D|A DAVIDSON

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Jane Doe
1234 Holly Lane
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Dear Jane,

Happy Spring from your “Blueprint Advisors ” team here at DA Davidson. Thankfully, the investment markets have been a little friendlier (not falling precipitously!) in the first quarter, even in the face of several bank failures. Not to worry though, I recently read that almost half the country is watching short videos on TikTok, supposedly averaging 90 minutes a day! Apparently too busy to panic about bank deposits. Unfortunately, we do worry about the type of behavior the Federal Reserve is promoting by guaranteeing poorly managed bank’s uninsured deposits. Government bailouts are a tricky thing. Long term, capitalism seems to work better when there is some downside to poor business judgement.

It’s probably fair to accuse us of being a little too “risk averse” and missing out on some higher return opportunities, but it’s strange situations like Silicon Valley and Signature Bank that remind us why. Unlike Silicon Valley, most bank customer’s deposits fall under the FDIC insurance limits. However, when uninsured deposits exceed 80%, you better be able to come up with a lot of cash in a hurry if your customers get nervous. This bank made what seemed to be a terribly boneheaded move by holding much of their reserves in long-term government bonds where values dropped almost 15% last year. Granted, the rapid rise in interest rates has been rather historic, but betting on rock-bottom rates continuing proved toxic. We suspect this rapid rise in interest rates will likely cause some more financial pain to eventually surface in other areas of the economy (think high credit card balances, variable rate loans and junk bonds.) Rock-bottom interest rates, for many years, tend to make us forget the downside of debt and heavy borrowing. Among the complacent we would include highly leveraged corporations, individuals and perhaps most importantly governments. What will be “the straw that breaks the camel’s back” seems impossible to predict, and so far the camel has proved to be amazingly stout.

After last year‘s big selloff in the stock market, we are finding a few companies to buy at prices we think are pretty reasonable with some of your extra cash. However, lately we have invested most of this available cash in CDs and shorter term treasuries which now yield around 5%. Even the Vanguard treasury money market fund is paying over 4.6%[1], where we have a fair amount of money parked. Sometimes it’s wise to be patient with extra cash. In many of life‘s endeavors, it seems that extra effort and activity leads to extra rewards. However, we've noticed that when it comes to investing, hyperactivity (frequent trading) often results in less not more. Although it seems so contrary to our nature, sometimes the better advice seems to be "don't just do something, stand there!" Apparently there's even some statistical evidence with complex math (so it must be correct) to back this up. There is an interesting book by a smart, successful female, hedge fund manager, named Dominique Mielle, who specialized in bankruptcies and distressed debt. It goes by the catchy title: Damsel In Distressed. Ms. Mielle points out an inconvenient truth, at least for male investment pros, that women money managers outperform male managers by an average of over 2% per year. There may be a number of reasons at least half of our smart clients can come up with for this statistical anomaly, but the one thing the study could most accurately point to, was over trading. Men seem to be more overconfident and prone to "doing something." Good news, however, your team at DA now has a heavier weighting of estrogen than of testosterone. Although it pains some of us to admit, we suspect future results might reflect this.

So what do we expect over the next few years from our portfolios? As we've discussed over the last several quarters, we wouldn't be surprised if the shifting of the friendly tail winds of low interest rates, low inflation, and lower tax rates to headwinds, will likely temper stock returns. However, it's probably not wise to anticipate these headwinds to become hurricane force. Time after time, our economy has proven resilient. We need to look back no further than our battle with Covid to remind us. After all, what's a little bank run, compared to the coronavirus. We will continue to read, think, listen, and challenge our assumptions. And we will try and be disciplined about taking risk only when being adequately compensated. As for artificial intelligence…we're still working on the original kind.

Recently while reflecting a little during this special holy season, I was reminded of something I read several years ago about the evolution of our prayers. When we are young our prayers tend to be about asking for things or to get us out of trouble. "God if you just do this one thing for me I'll never be bad again." As we mature we learn to pray to be worthy to receive our blessings. In the end, we seem to stop praying for things and we simply start to notice the gifts we are given and be thankful. Here's to being thankful!

Regards,

Susan, Ryan, Tien, Jennifer, Sasha, and Russ
Blueprint Financial Advisors at DA Davidson

[1] Vanguard.com