

The ACM Journal

THE SLIPPERY SLOPE

Excuse the pun, but skiing has been a slippery slope for me over the past few years. It was a big part of my life many years ago, then not at all, and now it has occupied far too big a role once again.

I was practically born on downhill skis but defected to cross-country, or Nordic skiing, in high school and was consumed with racing and training. I competed a little in college as well but stopped after I was offered a coaching position at one of the local high schools during my freshman year. I coached for three years until I graduated and left town.

I don't like to admit it in professional circles, but when I graduated college, my first job was as Head Nordic Ski Coach at St. Michael's College in Vermont. I think my salary was around \$3,000 per year. I tried to cobble various jobs together to supplement my income but couldn't make any sort of living. I thus moved to Boston and started down the suit-and-tie, office job path.

continued on page 6

PORTFOLIO REVIEW

After experiencing a year of weak returns, both the stock and bond markets got off to a strong start in the first quarter of 2023. Core large-cap and developed international stock indices generated returns in the high single digits, and bonds posted their strongest quarter since the first quarter of 2020.

Reversal in Sector Returns

Technology stocks started the year with a rebound after drastically underperforming the S&P 500 in 2022. The performance was driven primarily by mega-caps such as Apple, Alphabet, Amazon, Meta, and Microsoft, all of which posted double-digit returns. Conversely, energy stocks, after gaining 65% in 2022, were one of the worst performing sectors this quarter as oil prices eased from their prior year highs. Financials also took a hit this quarter and were down 5.6% as the banking crisis unfolded in March.

The sector exposures of various factor funds led to some underperformance this quarter after a relatively strong 2022. Value stocks and low-volatility stocks were negatively impacted by their overweight positions in financial services, the worst performing sector this quarter. Meanwhile,

momentum stocks suffered from their overweighting energy and healthcare, the second and third poorest sectors in the first quarter. While factor performance overall was subpar this quarter, valuations for these funds remain attractive, which bodes well for future gains.

Turmoil in the Banking Industry

The banking sector experienced an extremely volatile month in March due to the failure of several banks, including Silvergate, Silicon Valley Bank, and Signature Bank, as well as UBS's purchase of Credit Suisse to prevent its collapse.

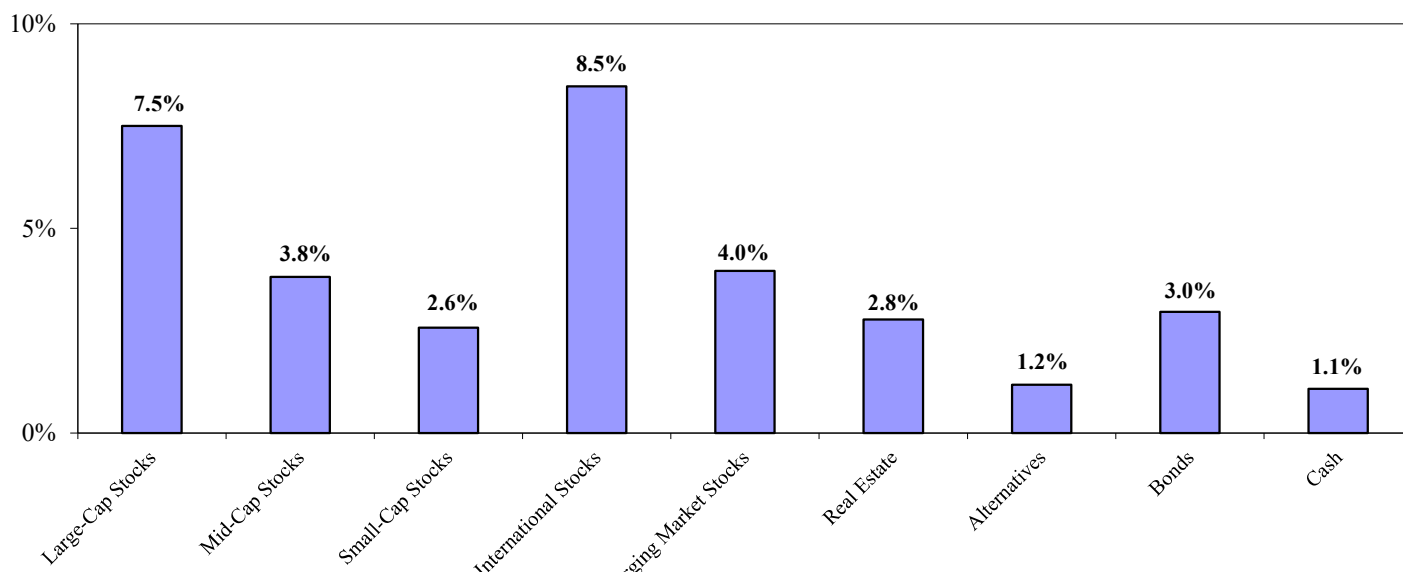
Banks hold large portfolios of bonds, and with the rise in interest rates last year, they were estimated to have \$620 billion in unrealized losses as of yearend. Making matters worse, as interest rates rose, depositors pulled their cash in search of high yields elsewhere (see Chris's Corner). This created a demand for cash that banks couldn't meet without selling portions of their bonds and locking in losses. Bank runs and failures ensued. The FDIC stepped in to make sure depositors didn't lose money, but confidence in smaller banks has been shaken.

Regional banks still saw hundreds of billions of dollars of outflows

continued on page 2

IN THIS ISSUE	
The Slippery Slope.....	1
Portfolio Review	1
Is It Time For Gold	3
Chris's Corner.....	4
Compliance Corner	4
Are Stocks Too Expensive	5

FIRST QUARTER 2023 ASSET CLASS RETURNS



Large-cap, mid-cap, and small-cap stocks are represented by the S&P 500, 400, and 600 indices. International and emerging market stocks are represented by MSCI indices. Real estate is the Dow Jones US Select Real Estate Index. Bonds are the Bloomberg U.S. Aggregate Bond Index. Alternatives are represented by the HFRI Fund Weighted Composite Index. Cash is the yield on the 3-month T-Bill.

PORTFOLIO REVIEW

continued from page 1

in March that made their way into larger, “too big to fail” banks, as well as higher-yielding Treasury bonds and money market funds. This resulted in regional bank stocks falling 24% for the quarter, while the “Big Four” US bank stocks pulled back only 5%.

Longer-term the crisis will likely lead to tighter lending standards, which could limit corporate earnings growth, weigh on economic growth, and ultimately impact stock returns.

Impact on Treasuries

Treasury yields saw a similar level of volatility, but in a good way, from the banking crisis in March as investors fled to safer assets. The 10-year Treasury yield fell from over 4% at the beginning of March to just below 3.5% to end the quarter. This helped recoup losses bond investors experienced last year.

However, this further inverted the Treasury yield curve, a historically reliable recession indicator for the United States. The Fed has indicated that it will likely raise interest rates one more time this year before

holding steady at a target range of 5.00% to 5.25% until inflation is meaningfully reduced. We’re not holding our breath that they’ll get inflation under control that easily.

Despite the turmoil in the banking sector, the first quarter was solid for investors. There is still much to worry about in the economy and the world as a whole. However, the quarter was a reminder that you can’t predict capital market returns. Even when bad things happen, like bank runs, the markets can still hang tough. It can be tough to hang in there, but a long-term perspective is still the best bet.

IS IT TIME FOR GOLD?

Gold has started to rise lately, and with inflation still running hot, we know conversations will shift to gold before long. Gold has been used for centuries to protect wealth and diversify portfolios, with a reputation as a safe-haven asset. Still, it hasn't always lived up to that reputation. Is now the right time for gold? It depends.

One of the primary benefits of investing in gold is its ability to provide a hedge against inflation. When inflation rises, the logic goes, so does the price of gold. This can be particularly beneficial for investors who are concerned about declines in other asset classes when inflation flares.

However, there have been periods of high inflation when gold hasn't been so great. In fact, just last year inflation ran at 6.5% while gold barely budged. Gold was a strong inflation hedge in the late 1970s, rising to a record high. Though, in 1980, as the Fed raised rates to combat inflation, gold fell by more than 30%.

Over time, the correlation of gold to inflation has run at only around 38%, meaning the relationship between inflation and gold price changes has been fairly weak. So, while gold sometimes works to hedge inflation, it isn't as reliable as we'd like. Over longer, multi-year periods, the story is even worse. From gold's inflation-adjusted high in February of 1980

to its inflation-adjusted low in March 2001, gold lost 82% of its value in real terms. Not exactly a protector of purchasing power.

The same is true with stock market downturns. During times of economic crisis, investors often flock to gold as a safe-haven asset. This was particularly evident during the early phases of the Global Financial Crisis. Gold initially skyrocketed in 2007 as investors sought to protect their wealth. However, as the crisis unfolded, gold fell almost 30% peak-to-trough in 2008.

In our opinion, the biggest detriment to gold is that it has been so volatile. Declines of 30% to 50% have not been unusual throughout history. Global events, economic news, and investor sentiment can all weigh on gold in unpredictable ways. In 2013, for example, the price of gold dropped 28%, largely due to concerns over the Federal Reserve tapering its quantitative easing program. Will the Fed cut rates if we have another financial crisis? Will gold then rise or fall? No one knows.

Gold's returns for long-term investors haven't been that great, and the short-term volatility can be substantial. Gold is, therefore, probably best used as a shorter-term trade rather than a long-term investment. And that can be problematic if you don't believe in market timing.

If you believe in market timing, now may be a good time to buy gold. Gold is usually priced globally in US dollars, so a weak dollar can increase demand for gold as it becomes cheaper for investors in other currencies. We saw this scenario play out in 2020 when gold prices surged by over 25% as the US dollar fell to multi-year lows.

There is certainly plenty of evidence that the US dollar could be in for a tough time in the coming years. If that transpires, it would not be surprising to see gold rally from here. However, it's important to reiterate that there are other factors at play as well. Inflation, interest rates, and geopolitical events can all influence the price of gold, so again, it is impossible to know which factor will be most important at any particular time.

There are ample reasons why we haven't used gold in our portfolios in the past. However, we realize the world may be changing and it could make sense for some investors to have shorter-term exposure to gold as part of their alternative allocation. If you think gold could be a fit for you, give us a shout and we'll discuss in more detail.

CHRIS'S CORNER

Chris is out of the office this week, so a more apt title might be "Mark's Musings." In any event, Chris and I spoke about planning topics, and agreed that cash management was the most important issue right now.

For the past several years, it has been impossible to get any sort of return on cash balances. The Fed Funds rate was literally zero for a while, and banks, money market funds, and CDs all paid close to zero percent interest on cash balances. You could leave money in your bank account because there wasn't much opportunity cost.

However, that has changed over the past year as the Fed has aggressively raised short-term interest rates. Unfortunately, banks have not kept up, and interest paid for checking and savings accounts is still quite low, even if they are up from zero. Holding large cash balances in such accounts is therefore no longer the best course of action.

There are high-yield, on-line savings accounts with interest rates as high as 4.75% currently, but with recent bank failures, you should be careful about which bank you choose if you pursue this approach. FDIC insurance protects smaller deposits, but for those keeping large amounts of cash, we would be very selective about the institution we select.

We have seen 18-month to two-year CDs with rates over 5% recently. CDs constrain your

liquidity somewhat, but if you are planning to sit on cash longer-term, this is not a bad option for trying to keep pace with inflation.

You can compare rates for high-yield savings accounts and CDs at www.bankrate.com or www.nerdwallet.com.

We have been buying Treasury bills for some clients. Rates were significantly over 5% for 6-month T-bills but have now fallen to just under 5%. This is still not bad, and T-bills generally offer more liquidity than CDs.

For full, daily liquidity money market funds and Flourish Cash

may offer the best approach. As an example, the Vanguard Federal Money Market Fund currently has a yield of 4.75%. Flourish offers a 4.4% yield with full FDIC protection on fairly large balances (\$1.25MM individual / \$2.5MM joint).

The world has changed over the past year, making things more complicated for savers. However, the good news is that you can finally earn a reasonable return on your cash. There are a number of options, each with its own nuances, so feel free to call us if you would like to discuss what might be right for you.

COMPLIANCE CORNER

We are in a highly regulated business, which causes a few headaches, but also offers our clients important protections. There are certain disclosures that we are required to make regularly regarding our policies and procedures, including:

The nature of our business requires us to obtain sensitive personal and financial information from our clients. As a registered investment adviser with the United States Securities and Exchange Commission (SEC), we must adopt policies and procedures to protect this nonpublic, personal information. Our policy mandates that ACM employees are prohibited from disclosing nonpublic, personal information to any person or entity outside of our firm, except as authorized by our clients or an appropriate regulatory institution. We also take all reasonable measures to ensure secure transfer and/or disposal of documents containing sensitive information about our clients. We would be happy to send you our full privacy policy or you can find it posted at our web site and in the ACM portal.

Additionally, registered investment advisors are required to file Form ADV with the SEC or state securities regulators on an annual basis. A copy of our updated Form ADV is available at any time upon request, or it may be downloaded from our website. We encourage each of you to read it. Please let us know if you would like us to send you a copy.

ARE STOCKS TOO EXPENSIVE?

Is the stock market overvalued? For a long time, the answer was a definite yes. After last year's 18% decline, the S&P 500 is certainly more reasonably valued than it was, but still not cheap. The price/earnings or P/E ratio is commonly used to evaluate stock market valuation. This measures how much you pay (the price) relative to how much corporate profit you get (the earnings). The lower the price you pay, the cheaper the market.

The overall stock market currently trades at a P/E of 20.6. That's down from the peak of 2021, but still pretty high compared to historic levels. When the stock market really gets clobbered, such as during the Global Financial Crisis, the P/E ratio has fallen into the teens. During the late 1970s and early 1980s, it was below 10. However, P/Es below 20 have been relatively rare over the past 30 years or so. No one knows why, but a change in capital gains tax rates, greater familiarity and comfort with the stock market, or a higher overall liquidity level as the debt-to-GDP ratio has risen, are possible culprits.

In any event, today's stock market doesn't look particularly attractive, especially if you think the economy will slow, corporate earnings will get cut (which will drive the P/E higher the hard way), or a financial crisis may

unfold. That has left a lot of investors on the sidelines.

However, the overall stock market is not representative of all stocks within the market. There are pockets, quite a few pockets actually, where valuations appear very attractive.

Value stocks have been beaten up over the past decade or so as growth-oriented technology stocks have dominated the market. That is similar to what happened in the Dot Com Boom of the 1990s. However, those periods don't persist forever, and when the reversals come, they can be powerful. The P/E for large-cap value stock is less than 10. For small-cap value stocks it is even cheaper, at 8.1. No matter how you look at it, those are compelling levels. At some point, and it may already be happening, investors will recognize the opportunity presented by such cheap stocks, and the value sector will rise.

A similar dynamic is happening with international stocks. They are generally unloved at the moment because they too have underperformed the overall US stock market for many years. However, with a P/E ratio of 13.4 for developed international stocks and only 11.1 for emerging market stocks, it would not be surprising to see overseas stocks outperform the US in the coming decade.

Combining value and international is even more compelling with developed world value stocks trading at a P/E of 8.3 and emerging market value stocks sport a P/E of only 7.1. Even if earnings get cut in half and these P/Es double, the stocks will still appear quite reasonably priced.

If the overall stock market falls from here, which we consider fairly likely, value and international stocks will probably also decline. However, their low valuations should help insulate them from severe declines, and we expect that they will outperform growth-oriented stocks. So, today may not be the day they ring the bell to signal the market bottom, but for certain market sectors, this will likely be an attractive buying opportunity when we look back from a decade in the future.



THE SLIPPERY SLOPE

continued from page 1

That was it for Nordic skiing for roughly 20 years. Even when I moved back to Rochester, the demands of career, family, and home projects left little time for athletic endeavors. I tried to reengage in skiing when my eldest son Omar was little, but he didn't care for it, and it was many more years before skiing came up again.

Much to my delight, as Omar entered high school, he signed up for the Nordic ski team. Nordic is a huge sport in our little town, and we have a long history of success. There are a number of reasons for that, but chief among them is a coach, Bernie, who was around for 37 years. He holds more sectional wins than all the other coaches combined, by a factor of seven. He has led his teams to state championships many times and has even had a couple of skiers compete in the Olympics.

I knew Bernie from back when I coached at a rival high school. So, when Omar wanted to travel to a weekend race, and Bernie said there was no room for him, I asked if I could drive and take a few extra kids. Bernie was happy to have someone help with the driving, waxing, and general schlepping of equipment. It turned out he never had an assistant before who knew the sport well enough to help out, so I went on every weekend trip from then on.

A few years later, Bernie's actual assistant coach retired, and I offered to step in. It was a great job. It was every day, but I got

to be outside and work with the kids. As the assistant, I had no real responsibility and didn't have to deal with parents or administrative issues. I figured this was something I could do for a few years. Then, at the end of the season, Bernie sprung on me that he was finally retiring and that I would be the new Head Coach. That was two years ago.

Since that time, the coaching experience has been quite different. I still get to work with great kids and do fun activities outside. However, there is now a lot of logistics, administration, and parent politics. Coaching is one of the more meaningful things in my life at present, but from November to March, it consumes a lot of time and energy.

We have practice or high school races six days per week, and often in the heart of the season we travel to supplemental races all over the state, which makes it seven days per week. As I get older, the physical toll increases. Not only do I try to do most of the workouts with the kids, but there is a lot of equipment to handle and move around.

One of the more challenging components has been waxing skis. You have to wax differently for the various conditions, and there are two techniques: skating and classic, which require completely different types of wax. Before a big race I'll spend three hours each night for most of the week getting skis ready for our athletes. When I was in high school this wasn't so tough, but now you basically need

a degree in chemical engineering to figure out the various permutations and techniques to make skis fast.

All of this adds up to quite the challenge, and expectations were high. Not only was Bernie a very successful coach for 37 years, but I believe I am only the third head coach in the history of our school. I told Nipa when I accepted the job that we would have to move if I screwed this up, and I wasn't kidding.

I'm happy to report though that we haven't had to call the realtor just yet. I'm not sure I'd take a lot of credit for it, but our program has remained strong. In fact, our boys' team just became the New York State Champions for the second year in a row.

It is certainly gratifying to win, but the real fun is getting to be part of the kids' lives, joking with them, watching them develop as people and athletes, and experiencing their successes and sometimes failures. My son Amer is on the team for one more year, but I suspect I'll be that old guy, like Bernie, who sticks around for quite a while.

After all, it is a slippery slope.



Armbruster Capital Management, Inc.

(585) 381-4180

info@armbrustercapital.com

www.armbrustercapital.com

© Copyright Armbruster Capital Management, Inc. 2023.
Reproduction in whole or part without permission is prohibited.