
January 6th, 2023

2023's Challenges & Opportunities



When my team and our marketing consultant said that we should have more consistent and frequent communications to our clients in this newsletter, I wondered "will I just be writing the same thing each month"? I mean, while there are always new twists and takes on the

economy and markets - not to mention all the emotional gyrations of political and cultural headlines - our comprehensive financial planning philosophy is focused on life goals which are measured in decades, not months. And what can be said about 2022 that hasn't already been said? Almost 20% down on the S&P 500 and the worst bond market in almost 100 years. No one wants to dwell on such an ugly year.

Thankfully, we avoided most of the damage and are excited about the opportunities of the new year. I am very grateful for Taylor, Jenn and Krescent's diligence in 2022 and have been so pleased to hear many of our clients recognize how our time-tested, educational and fact-based approach succeeded for them. This year will bring its own unique challenges and I wanted to touch on what I think are a few of them.

One question I've been getting lately is about shouldn't we be getting much more aggressive in our investment approach? I take that as a good sign since we constantly preach that risk in investing is often the inverse of what people perceive. One of our five driving quotes is Buffett's saying, "Be fearful when others are greedy and greedy only when others are fearful" and this question shows that someone is paying attention. With such a dismal market and lower prices, perhaps the risk is much lower than it was a year ago when the S&P 500 reached its all-time high on the first trading day of 2022. (For more about ALTIUS's 5 driving quotes, see [Capitalize Your Friday's Podcast Episode #32, ALTIUS's Philosophy in Quotes from November 2021](#)).

Quote of the Day:

"A healthy person wants a thousand things; a sick person only wants one."

– Confucius

WHAT'S NEW

HAVE AN IDEA OR QUESTION?

We would love to hear your ideas or questions to answer in our newsletters, podcasts, or at our events. We appreciate our clients and welcome any feedback or suggestions!

TAKE A LOOK INSIDE

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Happy New Year!

2023's Challenges & Opportunities (cont.)

However, a couple of other key concepts are worth noting:

- Valuations matter profoundly over the long run.
- Reversion to the mean can take a while, and often overshoots.

Valuation is such an interesting concept, generally and especially to me when you're talking about businesses. What's a business worth? The stock price is the best metric since it's about willing buyers and sellers but do all those buyers and sellers think in the same timeframes and value the same things in a business they want to own? Often, historical valuations will tell us if a business is trading at a reasonable price and it's no different with a collection of businesses or index. One can make a compelling argument that the major stock indexes, as well as bonds, are still priced too high. Just to take the case of bonds: over long periods of time bonds have yielded 2-3% over inflation. But the 10-year government bond yield is still only 4% - much higher than in recent years but 3-4% LESS than recent inflation measures. Does this mean there is more pain to come? I don't know but I think we shouldn't discount the possibility.

What do I mean by "reversion to the mean can take a while and often overshoots"? Historical returns eventually revert to the long run mean or average levels. But for mean reversion to occur, if you have a long period of higher than mean performance, then mathematically it means that sooner or later you're going to go below the mean, possibly deeper and stay there longer to average it out. This is the difficult part of "being greedy when others are fearful". Everyone would like to believe in a "goldilocks scenario" where the economy doesn't come in too hot or too cold but ends up being just right and once there's a significant drop, it's safe to get aggressive again.

I think I've spent enough time beating up on the Federal Reserve for their "inflation is transitory" stance and inability to accurately forecast. The Fed has held the federal funds rate below inflation for 90% of the past thirteen years and their extraordinary accommodative policies/injection of liquidity that drove asset prices higher in the last decade and especially in 2020 and 2021 is seemingly drying up now. There is often a lag of higher interest rates as well as quantitative tightening, but recent signs show effects of liquidity going the other way. Overleveraged investors are scrambling to cover their bets; UK pension funds have had to be bailed out and we might see more of that here in the US; failing crypto exchanges like FTX are spreading into other asset classes; these are all potential signs of liquidity exiting the system and could compound what might otherwise be a garden variety recession.

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

2022 End of Year Survey

At ALTIUS, we support our clients reach their goals, and so we want your feedback on how we're doing! We'll be sending out our annual end of year survey for 2022 this January. The survey can be completed on a computer or mobile and should take about 5 min to complete.

New Year, Same Goals?

We hope you're ringing in the new year and are looking forward to the opportunities ahead. Our ALTIUS team prides ourselves on having a continued focus on goal setting, systematic progress, enjoying the ride and achieving. Each year we send out goal planning sheets* for our clients to consider accomplishments for the year ahead. Now is a great time to pull out your 2022 worksheet and review both the goals that have been achieved and those to be recalibrated for 2023. If you're anything like me, maybe your goal sheet has a section for 5-year goals too. Regardless of if you crossed off all your goals this year (and the next 4) or if you still have a list to conquer, take time to reflect and celebrate on how far you have come over the last 12 months. Cheers to a successful 2022 and a prosperous 2023 ahead!

My 2023 Goals			
HEALTH:			
1. <input type="checkbox"/>	2. <input type="checkbox"/>	—	
3. <input type="checkbox"/>	4. <input type="checkbox"/>	—	
FAMILY/RELATIONSHIPS:			
1. <input type="checkbox"/>	2. <input type="checkbox"/>	—	
3. <input type="checkbox"/>	4. <input type="checkbox"/>	—	
MONEY:			
1. <input type="checkbox"/>	2. <input type="checkbox"/>	—	
3. <input type="checkbox"/>	4. <input type="checkbox"/>	—	
PURPOSE/CAREER:			
1. <input type="checkbox"/>	2. <input type="checkbox"/>	—	
3. <input type="checkbox"/>	4. <input type="checkbox"/>	—	
RECREATION/TRAVEL:			
1. <input type="checkbox"/>	2. <input type="checkbox"/>	—	
3. <input type="checkbox"/>	4. <input type="checkbox"/>	—	
PERSONAL GROWTH & INTERESTS:			
1. <input type="checkbox"/>	2. <input type="checkbox"/>	—	
3. <input type="checkbox"/>	4. <input type="checkbox"/>	—	

Courtesy of ALTIUS Financial, Inc. www.altiusfinancial.com 303-584-9271

Our Goal Planning sheets for 2023 will be in the mail early January 2023 to all clients. If you are interested in receiving a copy or would like to share an extra with a family friend, we have these sheets as a free resource on our website in the resources tab.

Opportunities Where?

Obviously, no one can forecast with any degree of certainty how the markets will perform in any calendar year, and we remain confident that stocks (businesses) are one of the best ways to defend and grow your capital over the long run. You should be suspicious of any "experts" who claim to have such a clear crystal ball. But given the murky situation, 2023 might be both very volatile and a great opportunity to add risk to our portfolios.

Though we are still a bit underweighted stocks generally, and overweight hedging strategies, short term cash equivalents and precious metals, we do think there's a decent chance those allocations will shift some this year. We've been talking about the opportunities in emerging markets but have been cautious to deploy much there given the war in Ukraine and the disastrous COVID Zero policies of China. There is much more opportunity in the bond markets now that interest rates are up and despite my concerns that there could be more pain coming in that area, we'll be selectively increasing allocations to fixed income securities. We still are focused on value and to some degree, dividend paying stocks as there's no better evidence of a company doing well than issuing a consistent cashable check.

Please do make note of our client events and Capital Market Outlook workshops where we go into more details about both the prevailing market conditions, the underlying causes and our strategies. We'll look forward to seeing you in 2023!

Social Security 2023 – COLA Increase Kicks In

Starting here in January, Social Security beneficiaries will see an 8.7% increase to help offset inflation and its effects on day-to-day costs. This means a \$146 increase in the average monthly benefit for most retirees. Meanwhile, Medicare Part B premiums will shrink back about 3% to \$164.90, down \$5.20 from last year; since these premiums are typically taken from Social Security benefits, that also bumps up the monthly payout. While many retirees rely on Social Security for a significant portion of their retirement income, it's important to remember those who collect payments while still earning income from work or some other source. Those still earning such income may want to consider adjusting their tax withholding. You may also want to consider re-evaluating your own spending/savings priorities for the year.

Taylor's Take: No LUV for Southwest



Did you travel over the holidays to see loved ones? Maybe you decided to escape the weather to travel somewhere warm? With the recent freezing temps delaying and stopping airline flights many families struggled to reach their destination on time for the Holidays. For those who did arrive at their holiday destination, the challenge especially for many Southwest (Stock Ticker: LUV) passengers became the struggle to find a flight home. I was fortunate to arrive in Atlanta to spend the holidays with my new in laws, but our return flight was cancelled with no available return flights within the next week. With our scheduled move the

following day it was urgent that we arrived home before the movers, so I quickly splurged for the last available seat on an alternative airline.

Did you have a similar experience in the last few weeks? I sincerely hope not, but if so here are some next steps to hopefully recover incurred expenses in the recent chaos. First, make sure you are refunded for your cancelled flight by [following this link](#) and inputting your information. The link will also take you to baggage recovery if you are missing luggage. Next, save your receipts from any incurred travel expenses and submit them via email through the [Expense and Reimbursement Request page](#). Lastly, if you have additional frustrations, I'd suggest giving the company a call. Be aware that you may find yourself on hold with many others.



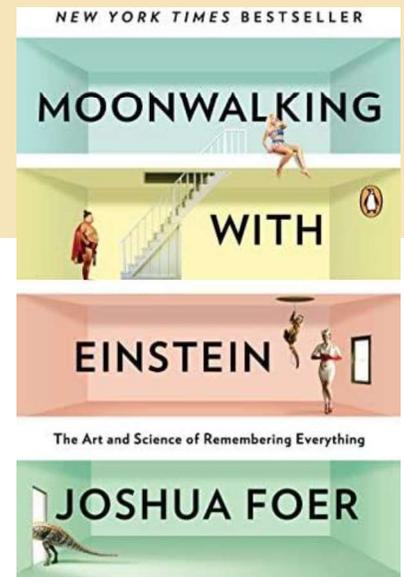
The CEO of Southwest, Bob Jordan, also sent an email this week apologizing for the problems and has issued 25,000 points to each flyer who experienced travel delays. Make sure to check your email for the link and access code(s) to claim the points. These points will need to be claimed into your frequent flyer account before the end of March otherwise this offer will expire. Once the points are in your account they will work as all other southwest airline points without expiration.

So, what happened anyways? The reason that Southwest Airlines had so many more cancellations this holiday season is attributed to two major things: Southwest operates on a point-to-point, rather than a hub-and-spoke system which involves lots of airplanes all arriving and leaving a hub city within a specified time frame to better enable transfers. Second, it uses an older software system that works just fine most of the time but could not handle this extreme weather event. In the chaos of this storm, their scheduling systems were informing the company of where pilots, flight attendants, and employees should be based on the planned schedules. Unfortunately, this wasn't tracking employee's actual whereabouts and led to employee supply chain confusion. To resolve the scheduling discrepancies, Southwest opted for flight cancellations and is now suffering from the resulting bad PR.

One thing that most headlines are not recognizing is that prior to the enormous storm, Southwest had earned a very positive reputation for its high efficiency and customer service, because of it's using their point-to-point system which allows shorter average flight times, saving fuel and labor costs which get passed on to their passengers in lower ticket prices. Every business must make tradeoffs between efficiency and flexibility - what makes a company everyone's favorite this year may make them susceptible to much more difficult conditions the next.

Book Recommendation – Moonwalking with Einstein: The Art and Science of Remembering Everything

Our ALTIUS Team is reading and discussing this [one](#) and I didn't really have any expectation about the book but have gained a new appreciation for how people remember things. Everyone knows someone who has an incredible memory....or at least a vivid imagination...but I didn't realize how the two are so linked. Sadly, most of us know someone whose memory is failing too, and I thought, if nothing else, this book would be good for tips and tricks. I think of myself as having a good memory, at least for some things, but have often been impressed by actors and orators who've memorized long speeches or scripts.



It's a fascinating read and goes into how "memory athletes" train themselves to memorize shuffled decks of cards, very long sequences of numbers in very short time periods, hundreds of photos of faces with names, etc. The book also has some great anecdotes about savants and mnemonists. But what I found most interesting is how much our technology, all the way from Gutenberg's printing press to today's smart devices, has, in a sense, made our minds or at least our memories weaker. We've basically outsourced our memories to this technology. Modern education, by de-emphasizing or denigrating memorization, has also encouraged this trend. The good news is that anyone can strengthen their memory and the book does deliver on using various techniques. Hopefully, I'll remember to use them.

Happy New Year!

While there are many uncertainties and challenges before us, we are more excited than ever about our ability to help you reach your goals in 2023. As I mentioned throughout the newsletter, there's a lot of opportunities coming up in 2023 and the team at ALTIUS is prepping for a great year just like I hope you are as well. I hope that your new year has started out strong, and only gets better from here.

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