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216 Essex Street | Salem, MA
800-888-6468 | eCabot.com



The U.S. Remains Highly Competitive

April 2023

Dear Friends,

2023 has certainly been a year of unique developments so far, many related to the impact of the pandemic in 2020. One clear development over the past decade is the fact that the United States continues to shine economically and has established itself as a fantastic place to invest and do business. Relative to nearly all other major countries, the United States has a multitude of advantages.

Why is our economy succeeding while others struggle? There are many reasons, here are a few:



1. Our skilled workforce is clearly one of the best in the world thanks to our superior universities.
2. Our stable political system creates an element of safety for businesses.
3. Our extensive natural resources are abundant and low in cost.
4. The United States trades with more places in the world and allows us to have access to lowest costs of resources in many industries. Additionally, our manufacturing skills are ranked among the highest in the world.
5. Our legal system, although not perfect, is one of the best and fairest in the world.
6. We raise our children to be competitors. This starts in little league and kid's sports that teach our upcoming workforce how to work as a team and how to compete. This creates an entrepreneurship culture that drives our economic system.
7. Access to capital is abundant in the United States. Great ideas that actually work will have access to money in the U.S. – venture, private equity, crowdsourcing, public markets and many others provide that steady stream of available funds.
8. The United States' "culture of innovation" is like no other in the world. We praise and encourage innovation and we allow those innovators to create wealth quickly.

Thank your lucky stars that you live in the United States! We have many advantages. While the U.S. marches forward and becomes stronger each year many countries have taken steps back for various reasons and look less attractive compared to the United States. China has created many adversarial relationships with trading partners such as the United States and Europe. This has hurt their growth prospects and has caused many to avoid China in business dealings. The war in Ukraine has of course hurt Russia a great deal and creates a high level of fear for much of Europe. I imagine many have decided to scale back operations in Europe for safety reasons. South America continues to have problems with many countries like Venezuela, Brazil, Argentina, and

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Review of Equity Markets

Craig Goryl, CFA®, Partner, Chief Investment Officer

What Happened with Equity Markets?

Stocks were up by the end of a see-saw quarter. Gains in broad indexes like the S&P do not do justice to the turmoil under the surface as investors grappled with stubborn inflation, a banking crisis, and a Federal Reserve caught in the middle of those two thorny problems.

The data below shows the wide disparities for only a 3-month period:

Financials, Energy, and Healthcare sectors fell 4-5% while Tech/Communications rose around +20%.

Value stocks eked out a +1% return, while growth stocks gained +14%.

The Dow also rose +1%, while the NASDAQ gained +17%.

The Fed continues to try to thread the needle: Slow the economy enough to lower inflation, but not so much that we get a recession with steep job losses.

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ASSET CLASS UPDATE

1st Quarter = 1/1/23 to 3/31/23; YTD = 12/31/22 to 3/31/23; 1 Year Return = 3/31/22 to 3/31/23

INDEX	QTR Return	1 YEAR Return	3Y ANN Return	5Y ANN Return	DESCRIPTION (What does this Index represent?)
US EQUITIES					
Dow Jones Industrial Average	0.9%	-2.0%	17.3%	9.0%	US Large Cap Stocks (30 select large US corporations)
S&P 500 Index	7.5%	-7.8%	18.6%	11.2%	US Large Cap Stocks (Largest 500)
Russell 1000 Index	7.4%	-8.4%	18.5%	10.9%	US Large Cap Stocks (Largest 1000)
Russell 2000 Index	2.7%	-11.6%	17.5%	4.7%	US Small Cap Stocks (2000 small public companies)
GLOBAL EQUITIES					
MSCI All Country World Index	7.3%	-7.4%	15.4%	6.9%	Combination of major global markets: United States, Foreign Developed, and Emerging Markets
MSCI EAFE (Europe, Australia, Far East)	8.5%	-1.4%	13.0%	3.5%	Large and mid-sized companies in mature foreign markets like Japan, Europe, Australia, etc.
MSCI Emerging Markets	4.0%	-10.7%	7.8%	-0.9%	Large and mid-sized companies in developing economies like China, India, Brazil, Russia, South Africa, etc.
MSCI Frontier Markets	3.1%	-17.5%	7.9%	-2.9%	Large and mid-sized companies in the world's least advanced economies like Kuwait, Argentina, Kenya, etc.
FIXED INCOME					
Bloomberg Barclay's US Intermediate Bonds	2.4%	-2.8%	-2.0%	1.0%	US Bond Market: government, corporate, and mortgage bonds
Bloomberg Barclay's US Aggregate Bonds	3.0%	-4.8%	-2.8%	0.9%	US Bond Market: government, corporate, and mortgage bonds
Bloomberg Barclay's US High Yield	3.6%	-3.3%	5.9%	3.2%	Higher risk, higher yield "junk" bonds
"ALTERNATIVE" ASSETS					
GOLD, Dollars/Oz.	8.0%	1.6%	7.7%	8.2%	Gold bullion
NYSE Arca Gold Miners Index	13.6%	-13.0%	13.8%	10.1%	Companies that mine precious metals
Crude Oil, Dollars/Barrel	-5.7%	-24.5%	54.6%	3.1%	The price of a barrel of oil
Bloomberg Commodity Index	-6.5%	-15.2%	19.5%	3.8%	Commodities like Gold, Copper, Natural Gas, Corn, etc.
Dow Jones REIT Index	1.8%	-19.3%	10.2%	6.3%	An index of Real Estate Investment Trusts
Alerian MLP Infrastructure Index	3.3%	13.6%	46.0%	6.6%	MLPs: Energy infrastructure assets such as pipelines

The Continued Unwinding of Easy Money

The Fed raised interest rates seven times last year and twice so far in 2023. Usually rate hikes act to slow the economy by making it harder for consumers to borrow and spend. But the U.S. consumer is very strong today thanks to excess savings, low debt costs, and a robust employment picture with more open positions than job seekers. Therefore, those interest rates hikes did not slow the consumer; however, they did trip up the banking system. Troubles in the banking sector (see article below, "Banking Troubles Again?") are likely to slow the economy and reduce inflation. They may go farther, and tip us into recession, or we may muddle through a mere economic slowdown.

The Market is not the Economy

A weakening economy is not always a reason to sell stocks. History has taught us time and again that by the time a recession is apparent with any certainty, most of the damage has already been done in the stock market. In fact, that is often the time to look for bargains.



Banking Troubles Again?

Craig Goryl, CFA®, Partner, Chief Investment Officer

*"History Doesn't Repeat,
but it Does Rhyme"*

Fifteen years after the great financial crisis introduced a myriad of new regulations to safeguard the banking system, we find ourselves in a crisis again, with a handful of banks, from the U.S. west coast to Switzerland, facing runs and needing rescues. How did it happen? Why didn't the lessons of 2008 keep banks out of trouble?

1. **The velocity of money.** Digital banking is more prevalent, which means money moves much faster. Washington Mutual (WaMu) collapsed in 2008 after depositors pulled out \$17b over 10 days. Silicon Valley Bank (SVB) - a smaller bank than WaMu - experienced \$42b of withdrawals in one day!

2. **The speed of communication.** Social media platforms and texting have increased herd-like behavior in finance. Rumors, tips, and fear used to travel by whisper from one person to another. Today they travel at the speed of light, and from one person to many. This is especially true in the tight-knit venture capital community that SVB served. The result is more coordinated behavior. We've seen that in "meme stocks", cryptocurrency, and now banking.

3. **Uninsured deposits were stable in the era of ultralow interest rates. That changed fast.** A decade of ultralow interest rates bred complacency among large banking customers. With every safe investment yielding near zero for years, some deposits ballooned well past FDIC insured limits, instead of finding better returns in treasuries or money market accounts. Because they were unprotected by insurance, those deposits proved

particularly flighty when trust in the banking system wavered and the bank runs began.

4. **Accounting rules had a loophole.** The rules allowed regulators and banks to ignore losses on the bonds they held, but investors and depositors took notice of these "paper" losses and were not so forgiving. Unusually deep and widespread losses on bonds in 2022 (as the Fed hiked rates) made this problem a big one.

5. **"Systemically important" banks were poorly defined.** Post-financial-crisis regulation imposed extra scrutiny on banks based on their size. That was a flawed measure. SVB, as key banker to the US financial engine that is Silicon Valley, proved more important to the system than its size implied. It should have been more closely watched by regulators, who might have prevented some of the risk-taking that turned SVB into a financial domino.

Investors, legislators, and regulators are often fighting the last battle. That leaves the financial system vulnerable to new risks. Markets are dynamic, and change is constant. That is why this crisis can feel so familiar despite all the lessons of the last one. The economy runs in cycles, with each turn being a little different from the last. For this reason they say: "History doesn't repeat, but it does rhyme".





Risk Management in Volatile Markets

Pat Creahan, CFA®, CAIA®, *Portfolio Manager*

The first quarter brought considerable volatility to financial markets, and bonds rallied in response to uncertainty as rates moved significantly lower. The Bloomberg Intermediate Bond Index returned +2.33% and exhibited the "safe haven" characteristics largely absent in investment portfolios throughout 2022. As the economy reveals modest signs of weakening amidst a softening labor market and pockets of banking failures, fixed-income investors navigate a unique set of risks that are best confronted with thoughtful security selection and portfolio design.

The known risks of bonds, primarily credit and interest rate risk, should be constantly measured and monitored. These are the risks we fully intend to bear at appropriate levels. Additionally, a sound portfolio addresses the risks that are difficult or impossible to predict. The descriptions below give more detail on how we handle each of these risks.

1. Credit Risk: The chance an issuer defaults on its debt obligation, causing losses in principal or interest payments. The first line of defense against losses is thorough research before investing. Unlike the analysis of other investment assets, credit research often focuses on what can go wrong instead of what can go right. As a result, quality research may go unappreciated until economic troubles bring out the winners and losers. We take rating agency ratings, which are often reactive, with a grain of salt and apply our own risk assessment. Our investment grade focus keeps credit risk at the low end of the spectrum but leaves the flexibility to add risk when opportunities present themselves.

2. Interest Rate Risk: Interest rate risk refers to the potential fluctuations of bond prices as market rates change. Generally, bond prices decline when rates rise, and vice versa. Long-term bonds are usually more sensitive to interest rate changes than short-term bonds. However, interest rate risk is not solely a function of duration but arises when there is a mismatch between a portfolio's life expectancy and the duration of the investments. In the first quarter of 2023, many United States banks felt the pain of this reality when their portfolio of bonds dropped in value while their depositors simultaneously withdrew money. The same portfolio of bonds, mostly U.S. Treasuries, may have been better suited for an investor whose cash needs were further down the road. We advise investing in a range of maturities to derive the portfolio's duration from a collection of bonds with differing rate sensitivities.

3. Other Risks: Sometimes called "Idiosyncratic" risks, these differ from those previously mentioned because they are not rewarded in prospective returns. It's easy to understand why risky credit comes with higher yields. However, no one can price the risk of something that may not exist yet. More common things like geopolitical tensions, changes in law, war, and natural disasters can be impossible to estimate and therefore don't command additional yield. Nonetheless, these are still real risks and are best mitigated through proper diversification. By utilizing the large universe of fixed-income investments, investors can purchase bonds across asset classes, sectors, maturities, and regions to dilute and diversify away from these potentially destructive events.

The past quarter was a reminder that risk management is a proactive and constant effort. Investors can better navigate market unpredictability by thoroughly researching issuers, monitoring interest rate risk, and diversifying against idiosyncratic risks. A well-designed portfolio that considers these risks fosters long-term success and stability, even amid economic uncertainty.

RISK MANAGEMENT





"The more things change, the more they stay the same."

- Jean-Baptiste Alphonse Karr

Bo Tang, CFA®, Research Analyst

Here at Cabot Wealth Management, we like to stay abreast of the latest trends in technology. This serves the dual purpose of opening up potential investment opportunities and also keeps us informed of disrupting trends that could potentially affect our current investments. In a couple of whitepapers to be published in the coming weeks, we outline the world of **Fintech** (financial technology companies) and the concept of the **Metaverse**, (a shared virtual environment that people access via the Internet). This digitally-enabled-platform promises to alter our digital consciousness. Both of these business ideas are byproducts of the digital world we live in.

Fintech came about because we needed a faster and safer way to exact payments. It quickly grew into a multi-billion-dollar industry with the potential to upend banking as we know it.

The **Metaverse** brings with it the promise of interactive entertainment, an evolution of the storytelling paradigm boosted with the computing power to make our [digital] dreams come true. The concept is especially alluring because it combines the interactive elements of social media with content creation of near-limitless possibilities. You can climb Mount Everest in a virtual world or you could help Captain America on a rescue mission with The Avengers team. We've only scratched the surface of what's possible.

Here are a couple of excerpts to preview what we're working on:

Fintech – In the first half of 2020, when the Covid pandemic took hold and everyone was asked to stay home, online retailers in the U.S. saw a \$347 million dollar boost in online sales compared to the same period in 2019. Businesses that previously did not have a digital presence were forced to accept online payments in order to survive. Restaurants and retailers had to quickly adapt to takeout-only and curbside pick-up transactions, pushing their capabilities beyond their pre-pandemic limits.

Metaverse – The ultimate goal for virtual world building is to create a world that is indistinguishable from real life. There are a number of companies hard at work trying to realize this future. From video game developers like Activision Blizzard (soon to be Microsoft) to social network platforms like Meta, they are all pushing towards this future. Since the Covid-19 pandemic occurred in 2020, their (Roblox) growth numbers have been astronomical. With 43.2 million daily active users worldwide, they have claimed that two-thirds of kids aged 9-12 are playing games on their platform.

To learn more about these topics or to find out other areas we're working on, reach out to your advisor and stay tuned for future papers exploring the great business ideas of tomorrow.





Time, Not Timing; The Value of Staying Invested

Alex Castrichini, CFP®, *Wealth Advisor*

After 2022 brought one of the more challenging investment environments in years, 2023 has been off to a better, but equally volatile start. Between inflation pressures, recession concerns, and the largest bank collapse since 2008, investors understandably might be concerned about the financial markets.

The past several years have been even harder for investors who recently decided to allocate more capital to their investment portfolios; they have been frequently seeing their share prices in the red. While the short-term moves of the market and the frightening headlines might keep an investor on edge, at Cabot we believe in the importance of taking a longer-term perspective. For most investors, their portfolios will be a crucial part of their retirement picture for years to come, not months.

The chart below highlights the probability of having a positive outcome for investing in U.S. stocks (S&P 500) over various rolling time periods going back to 1970. From a month-to-month perspective, you can see the probability of losing money in stocks is fairly high, but by giving your investment increasingly more time, your results improve dramatically.

Although there are never guarantees in investing, looking to the past can be helpful when navigating challenging periods of market performance.

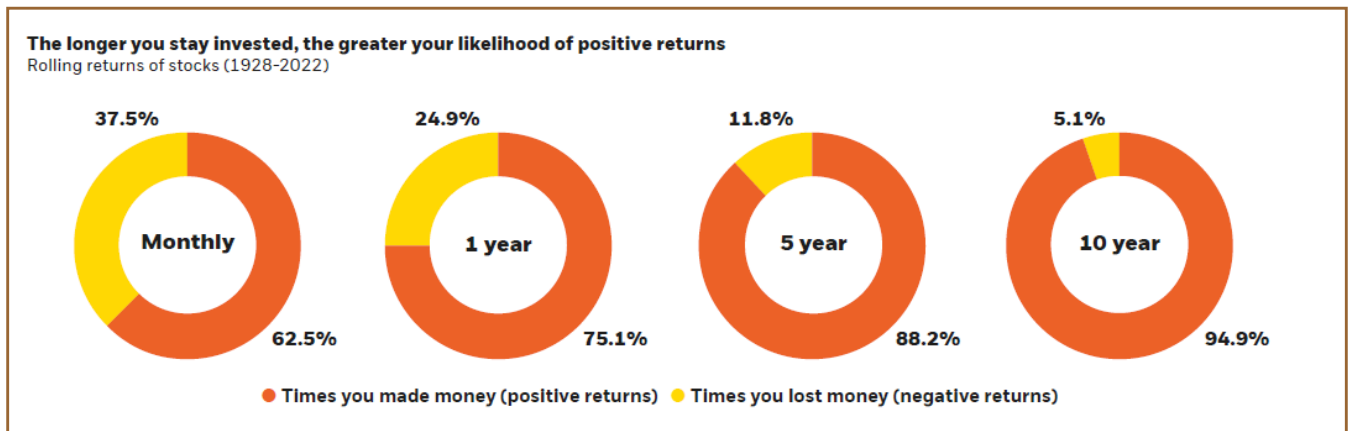
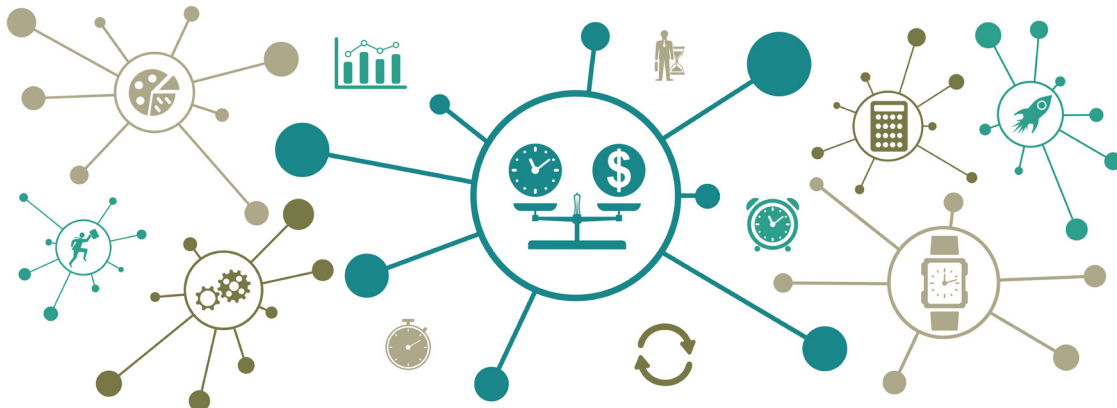


Chart Sources: BlackRock; Bloomberg; Lipper. Stocks are represented by the S&P 500 Index from 2/1970 to 12/2022 and the IA SBBI U.S. Large Cap Index from 1/1928 to 2/1970. **Past performance does not guarantee or indicate future results.** This is for illustrative purposes only and not indicative of any investment. It is not possible to invest directly in an index.

GIVE YOUR INVESTMENTS TIME





Technology Differences: Then and Now

Sonia Ernst, *Managing Partner, Manager of Trading & Operations*

As Cabot celebrates our 40th anniversary this year, here is a look back at just how much technology has changed over the years. There have been some big differences in the technologies Cabot utilized then vs. now.

SERVERS

Then: Cabot utilized three separate servers on site.

Now: Cabot utilizes cloud-based server technology, allowing us to work from the office, home, or anywhere in the world with multiple data storage and disaster recovery backup so your information is safe, secure, and available.

SOFTWARE

Then: Software was loaded on servers and computers using disk drives (first floppy, then hard disks, then CD's).

Now: Any software needed to be installed is done via download from a cloud application. Many applications are cloud software themselves and don't need to be downloaded.

BACKUP TECHNOLOGY

Then: Servers were backed up to hard drives each night. Hard drives were taken off site and kept in secure locations.

Now: Servers are backed up to the cloud. Restoration of data can be done instantaneously.

PHONES

Then: Phones were connected to walls by phone jacks.

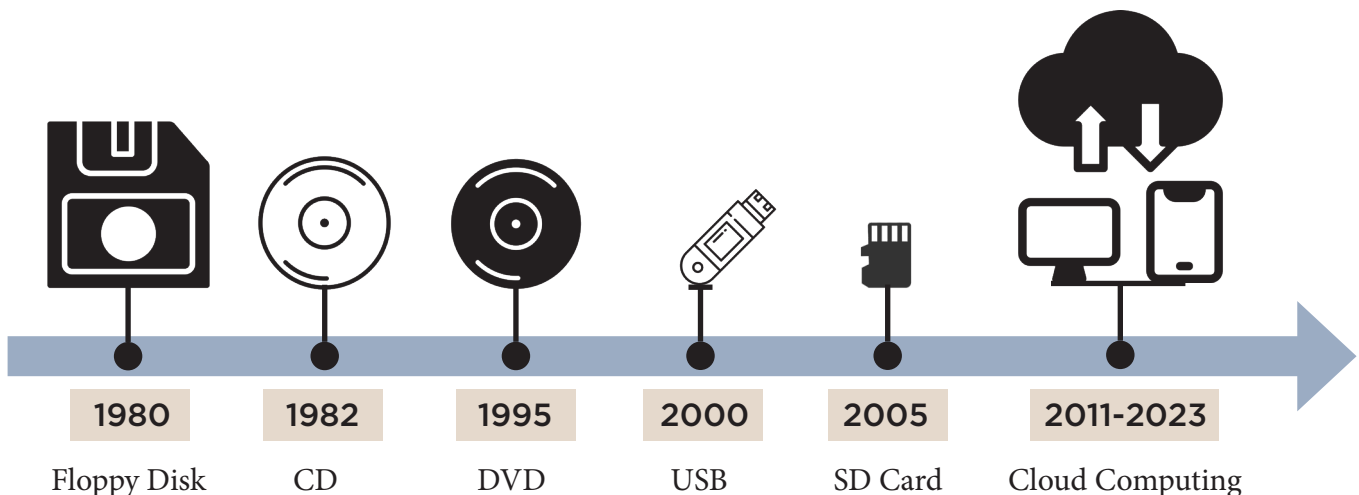
Now: Phones are Internet based and connect through computers. Phone apps are replicated across mobile technology allowing employees to work remotely and answer your calls from outside the office. Video calls exist so that we can communicate with you face to face via technology.

TRADING

Then: Trade tickets were printed; trades were manually called in for execution to brokers.

Now: Most trading can be done electronically with a couple of keystrokes enhancing speed and accuracy.

One thing for sure is that technology is constantly changing. Forty years from now our technology stack will look very different than it does today. It is my passion, goal, and diligence to you as clients to continually evaluate and implement solutions to technology that will enhance our team's service to you.



Around Cabot

CFP® Certification For Alex Castrichini



Cabot is thrilled to congratulate Alex Castrichini on accomplishing his goal of earning the **Certified Financial Planner™** professional certification. Alex recently passed the CFP® certification examination and met the additional requirements to earn the designation. We are proud to recognize this significant accomplishment and Alex's hard work and determination. The CFP® certification signifies that Alex adheres to high ethical and

professional standards for the practice of financial planning which include acting as a fiduciary when providing financial advice to clients, always putting their best interests first.

Congratulations Alex on this wonderful achievement!

Cabot Welcomes New Handyman Daniel Lundergan



We are pleased to introduce Dan Lundergan as a new face around Cabot. Dan will be responsible for some general maintenance as well as freshening up the appearance of our office. He brings a smile and positive energy with him every day.

Dan is a retired schoolteacher. He spent twenty-five years at Manchester Essex Regional High School where he taught math, preceded by seven years at Peabody High School. We

are excited to welcome Dan and see the improvements that he will make to our office space.

Welcome aboard Dan!

(Continued from page 1)

Colombia which are often viewed as having significant levels of corruption. This has become more of a problem over the years. Further, parts of Africa continue to struggle with corruption and safety issues that are crippling their economy. So, compared to these large countries with a multitude of problems, the United States is a “beacon of opportunity” just as large as it was in 1776, the year of our founding. More and more investors want the safety of the United States. This trend will continue.

As we look back over the years, we have often underestimated the positive aspects I just highlighted above. We, here at Cabot, believe the United States offers superior conditions for investment. Yes, we may have short-term challenges and temporary slow downs and recessions; however, the superior conditions in the United States will continue to attract massive investment flows and drive us forward. We will remain optimistic that our political and business leaders will manage our economy and our country just fine in the coming years.

Thank you for being part of the Cabot family; we appreciate the trust and confidence you have placed in the Cabot team.

Robert T. Lutts

*Founder and
Managing
Partner*

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