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Jane Doe
123 Holly Lane
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Dear Jane,

Greetings and happy autumn from your Blueprint Financial Advisors team, where unfortunately the financial markets are falling faster than the leaves. Although I suppose, like the seasons, challenging markets are inevitable. Not to worry though, this period is starting to look a lot like the early 1980s when interest rates, inflation and unemployment were all double digits and I was just starting in the business. So I should know exactly what to do, if only I could remember that far back! They say with age comes wisdom, but I've noticed sometimes age just shows up on its own. Luckily, with Susan, Ryan and Tien (strong young minds) on the team, we are better prepared to deal with a rapidly changing world.

The current economic debate du jour seems to revolve around the question of how high the federal reserve will push interest rates in order to reduce inflation and whether this will tip the economy into recession. In our last quarterly update titled "bear market", I wished for a crystal ball. But since that's not forthcoming we'll just have to deal with what we currently know. As the chart below indicates, we know that investment markets have already marked prices down substantially, and it's been one of the more historically challenging environments for investors.

Indices	**Year to Date Return a/o 9/30/22**
S&P 500 TR	-23.90%[1]
Nasdaq	-32.40%[1]
MSCI EAFE NR USD (Foreign Stock)	-27.09%[2]
Bloomberg U.S. Aggregate Bond TR	-14.60%[3]

As the chart above indicates there really hasn't been any place to hide, as even supposedly "safe" bonds are down almost 15% this year. Unfortunately, even our inflation indexed treasury bonds (TIPs), which were doing well with rising inflation are not immune to rapidly rising interest rates. Your detailed portfolio results should hit mailboxes or be available online shortly. Interestingly, even with the sharp overall drop, stock prices aren't dirt cheap. Nevertheless, we suspect we are closer to the lows (bottom) than the highs, but market forecasts usually tell you more about the forecaster than the future. Out here in the cornbelt there's something to be learned from the farmers. I have yet to encounter a successful one who looked to the meteorologist to decide whether to plant a crop in any given year, based on weather forecasts. And yet, many people look to economists to determine what to do with their investments. Not surprisingly, I don't remember anyone predicting anything close to our current inflation rate. Why would we look to them now to tell us when this rate will come down or how high interest rates might go? Susan, Ryan and I have concluded it's best to structure a portfolio that can sustain extremes in either direction. It's been said that markets are like voting machines in the short run, and any fool can vote. But in the long run they are like weighing machines, where true value is ultimately reflected in prices. We've been trying to structure portfolios with this in mind for the last several decades, trying to stay away from stocks with high promise but no earnings as well as long term, lower quality bonds. As result, it seems our normal M.O. is playing out. We tend to lag during optimistic strong up markets but hold together a little better when the "bear" comes out of hibernation.

So if we try not to rely too heavily on macro-economic forecasts then how do we make investment decisions? The approach we favor is called "bottoms up" analysis. We are looking to focus primarily on the more narrow knowable (likely) than the broad unknowable. We focus on a given stock's underlying business characteristics.

As an example, we think the competitive advantages and predictability of a company like Pepsi, makes assumptions about the future much more reliable. The world will likely change in many dramatic ways over the next decade or so. But no matter where the entertainment we watch or the device we watch it on comes from, it's not much of a stretch to assume that we would be doing it snacking on Doritos or sipping a Diet Pepsi. Our favorite investment targets share many of Pepsi's attributes but tend to be less recognizable. For example, one of the leading welding companies for the last 50 years will likely hold that position long into the future. Now that's exciting!

Over the last few years we've been hoarding more cash than usual for several reasons. First, for those clients taking regular income from portfolios we wanted to have sufficient cash to cover needs for a few years, so as not to have to be a forced seller of stocks when prices were down. Looking back now, we probably could have reduced a few positions more aggressively. I've noticed vision is always 20/20 in the rearview mirror! The other reason cash balances are high is because we weren't finding many bargains. This was particularly true in the bond market when last year the yield on the one year treasury note was a paltry .15%[4] compared to today's yield of over 4%[4]. In addition, we are starting to see some good quality businesses trading at reasonable prices. We can now buy some at 10 to 12 times annual earnings with dividends of 3% to 4%. Of course, if the economy falls into recession earnings will likely drop thus potentially causing further downward pressure on stock prices.

In the case of the bond market, where the decline has been historically bad, we are now starting to see yields that are dramatically higher. We have begun investing some cash (money market balances) in CDs and treasury notes, to take advantage. We have access to several dozen banks for CDs and we recently invested in some nine month maturities at just over 3.8%. These are insured up to $250,000 per account by the FDIC. In addition, we are investing in one year treasury notes at a little over 4%. What a difference a year makes! Nothing is ever a slam dunk in the financial markets and choosing how far to go out with bond maturities is something Ryan, Susan and I are struggling with. If the higher interest rates cause a real slow down in the economy, rates will likely fall and we will have wished we locked up interest rates with longer maturities. Our current plan is to look for some opportunities to build "bond ladders" where we divide funds among various maturities. As an example, if we stagger maturities between one and five years when a bond comes due we simply roll out on the ladder to a new five year maturity. If about 20% of the bond portfolio comes due every year and is rolled over, we don't see a major impact on income (or principal) no matter how interest rates change. In structuring this "ladder" we look to take advantage of the steepest part of the yield curve.

I mentioned that my memory of the early 80s was sketchy, but one thing I do remember was how resilient consumers, homebuyers and businesses were in order to survive and in some cases prosper. I suppose in large part that's the primary reason why we own a portfolio of stocks at all. It's a fair question to ask why anyone would trust their life's savings to something that can move up or down 10% or 15% in any given month, driven by a manic depressive collection of people buying and selling on the New York Stock Exchange? Fortunately however, these stocks represent businesses that are made up, most often of hard-working, smart, innovative and resilient individuals. They are most often looking to provide better goods and services in order to make life a little better and generate a profit in the process. If one believes in the ingenuity and drive of the individual, where better to invest during unpredictable, uncertain times? And newsflash, we always live in unpredictable, uncertain times! Please let us know if you would like to discuss any of this in greater detail, we enjoy hearing from you.

Regards,

Russ Manners
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Blueprint Financial Advisors
Susan Koesters, Ryan Iwansky, Jennifer Digilio, Sasha Schrage and Tien Cheek

[1]Nasdaq.com
[2]Morgan Stanley Capital International
[3]Bloomberg.com/fixed income indices
[4] Macrotrends.net