Old Port Advisors
Est. 1994
Partners for a Secure Future

VIEWPOINTS

1ST QUARTER 2023 — *ADVISORY NEWSLETTER*

MARKET COMMENTARY — **FREDRIC W. WILLIAMS**

Seeing The Forest For The Trees…

> *"Waiting helps you as an investor and a lot of people just can't stand to wait. If you didn't get the deferred-gratification gene, you've got to work very hard to overcome that."*
>
> - *Charlie Munger – Berkshire Hathaway*

After last year's challenges in the financial markets, as well as the world's (ongoing) geopolitical developments, the media's talking heads have been offering a multitude of prognostications about everything from interest rates, to the condition of the economy, the debt ceiling drama, and, as a result, the direction of the markets…as they always do.

> *"The idea that a bell rings to signal when to get into or out of the stock market is simply not credible. After nearly fifty years in this business, I don't know anybody who has done it successfully and consistently. I don't even know anybody who knows anybody who has."*
>
> - *Jack Bogle – Vanguard founder*

But prudent investing need not be measured "minute-to-minute" when personal goals and time horizons may stretch fifteen to twenty years, or more, into the future. Within that longer-term perspective, successful strategies are not necessarily defined by what might be "trending" (whatever that means…) or by what might have happened over "3 of the last 5 days".

> *"The stock market is a device to transfer money from the impatient to the patient."*
>
> - *Warren Buffet*

Unfortunately, there are times when the media's desire to attract "advertising eyeballs" causes it to deliver breathless commentaries (and "strategies") on a daily basis about a

Post Office Box 4802 ♦ 130 Middle Street ♦ Portland, Maine 04112
207.774.6552 ♦ 800.605.6552 ♦ FAX 207.775.2969
www.oldportadvisors.com ♦ info@oldportadvisors.com

process which many times should be more akin to watching paint dry if structured and monitored properly. One might want to recall the "Oracle of Omaha's" preferred investment holding period – which is forever.

> *"Far more money has been lost by investors trying to anticipate corrections, than lost on the corrections themselves."*
>
> \- *Peter Lynch – former Fidelity Magellan Portfolio Manager*

During periods of time when there's a confluence of disparate investment-related forecasting opinions, that often create excessive "background noise", we think prudent long-term investors need to focus on the tried-and-true basics – like Einstein's "8th Wonder of the World" – compound interest.

A huge proponent of this in the form of the reinvestment of dividend income from equities, is the investment portfolio at Berkshire Hathaway, which was recently highlighted at their annual meeting – something Mr. Buffett refers to as "Woodstock for capitalists".

> *"Where Buffett has excelled is in choosing businesses that have been able to stand the test of time through many economic cycles, and raise their dividends, too. This has both increased the value of Berkshire's stock portfolio over time and added to the ample cash pile Berkshire is able to put to use in its own businesses, as well as in acquisitions and share repurchases."*
>
> *"Dividend stocks are appealing to many investors because they offer steady payments like bonds while also having the potential to deliver much bigger returns if their share price rises."*
>
> *"The majority of companies that Mr. Buffett invests in pay out dividends. In fact, this year…Berkshire is expected to rake in about $5.7 billion in cash from its stock portfolio, according to an analysis of company filings conducted by Dow Jones Market Data."*
>
> \- *Akane Otani – Wall Street Journal 5/3/2023*

And although Berkshire's portfolio may be a bit larger than others, the concept of compounding cash flow from regular dividend income can be part of the "secret sauce" for average investors over time as well. Like dollar-cost-averaging, it can provide the basis for a disciplined investment strategy that takes advantage of time to mitigate market volatility and the emotional asset allocation decisions that often result.

> *"The intelligent investor is a realist who sells to optimists and buys from pessimists."*
>
> \- *Benjamin Graham*

At OPA we're advocates for guiding our clients through a realistic investment process that can best meet their varied, and evolving, goals and time horizons.

Index Returns			
Equities	*Percentage Change for the 1st Quarter*	*Percentage Change for the Year*	*Annualized 10-Year Returns*
S&P 500	**7.50%**	7.50%	12.24%
MSCI EAFE*	**8.47%**	8.47%	5.00%
MSCI Emerging Markets*	**3.96%**	3.96%	2.00%
Bloomberg Commodity Index	**-5.36%**	-5.36%	-1.59%
FTSE NAREIT Equity REIT Index	**2.68%**	2.68%	5.97%
Fixed Income			
Bloomberg Barclays U.S. Aggregate Bond	**2.96%**	2.96%	1.36%
Bloomberg Barclays U.S. Treasury Inflation-Linked Bond	**3.34%**	3.34%	1.49%

Source: BlackRock, Bloomberg, FTSE™, NAREIT®.
*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**

The first quarter got 2023 off to a bumpy start. It began calmly, with stocks and bonds enjoying a positive January. Then came a dreadful February, and most of the gains in stocks and bonds were wiped out. Onto the third month of the quarter—March madness indeed. On March 10, Silicon Valley Bank (SVB), the 16th-largest bank in the U.S., collapsed, marking the second-largest bank failure in U.S. history. Two days later, Signature Bank, the 29th-largest U.S. bank, closed, as customers rushed to withdraw deposits.

The speed of the collapses was breath taking, with social media fueling the fire. In the words of Morgan Stanley CEO James Gorman, "… with the click of an iPhone, $42 billion left one bank in one day. To give you a sense of the order of magnitude, in the financial crisis of '08, one bank lost $17 billion in a week, so the rate of withdrawal was 20 times what it was then."

The bank run happened partly because banks were not offering competitive deposit rates relative to short-term U.S. Treasury rates. As a result, depositors started shifting their money out of bank deposits and into Treasuries while the value of many banks' assets were declining (also due to higher interest rates). Even with these industry-wide headwinds, the largest culprit—at least in the case of SVB—was poor risk management.

The market proved resilient in the last few days of the quarter as both U.S. and international equity markets rallied to end the quarter in positive territory. The MSCI EAFE Index ended the quarter up 8.6%, and the S&P 500 posted a respectable 7.5% gain. As longer-term interest rates stabilized, fixed income markets recovered most of the losses made throughout

February and ended the quarter at January levels. The Bloomberg U.S. Aggregate Bond Index closed the quarter up 3.0%, while international developed market bonds ended the quarter up 3.5%.

Credit Suisse, the global investment bank and Switzerland's second-largest bank by assets, finally ran out of time to restore itself as a viable financial institution. In May 2007, the company's stock price peaked at $72, but from that point forward, it steadily declined. In June 2022, as investors increasingly demanded compensation from the beleaguered bank, Credit Suisse paid 9.75% in interest for a bond offering as a last-ditch effort to raise capital and attract customers. Despite this, investors continued to lose confidence in the bank, and in March 2023, its stock price dropped by 70% to less than $1. Subsequently, on March 19, Credit Suisse was bought out by rival bank UBS for 60% less than what the bank was worth two days prior.

On April 2, OPEC+ announced an unexpected cut in oil output of approximately 1.2 million barrels per day, starting in May. The surprise announcement sent oil prices soaring by around 7%, to $85 per barrel. OPEC+ and its allies have cited concerns about weak global demand, as economic growth starts to slow. Meanwhile, the U.S. Strategic Petroleum Reserves have been depleted by more than 222 million barrels since the start of 2022, to a current four-decade low of 371 million barrels.

Although it is slowly easing, inflation remains well above the Fed's 2% target. Throughout the past quarter, a strong labor market and robust spending rates continued to thwart the Fed's efforts to slow the economy enough to get inflation under control. To date, there are few signs that the labor market is easing. The unemployment rate has remained steady at 3.5%.

Due to persistently high inflation, the Fed has continued to hike interest rates, which has stressed the banking system and slowed the economy. To make matters worse, the Fed Funds futures markets currently projects a 70% chance that the Fed will raise interest rates an additional 25 basis points (to 5.25%) at the May 3 FOMC meeting. Beyond that, predictions begin to shift, and markets anticipate a Fed pause, followed by rate cuts before the end of 2023.

Recent bank failures are more of a symptom of the Fed's rapid rate hiking cycle than systemic solvency risk, but they are causing a sharp contraction in lending, which could help trigger a recession. Although no one can accurately predict if and when a recession will start, leading economic indicators can offer useful insights. Over the first quarter of 2023, the Treasury yield curve—proxied by the difference in yield between the 2-year and 10-year Treasury notes—remained inverted. On average, it takes about 14 months from the initial point of inversion until a recession hits.

Since 1956, an inverted yield curve has correctly predicted a recession within 14 months 90% of the time, with the only exception being in 1998, when the yield curve briefly inverted before correcting itself. At the end of March 2022, almost exactly one year ago, the yield curve inverted. We are now entering the 13th month from the initial point of inversion. If we are headed for recession, the clock is ticking.

Although there is no predefined path for policy or markets, we remain focused on downside risks. If we are wrong and the economic backdrop is stronger than current data suggests, we will still likely participate in any upside, but to a muted degree. Further, higher short-term Treasury yields mean we are being paid to patiently wait while things play out. Most of all, if a recession does occur, we want to be able to take advantage of any opportunities when they arise.

PLANNING CONCEPTS — CLIFFORD P. RYAN, CLU®, CHFC®

Social Security Claiming – Post SECURE 2.0…

As policies surrounding various programs change, they often shift paradigms and create opportunities. Recently, the SECURE 2.0 Act was signed into law. Amongst other things, it raised the Required Beginning Date (RBD) for IRAs to age 73 – and ultimately to 75. Contrast this with Social Security Full Retirement Age (FRA) in the 66 to 67 age range and we create a gap between when full Social Security can be claimed and when we must start withdrawing our IRAs.

Social Security is subject to an income test (means test) based on what's known as "Provisional Income". This formula determines how much tax you pay on your Social Security. If you have no other income, your Social Security is tax-free. Couple this with standard income tax deductions and minimal IRA withdrawals and you can come out with a very tax-efficient half-decade of income. But look ahead to when the IRA withdrawals must begin.

We need to be cognizant of not only the claimant's tax bracket but also marital status. Both the income tax system and Social Security penalize single persons, including widows and widowers. So, taking taxable withdrawals and early (or at least not late) Social Security benefits might be back in vogue. As usual, this all depends on the facts and circumstances of one's situation, but it opens some interesting possibilities.

2023 Regulatory Limits for Retirement Plans

IRS Limits on Retirement Benefits and Compensation		
Year	***2023***	*2022*
401(k), 403(b), 457 Elective Deferral Limit (calendar year)	**$22,500**	$20,500
401(k), 403(b) & 457 Catch-Up Contribution Limit (calendar, plan or limitation year)	**$7,500**	$6,500
Annual Compensation Limit (Plan year BEGIN)	**$330,000**	$305,000
Defined Contribution Limit (limitation year END)	**$66,000**	$61,000
Defined Benefit Limit at ages 62-65 (limitation year END)	**$265,000**	$245,000
Definition of Highly Compensated Employee (HCE) (plan year BEGIN)	**$150,000**	$135,000
Key Employee Compensation Threshold (plan year END)		
5% Owner Officer	**All** **$215,000**	All $205,000
IRA Contribution Limit	**$6,500**	**$6,000**
IRA Catch-Up Contributions	**$1,000**	$1,000
As published in IRS News Release IR-2022-188, Oct. 21, 2022 See www.IRS.gov for more information		

OPA NEWS & COMMUNITY EVENTS

As mentioned previously, 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.

WAYFINDER SCHOOLS – This year's *"Finding Our Way"* benefit will be a moth-style storytelling event and will be held live at The Camden Opera House on May 4th. The show starts at 7:00 PM with tickets and additional information to be found at http://wayfinderschools.org/events

DREAM FACTORY OF MAINE'S 27TH ANNUAL GOLF TOURNAMENT – The return of their "It's All About The Kids" benefit will be on Monday morning June 19th at Val Halla in Cumberland. The Dream Factory of Maine is an all-volunteer 501c3 organization that grants the very special dreams of Maine kids ages 3-18 who suffer with serious or chronic illnesses. They have been fulfilling these dreams for the last 36 years in Maine and have been awarded a 4-star rating by Charity Navigator for 16 years in a row. They raise all of their own funds and over 90% of every dollar raised goes towards making dreams come true. Additional information can be found at www.dreamfactoryinc.org/portlandmaine

Post Office Box 4802 ♦ 130 Middle Street ♦ Portland, Maine 04112
207.774.6552 ♦ 800.605.6552 ♦ FAX 207.775.2969
www.oldportadvisors.com ♦ info@oldportadvisors.com

INSTITUTE FOR FAMILY OWNED BUSINESS – The finale of IFOB's "Women in Business – Wine & Nine" golf series welcomes men as well, and features a scramble and cookout, to be held on Tuesday July 11th at Nonesuch River Golf Club starting at 8:00 AM. Additional information can be found at: https://fambusiness.org/event-3182006

THE OPA TEAM MILESTONES:

We wanted to take a moment to acknowledge a few of the members of our great team – we'll highlight more in subsequent quarters:

CARRIE LUKE – OPA is pleased to announce the newest member of our team, as Carrie joins us as a Client Relationship Administrator. She has come to us after many years in the health and medical fields and will be supporting the firm's clients with her planning and logistics background. Carrie and her husband live on Highland Lake in Falmouth.

SHARON BUNKER, FPQP™, CRPS® - Sharon recently marked her 7-year anniversary with OPA. She started in the financial services industry in 2001 and has added to her skills as a Financial Paraplanner Qualified Professional and as a Chartered Retirement Plan Specialist to support our wealth management and fiduciary consulting work.

ERICA BLY – Erica began her career in the industry in 2006, joining OPA in late 2016, so will also be marking her 7th anniversary later this year, was recently appointed as the firm's Chief Compliance Officer.

DEB HARNEY - Joined Elder Planning Advisors in 1996, recently had her 27th anniversary and joined the firm, as a Client Relationship Manager, in 2021 when OPA and EPA combined forces.

DEB THURSTON – Was part of OPA's founding in 1994 (originally as Investment Management & Consulting Group) and has been the firm's Finance Manager since 2001, marking her 22nd year in that role.

BATTING CLEAN-UP

CLIFF RYAN – Founded Elder Planning Advisors in 1996, with he, as the Senior Wealth Advisor, Laurene Ryan, as the Operations Specialist, and Deb Harney joining OPA in 2021, had his 40th anniversary in the financial services industry in March of 2023.

FRED WILLIAMS – Founded OPA (originally as IMCG) in 1994 and will be marking his 45th year in the investment business and the 30th anniversary of OPA in 2024.