



November 4th, 2022

Federal Reserve Still Hawkish

Financial markets stabilized somewhat over the past few months, but there is still much volatility and potential downside to both the economy and markets going into year end.

The big concerns for investors are still inflation, a potential looming recession and the outcome of the mid-term elections. We saw another 75-basis point interest rate hike from the Federal Reserve this week and that makes it difficult, especially for growth companies, to meet earnings expectations. Generally, if the Fed is still tightening and we have decelerating earnings, we also have the potential for more downside.

S&P 500® Quarterly Total Returns
(Mar. 1971 – Jun. 2022)

		Easing	Tightening
Profits	Accelerating	3.5% Avg return / 26% Probability of a loss	3.9% Avg return / 18% Probability of a loss
	Decelerating	2.6% Avg return / 29% Probability of a loss	1.7% Avg return / 43% Probability of Loss

Source: Richard Bernstein Advisers LLC, FRB, S&P Global, Bloomberg Finance L.P.

The chart above shows general odds of the S&P 500 gaining positive or negative returns for a calendar quarter based on observations of central bank tightening or easing monetary policy and earnings growth accelerating or decelerating from 1971 through mid-2022. The challenge for the Fed is that they seem way behind with the real Fed Funds Rate (nominal rate minus inflation) still at historically low levels. As I pointed out in our workshop recently, the Federal Reserve is now on a record pace with both the frequency and size of rate hikes. Some economists think they are going too far, too fast. They're trying to catch up quickly and ideally, there would be some kind of "soft landing" or "goldilocks" scenario that hits it just right but that's hard to do with...

Quote of the Day:

"The Stock Market is the story of cycles and of the human behavior that is responsible for overreactions in both directions."

– Seth Klarman

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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Federal Reserve Still Hawkish (cont.)

such a large and dynamic economy as the US and with the headline inflation numbers seeming to be stubbornly high.

In this scenario our strategy remains mostly unchanged from early in the year: still focusing on diversification through high quality, reasonably valued, dividend paying companies that have pricing power. We also have an emphasis on commodities exposure (including more recently agriculture/food commodities), the energy sector and precious metals.

Year End Reminders: Trading & Tax Loss Harvesting, Forms, and Client Meetings

- Just a reminder that you may see trades to generate realized tax losses in your portfolio heading into year end. Mike takes this time to reevaluate the potential tax situation in our client portfolios and often it's advantageous to generate losses that can offset current realized gains or to "bank" them as carryforwards for future years. Some years, it's wise to take gains off the table, some years it's better to realize losses and reallocate to similar exposure holdings. If you have any questions about any potential taxable gains or losses in your account, please feel free to reach out and we are happy to discuss.
- Each year heading into the holiday season we find that TD Ameritrade receives an overflow of paperwork. It's a natural part of the calendar year end and many people's tendency to procrastinate, but stresses people and systems. If you are in need of submitting additional paperwork or meeting retirement contribution/distribution deadlines for your investment account, please keep in mind that we will want to get forms in sooner rather than later to beat the year end paperwork traffic.
- In the last couple weeks of the year heading into the holiday season, your ALTIUS team halts client meetings to accomplish crucial year end tasks and planning. Please keep in mind that our meeting availability will begin to book up faster heading into the holidays and if you are interested in scheduling your financial review with Mike and/ or Taylor, schedule soon. Should you need to reach us for any urgent matters or changes at any time regardless of our scheduling availability please do not hesitate to call our office.

Join Us for Holiday Cheer!

We're optimistic that our office renovations will be complete and given all the calendar demands, we want to make sure you have it scheduled to come by for our **Holiday Open House on Tuesday, November 29th from 4-7pm**. Look for more details from Jennifer soon.

Biden's Student Loan Forgiveness Update

As I'm sure many of you reading this already know, President Biden's Student Loan Relief has been halted in the 8th US Circuit Court of Appeals. Although it has been halted, the application is still open and it seems like the Biden Administration is confident that student loan borrowers will start seeing forgiveness payments in the next few weeks. If you, your family, or any of your friends have any questions about Biden's Student Loan Forgiveness and how it could affect your financial situation, please reach out to us.

Interest Rates & I-Bond Updates

We've been talking to clients in review meetings, our workshops, through this newsletter, etc. about I-bonds and it's interesting that there was such a rush in the last few weeks that the TreasuryDirect website reportedly crashed multiple times. Investors were flocking to the site to get the higher rate. Obviously, the extremely low interest rates over the past decade have punished conservative savers and incited much higher risk taking than normal. This is finally changing, and you can now get 1-year rates on CDs and regular Treasury Bonds at over 4% as of this writing. For those who missed out on the higher yielding I-Bonds, don't feel too bad because there are significant restrictions: low maximum investments (\$10k/person) and that yield only lasting for 6 months, despite it being nominally a 30-year bond.

The Nov 1 rates for I-Bonds are expected to drop to 6.47% but will still be a favorable interest rate compared to other fixed income investments. As mentioned, the contribution is limited to \$10,000 per individual, but with a tax loophole individuals can contribute up to an additional \$5,000 by directly using tax refund dollars. You will need to tell the IRS and complete the tax form 8888 and then the IRS will send you your paper bonds.

Other options to maximize contributions include buying the I Bonds for others. Since these are purchased and tracked based on SSNs you could purchase additional \$10,000 bonds through a business, Trust, LLC, or even for additional family members. Please let us know if you have any questions about how to deploy cash/short term assets or want us to shop CD/bond rates for you.

Taylor's Take: What's Pontera and Do I Need to Sign Up for It?

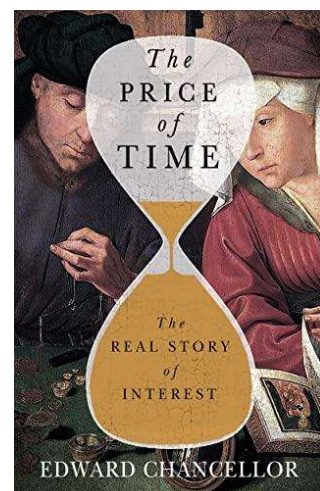
Many of our clients have connected their current employee benefit retirement plans to a platform previously called FeeX for ALTIUS to reallocate their retirement investment holdings to better compliment their overall portfolio and risk tolerance. For those of you who have been familiar with FeeX, they have recently rebranded, and the website is now called Pontera. If you have connected accounts with us there should be no change for you as a result of this rebranding. However, you may have received recent emails from Taylor to reconnect your account if there has been any disruption in the connection.

****Reminder:** FeeX, now Pontera, is not the same as your My Empowered Future Planning (powered by eMoney) webpage. The latter focuses on aggregating all plan and investment details to consider your overall financial picture & is entirely non-transactional. Pontera allows for direct trading and allocation management in your retirement accounts. Please feel free to reach out to Taylor if you have any questions about your connections to either platform.

Book Recommendation –The Price of Time: The Real Story of Interest

This recently released [book](#) by Edward Chancellor is quite timely, given the current interest rate environment. He is telling the story of lending and borrowing from before money had been invented all the way to our current sophisticated financial systems and economies. It's not light reading but it is accessible and highly informative.

Also, our team is just started reading our new selection, *Moonwalking with Einstein*, which has nothing to do with finance and everything to do with improving your memory. We're looking forward to discussing it and potentially sharing what we learn.

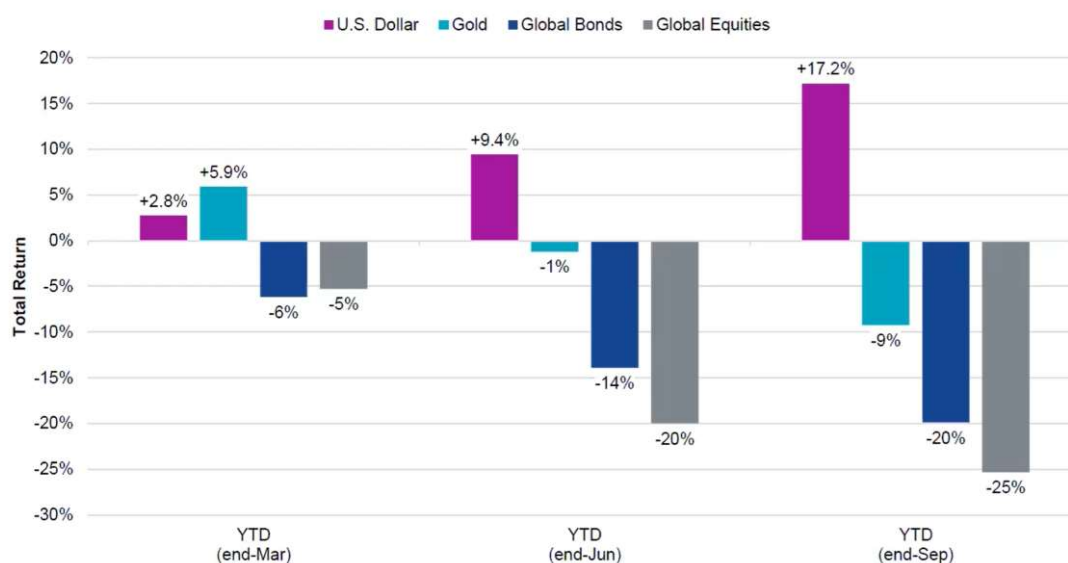


Gold Update

During our recent workshop, I mentioned there was much to talk about the gold and precious metals markets but that we had to cut some of that out of the presentation due to time constraints and I wanted to include a little of that update here in the newsletter. The price of gold did quite well in 2021 coming out of COVID lockdowns and peaked in March of 2022 due mostly to the Russian invasion of Ukraine. Since then, gold has been mostly in a downtrend, and this has definitely affected ALTIUS client portfolios.

It's amazing to me how strong the U.S. dollar has been and while I was the beneficiary of that while traveling in Europe, it has meant more difficulties for gold itself, as the chart by VanEck below shows:

2022 Year-to-Date (YTD) Return of Gold vs. U.S. Dollar, Global Equities & Global Bonds



While it is frustrating that our relative out-performance in most equity holdings we've had this year, our portfolios have been held back because of gold exposure. It is interesting to note that, in terms of most other major currencies, gold has performed well, to say the least, this year. The dollar strength is what is mostly causing gold to underperform in the U.S., and it will be interesting to see given the inflationary environment, whether the dollar can remain so strong. It's difficult to say in the short-term but my view is that long-term, the fundamentals support the case for higher gold prices or at least resumption of its safe haven status including the continued escalation of Russian/Ukraine conflict, a threat of global recession, Fed policy reversal or lack of resolve, and the ever-looming debt crisis we'll hear more about next year. It seems that the market is pricing in the Federal Reserve being successful at taming inflation and I'm just a little skeptical of that sanguine outcome.

As with any holding or asset class, there can be no assurance of such performance and our view is that both commodities and precious metals are part of a well-diversified investment portfolio.

Politics & Geo-Politics

In our recent workshop, we hosted a panel of 3 local political experts that represent a wide swath of political viewpoints. I asked them to give us some background and how they recommend voting on the various ballot issues in Colorado as well as major state-wide candidates and the national trends. We thank our panelists and all who joined the presentation on Zoom, and we received overwhelmingly positive feedback from our clients. I take that as a real compliment since we have clients all over the political...

Politics & Geo-Politics (cont.)

spectrum. Several of you couldn't make it live but here is a sampling of comments of people who watched the recording:

"I want to thank you for holding this workshop and for recording it.... I found it was extremely pleasant and enjoyable to listen to three people of different opinions who were interacting so respectfully.

- Anne H.

"I watched the recording of the Mid Term Election Panel Workshop. I was very impressed with it. I really appreciate seeing and listening to these people that disagree on many things while still showing respect for each other..."

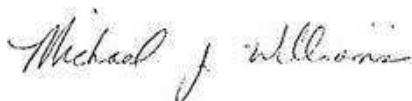
- Barney E.

Many of these the ballot issues and election outcomes will affect the performance of the economy and sector performance over the coming months and years. While I often say it's a mistake to overemphasize your own political view when investing, elections can and do affect the future. Ballots are already in the mail so let us know if you'd like to receive a link to the recording or you can view the [video on our website](#).

On the world scene, there doesn't seem to be any clear outcome to the Russian-Ukraine war and aside from the great horror of Putin's invasion and consequential human tragedy, it looks like it will be a very difficult winter for many Europeans with refugee challenges and high energy costs/shortages. China seems to be weakening and their zero-COVID policy has wreaked havoc on their own economy. While I was in Europe, there were multiple changes in leadership, the most notable being UK Prime Minister Liz Truss resigning after only 7 weeks (replaced by Rishi Sunak) and the Italians going with Giorgia Meloni as PM there. Virtually every country in the world is experiencing rising inflation, low or no growth and massive debt/GDP ratios.

Have A Great Thanksgiving!

By the time you're reading this you'll likely have given away or eaten most of those Halloween treats and are potentially making preparations for Thanksgiving. Even though it's a difficult environment for the economy and investment markets, it's a perfect time to be taking inventory of all the blessings we have. We at ALTIUS are so grateful to have you as clients and we take very seriously the trust that you place in us. Please don't hesitate to reach out if you have questions or would like to discuss anything.



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