BROKERAGESELECT NEWSLETTER

Taxes

Corporation and partnership returns are due March 15th. Make sure to file an extension if you are unable to make the filing deadline.

BNPL

"Buy Now Pay Later" is the latest way for retailers to provide consumers with credit. It is a new twist on the old layaway programs. There are pitfalls. Fees, interest can apply if payments are missed. Defaults can hurt your credit score. Worst of all, BNPL can encourage you to spend more than you would ordinarily spend.

IRAs

You have until April 15 to set up a traditional or Roth IRA and fund it. Don't wait until the last minute.

Perspectives

The world is focusing on Ukraine. We acknowledge the human suffering as we monitor markets around the world. It is difficult to predict how this will play out. What is important for investors is that it WILL play out. At some point there will be a resolution. For investors with patience, a long-term focus, and a portfolio that is durable, their holdings will recoup paper losses. For those with available cash, there will be even opportunities. What makes the conflict more unsettling is that it is here at a time when inflation is already rising and the Fed is at an inflection from massive accommodation to "normalization". As Russia and Ukraine are commodity exporters, supply disruptions and sanctions are accelerating rising prices and making the Fed's transition even more precarious. The Fed was relying on an expanding post-COVID economy to offset the impact of its plan to reduce its balance sheet and raise rates. However, higher commodity prices may drag on economic growth. The Fed wants to stop inflation but it doesn't want to throw the economy into a recession. On the subject of the economy, it is important to remember that stock prices do not necessarily neatly follow the economy. Rates can rise and so can stocks. The economy can slow and stocks can rise. The reason for this is that economic data are snapshots of the past while stock prices look to the future. Points of maximum uncertainty often mark bottoms. We may be in that process now with respect to the Ukraine situation. Once we start worrying of a nuclear exchange between the the US/NATO and Russia, we may be near the peak of uncertainty. Not that a resolution to the conflict will solve all problems, but any decrease in tensions will likely send stocks shooting higher until other concerns like inflation and the Fed will come back into focus. This is why it is so difficult to be 100% out of the market. The first few days of a stock rebound is typically the most ferocious up move of the cycle. Investors need to be careful. Only nibble. Be defensive. Have the ability to ride it out. No one knows when or how Ukraine will resolve itself. History suggests it will and stocks will recover.

"I don't know about the other judges, but I love what Paris Hilton and her accountant did with their Schedule C!"

Something Else

Part of the sanctions being placed upon Russian Oligarchs is seizure of their super-yachts. The super-yacht industry has seen a boom. In 2021, sales hit a record 887 ships. Not all sales go to Oligarchs. The global super-wealthy generally turn to yachts as symbols. According to Forbes there were 2,755 billionaires in the world, up 660 from the previous year. Further, 86% of billionaires were wealthier in 2021 than in 2020. The pandemic helped sales. The super-wealthy wanted private experiences for health reasons and investors looked to yachts to cater to the less wealthy charter business. Time to watch "Below Deck" on Bravo!

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Out Of The Box

Some lessons learned. Sometimes one needs to sell when the selling is good. Looking at some charts, it is easy to see how prices for many stocks ran up way too much. Their valuations reached the stratosphere, driven higher by momentum buyers who extrapolated recent price moves out as far as the eye can see. As COVID eased and pandemic stocks like Peloton saw growth slow and the Fed signaled rates would rise, the high flyers tumbled. Some are down 70%+ from their highs. Analogous to the ultra-growth stocks breaking down, the speculative craze of SPACs came to an end with busted companies all around, falling well below their $10 issuance prices. The lesson is that when you have have outsized returns and it is all way too good, take some profits. You don't need to sell all of the position but one should trim it back to a rational weighting in a portfolio. The oil market today echos this concern. Right now, there is a wide-ranging chorus of bullish arguments with very few bearish ones. Wall Street firms are falling over themselves to raise their target prices for crude. The price of Brent crude oil has gone up 33% this year. The S&P500 Energy ETF (XLE) is up 36% this year. Can prices still go higher? Absolutely. Should investors be careful given the enthusiasm? Definitely. Keeping with the theme that investors should be aware of extremes and not to extrapolate present conditions indefinitely into the future, let's explore the performance of US stocks vis a vis other markets. Diversification has often been called "the only free lunch". However, in recent history, having your portfolio invested in markets around the world did not help. A new study by Elroy Damson, Paul Marsh and Mike Staunton at the London Business School looked at this phenomenon. They found that since 1990, US stocks outperformed non-US stocks by 4.6% per year. During that time Non-US stocks were about 2x more volatile than US stocks. From 1946 to 1971, US and major European markets exhibited low correlation. Today they have about an 88% correlation. The success of US stocks means that they now make up 60% of the global market. This while the US economy is just 24% of the world's total. Despite non-US markets currently offering less diversification benefit, there is a question whether US outperformance has reached an extreme. Non-US stocks may still have a place in portfolios, especially if the trend reverses.
