The Barrister Quarterly

BARRISTER
PLANNING | INVESTMENTS | INSURANCE

Issue: 3Q2021

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Barrister was founded with the sole mission of offering clients an opportunity to meet their financial objectives through independent, ethical, unbiased, and competent professional guidance.

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Dear Friends,

As we've mentioned in the past, markets cannot go straight up forever. After hitting record highs, it's typical to see profit-taking. This is what occurred recently with a roughly 5% pullback in the S&P 500 through September. While these corrections are healthy, they can stimulate fears that larger selloffs are just ahead. At times like these it's important to keep some perspective, so let's look back at how often such retracements occur. Since the March 2009 bear market low, the S&P 500 has had twenty-five 5% or greater declines. These lasted a median of 26 days with an average drawdown of 8.3%. The largest decline was March 2020 due to Covid. You can find all 25 corrections and their corresponding causes by clicking here and scrolling down to section titled "The Long-Awaited Pullback." Simple math tells us that over this period, every 6 months, or twice per year, there was a greater than 5% correction. Despite that frequency, the recent peak to trough total return was 547% for a compound annual growth rate of 16.4%. If we had allowed short-term corrections to impact our long-term investment plan, we would have missed out on tremendous growth in our capital!

This year we've communicated our concerns over inflation and rising interest rates. Every day there are new examples of inflation, most recently Dollar Tree announcing they will begin selling some items at $1.25 to $1.50 to pay for things like higher freight and wage costs. While we don't feel like we'll see a return to the late 70's/early 80's levels of runaway inflation, we do believe markets will be volatile as companies and individuals adjust to increasing costs. If the Fed can successfully thread the needle, we could see increasing wages that aren't completely offset by rising costs. This scenario keeps profit margins healthy, increases GDP and is positive for stock prices. Time will tell.

Best,

PLANNING NOTES

Model Portfolio Changes

In mid-September we made changes to our model portfolios as part of a general rebalancing. We reduced our long-standing overweight in equities and, within that, overweights in US large- and mid-cap stocks. This is largely due to valuations, which we feel are fairly stretched. We introduced US micro-cap exposure to the portfolios for the first time. This sector demonstrates markedly better valuation metrics. We eliminated direct exposure to China stocks. We've long been bearish on China and recent events around Evergrande, the country's largest and most indebted property developer, caused us to make this change. In fixed income, we continue our cautious stance due to inflation concerns. We further reduced the interest rate sensitivity of the portfolio and introduced a floating rate note exposure for the first time. This holding should outperform other fixed income securities in a rising rate environment. In alternatives, we continue with our exposures to real estate and commodities, which have both performed well this year.

The Power of Compounding

Picking back up on the theme from our letter on page 1, let's illustrate in a little more detail what we mean by "tremendous growth in capital." The first place to start is the planning work we are doing with younger clients. This is a segment we've grown in the past year or so with a fee-only, age-based model. As we've onboarded these clients' data to our planning software, it never ceases to amaze us how the relatively simple math of Income – Expenditure = Savings + Investment Growth = SIGNIFICANT WEALTH (yes, all caps!). What do we mean by that? We have a roster of clients now with solid 9-figure net worth projections, 60-70 years out. How could this happen? Simply put, it's the power of compounding.

An outstanding way to illustrate this concept comes that most famous of investors, Warren Buffet. Buffet started investing at age 10 and has achieved compound annual returns of around 22%, which is solid but not outrageous. The power of compounding means his net worth started going parabolic as he both performed consistently and got older. Of his \$84.5 billion net worth, \$84.2 billion was accumulated after his 50th birthday. Put another way, take a guess as to what he'd be worth if he started compounding his investment returns at age 30 and stopped at 60? Not \$84.5 billion, not \$30 billion, not even \$1 billion, but \$11.9 million. That's the power of compounding over long periods of time. It's hard to comprehend because we humans tend to think linearly rather than exponentially.

Circling back to our clients, the moral of the compounding story is that you don't need to stress over trying to time the market or take extreme risks chasing the latest investment craze (NFT's anyone??). The tried-and-true method to building real, sustainable wealth, is spend less than you earn, save the difference in a diversified portfolio, and watch the market work its magic compounding your wealth decade after decade.

Invest Like a Billionaire

The Walton family (patriarch Sam founded Walmart) recently released their top investment holdings. Publicizing this information is a SEC requirement for firms that manage over \$100 million in assets and the Walton family happen to have their own investment firm, WIT LLC. We gained some interesting insights from this information. The world's richest family seems to invest exactly like you and I do, through passively managed Exchange Traded Funds (ETFs). Every single one of their top 10 holdings are in various Vanguard and iShares ETFs. Despite having access to the very best active investment managers available, they as do we, believe that owning the market is better than playing the market. Full story here.

MARKET & ECONOMIC INDICATORS

Indicator	*Note [change vs prior quarter]*
Investor Sentiment AAII	28.1% Bullish [-20.5%] | 31.1% Neutral [+1.9%] | 40.7% Bearish [+18.5%]
Investor Sentiment CNN	27 Fear [-18]
Leisure and Entertainment (PEJ)	YTD up 30.32% [-.61%], beating the S&P 500 by 13.53% [-1.52%]
Technology (XLK)	YTD up 15.16% [.95%], trailing the S&P 500 by 1.46% [-.21%]
SemiConductors (SMH)	YTD up 15.04% [-3.25%], trailing the S&P 500 by 1.48% [-3.89%]
Financials (XLF)	YTD up 31.98% [+5.48%], beating the S&P 500 by 15.41% [+4.79%]
Staples (VDC)	YTD up 5.26% [-.46%], trailing the S&P 500 by 11.31% [+1.15%]
Healthcare (XLV)	YTD up 13.23% [+.39%], trailing the S&P 500 by 3.42% [+.38%]
Utilities (XLU)	YTD up 4.9% [+1.4%], trailing the S&P 500 by 11.76% [-.62%]
Commodities (GSG)	YTD up 40.88% [+9.41%], beating the S&P 500 by 24.24% [+8.65%]
20yr+ Treasury (TLT)	YTD down 7.44% [+.55%], trailing the Barclays Bond Index by 5.91% [-.23%]
2yr/10yr Government Bond Spread	Spread is positive at 1.21% [-.02 bps]
High Yield Bonds (HYG)	YTD up 2.98% [+.51%], beating the Barclays Bond Index by 4.51% [+.19%]
HYG spread vs 10yr Treasury	+320 bps [+16 bps]
YOY Corporate Earnings	EPS Estimates Increased for Record 5th Straight Quarter in Q3
Central Bank Activity	Fed will likely begin tapering soon and has indicated a rate rise in 2022
Average Hourly Earnings	YOY increase of .9% (+3.7%) for the period ending August 2021
Fund Flows	Outflows of $1.87 Billion for Equity Funds and Inflows of $8.49 Billion for Bond Funds
Advanced/Decline Line S&P 500	Has decreased off its peak, down to August levels
Merger & Acquisition Activity	M&A deal activty decreased in August, going down 5.1% compared to July

DISCLOSURES

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