Was this a surprise and what do we do now?

Interest rates are cyclical and rise and fall for many different reasons. The overall trend for the past four decades has been toward lower and lower rates. The fact that rates have recently ticked up, whether on a temporary or more sustained basis is not a surprise. It just feels surprising because higher rates haven't happened in a while.

Knowing that rates are cyclical and knowing what we don't know (namely the direction of interest rates), our fixed income recommendations have been designed for just this eventuality. We believe that hedging your interest rate bets by having bonds come due annually, spread over a 10 to 12 year maturity ladder is a sensible strategy. This way, one's average 5 to 6 year maturity bond portfolio is not overly sensitive to interest rate changes (versus longer-time bonds). And importantly, when the bond matures (barring the unlikely scenario of a default), it will be worth what was expected when the bond was purchased and can now be rolled over at a higher yield, assuming rates are higher.

“The problem is normally not with the markets, it's how we react to the markets.”

One of our goals with the bond portion is to dampen the overall impact of stock declines. Bonds represent the less volatile side of the portfolio. And while we may go through times when bond prices decline, eventually the bonds come due at their expected value and will, in the long run, provide a buffer to the portfolio volatility.

Declines in the stock side seem more routine because stocks are inherently more volatile and declines occur more frequently. Some oft-repeated advice about handling portfolio declines is as follows:

1. Proactively balance your allocation to stocks and bonds based upon your C.U.P. (Cry Uncle Point). Since we don't know when and by how much stocks will drop, we should plan on the inevitable lousy market according to what we can handle on the downside.
2. When the stock/bond mix gets too far from your predetermined mix, rebalance back to home base. Rebalancing helps keep your investments in line with your personal risk tolerance and goals. And...

3. Be patient. If we do not expect to experience drops in our portfolio from time to time, we are not being realistic. No one is going to know beforehand when the markets are about to decline and issue a warning. Historically, markets rebound and if we are patient, we will benefit from the rebound and the long-term trend. The problem is normally not with the markets, it's how we react to the markets. That's why keeping to your C.U.P. is so important.

If you are currently feeling attacked on all sides in your portfolio, it's because you are. Try to be aware and take control of your emotional reactions. Our brains don't accurately quantify the severity of the risk. We seem to become prepared for actual physical conflict instead of a routine drop in portfolio value. A bad market is not war, it just feels like it.

For many, many, reasons, let's hope for a peaceful resolution between Ukraine and Russia. Of course, as investors, we will then move on and worry about something else. It's human nature, and how we react to our worries helps make the difference in whether we become successful investors. When we are feeling attacked on all sides in our portfolios, let's ponder what Jason Zweig, a financial writer for the Wall Street Journal, recently advised: "The short term pain of loss is the price we pay for meaningful long term gains" and "It isn't investments that get tested in turbulent markets. It is investors!"

Blame Me

The CFA Society of Mississippi held its Forecast Dinner and I did not invite you. I am sorry, but I did not invite anyone. I thought about the number of people attending, the closeness of contact, and the length of the program, and I just did not want you to get sick. Fingers crossed, next year you are all invited!

Knee Update

Thank you for the many get well calls, cards, and emails about my knee surgery. My torn meniscus is healed and I am back running. You know I wouldn't let a couple of holes drilled through my bone stop me. A special shout out to physical therapist Wayne Jimenez of Performance Therapy for his excellent work.

Fun Fact

Special thanks to client L.H. of Terry, Mississippi for pointing out that the composer of "Midnight Train to Georgia" (mentioned in the last issue of Investment Insights) was a Mississippian, Jim Weatherly. Weatherly was a quarterback for the Ole Miss Rebels from 1962-1964.

Oh Mandy!

Faced with anti-Covid regulation protests in New Zealand, authorities have attempted creative ways to disperse the thousand people gathered outside the parliament building. When dousing the crowd by turning on the lawn sprinklers proved ineffective, police escalated their efforts by playing non-stop Barry Manilow music. Rumors are circulating that if the protestors still won't leave, authorities will be forced to play Bob Dylan's Christmas album.

Until next time,



Arty Finkelberg, CFA, CFP®
Senior Vice President, Investments



Happy birthday to those celebrating special birthdays!

96 M.S. of Terry, MS
95 B.S. of Jackson, MS
91 M.G. of Brandon, MS
91 A.L. of Jackson, MS
91 J.P. of Philadelphia, MS
90 E.S. of Terry, MS
90 E.M. of Griffin, GA

Happy Anniversary to those celebrating their 50th, 60th, and higher wedding anniversaries!

69th J. and R.E. of Natchez, MS
69th J. and J.E. of Terry, MS
62nd J. and A.P. of Brandon, MS
60th B. and A. M. of Brandon, MS
50th S. and B.S. of Mendenhall, MS
50th T. and N.S. of Terry, MS

Thanks to our out-of-town visitors! It was great to see you!

R. and L.N. of Vestavia Hills, AL
J.G. of Vicksburg, MS
A.G. of Vicksburg, MS
P. and B.W. of Tuscaloosa, AL

¹ Jason Zweig The Intelligent Investor "You Should Sit Out the Mayhem as Turbulent Markets Present Test" Wall Street Journal January 26, 2022, B1

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