ALTIUS FINANCIAL

EMPOWERED FUTURE REPORT

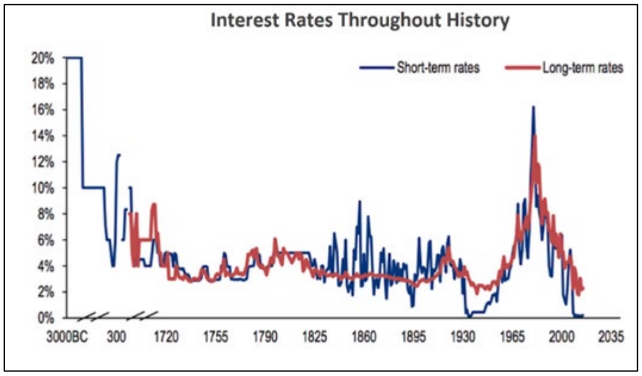
SHORT-TERM THOUGHTS ABOUT LONG-TERM MATTERS

February 6th, 2023

Get Ready for More Mixed News

Many of you have seen my little crystal ball, so take all predictions with a grain of salt, but my view is this year could be a roller coaster. You might be thinking "hey, haven't the last few years already been challenging?"

The problem is that the American and global economies have been operating on extremely low interest rates for over a decade. The chart below, from *"A History of Interest Rates"* by Sidney Homer and Richard Sylla shows interest rate levels going back thousands of years. You can see that we've just experienced the lowest rates ever recorded.



As Warren Buffet has said "The most important item over time in valuation is obviously interest rates. Low interest rates make any stream of earnings from investments worth more. Any investment is worth all the cash you're going to get out between now and Judgment Day, discounted back. Well, the discounting back is affected by which interest rates you use." Interest rates matter a lot and we've been a period where the rates have propelled asset values to record levels. I don't know if the increase in rates will continue but I'm betting we're not going back to the ultra-low, even negative rates we've seen recently. Low interest rates reward highly leveraged companies and speculators, while market-based rates (or even normalization of rates) will generally reward strong balance sheets and prudent risk taking.

Other than rate hikes, the most important event to affect markets recently is the opening of China, the world's second largest economy. After years of "zero-Covid", with inhumane and draconian lockdowns, Chinese President Xi Jinping rolled back restrictions after widespread protests. China is now experiencing surging infections and rushing to get Western medicines, but the investing community is expecting a rebound in economic activity. There is huge pent-up demand there given the shutdowns and China is America's largest customer, largest supplier and until recently, our largest creditor. Since they reversed course on COVID…

Quote of the Day:

"A lie doesn't become truth, wrong doesn't become right, and evil doesn't become good, just because it's accepted by a majority."

– Booker T. Washington

WHAT'S NEW

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Q1 IN-PERSON WORKSHOP COMING UP

Join us on March 22nd at 4:45pm for drinks and snacks before our workshop starts at 6pm in the ALTIUS Second Floor Conference Room. RSVP here!

TAKE A LOOK INSIDE

Happy February!

Get Ready for More Mixed News (continued)

market indexes have rebounded and there will likely be much more demand for natural resources. But unfortunately, globalization itself is reversing. I know many who think this is a good thing, but one should be careful what they wish for. Global trade, capital flows, and immigration are all declining, and this trend of state intervention, reregulation, protectionism, and anti-immigration will likely exacerbate many of our most pressing problems. (As I write this, we're watching a bizarre Chinese "spy/weather balloon" being shot down by the US military and this kind of geo-political strain may only exacerbate volatility in financial markets.)

As I've been saying for years, the US debt ceiling will be in the news over the next decade and, sure enough we hit it again this past month. Congress still has some flexibility before any default since the Treasury Department always has "extraordinary measures" to give more time. It's the same old thing: Democrats saying we must raise the debt ceiling so we pay for all these "essential services" and don't default on our promises; Republicans ringing the bell that we cannot keep borrowing forever and must prioritize. As you are aware, I come down on the side that we must begin exercising fiscal discipline before it is too late. The experiment with Modern Monetary Theory (MMT) has been nothing short of disastrous for the future health of our economy and hard choices will need to be made. Americans keep hearing these alarms but don't understand it well enough; and they want their cake and to eat it too – so no one puts pressure on their legislators and everyone just gets numb with the whole topic.

Finally, while we're seeing huge layoffs, especially among technology companies, we're also getting relatively positive jobs/unemployment news with 517,000 new jobs reported this past week despite all the alarm bells going off for recession risk. Unemployment fell to 3.4%, the lowest since 1969. Now many people say that the Labor Department is fudging numbers, but my experience is that too many people look at these stats through their own political lens. If Trump was due any credit for 3.5% unemployment, then Biden should get credit for this new low of 3.4%. Frankly, the pandemic and government's response to it has screwed with lots of economic assumptions and I think it's misguided to credit presidents of any party much in the way of specific economic results, but that's a whole other discussion. My main point is that we're getting very mixed signals across the economy, and I think it will serve investors to beware and stay diversified.

2023 ALTIUS Events

If you're wanting to make sure you don't miss any of the excitement for 2023, we have our 2023 ALTIUS Events Calendar below:

Quarter 1

March 22nd –

Q1 Workshop (In-Person): Capital Markets Outlook & What to Expect in 2023.

Quarter 2

May 10th – Q2 Workshop (Virtual)

Quarter 3

July 19th – Summer Client Appreciation Event

September 27th – Q3 Workshop (In-Person)

Quarter 4

November 8th – Q4 Workshop (Virtual)

December 5th – Holiday Client Appreciation Event

2023 Key Financial Data

We do our best to keep up with and track the changes in government rules and regulations as well as what's going on in the economy. While there are so many things we can't control, we can be proactive with the current landscape by using our 2023 Key Financial Data. We recently emailed the data, but you can always find it on [our website] under the Resources tab.

ALTIUS Visits CO Wolf & Wildlife Sanctuary

To celebrate, belatedly, Jennifer's 10th year anniversary at the firm and Mike's recent birthday we spent the morning at the Colorado Wolf and Wildlife Center. It was a fascinating experience learning about and interacting with wolves, coyotes, and foxes.

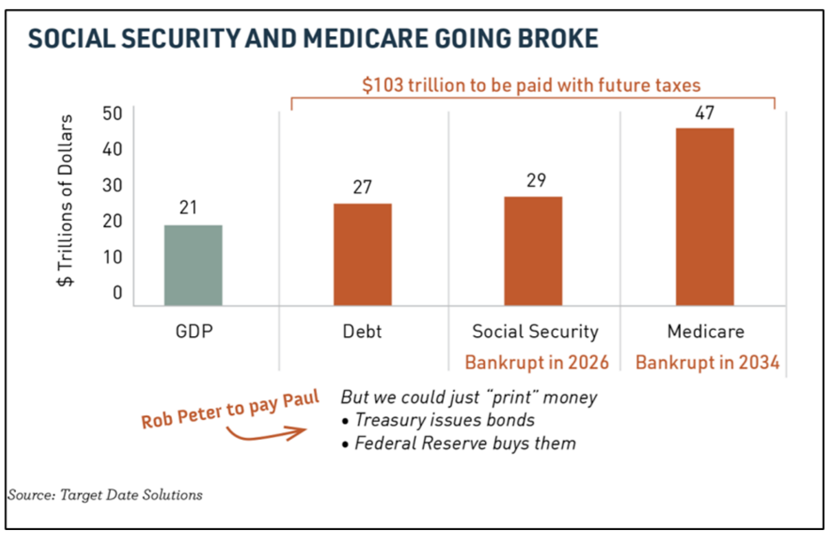
Consolidated Form 1099s

The first wave of 1099s from TD have begun posting online and estimated dates for subsequent waves will be based on the nature of investments in the portfolio and the likelihood that there will need to be corrections. If you received at least $10 in either dividends or interest during the tax year or had a closing transaction or certain reportable corporate actions an IRS 1099 will be issued. Please sign up for electronic tax form delivery by logging into www.advisorclient.com, then selecting My Profile > Communication Preferences > Update Preferences Individually.

Secure Act 2.0

You've probably been hearing about the SECURE Act 2.0. I guess that SECURE (Setting Every Community Up for Retirement Enhancement) wasn't quite secure enough so, just like it sounds, SECURE 2.0 is an update, on the original passed in 2019. This version, signed by the President at the end of 2022, will change the age for RMDs (Required Minimum Distributions) for IRAs, 401ks and other retirement plans to after the age of 73 (previously 72 and before that, 70 1/2). In 2033 the plan is to raise that age to 75.

Given the retirement savings crisis in this country AND the fact that Social Security is massively underfunded, the purpose of this law is to incentivize more retirement savings and improve existing rules. It allows/nudges small business owners to set up retirement plans that are less expensive and provide more investment options than traditional plans. But it also requires employers to automatically enroll eligible employees in new 401(k) or 403(b) plans with a participation amount of at least 3% but no more than 10%. It also expands the "catch-up" provisions where people over age 50 can contribute more money each year to their IRA, 401(k) or Roth accounts and, starting in 2024, this catch-up limit will be indexed based on Inflation, meaning it could increase every year.



Secure Act 2.0 (continued)

The new law also ensures that individuals can access their funds without penalty during emergencies along with allowing one-time hardship withdrawals from employer sponsored retirement plans, and employer contributions for part-time workers as well as "gig workers". It also increases access to 529 college savings accounts by creating the availability to roll a portion into your Roth IRA penalty free. Survivors of domestic abuse will have a way to access funds for their recovery and people affected by federally declared disasters may be able to withdraw up to $22,000 from their retirement account without incurring any type of penalties. The Secure Act 2.0 also has several provisions to help individuals prepare for long-term care costs and/or long-term care (LTC) insurance policies.

While most of our peers' cheer on this kind of legislation, thinking it will motivate more people to save and invest and therefore use our products and services, I'm a bit torn. Yes, I applaud Congress giving tax breaks to let people keep more of their own money for their long-term security. But I also wonder if it makes sense to every few years re-engineer the tax code and regulations. This new version of SECURE contains 92 new provisions that tax accountants, financial advisors and their clients need to learn. Often, once we learn the new set of rules, someone in Congress is deciding that they need to be revamped again. Also, as massive as SECURE 2.0 is, it does nothing to address Social Security shortfalls or the morality of the system itself. Social Security trust funds are slated to run out of money in a little more than a decade—if that happens, the result will be an immediate benefit reduction of about 25% but no one in Congress wants to touch this issue or the even worse situation that Medicare is in.

Let us know if you're wanting to understand more about SECURE 2.0 and how it impacts you.

Taylor's Take: Layoff Chaos

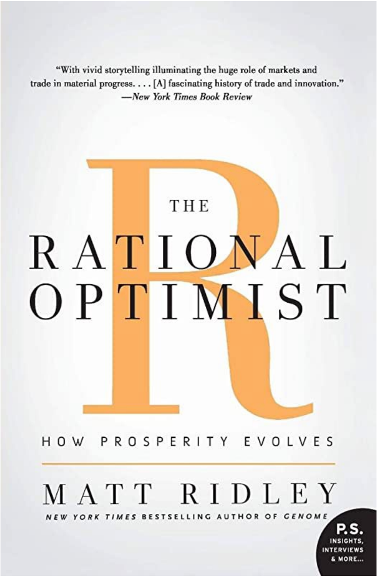
Big tech is currently experiencing a big layoff. What does that mean for clients and investors? Over the past few months we have seen many large tech companies slow hiring and start to lay off employees by the thousands. With many reporting a significant drop in earnings over the past 12 months, it is time to cut costs. These large companies (Amazon, Google, Facebook (Meta), Microsoft, IBM, etc.) are claiming high inflation, decrease in earnings, a pull back on consumer spending, and a gloomy outlook on the economy as drivers for this wave of layoffs. Some sources are reporting over 200,000 tech jobs have been lost in the past rolling year. These layoffs haven't been limited to the tech focused employees and have in many cases spread across all company departments with an effort to lower overall company expenses.

So, what does this mean? For investors who have a large portfolio allocation towards the "FAANG"* stocks, returns have been volatile to say the least. Fortunately for our ALTIUS client base, we have continued to focus on a value based investment strategy and therefore have had minimal exposure to Big Tech recently. We continue to focus our investment allocation towards companies with earnings that support their current share price. Over the past few years many of these "FAANG"* companies have not seen earnings keep pace with their stock prices.

For readers currently facing layoffs, or those cautious of a potential layoff, please reach out to our team to discuss the best strategy for your financial situation. We understand that this can be a hard time and our thoughts are with those facing a tough transition. ALTIUS is also planning to prepare and release a podcast discussing the recent layoffs and what to do if you are faced with a layoff situation. Please share this upcoming episode with anyone in need of guidance in this difficult transition time.

*FAANG is an abbreviation for the companies: Facebook-Meta, Apple, Amazon, Netflix, Google-Alphabet

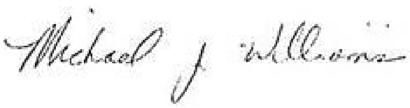
Book Recommendation – The Rational Optimist: How Prosperity Evolves by Matt Ridley



Ok, I'm cheating a little since I read this book a few years ago but I recently gave my daughter an autographed copy and I highly recommend it. Of course, I'm a little biased as it mostly supports my overall philosophy regarding capitalism and I really like the author, having met and spoken with him several times. In one sense, it's like another book I recommended a few years ago: Enlightenment Now, though Pinker focuses a bit more on culture and reason verses Ridley's focus on innovation, the division of labor and trade. Both provide an avalanche of historical and scientific facts that make the case for….yes, optimism. There are many modern-day Malthusians who assert that everything is going to hell and that something must be done about it - but the world has always had doomsayers and they almost always are wrong in their predictions of widespread hunger, pollution, poverty, overpopulation, crime, etc. Ridley is a great storyteller and makes complex ideas very interesting and accessible but more importantly today, he shows us exactly why we should be optimistic.

Happy February!

Here's hoping you're enjoying the winter and not pushing for spring too quickly, though with this recent bout of freezing weather, it's understandable if you're done with it already. I used to hate February but now I've come to enjoy this time of year including the President's Day and Valentines celebrations. Spring will be here soon enough so capitalize on this month!



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