

A Note From Your Advisors

BAIRD

THE MAIN, GOWIN, FISCHER, RICE GROUP

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During a recent client meeting I was discussing changes made in the last 2-3 years in their portfolio, with respect to sector weight. I was using the terms “overweight” and “underweight” – my client asked me to explain those terms. When I described what I meant she said, “Oh you mean like with disc golf!” (shout out to you, LL...)

My son plays disc golf with his friends. He loves the social aspect of the game, and several of his friends participate in disc golf leagues. During the Covid pandemic of 2020, the sport became wildly popular due to the ability to play in a safely-distanced way outdoors; in fact, during that time manufacturers were unable to keep up with demand for the discs.

Disc golf courses can be found in almost every town around the country. In Bloomington we have at least three public courses – usually found in parks. You can recognize these by the unique “holes” which consist of a steel pole with a circular chain link basket. Similar to standard golf, players attempt to toss their frisbee disc into this chain basket in the smallest number of throws possible per hole.

What does disc golf have to do with investments and sector weighting? Many discs are made with specifications which cause them to turn or fade in specific ways. This allows the player to select the right disc to match the shape of the hole she is playing: if the hole bends from right to left, she might want a disc that deliberately turns in that same shape.

The stock market is made up of companies from eleven different sectors: healthcare, materials, real estate, consumer staples, consumer discretionary, utilities, energy, industrials, consumer services/telecom, financials, and technology. The performance of each of these sectors has changed dramatically from year to year – several switches in what has been best just since 2020. For example, here are the year-by-year returns in just three sectors of note:

Sector	2021	2022	YTD 2023* <small>*Performance through 8/31/2023</small>
Technology	34%	-28%	41%
Healthcare	24%	-4%	-2%
Financials	32%	-12%	1%

One of our goals as active portfolio managers is to “overweight” or “underweight” certain sectors – meaning owning relatively more or less of each than normal – based on observations and predictions. This is not about market timing! Rather, our goal is to match each client’s portfolio characteristics to their individual plan, goals and risk tolerance – and to do that effectively in a changing market environment. To use the disc golf analogy, we hope to match the disc we choose and the shape of our throw to match the hole we are playing. Sometimes in doing this we will miss out on certain opportunities; but we believe over time it helps us manage risk and seek opportunity most effectively in a changing world.

- The Main, Gowin, Fischer, Rice Group

