Another quarter in the books! And, like the leaves, the stock and bond markets have started falling a little. However, the year so far has been better than many expected. We'll see if the relatively smooth sailing continues or whether the Fed's aggressive interest rate hikes cause some financial discomfort. For the most part, we escaped the biggest downdrafts in last year's market decline. However, the stocks that led the decline in 2022 have been the ones bouncing back the most in 2023. We are hoping the old adage "slow and steady wins the race," while a bit boring, is, in fact, true. Your specific portfolio results will be available online and mailed shortly.

Your team here has been busy lately, working on refining our portfolio management processes. We now handle over $750 million of client assets, which requires more automation and uniformity among portfolios. For a good chunk of my history, I have relied on a closely monitored "watch-list" of companies I understood well and that had unique competitive advantages, often referred to as "business moats." In recent years, as our team has expanded, we have tried to refine our process for generating, tracking, and ranking this wish list. This work has led us to creating several "model portfolios" with varying investment objectives, i.e., a lean toward growth or lean toward income. Our goal is to gradually better align our clients' portfolios with these closely monitored models made up of holdings with our greatest conviction. We have a very personalized approach in working with our clients. It is something that's very important to us, and we hope to you as well. However, we believe that we can gain advantages by better alignment between our clients' varied portfolios while still maintaining and responding to your unique wishes and financial objectives. This is a challenge we think is wise to take on. I suppose in some ways, my early years of portfolio management resembled the approach our grandmothers used when cooking. There was usually no written recipe but rather a pinch of this, and a dash of that approach that often came from generational memory. We are now "cooking" for a lot of folks, so we are tweaking a few things to hopefully enhance results.

And speaking of model portfolios, one of the things that we have been doing lately is gradually rebalancing our holdings a little away from equities toward shorter-term bonds. We think 5.5%[1] yields on treasuries represent an attractive alternative to where many stocks are currently trading. Over the last several years, we have allowed our stock exposure to increase as we felt bonds at 2% to 3% looked quite risky. Times have changed, what's the old saw, gentlemen prefer bonds?

I recently read about a useful idea that came from Woodrow Wilson. He talked about whether something was accountable to Darwin or accountable to Newton. "Everything is accountable to one of the two, and you have to know whether something adapts and changes over time or perpetually stays the same." When we are talking about investing, it seems to me that psychology is far more applicable than physics, to Darwin more than Newton. That's probably what makes it so challenging and fascinating. I read this concept from Wilson in a book by Morgan Housel, where he also quoted the historian Will Durant, who once said: "Logic is an invention of man, and may be ignored by the universe." Housel goes on to explain, "The core here is realizing that people are not spreadsheets. They are emotional, hormonal, misinformed, status-seeking, insecure creatures, trying their best to make it through the day. So, if you have to choose between understanding how the world should work in theory versus how it actually works in practice, lean towards the latter." I suspect this might be the real challenge in trying to use A.I. to predict stock movement. We have found some basic investment principles, many of which come from Warren Buffett and his mentor Ben Graham, to be helpful. But it's wise to recognize that with capitalism and competition, business is constantly morphing and evolving, and these fundamental principles must be applied to an ever-changing environment. In looking at my well-worn copy of Graham's seminal work, "The Intelligent Investor," I noticed that my 1973 edition had been revised and updated four times. I guess he realized even an old dog needed to learn a few new tricks.

Regards,

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

[1]https://home.treasury.gov/resource-center/data-chart-center/interest-rates