Investment Update

Winter 2023

Flower City
CAPITAL

Market Recap

The last few years can be oversimplified as follows:

- 2020 - The health event that led to a massive economic shock
- 2021 - The stimulus fueled frenzy in response to that shock
- 2022 - The comedown from the stimulus
- 2023? - We will likely see a continuation towards more normal market levels

The unique market condition over the past year or so has been inflation. Simply, demand outstripped supply as unprecedented stimulus combined with supply chain bottlenecks to send prices higher.

The second half of 2022 was a story of rising interest rates around the world as global authorities attempted to cool inflation. It seems to be working. Interest rate sensitive sectors such as housing have already seen a massive slowdown (that will happen when mortgage rates increase from 3% to 7% on top of elevated prices).

One would be forgiven for thinking that we are in the middle of a recession, but at the moment it's quite the opposite. Unemployment is low, consumer spending is high, and companies are investing in growth.

Then why the malaise? To start, stocks, bonds and real estate prices were just too high at the beginning of the year and are returning to more normal levels. Policy tightening is also likely to continue slowing the economy, which could further affect markets.

Impact to Financial Plans

No one likes inflation or to see their portfolios decline. But long-term returns are intact and truly what matters for successful financial plans.

There are positives. In 2022 we focused on reducing portfolio risk, harvesting tax losses, and maximizing cash returns (short-term govt. bonds are yielding in excess of 4.5%).

The recent passage of the Secure Act 2.0 also offers several new planning opportunities. We will be contacting clients accordingly.

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Our Portfolios

The funny thing about markets is they are never as good as we think they are, and they are never as bad as we think they are. One simply needs a longer time horizon in order to make sense of it all. Most of our clients' goals are measured in decades and not quarters. If you try to drive a car looking directly at the road in front, you're going to swerve all over the place.

Below are some returns for global stocks and US bonds (what most US investors own). We have also included the Vanguard Balanced Index Fund as a proxy for a standard 60% stock and 40% bond portfolio. We build financial plans using 4.0 - 5.5% estimated returns overtime, which are conservatively below 10-year averages. This is truly what matters, not timing volatile markets in the short-term.

Annualized Total Return (As of 12/31/2022)

Asset Class	1-Yr	3-Yr	5-Yr	10-Yr
Global Stocks *(VT - Vanguard Total World Stock ETF)*	-18.1%	4.2%	5.3%	8.1%
US Bonds *(AGG - iShares Core US Aggregate Bond ETF)*	-13.1%	-2.8%	-0.1%	1.0%
60/40 Proxy *(VBIAX - Vanguard Balanced Index Fund)*	-16.9%	3.4%	5.5%	7.8%

These returns are illustrative only to show long term returns and do not include an advisory fee

This upcoming March marks the 7-year anniversary of our model portfolios, and we are working on building a detailed attribution to share in the coming months. Below are some recent key portfolio decisions adding value to client portfolios:

1. Being underweight our target stock allocations in favor of bonds
2. Keeping our interest rate risk low within bonds
3. Adding Alternative investment exposures for those eligible

We enter 2023 with the safest portfolios we have ever had, and will remain patient as the economy and markets settle down. One positive outcome of higher interest rates is a much improved fixed income return outlook. We are also beginning to see pricing getting closer to the fundamental levels that we would be interested in within other areas of the market.

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