



VIEWPOINTS

2ND QUARTER 2022

ADVISORY NEWSLETTER

MARKET COMMENTARY

FREDRIC W. WILLIAMS

The Icarus Syndrome...

“He who flies highest, falls farthest...”

- Hunter S. Thompson, *The Proud Highway: The Fear and Loathing Letters* 1955

Only the self-proclaimed founder of *Gonzo Journalism* could articulate such a simple summary of the relationship between Greek mythology’s master craftsman Daedalus and his impetuous son Icarus. The description is also fitting as a commentary on the performance of the differing sectors in the capital market over the first half of 2022. Reacting to a multitude of factors, from recessionary fears to the pandemic and geo-political induced inflationary pressures, along with central banks raising interest rates to slow down the demand side of the global economy, equities faced several head winds as we crossed the year’s midpoint.

“Historically, when interest rates rise and borrowing costs go up, investors pull out money from the riskier parts of the economy. High growth companies and tech stocks are the first to see their stocks fall.”

“This time is no different. The S&P 500's worst stock performer to date is Netflix, which is down 70%. It's an incredible reversal for a company that saw its share price skyrocket during the pandemic, when the streaming service became a lifeline for the locked down. The second-worst performer is Etsy, the online marketplace for art and craft from artisans, which is down almost 65%.”

o David Gura, NPR – June 30th, 2022

As we’ve suggested in this space previously, the high-fliers that propelled the tech sector over the last decade turned out to be the same ones that posted the sharpest declines through the first half of the year as the value-vs-growth contest was clearly won, thus far, by the “slow & steady” value squad. The 28.9% decline in the NASDAQ, along with the 20.8% drop in the S&P 500, were far more precipitous than the more modest 12.4% pull back in the S&P 500 Value Index, or the 1.17% retreat in the Dow Jones Utility Average, once again highlighting the relative allure of the tortoise in the long-term investment “race” for those

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participants perhaps seeking a little less volatility. As Mark Twain suggested years ago, history doesn't repeat itself, but it often rhymes:

"To many investors, the bets against tech and the monthslong turmoil in the markets echo the dot-com bubble of 2000, when the frenzy surrounding companies that later went bust caused losses for investors big and small. Then the allure of technological innovation combined with low interest rates spurred a run into Internet stocks. When the bubble burst, the NASDAQ Composite tumbled almost 80% between March 2000 and October 2002."

○ G. Banerji, WSJ - June 8th, 2022

Navigating these periods of volatility can be better served by not being fixated on the media's minute-by-minute directional commentary and data points, which often are more designed to attract nervous eyeballs and sell advertising, rather than to convey meaningful and thoughtful advice. Many times, listening to, or watching, the "smart folks in the room" can be more valuable, such as Jeremy Siegel from the Wharton School and author of the seminal market study "Stocks for the Long Run":

"Today's valuations look quite attractive. I won't predict we've hit bottom, no one can, but an investor in this market may be well rewarded."

○ WSJ Interview July 14th, 2022

Or the team at Berkshire Hathaway:

"Warren Buffett is snapping up stocks, buying an insurer at a bargain price, and exciting investors at Berkshire Hathaway. Buffett, who turns 92 in August, had been relatively inactive in the wake of the pandemic, but has sharply picked up the pace of investments in 2022."

"Berkshire reached an \$11 billion deal to buy insurer Allegany in March at an attractive price, and was a net buyer of more than \$40 billion in stocks in the first quarter, including more than \$15 billion of Chevron."

○ A. Bary, Barron's July 8th, 2022

Additionally, ongoing discipline in the portfolios management process can help manage risk, during periods of volatility, to better fit one's longer-term investment objectives:

"As I've often said, there are very few free lunches in investing. Asset allocation, diversification, and periodic rebalancing are as close as you get."

"Admittedly, the development of a long-term strategic asset allocation plan isn't the hard part – it's sticking to it that often becomes the real challenge. That can be especially difficult when markets are volatile. But if we learn from our mistakes, use our brains over our hearts and look to our portfolios as rebalancing guides, we can expect a more successful investing future and maybe even get a free lunch along the way."

○ Liz A. Sonders, Schwab June 13th, 2022

"Panic Is Not a Strategy – Nor is Greed"

The Oracle of Omaha is nothing if not a gifted word smith when it comes to providing a plain-spoken context for the complexities of finance and the markets:

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“Warren Buffett has famously said that investors should think of stocks like hamburgers. If you like burgers, you should root for their prices to go down, not up – and the younger you are, the more meals your future holds.”

“Likewise, ‘only those who will be sellers of equities in the near future should be happy at seeing stocks rise,’ Mr. Buffett wrote in 1997. ‘Prospective purchasers should much prefer sinking prices.’

“I like to say that the problem with stocks is that they contain the letter T. If they were called socks instead, people would treat a 20% decline in price not as a selloff but as a sale. When socks get 20% cheaper, you don’t rush to get rid of the ones you already own; you check your sock drawer to see if you need a few more pairs.”

o J Zweig, WSJ June 17th, 2022
 “The Intelligent Investor”

Certainly, regular reviews of your allocations and strategies are always warranted, so we welcome the opportunity to meet with you and review your individual circumstances, within the framework of your specific goals and objectives – as well as to check the condition of the wax in your wings.

CAPITAL MARKETS OVERVIEW

Index Returns			
Equities	Percentage Change for the 2 nd Quarter	Percentage Change for the Year	Annualized 10-Year Returns
S&P 500	-16.10%	-19.96%	12.96%
MSCI EAFE*	-14.51%	-19.57%	5.40%
MSCI Emerging Markets*	-11.45%	-17.63%	3.06%
Bloomberg Commodity Index	-5.51%	18.03%	-0.82%
FTSE NAREIT Equity REIT Index	-17.00%	-20.20%	7.39%
Fixed Income			
Bloomberg Barclays U.S. Aggregate Bond	-4.69%	-10.35%	1.54%
Bloomberg Barclays U.S. Treasury Inflation-Linked Bond	-6.08%	-8.92%	1.73%
Source: BlackRock, Bloomberg, FTSE™, NAREIT®, YCharts *Returns are calculated with net dividends in USD			
Index returns are for illustrative purposes only and do not represent actual performance of any investment. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.			

Domestic and Global Market Recap...

OPA INVESTMENT POLICY COMMITTEE

A steep increase in interest rates, driven by inflation fears, made the first half of 2022 an incredibly challenging year for capital markets. The FOMC raised the Fed funds interest rates by 0.75% at the June 15 meeting, signaling the beginning of a possible series of hikes. Most investors were not around the last time inflation was a major concern in the early 1980s when Fed chairman Paul Volcker shocked the economy with a Fed funds rate that approached 20%. Inflation was brought under control, but this success was tempered by the ensuing

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record unemployment, two massive, but brief, recessions, and a Latin American debt crisis that echoes to this day. After that recovery, financial markets have benefited from an uninterrupted 40-year decline in interest rates. Investors have earned above-average gains most years since, including an annualized return of 17.8% in a traditional 60/40 portfolio during the three years ending December 2021.

The S&P 500 fell -16.1% in the second quarter, the worst quarterly return since the first quarter of 2020. From a style perspective, value stocks fared better than growth stocks, as the Russell 1000 Value Index fell -12.2% while the Russell 1000 Growth Index fell -20.9%. This was the worst quarter for growth stocks since the fourth quarter of 2008 back during the global financial crisis. Small cap stocks slightly lagged large cap with the Russell 2000 Index dropping -17.2%. Despite the dramatic market sell-off, valuations for the S&P 500 are still not cheap compared to history. The Shiller P/E Ratio was at 28.9x at the end of June, in the 77th percentile over the last twenty years and above the twenty-year median of 25.9.

International equities outperformed the U.S. in the second quarter, with the MSCI EAFE Index declining -14.3% and MSCI Emerging Markets Index down -11.3%. This relatively robust performance comes despite the U.S. dollar strengthening 6.5% over the quarter. The U.S. Dollar Index is now at its highest level since November 2002.

In fixed income, the Bloomberg U.S. Aggregate Bond Index was down -4.7% in the second quarter. The 10-Year Treasury yield peaked at 3.48% on June 13, its highest yield since April 2011. Credit spreads widened throughout the quarter, leading to poor returns in high yield bonds, with the Bloomberg U.S. High Yield Bond Index down -9.8%. For bonds, 2022 represents the worst start to a year ever, with the Bloomberg U.S. Aggregate Bond Index down 10.4% at the mid-year mark. Looking at six-month rolling returns, this period is the third worst since the creation of the U.S. Aggregate Bond Index in 1976. The only two six-month periods with lower returns were in 1980 when annual inflation was above 14%, as mentioned above.

Commodities and energy stocks were the only bright spots in the first half of 2022. The Bloomberg Commodity Index was up 18%, and the S&P Energy Select Sector Index gained 32%. The macro environment presented perfect conditions for a commodity boom. Fiscal and monetary stimulus during the COVID-19 pandemic capped off years of dovish monetary policy around the world, and as a result, aggregate demand increased dramatically at a time when supply was constrained.

The Fed has just begun the process of withdrawing its unusually accommodative monetary policy over the past 13 years. It is attempting to slow demand, cool the red-hot labor market, and hopefully reduce inflation. Recent economic developments suggest the odds of a “soft landing”— a scenario where the Fed can cool the market just enough to stop inflation without doing harm to the economy — are too low to bet capital on. As a result, we think investors should still err on the side of patience when it comes to deploying capital. Although stocks and bonds are meaningfully below their record highs, the policy-goosed prices of the past few years may have anchored investors to unsustainable levels of economic activity and market prices. To get more comfortable deploying more risk in stocks, we would like to see

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more compelling valuations (lower prices) or enough evidence of a material improvement in the inflation backdrop that would suggest an imminent pivot in monetary policy.

Despite this far-from-optimistic backdrop, there is good news. Lower prices are creating opportunities. Investors can now earn a 2.8% yield on a two-Year Treasury that yielded just 0.1% early last year. Further, the average high yield bond, as proxied by the Bloomberg High Yield Bond Index, now yields approximately 8%, its highest since February 2012. The pain felt today via lower prices (and higher yields) increases the return potential of all financial assets. When it turns, the market can turn swiftly.

SERIES I SAVINGS BONDS

TERRY DAVIES

As discussed above, inflation is now a serious concern. In this environment, inflation-indexed bonds make an attractive vehicle for protecting buying power. These bonds have an interest payment that increases (or decreases) based on the rate of inflation rate, usually as measured by the Consumer Price Index (CPI).

The U.S. government issues two types of inflation-indexed bonds. Most of you are familiar with Treasury Inflation Protected Securities, also known as TIPS. Not as well known, but worth discovering, are the Series I Savings Bonds. The process to purchase I Bonds is not straight forward, and it cannot be purchased in your account with OPA. But we can help you through the process.

Why should our clients be interested? The bond is currently paying 9.62 percent, by far the highest government-guaranteed interest rate available. It is exempt from state tax, but you do have to pay federal income taxes on the interest. The interest may be totally tax-free if used for qualified higher expense expenses, so they can be a smart college savings option in addition to 529 plans.

Series I Savings Bonds use a composite interest rate that combines a fixed rate, set at purchase, that lasts for 30 years, and an inflation rate that changes every six months, normally May 1 and November 1. The interest rate is then paid for the next 6 months, the current 9.62 percent payment is applied until December 31, 2022. Then it is reset.

You can't cash out the I Bond for at least one year. If you sell out before five years, you lose the previous three months of interest. After 5 years of ownership, there is no penalty for sale. The bonds have a maturity of 30 years, an original maturity of 20-years plus a 10-year extended maturity period. (Nothing is easy with these bonds, but **9.62 PERCENT** eases the pain).

Individuals can only purchase up to \$10,000 in I Bonds each calendar year. A couple can buy \$20,000 using separate accounts. An additional \$5,000 can be purchased from tax refund money using a Form 8888. Again, we can help explain all this.

To start the process, you must open an account at TreasuryDirect.gov. You will find the link to open an account under "Account Login". There is a guided tour and a video on how to set

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up an account. Call if you get stuck. The account will be linked to your checking or savings account. You can purchase an I Bond on the same day you open your TreasuryDirect account. It is worth the effort.

PLANNING CONCEPTS

BEN DAIGLE, JAKE KENYON & CLIFF RYAN

What About Gifting?...

Clifford P. Ryan, CLU®, ChFC®

We had some client inquiries recently regarding making gifts to others. Following is a brief primer on the subject:

The Basics:

Each individual can make a gift of cash, equities or property (i.e. car, camp, gold or guns) to another individual (related or unrelated) of up to \$16,000 (2022 limits) per calendar year. A married couple could, of course, give \$16,000 each for a total of \$32,000. But these still must be separate gifts from each spouse.

Very importantly, anyone can give UNLIMITED gifts for Medical and Education. This includes tuition and health insurance premiums. These must be paid directly to the care facility, insurance company or educational institution in order to qualify. Be very careful in this arena.

Between the \$16,000 per person per year plus unlimited medical and educational, that's a pretty good chunk. Add to that, unlimited amounts to IRS-Qualified Charities. Lots of opportunities.

What happens if you exceed these limits?

If you exceed this limit, the IRS requires that you file a form 709. The IRS then charges this "excess gift" (only the amount over the \$16k) against your lifetime unified gift and estate tax deduction limit (basic exclusion amount). The BEA limit is currently \$12.06 million for each person (\$24.12 million per married couple). This is scheduled to revert back to \$5 million per person in 2025.

Every excess gift you give during lifetime is deducted from the amount you can leave in your estate without taxation at death. Not a problem unless lifetime gifting and your estate is over \$10 million (2025 limits).

The IRS recently ruled that if someone gifts between now and 2025 (when the limit goes down), they'll not be penalized for gifts they make now at the higher limits - they'll still get the \$5 million exclusion after 2025. If someone wants to remove high-value items such as a vacation home from their estate to avoid the 40% estate tax bite, now's the time to do it.

There are many additional considerations when considering making significant gifts. Always best to check with your CPA or Tax Preparer to be sure your bases are covered.

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OPA NEWS & COMMUNITY EVENTS

FRED WILLIAMS – Was recently appointed by the Governor’s office to a three-year term on the Maine Commission for Community Service. Volunteer Maine, the state service commission, builds capacity and sustainability in Maine's volunteer and service communities by funding programs, developing managers of volunteers, raising awareness of sector issues, and promoting service as a strategy. Volunteer Maine was established in 1994 by Executive Order and under state statute in 1995. The 25 board members of the Volunteer Maine Commission are appointed by the governor, and each represents a specific segment of Maine's volunteer sector. Volunteer Maine is Maine government’s partner for the federal Corporation for National Service. On October 16, 2019, the Maine Commission for Community Service adopted Volunteer Maine as its new public identity.

COMMUNITY EVENTS - As we continue to emerge from the societal fog of covid over the last couple of years, so too have our community entities as they continue in their support and enrichment activities. This space is usually filled with the event calendars for a variety of the non-profit and cultural organizations that we as a firm, our employees, clients or colleagues are involved with. It’s through these events, annual or otherwise, that they further their fundraising efforts and support the ongoing delivery of their missions. The organizations below are far from a complete listing of worthy entities, but you can celebrate the return to live events by supporting these, and other, organizations in any way you feel comfortable.

BAY CHAMBER CONCERTS & MUSIC SCHOOL – OPA will once again this year sponsor one of the summer’s “Screen Door Festival” concerts – this year in the Camden Public Library Amphitheatre. The concert, which runs from 5:30 to 6:30 on Thursday August 18th, will feature the Calidore String Quartet with special guest pianist Pedja Muzijevic, with the program including a piece by the youngest ever Pulitzer Prize Winner for music – Caroline Shaw, as well as music by Brahms and Dvorak. Tickets, along with the festival calendar, can be found at: <https://www.baychamber.org/calendar>

GORHAM SAVINGS BANK MAINE MARATHON – The 31st edition for the full, half and relay this year will be held on October 2nd and feature the start and finish along Baxter Boulevard and Portland’s scenic Back Cove. Each year, the volunteer organizers of the Gorham Savings Bank Maine Marathon select a group of charitable organizations in our community to receive proceeds from the race – this year including: Stop Trafficking US, Through These Doors, Wayfinder Schools and World of Change. Additional information about registration, the beneficiaries, and the various race formats, can be found at <https://mainemarathon.com/>

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TOM DONALDSON - Lastly, it's with a touch of sadness that we note the passing of one of our firm's founders, having partnered with Fred Williams in 1994 to establish OPA's predecessor, Investment Management & Consulting Group. He was a mentor, friend, foil and father figure...and he will be missed.



FALMOUTH - "Tom" passed peacefully on June 27, 2022, with the love of family and friends surrounding him at Mercy Hospital.

Tom was born to Chase Donaldson and Eleanor Thompson on July 11, 1931 in Bridgeport, Conn. The family moved to Washington D.C. Soon after, Tom attend Asheville School where he graduated high school valedictorian. Tom was captain of the track team with a specialty in the hundred-yard dash.

Tom attended Brown University and continued with his success in track and field. From there, he joined the Naval Reserve and spent two years in the Navy on the USS Snowden DE246, traveling to Cuba, Panama, and Newfoundland. Tom went on to attend the University of Texas, receiving his Bachelor of Science in petroleum engineering.

After graduation from Texas, he worked for Champlin Oil in Oklahoma City. That's where he got his first dog, Orbit, raced his Porsche 911, and played a marginal left field for the Ogalala Clothiers.

Tom returned to Washington, D.C. and started his career in finance. It was in Washington that he met his wife of 61 years, Sheila Reybold Donaldson. Married in 1960 after five dates, they continued their love for one another until his parting. Tom continued his career in finance, growing his business and client base over the years.

Having had a summer home for 20 years on Southport Island, they followed their love of the state and moved permanently to Falmouth in 1984. Tom was an avid golfer, skier, tennis player, photographer, painter, and sailor.

In his last days, Tom was visited by so many of his friends and acquaintances that shared similar stories of Tom's open, non-judgmental character and kindness.

Tom is survived by wife Sheila; daughter, Suzanne and husband Steve, son, Douglas, and wife Julie; and three wonderful grandchildren, Sophie, Olivia and Jack; and brother, Chase and sister, Aura.

He will be missed every day. A family funeral will be held at a later date.

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