WILLINK
ASSET MANAGEMENT LLC

March 2021: Investment Management - Tools & Strategies

In our last letter we listed topics for discussion in the coming months:

- *Investment Management*
- *Financial Planning*
- *Economy and Taxes*
- *Politics & Markets*
- *Financial Services Industry Regulation*

In this first installment of the series, we address Investment Management

Going back to the Great Recession in 2008 and longer, this year presents as much uncertainty as many.

The dramatic recovery in stock prices from last March's lows captured much attention. It is now accompanied by a "wall of worry" in the financial news. Are stock prices now too high? It's been a long bull market, beginning with the 2013 recovery from the Great Recession. What about investment-grade bonds, the desolate portion of the balanced portfolio while interest rates remain near 40-year lows? Will rising interest bring high inflation? Has money printing and other stimulus efforts motivated some investment banks, corporations, and others to take on debt and speculation, turning parts of the stock market into a gambling casino?

Theories about what comes next abound. A market-wide crash at the end of a long in the tooth business cycle? A rebounding real economy (jobs, repaired supply chains, the great re-opening) and stabilized markets as the virus retreats in the face of widespread vaccination. Or another shock if it doesn't, with high inflation/stagflation ahead. Maybe just a healthy rotation from high-priced stocks to relatively bargain-priced fare. And a return to higher prices for digital age and green technology stocks after a cooling-off period? The return of bond yields as a reliable source of income, or an unpleasant decline in bond principal if yields move up too quickly?

In the era of internet investment advice and pitches, you might like to know more about what we are thinking and doing to serve you successfully. Remember that even so-called safe investments reveal less apparent risk of various kinds when one looks under the hood. Consideration of these risks helps make for sounder decision-making.

There are a variety of **strategies and tools** that we employ and periodically evaluate to help navigate the uncertainty that investing (and life) always entails. Some of the strategies and tools cited below will be familiar to you; others, passingly familiar; and others not at all. Some may serve in a core role, some may supplement mainstay approaches, others may have limited use, others will be inappropriate for you.

We have offered a glimpse of how we see the landscape facing you. Below is a brief review of some of the strategies and tools to help us navigate that uncertain landscape successfully:

BUY AND HOLD

This is the classic (60/40, 40/60 or similar) allocation among stocks, bonds, and cash with sufficient sources of income earmarked to last you through another broad market decline; or sufficient liquidity to take advantage of significant dips or downturns at bargain prices. We think It worked decently for our clients who endured the Great Recession until the market's recovery almost six years later.

But clients had to deal with faith-testing portfolio volatility along the way. Buy and hold with conviction in what is owned may still be an investor's best friend.

It is "not set it and forget it", however.

INDEX FUNDS

Once a laughable notion that buying the market average via an index based on the S&P 500 etc., and paying little for it was somehow beneficial, it now has wide acceptance. But with wholesale acceptance, there can be unintended consequences. Most Index funds simply buy all the stocks in an index, with little or no regard for company profitability, balance sheet strength or other proven performance factors. Predominant today in many employer-offered retirement plans, the result can be funds bloated with especially risky and undeserving holdings. The prices paid for these simply rise as unwary investors pour their contributions into the index fund, increasing demand as a result of scheduled contributions.

We believe there are smarter funds available to us that incorporate the benefits of indexing while lessening the shortcomings.

INTERNATIONAL MARKETS

American investors like to invest American. Germans like to invest in Germany, Canadians in Canada. For many, staying close to home may mean investing in the familiar, and comfort in troubled markets. Many large US corporations indeed derive significant business overseas. One can argue that this provides enough foreign exposure. It may come down to your risk preferences.

But consider that the US is no longer the only heavy hitter in the room—the other would be China.

DIVIDEND INVESTING

Investing was once primarily the province of the wealthy. The portfolio was built from individual blue-chip stocks. One lived on the dividends and rarely touched the principal. Today, if the portfolio is sufficiently large enough, relative to the demand for income, this strategy may still work over a lifetime.

There is also a behavioral preference for some investors to own individual stocks, finding comfort in receipt of the dividend as a buffer against the price volatility of the underlying stock. However, fewer good companies come with appreciable dividends these days.

Much the same objectives can be achieved with the use of dividend-focused funds (value funds among these) along with the sale of shares of non-dividend-oriented stocks funds—and with the greater confidence that may come with broader diversification.

TACTICAL ALLOCATION

Some clients seek more trade action from their Advisor. It feels like by moving from sector to sector, from growth to value as one asset's price climbs and begins to fall; its place then taken by another is what generates satisfactory outcomes.

The record for mutual funds that market themselves as tactical allocation funds has not been consistent. A less apparent, more patient and more tax-efficient form of tactical moves is inherent in many of the funds we use.

From time to time we may use more apparent and aggressive moves in limited measure.

INFLATION PROTECTION

According to many commentators, inflation has been missing in action for years. Others warn of an impending uptick in inflation not seen in years. Still others warn of the opposite—deflationary forces. Some protection may be garnered with funds designed to soften inflation impacts on your portfolio.

But don't count on the government to provide useful information about interest rate trends or inflation.

MARKET TIMING

This is classically described as big swings from a fully invested portfolio to cash and back again, in response to forecasts of market events. We find little evidence to support it as an ongoing investment strategy, particularly the forecasting claims by practitioners.

Still, there are times in client financial or personal lives that it will have application.

OPTION CONTRACTS

Developed in the 1970s, they are widely used by institutions and some retail investors. Strategies seek to enhance returns, provide income, or protect against portfolio declines.

Originally used in concert with individual stock trading, options may now serve as a component of structured notes, mutual funds, and annuities. Among the latter are equity index annuities; riders offering principal protection, or lifetime income. Product versions for fee-only fiduciaries, claiming lower expenses and transparency, may complement those more widely available in the brokerage industry.

Sales practices by some in the brokerage industry and the adoption by fiduciaries are attracting the closer attention of government regulators.

STOP LOSS

A specialized trade order widely used by traders. It can be valuable for many others in the right circumstances. As stock market positions reward you by moving up in price, the positions are automatically sold if prices reverse; hopefully at a level that preserves most of your gains*.

That is the objective anyway. The desired results cannot be guaranteed but can be beneficial.

**Available for ETF and individual stock holdings, not for open-ended mutual funds*

TAX LOSS HARVESTING, RE-BALANCING

Tax loss is a way to offset the cost of taking taxable gains with inevitable losses. Re-balancing is a way to avoid unwanted risk, when your target allocation to stocks or bonds, etc. becomes out of kilter because of market changes, withdrawals, or deposits. Arguably, these and others are operational musts as a means of tax efficiency and risk management.

They have wide applicability across those client accounts for which they make sense.

SPECULATIVE POSITIONS

There may be room in your portfolio for this. Think occasional dessert (individual stocks, non-diversified funds) to accompany that healthy diet of broadly diversified, lower-cost stock funds. For others, longtime holdings or investment in high conviction positions will have a place. And for others, individual company stocks may play an important portfolio role that supplements the fund holdings.

Hey, you never know. But be prepared for heightened volatility or loss as well.

HEDGING STRATEGIES

These are designed to move opposite to a current market direction. Think gold, inverse leverage products, real estate, and even digital currency.

More on these, another time. We have spoken with some of you about this.

We look forward to answering your questions and discussing which strategies and tools may complement our core investment management principles in these especially uncertain times. Despite the probability of some bumps, unintended consequences, and unwelcome shocks along the way, the US markets and economy have proved resilient again and again. Let's plan on capitalizing on that resilience.

Fred R. Fadel, CFP® *Theo Fadel, CPA, PFS*

Willink Asset Management LLC
25 Hamburg Street East Aurora, NY 14052
877.655.0097 T: 716.655.0097 Fax: 716.655.9546
WWW.WILLINKADVISOR.COM