THE SYLVESTRE - WALL GROUP

of Wells Fargo Advisors

Alan Sylvestre

I hope this communication finds you well and enjoying some time during the summer months to relax.

Over the last number of months, since the last "From the desk of" I have sat down many times to set pen to paper and share thoughts, only to stop from a complete communication and store my notes for another day. I always promised not to use the platform to simply put out random thoughts, but rather to supplement our individual meetings, most particularly during times of stress. Having said that, I also know in absence of information, we all tend to fill in the blanks with our own context.

Since my last communication, we have seen things play out mostly as we would have expected. The timing of a potential excess return in bonds may be delayed a bit, but the major investment markets (think stocks and bonds) have stabilized while they digest the potential for interest rate hikes to stop and what the effect of those hikes will be on the economy (will we have a recession or not, earnings from corporations, unemployment rates, etc.).

Most returns year to date in 2023 are particularly good when considering the income that's generated as well, referring to total return. Diversified portfolios have produced positive rates of returns that are exceeding planning assumptions. Mathematically, these returns are necessary to help recoup the difficult 2022 year when diversification seemed to not work. The potential extremes in returns to be seen in 2023 continues the trend of **volatility.** Long term investment averages may continue to be similar to those in history, and the "ride" to get them is much bumpier!

For investors that are **accumulating**, volatility is your friend. Invest in times of weakness and be consistent with your investments (think monthly type deposits).

For investors that are near a goal or need **distributions,** volatility can be your kryptonite. Diversification, income from your portfolio, and a good **budget** can help shield you from its' effects.

The increase in income (as I wrote about in November of 2022) can be used to reinvest or to provide cash flow. This style of investing helps reduce the effect of **volatility** when the cash flow is tied closely to a **budget.** Budgeting will help dictate whether you reinvest or take your income as cash to support distributions. During all times, budgeting has been important, and considering the challenges with inflation and volatility in the marketplace, we have highlighted it as a major factor in the planning success. You can't control the markets, but you can control your budget. As inflation mitigates and our emotions settle, it would continue to be wise to re-assess household spending and to make sure it is in line with the cash flow or a modest distribution from our portfolios (think a bit under 4%). This connection helps allow the units of portfolios to recover (as you don't have to sell) and allows our team to help re-set the income in the portfolio in a controlled fashion (when units are not down). The math I shared in my last communication was quite shocking when looking at the **positive** impact of higher rates on portfolio income.

Some **statistics** as of November 30, 2022 versus July 11, 2023:

- ✓ The S&P 500 was at 4,080 (as of 7/11/2023 it is at 4,439, or **+8.1%)**
- ✓ Bloomberg U.S. Aggregate Bond Index was at 2,058 (as of 7/11/2023 it is at 2,075, or **+.01%**)

- ✓ 1 year CD's have potentially peaked at over 5% (compared to under 2% just a year ago).[1]

The stock market indexes have been moved significantly by a few industries (think tech) and the bond market is currently digesting the potential of a couple more rate hikes.

The process of taking taxable losses in 2022, investing cash in higher yielding money markets and CD's, aligning budgets with income, holding high quality units during volatile times, and adjusting fixed income portfolios to benefit from addition yield (without taking additional risk) has been a **good** combination. We will continue to focus on that strategy as we align portfolios to meet the planning objective of each of you. There is truly not a one size fits all in the way of implementing portfolios.

From a big picture perspective, in addition to a significant amount of client meetings, we have met with many of our outside partners. Those meeting focus on details associated with the economy, asset classes, and their specific analysis of the portfolios we manage. Their comments as it relates to the risk adjusted returns and our portfolios structuring has been reassuring. As it relates to moving forward to take advantage (or mitigate risk) of the changing economies, most are echoing small steps that we believe as well. In 2023, to continue to help in the recovery process for portfolios: adding some duration to portfolios (that is to own bonds that mature at later dates) and owning more equities. The increase in equities (from a risk perspective) is likely later in the year, as we get better confirmation of where we are in the economic cycle. We expect more interest rate hikes (looks like the bond market may have priced those in) and some sort of correction in the equity markets over the next few months.

The most important activity we do daily is to connect with you and then connect your finances to help accomplish your goals, hopes and dreams. We work and take our responsibility of your needs first. We recognize that your success needs to occur in all market cycles, whether they are up or not! Please continue to connect with us on how we can better serve you. Until then, my hope is that you enjoy each day!

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[1] APY = Annual Percentage Yield, subject to availability, as of 7/112023. Generally, CD's may not be withdrawn prior to maturity. CDs are FDIC insured up to $250,000 per depositor per insured depository institution for each account ownership category. CDs may be issued out of state institutions. Minimum purchase of $1,000 face value. Periodic interest payments are not reinvested into the CD.

***Bloomberg Aggregate Bond Index* or the "Agg" is a broad-based fixed-income index used by bond traders and the managers of mutual funds and exchange-traded funds (ETFs) as a benchmark to measure their relative performance.**

***S&P 500 Index* is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market. The Index is unmanaged and not available for direct investment.**

Asset allocation and diversification are investment methods used to help manage risk. They do not guarantee investment returns or eliminate risk of loss including in a declining market.