

What to do at this Stressful Market time?

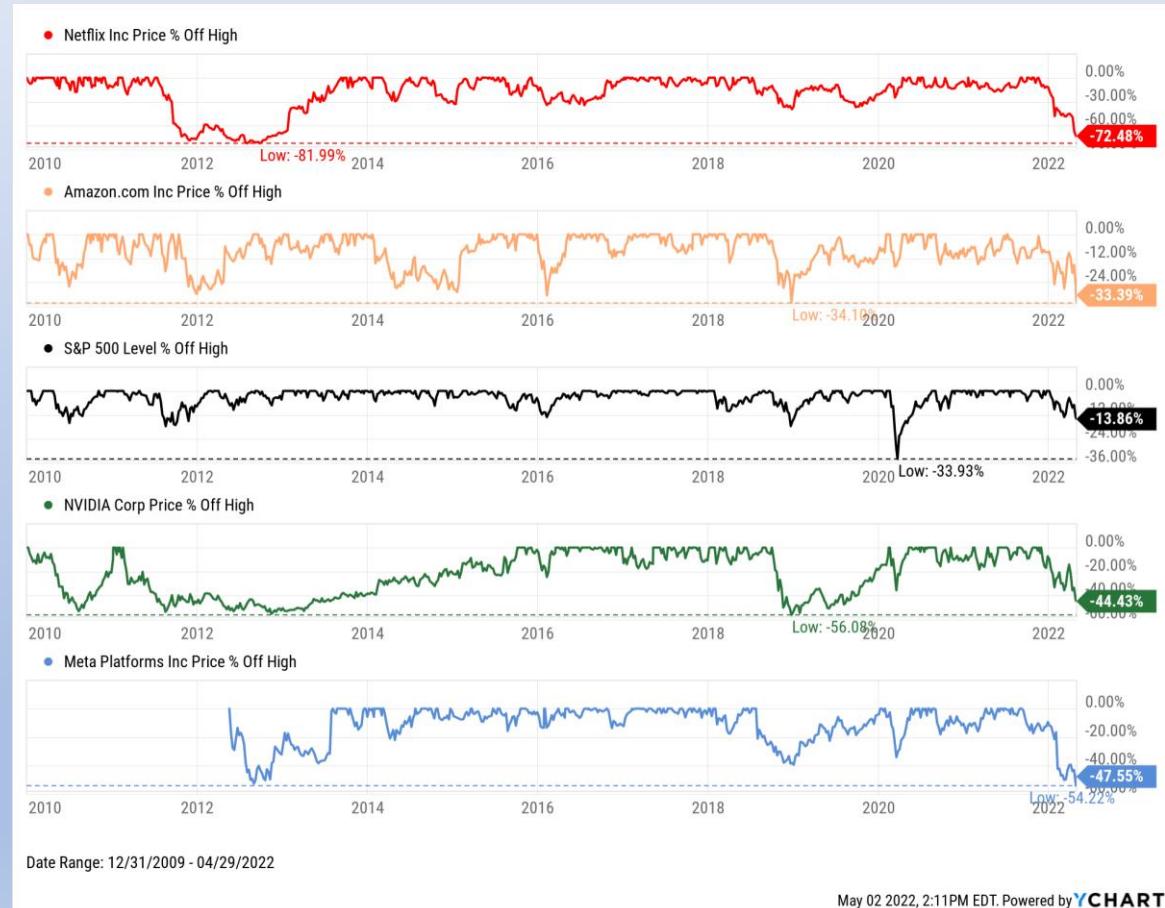
John O'Keefe

May 12, 2022

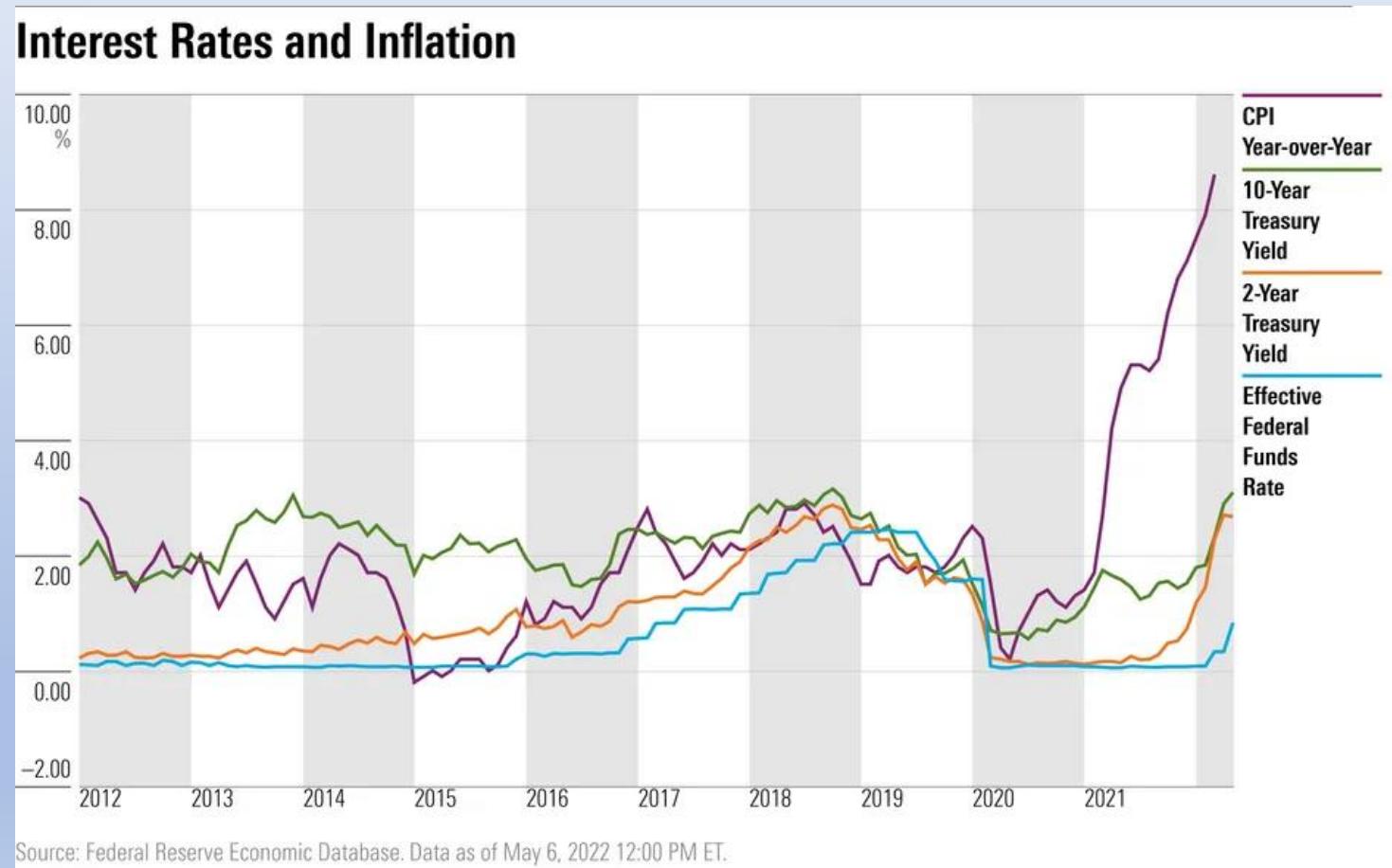
MS Market Performance



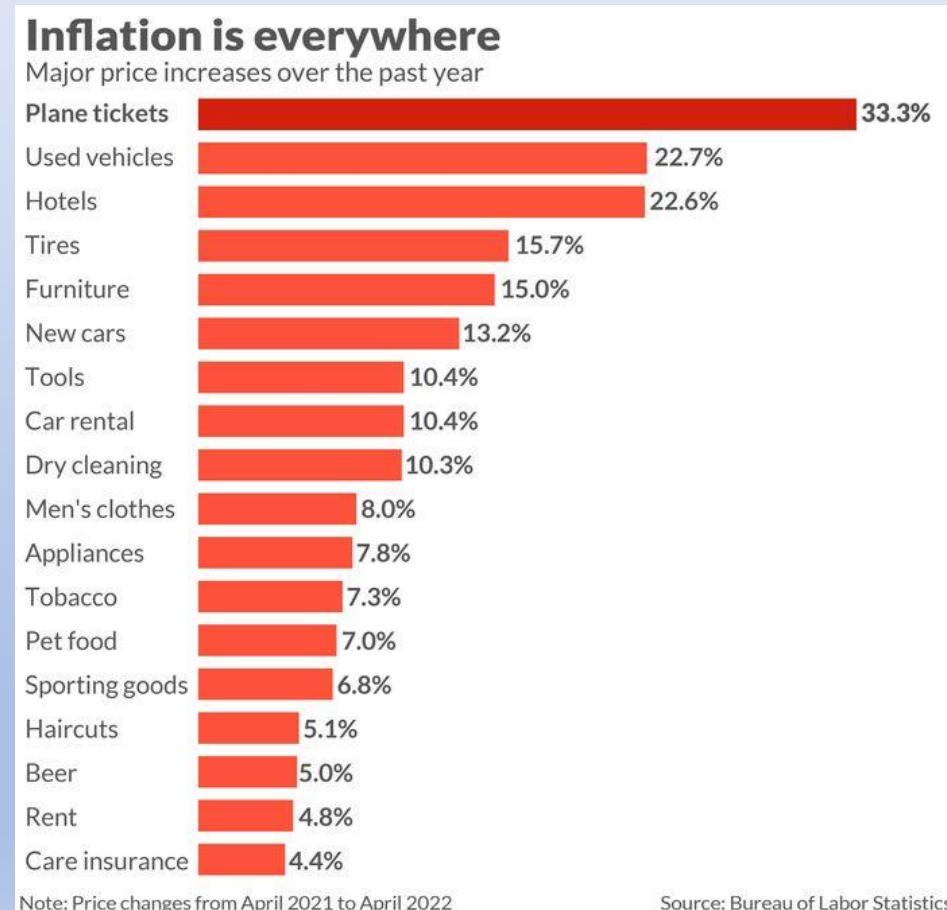
MegaCap Meltdown



Interest Rates & Inflation



So much for CPI estimates!



Potential Market/Fed Scenarios

- Economy ok but slowing down
 - Inflation 8.3% for April
- Fed Comments May 4 indicate they still are in denial
 - Blamed inflation on Putin & Covid; assumed no responsibility
 - Rate targets of 2.50-2.75% in '22 & 3.25-3.50% in '23 are ***negative real rates***
 - QE start date delayed from March until June
- A) “Soft Landing” with a mild recession, GDP, markets, & inflation recover during 2022
 - Markets recover in H2; Inflation is on a “path to be tamed”
- B) “Hard Landing” with a severe recession & recoveries in 2023-24
 - Tougher Fed rate increases & QE de-leveraging
 - Stagflation or even Depression follows
 - GDP declines, High unemployment, Deeper market declines

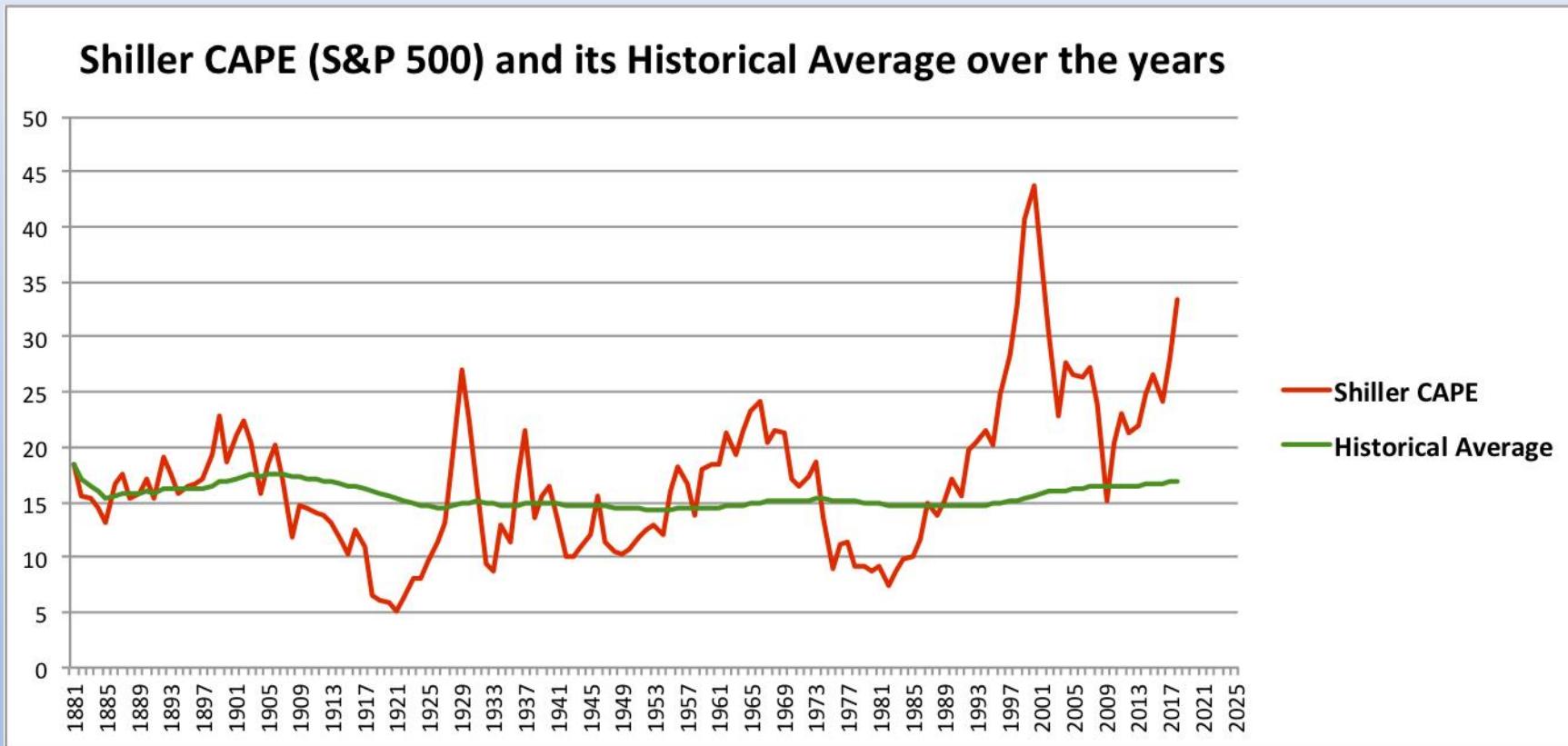
4 Reasons to Sell Stocks Now - Christine Benz

1. You're getting close to retirement & need to de-risk
 1. Your risk tolerance declines as you age
 2. Only sell if you are equity-heavy/need rebalancing
 3. Still have ~20 years from age 65
2. You have a short-term investment goal
 1. Aimed at younger investors with good profits to take; not us!
3. There's a chance you will capitulate as markets gets worse
4. You wish to offset tax losses & gains

What to do among all this Market Mayhem?

- 1. Sell into cash & buy on recovery
 - Risky & no roadmap
 - Feeling of having taken action
- 2. Remain “as is” & stay the course
 - Risky & no roadmap
 - Feeling of helplessness
- 3. Straddle the extremes
 - 1. Move to private investments
 - Avoid losses & volatility
 - 2. Move to precious metals
 - Hedge your bets
 - 3. Pivot bonds to high-yields & equities
 - Also MLPs, BDCs, Pref's
 - 4. Shift bond maturities to short-term
 - Cap your losses, earn low yields
 - 5. Reposition the public market portfolio
 - Hedge your bets

S&P 500 is NOT yet undervalued



Ratio on May 8 was 32.5 vs 44.2 all time high 1999

Reposition Your Equities more Defensively

- Long term, investment returns are expected to be mid-single digit range so this may be the time to lighten up public equities
 - Alternatives provide a risk premium in exchange for liquidity
- Rotate sectors out of Tech into Consumer Staples, Energy, HC, Utilities
- Buy shares in Physical assets to protect you from Inflation
 - Real Estate, Oil & Gas, Precious & Green Metals, Commodities, Materials
- Dividend ETFs
 - Faster div. growers beat higher div. payers
- High yield bonds, MLPs, BDCs, Pref's, et al
 - Look for bargains – many trading in the 60s & 70s
- Weight Value stocks vs Growth
- Weight Large cap vs Small & Mid cap; US vs Foreign

Select SPDR Sector ETF Performance

	3 mos	6 mos	9 mos	12 mos
XLP Consumer Staples	2.3%	2.7%	10.2%	14.3%
XLE Energy	-1.7%	15.1%	33.7%	59.1%
XLB Materials	-3.5%	1.1%	0.8%	4.2%
XLRE Real Estate	-3.6%	-1.0%	-1.1%	11.9%
XLU Utilities	-4.3%	3.6%	8.0%	10.0%
XLV Health Care	-4.9%	-0.4%	-2.0%	8.9%
XLI Industrial	-7.6%	-5.2%	-8.3%	-5.4%
XLF Financial	-9.9%	-11.3%	-13.5%	-3.2%
XLK Technology	-11.0%	-12.5%	-12.1%	2.0%
XLY Consumer Discretionary	-12.0%	-11.8%	-18.8%	-8.4%

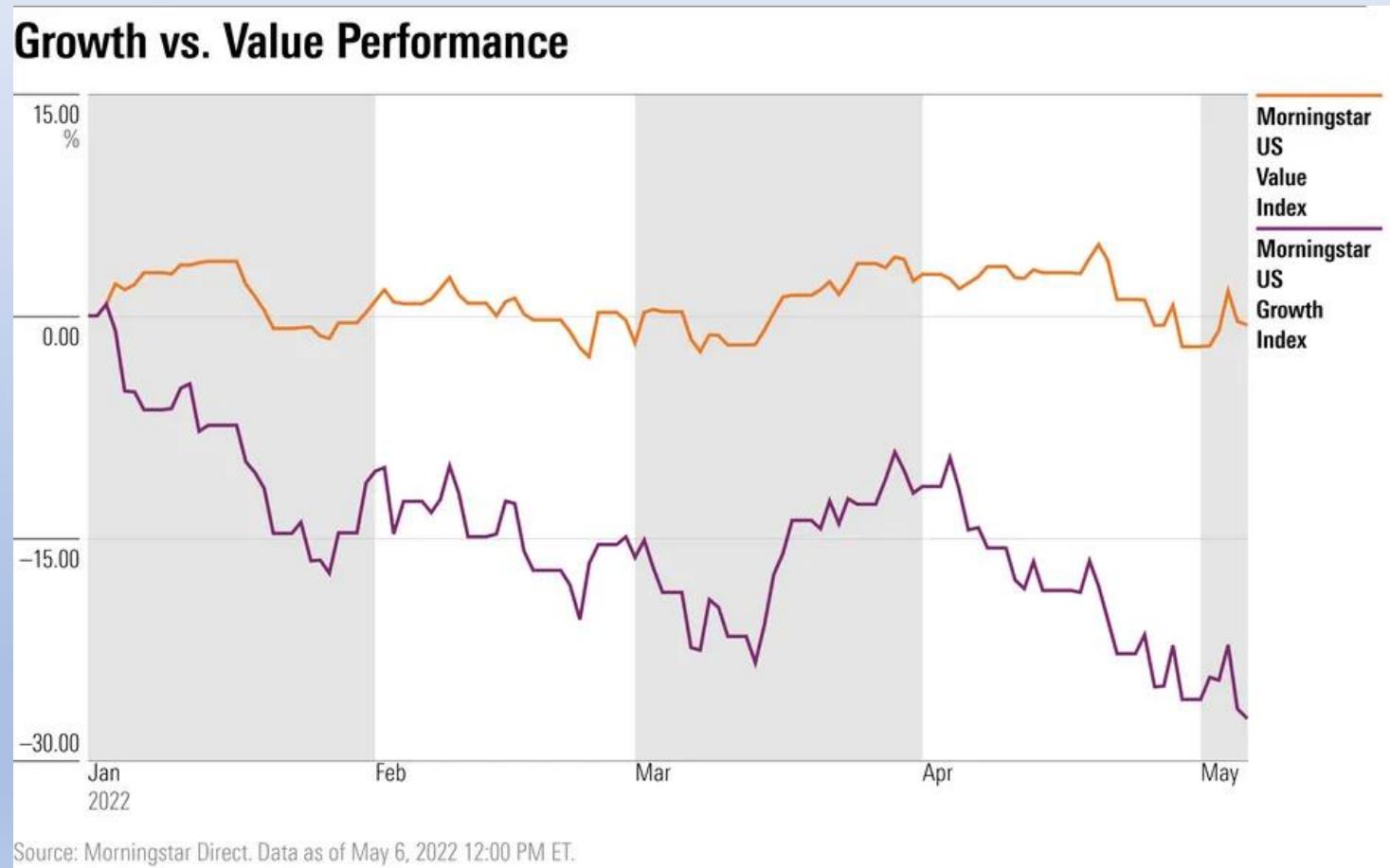
Dividend Paying Stocks



Growth vs Value Stocks – 12 mos



Growth vs Value Stocks – 4 plus months



MS Valuation Matrix – 2022 YTD

Morningstar Style Box YTD Performance

	Value	Blend	Growth
Large	-1.01	-12.97	-28.92
Mid	2.39	-11.16	-26.86
Small	-2.46	-12.65	-25.87

Source: Morningstar Indexes. Data as of May 5, 2022.

MS Valuation Matrix – May 6

Morningstar Style Box Valuations

May 6, 2022

	Value	Blend	Growth
Large	0.96	1.03	0.83
Mid	0.98	0.98	0.90
Small	0.88	0.90	0.82

Source: Morningstar Indexes. Data as of May 6, 2022.

Price/fair value data are weighted averages.

Quantitative estimates are used where analyst estimates are unavailable.

Values > 1 are considered overvalued, values < 1 are undervalued.

There is no Simple Solution or Roadmap

- Experts advise us not to panic & stay the course
 - But we are down 10.5% for bonds & ~16% for the S&P, ~40% for Nasdaq
- There is no perfect knowledge or roadmap to chart the future
- Suggest you pick & choose from the above menu
- Try to do several to spread the risk, if they fit your situation
- No one knows which scenario will transpire
- Try to straddle or hedge your bets the best you can

“Diversification is the only free lunch on Wall Street”

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Questions/Observations

April Sector Performance

