

QUARTERLY UPDATE



“No amount of money or success can take the place of time spent with your family – you can always earn another dollar but never another moment.”

-Unknown



It's been a long and difficult year for me. For those who haven't yet heard, I lost my only son in April - on Tax Day. I caught COVID near the end of May and in June I lost a dear friend. I didn't do well for the first few months but I'm getting back to my old self.

It's been about a year since my last newsletter. I thought with everything going on in the world, it is important to keep my clients updated.

Portfolio Update

In my last newsletter titled “The return of volatility”, I began by stating:

“The biggest issues facing investors right now is, both stocks and bonds pose undue risk. Undue in the sense that the risk of it dropping is, higher than the upside potential. Most portfolios are built primarily, or exclusively, with a stock / bond mix. So, what do we do?”

And then, presented five alternatives I'm incorporating into my clients' portfolios. The following is the year-to-date performance of each of those alternatives and the contrasting year-to-date performance of the stock and bond markets *

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<u>Class</u>	<u>Ticker</u>	<u>Performance YTD</u>
Private Equity	TIPWX	15%
Buffered Funds	PFEB	-5%
Buy/Write Funds	XYLD	-13%
Non-traded REIT	None**	9%
I Bonds	None**	8%
S&P 500	SPX	-22%
Bonds	AGG	-16%

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So, what is causing the turmoil? Many things, as is usually the case. The first two quarters had negative GDP which most use to define a recession, and, the year-over-year inflation is 8%. In short: a 70s style stagflation. In the 70s, the annual return of the market was 1.6%, but that doesn't tell the whole story. From 1/5/1973 to 10/4/1974, it dropped 48%. That is not to say that will happen today; the reality of stagflation can be devastating. I am hopeful that the fed has learned lessons from the 70s, so it doesn't have to turn out that bad. Congress apparently hasn't learned, as they continue to pass inflationary bills despite the misleading name "Inflation Reduction Act". Government spending IS inflationary.

I do believe it will get worse before it gets better. I believe our strategy of diversifying outside of the stock/bond universe will temper losses and provide us with an opportunity to increase market exposure when the market appears to be quieting down. The most important thing is to have faith. The market has never not come back. And, some incredible gains have been awarded to those with patience. The market returned an annualized return of 19% from the bottom of the Great Recession to the end of 2021. For the Covid era, those who bought after the Covid crash earned an annualized 56%. Warren Buffett said: "The stock market is a device for transferring money from the impatient to the patient".

As always, please reach out if you'd like clarification or for any other questions. No, I don't know what the numbers will be on the next Lotto.

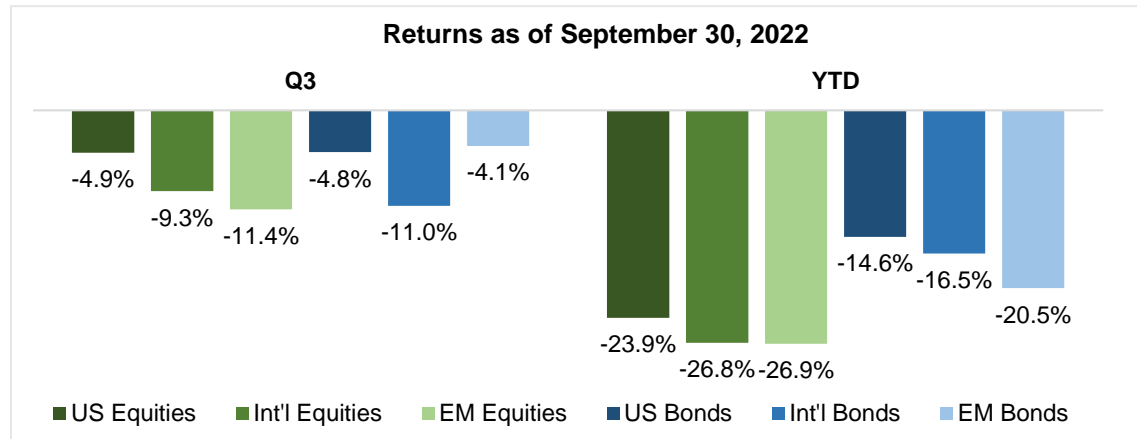
Thank you for the trust and faith you have put in my staff and I. We don't take it lightly.

** Performance data is rounded to the nearest whole percentage as of the date of this writing on 10/25/2022. It is provided strictly for informational purposes only and not to be considered a recommendation. Past performance is no guarantee of future results.*

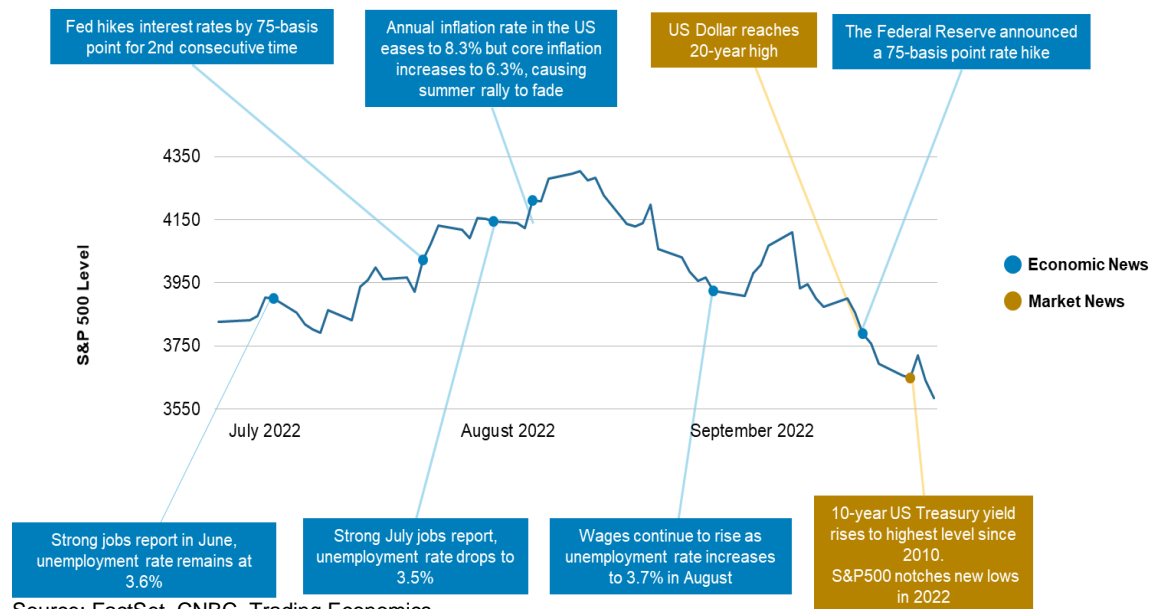
*** Non-traded REITs are not available in public markets. They must be purchased directly from the sponsoring company. We use Cantor Fitzgerald's Income Trust. I Bonds are only available through the treasury website at <https://treasurydirect.gov/>*

Market Review

Market Review



- The quarter began with a short-lived summer rally that fizzled only to set new lows.** Record high inflation, aggressive interest rate hikes from global central banks, and fear of recession left no place for investors to hide. For the third quarter, the diversified 60/40 portfolio invested 60% in global stocks, and 40% global bonds returned -6.8% and performed worse than one just invested in global stocks (-6.7%) as global bonds posted dismal returns (-6.9%). Within equities, US stocks sunk back in bear territory to end the quarter -4.9%. Similarly, US bond yields which move in the opposite direction of prices, rose to their highest levels in years as hopes for falling inflation were erased when core inflation rose in August despite falling gas prices.



Market Review



- **Within US equities, 9 out of 11 sectors suffered losses in 2Q22.** Surprisingly, the consumer discretionary sector gained 4.4% for the quarter, helped by select stocks despite having a greater sensitivity to the overall business cycle. However, it remains the second worst performing sector at -29.9% for the year. Similarly, the energy sector gained 2.3% despite falling oil prices during the quarter and remains the only sector with positive returns of 34.9% for the year.
- **Value stocks reverse trends and underperform.** Growth stocks are often synonymous with the high-flying companies in the markets like technology, while value stocks are often considered undervalued, steady, and sometimes even boring. For the quarter, value stocks underperformed their growth counterparts, a reversal in trends from the prior quarter. Still, large-growth stocks are on pace to have their worst year since 2008.
- **International equities underperformed US equities in 3Q22.** Developed international, emerging markets ended 3Q22 at -9.3 % and -11.4%, respectively, as the energy crisis and recession fears continued to roil European economies while China continued to struggle under its zero COVID policy. A strong dollar also had a significant impact. Generally speaking, a stronger dollar translates to lower returns for international investments. This can be seen in its local currency returns, especially for developed international, which ended 3Q22 at -3.5%. In local currency, this would put it as one of the better performing developed market equity markets without the currency drag.
- **Bonds post steep losses in the third quarter.** US bonds fell 4.8% in the quarter as the Fed's aggressive efforts to tame inflation brought two more rate hikes of 0.75%, raising the effective federal-funds rate to 3.00%-3.25%, its highest level since 2008. Despite higher inflation, TIPS fell 5.1% due to rising rates despite inflation concerns. Longer-term Treasuries, which have the greatest sensitivity to interest-rate changes, were the hardest hit and fell by 9.6%. US high yield bonds were surprisingly among the best performing sector and only fell 0.6% despite ongoing recession fears. Lastly, a stronger dollar and inflation woes also led international bonds lower for the quarter.
- **Key commodities, including gold, oil, and copper, declined over concerns of weaker demand due to global economic slowdown.** Oil prices fell below \$80/barrel to their lowest levels since Jan '22. Gold prices fell 7.9% for the quarter and have failed to meet expectations as an inflation hedge or a safe haven investment in 2022. Expectations for higher interest rates in the US led the dollar to rally 7.8% for the quarter and 17.6% for the year. One notable exception within commodities were grains, specifically wheat, with strong gains for the quarter as the conflict in Ukraine continues to impact the world supply. Finally, US REITs lost 10.8% for the quarter over concerns of rising costs due to higher interest rates.