Matt's Minutes: April 2023 "Closed Captions"
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Hi everyone. Thank you for tuning in. This is Matt Curfman from the Richmond Brothers with an April edition of Matt's Minutes for 2023. First and foremost, before I jump in I wanted to highlight a very important guest that I have with me today. His name is Parker - Parker. And he's very tired this morning, but he wanted to say hi. Parker is my 11-year-old golden doodle and one of the great joys in my life that I thought I would share with you.

So, what's happening in the market? What's happening in headlines? A couple of the key phrases that I've pulled out just kind of watching news and watching market headlines over the last month; Federal Reserve, inflation, interest rate, bank failures, and recession. And so very recently, in fact, just over the last few days of April, the FDIC seized another bank, a First Republic, and this is the second or third large bank failure this year going back to March of 2023 when we saw headlines around SVB bank failure. These are really the first bank failures we've seen since the 2008 financial crisis and recession, so certainly it adds to the scare and the concerns.

With any banks or credit unions, we do not believe this is turning into a systemic, the banking system is failing scenario, but if you do keep cash, checking, savings, money market, CDs in your banks and credit unions, just make sure to follow the FDIC insurance guidelines for banks and the NCUA guidelines for credit unions, which just basically says the amount of government or guaranteed protection you have. That is for your deposits. That is not for your savings or your risky assets. For example, SVB was a publically traded bank. So if you owned stock of that bank and the FDIC took it over, you lost everything, but if you were a depositor – you had a checking, savings, money market, CD in that bank, that was basically covered largely within those limits and the same would be true for First Republic.

The Federal Reserve is continuing to meet. It does appear that top-line inflation is coming down from its peak, though I would argue and we would argue that the Federal Reserve is still probably going to continue on their interest rate increasing path even if it's much smaller increases than we've seen in the past. Ideally, we get to the point where those interest rates stabilize and that's a sign that maybe the Federal Reserve's path is working and eventually, whether it's this year or next, we get to the point where the Federal Reserve will slowly start to bring those short-term rates back down. But that is yet to be told.

The other thing with respect to recession and just market volatility and environments is do you remember the S&P 500 is not an equal weighted index. It's a cap weighted index. What that means is there's 500 companies and the bigger each company is of those 500 the more their return or loss matters to the market. The smaller you are as company, the less your return or loss matters to that market. We think that's one of the possible reasons that we've seen such extremes and we've talked about this before. Over the last five years or so we've now experienced three bear markets cycles, which is a drop of 20% or more from the previous high. And depending on which bench mark you look at, whether it be the Dow Jones, the S&P 500, the NASDAQ or others, you can get a different outcome there. However, the S&P is kind of what we're honing in on.

We do have a solution that's available to our clients and our investors where we can lean a little bit more or a possible solution to equal weighted. There's eleven sectors of the market, so an equal weighting would target about 9, 9.1% in each of those sectors. Technology is but one of those eleven sectors. I wanted to kind of throw that out there and certainly markets have come up from their bottoms, which were in the fourth quarter. But if you had $100,000 and you were in the market, for example, the NASDAQ and the NASDAQ dropped 33% last year, you now have $67,000. Now if you use it all and just make back 33% because the stocks will jump back, well now you only have $89,000 if you do the math. So, if you had $100,000 and it dropped 33% you have about $67,000. And if you made 33% back, you only have $89,000. So, what do you need to get back to break-even? To start off, you need about 49.25% when you do the math. What's really hard is when you're retired, especially if you're drawing out of your portfolio, meaning taking income, paying taxes, getting income to supplement social security, the portfolio drops when the market drops and you take distributions out and you had negative returns. So, it's really, really hard to get back to break-even.

So if that cycle perpetuates for a couple of years, it becomes really challenging. That's where we think some of these options may be more suitable. And it's going to be individualized and customized, so we want to make sure you know that we as your team want to help you continue to look at your risk score of your actual portfolio. We want to make sure that lines up with your actual tolerance and then works in coordination with your actual retirement income plan. If you would like a little more in depth information on that, please email questions@richmondbrothers.com and in the title just put for the subject, 'Smoother Ride questions for my portfolio', and one of the advisors on our team will certainly be happy to reach back out.

We've had really great feedback so far, but remember, equal weighted does not mean it's exactly the market. We want a broad exposure. We want to try to find ways to have some downside protectors to maybe protect from more of these wild rides and that's where some of this information and these options could be helpful. Remember, our goal is to help educate, inform, and guide no matter what the world is throwing in our or your path. We appreciate having that opportunity. We're honored to be here and help guide you through.

And then last, but not least, the word recession is a big, scary word, but it seems like we're in a very unusual territory where not every pocket of the economy is experiencing that. So there's a lot of unknown around that word. I'll have more this summer in my Matt's Minutes as we digest more and more data from corporate earnings coming out of the second quarter of the year – or the first and second quarter and we'll go from there. Thank you so much. We appreciate you being part of our Richmond Brothers family and we hope you are having a wonderful start to your spring.

Sources

YCharts

Calls to move away from the U.S. dollar grow — but the greenback is still king:

Just a few stocks are behind the market's recent resilience. A real concern or routine rotation?

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