

# Leaders EDGE

Huntington, Indiana

May 12, 2023



# Graig Stettner, CFA

Financial Advisor & Partner

Strategence Capital



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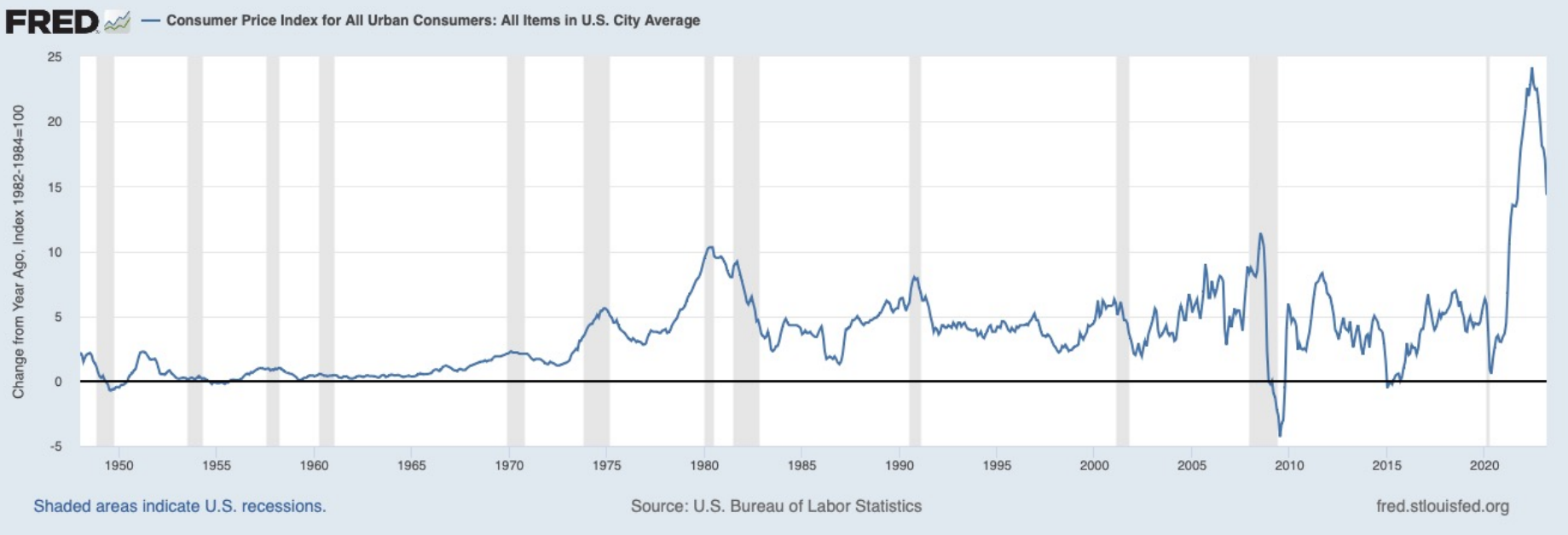


# Full disclosure/advertising

- Our approach is strategic allocation with periodic rebalancing with a disdain for forecasts.
- About 70% of our business is with individuals; about 30% with qualified retirement plans.
- We do asset management; financial and tax planning.

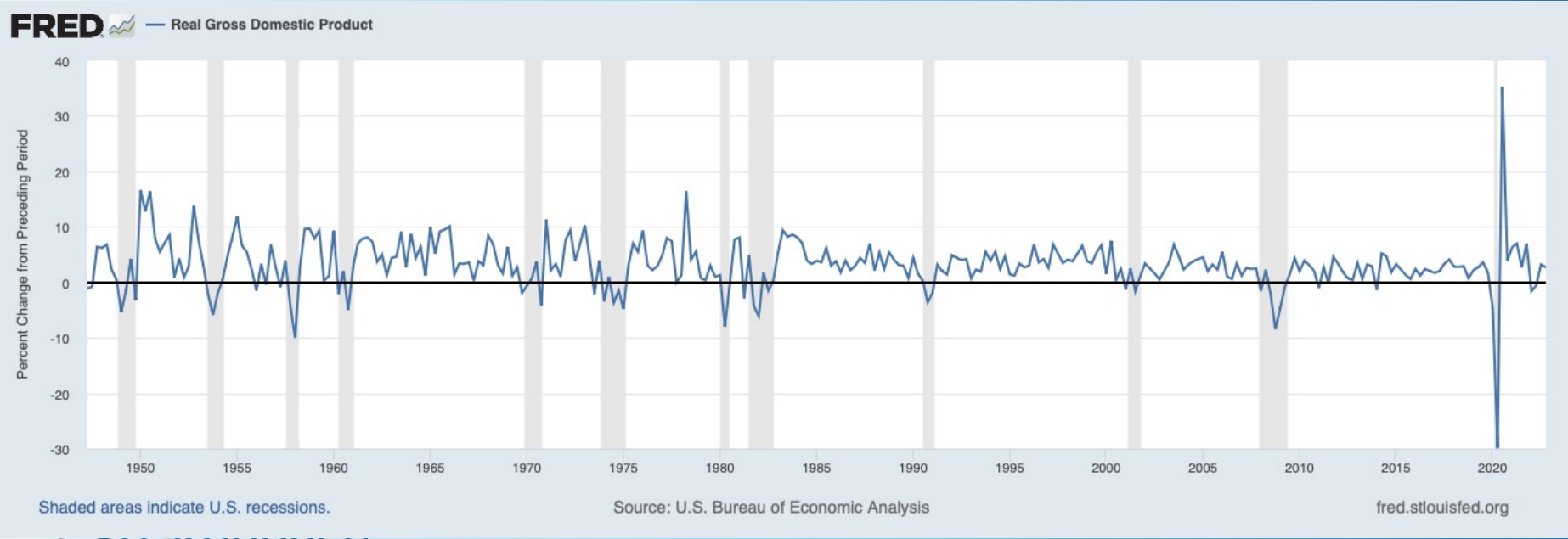
# Current situation

# Inflation



Strategence  
Capital

# GDP



# GDP

One problem with GDP is that it's only reported quarterly.

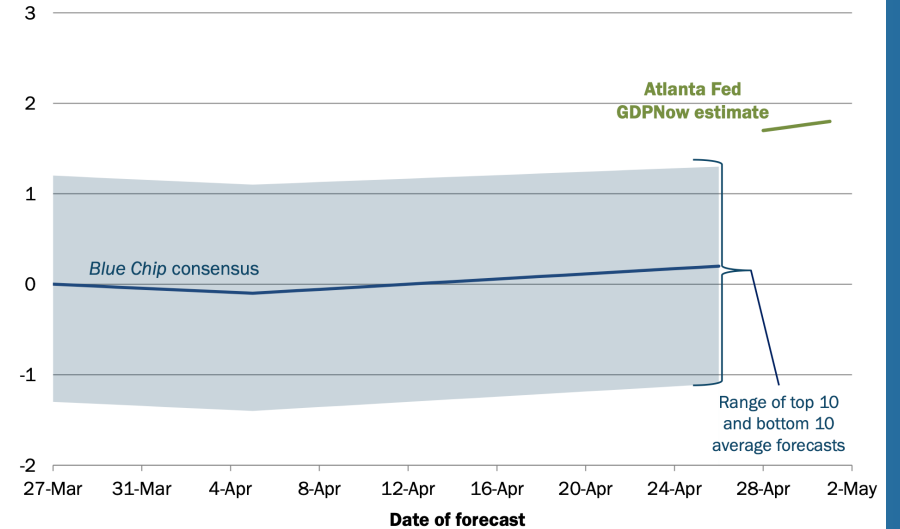
GDPNow attempts to use higher-frequency economic data to provide a real time forecast that is not a forecast 🤔.



**GDPNow is not an official forecast of the Atlanta Fed.** Rather, it is best viewed as a running estimate of real GDP growth based on available economic data for the current measured quarter. There are no subjective adjustments made to GDPNow—the estimate is based solely on the mathematical results of the model.

In particular, it does not capture the impact of COVID-19 and social mobility beyond their impact on GDP source data and relevant economic reports that have already been released. It does not anticipate their impact on forthcoming economic reports beyond the standard internal dynamics of the model.

**Evolution of Atlanta Fed GDPNow real GDP estimate for 2023: Q2**  
Quarterly percent change (SAAR)

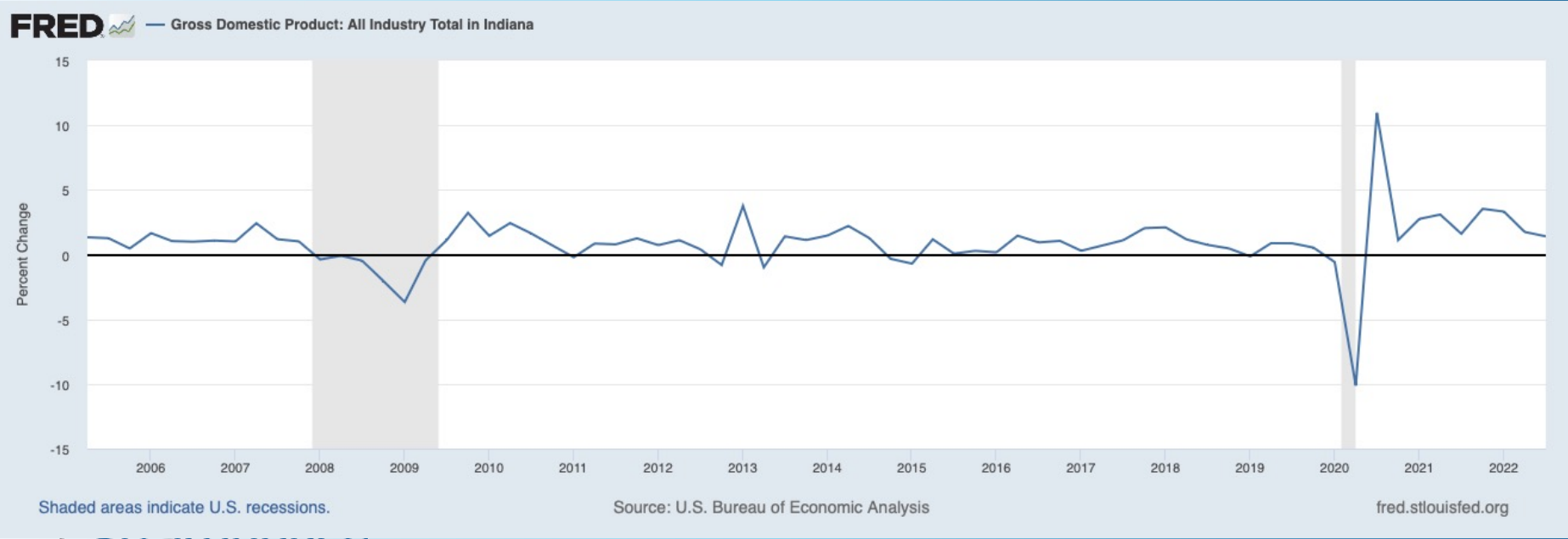


Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

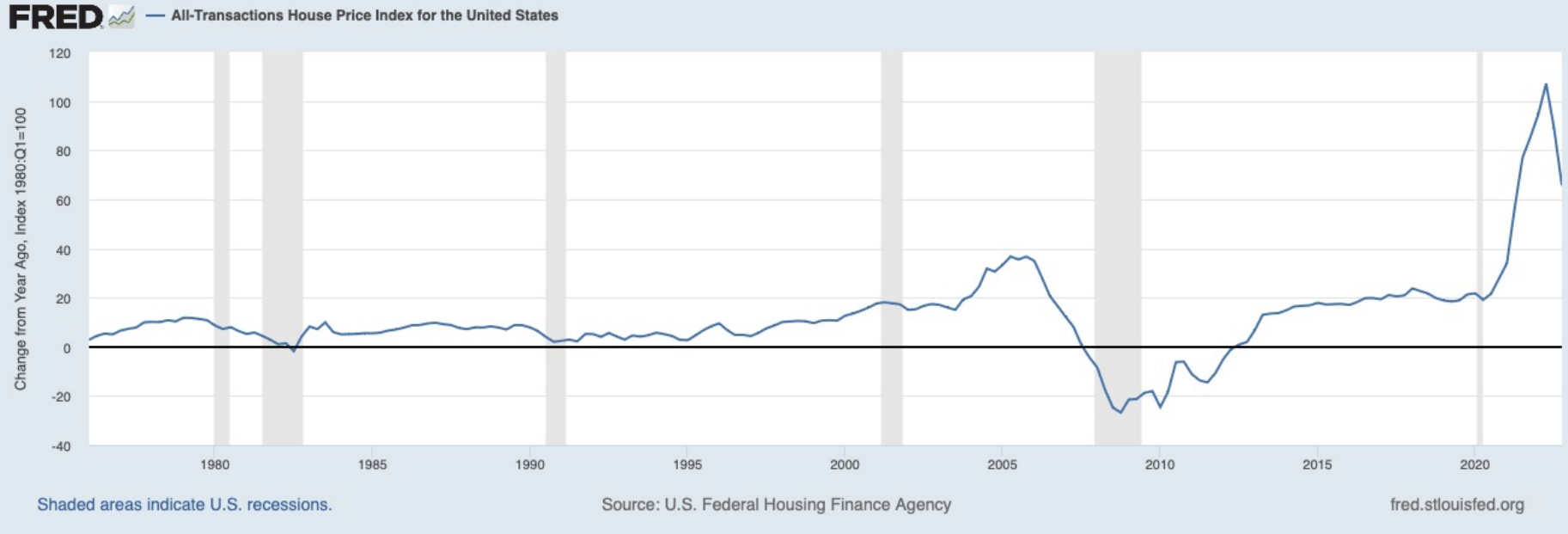
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.



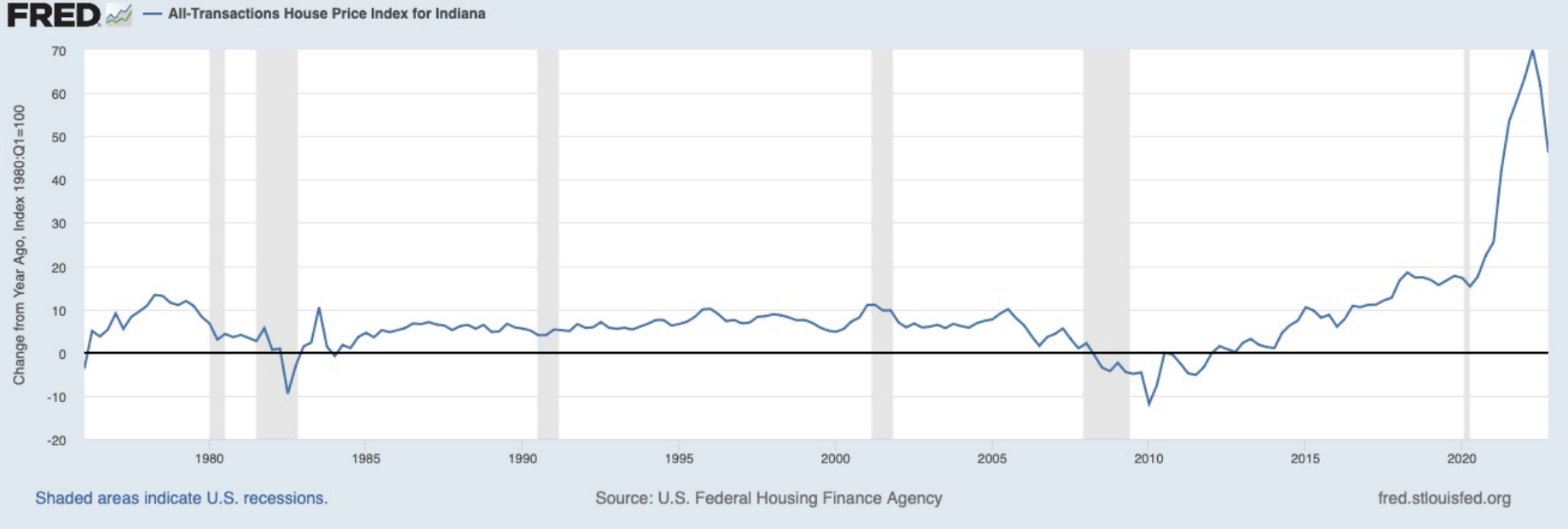
# Indiana GDP



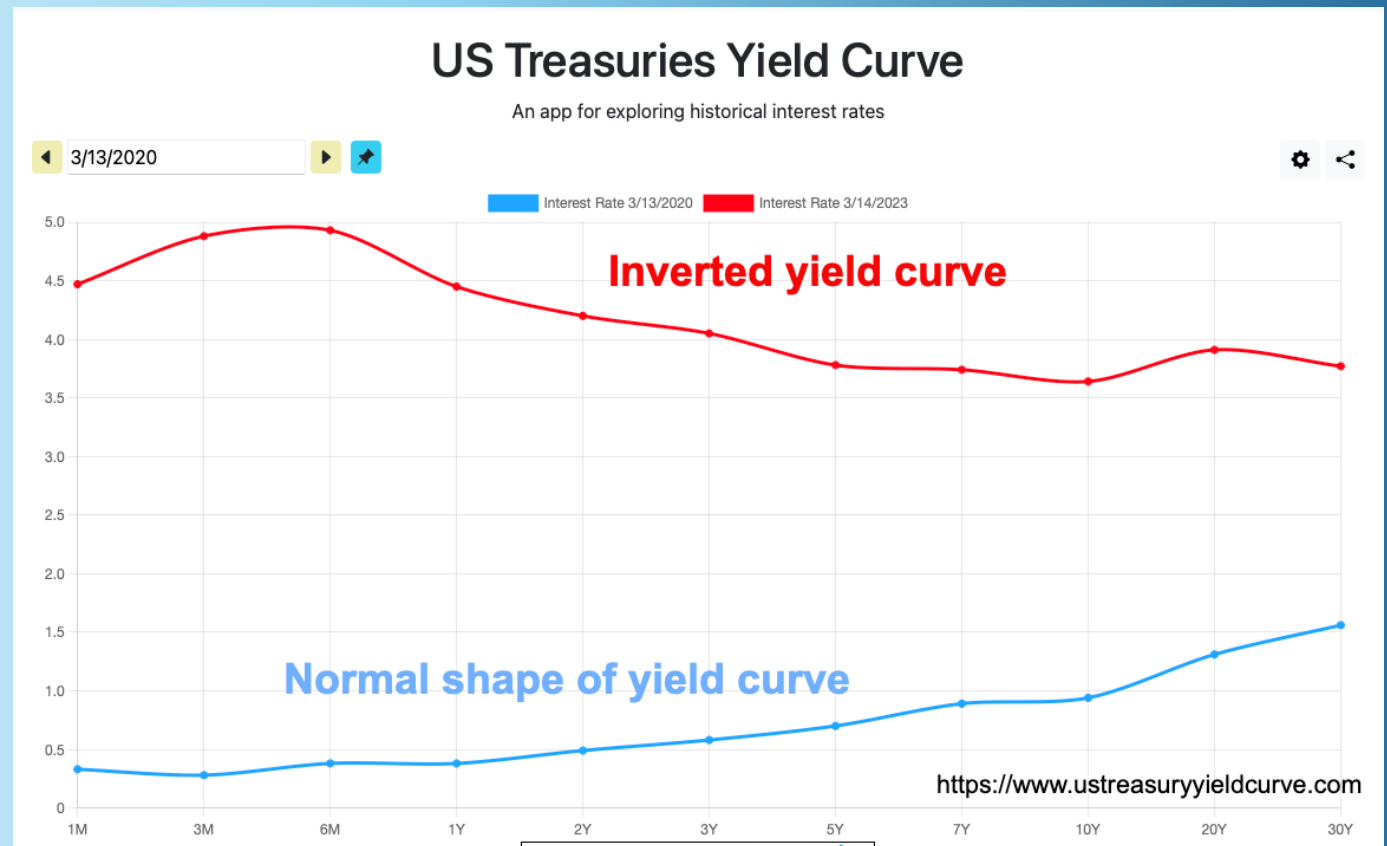
# Housing



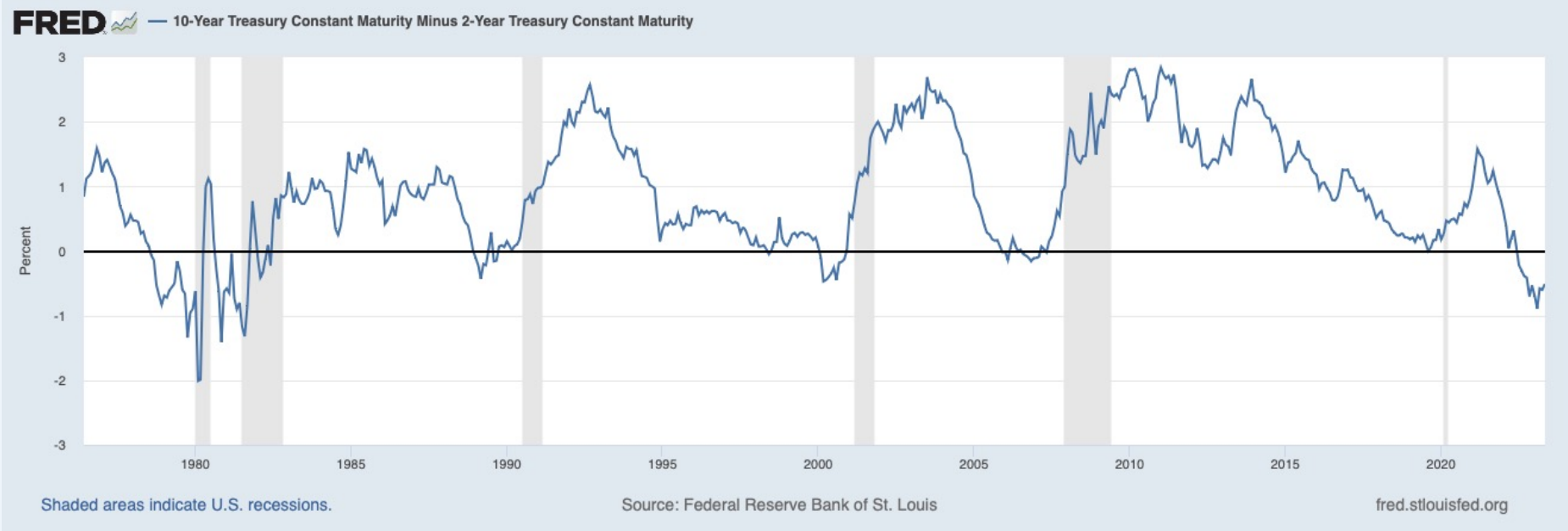
# Indiana Housing



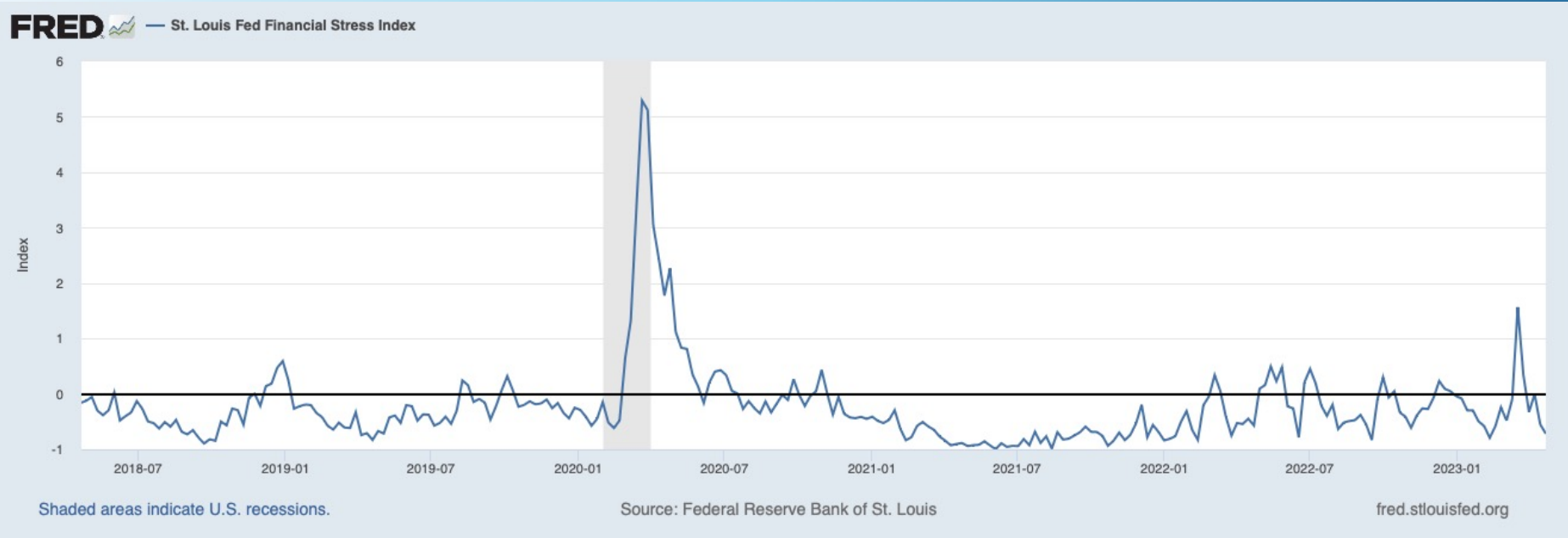
# Yield Curve



# Yield Curve



# Financial Stress



# Trouble in Bank Land

- The number of failed banks is tiny.
- The *deposits* are huge!

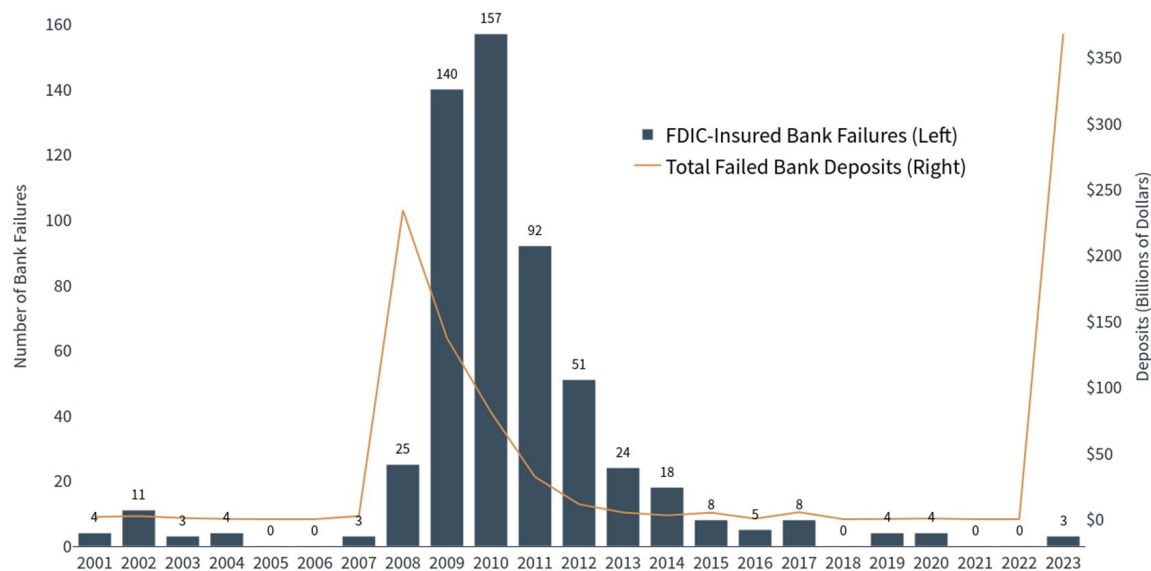
Financial Conditions

Market and Economic Chartbook | May 4, 2023



## FDIC Bank Failures

Number of Bank Failures and Total Deposits of Failed Banks Since 2001



Sources: Cleareconomics, FDIC

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# Trouble in Bank Land

- Bank investments have gotten pummeled.
- Some banks reached for return in their investment portfolios, extending duration.
- When interest rates rose, these investments fell sharply in value.
- Banks that sell imperiled investments realize losses, impairing their capital.

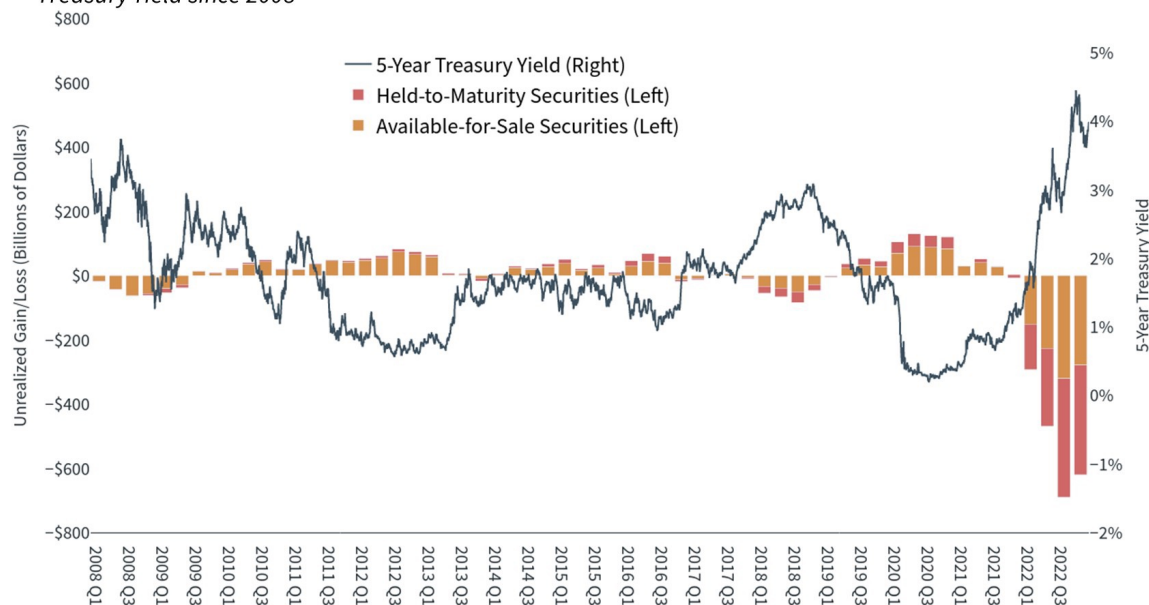
Financial Conditions

Market and Economic Chartbook | May 4, 2023



## Bank Unrealized Investment Gains/Losses

FDIC Banks' Unrealized Gains/Losses on Investment Securities and the 5-Year U.S. Treasury Yield since 2008



Latest data point is Dec 31, 2022

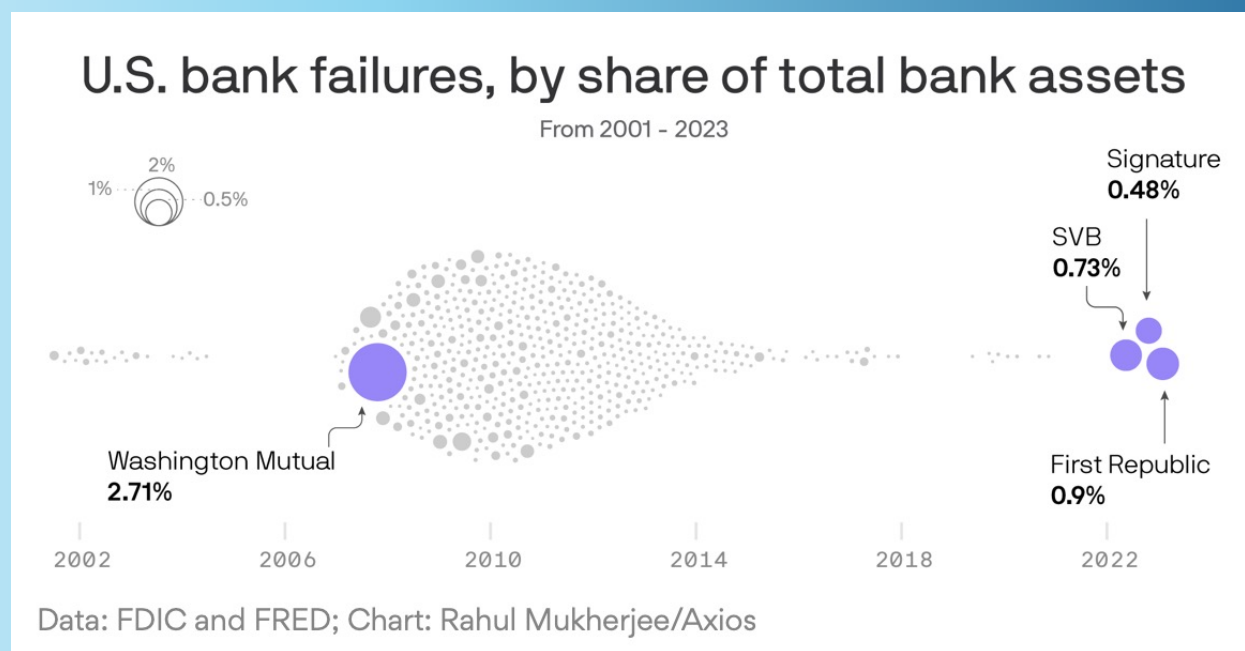
Sources: Cleareconomics, FDIC, Federal Reserve

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# Trouble in Bank Land

- Fed presently not too worried about banking system, saying it's "sound and resilient."
- Three failed banks = 2.4% of banking sector.
- In financial crisis, WaMu totaled 2.7% alone.
- Of course, in the GFC, the Fed also said problems in the sub-prime markets were "contained."

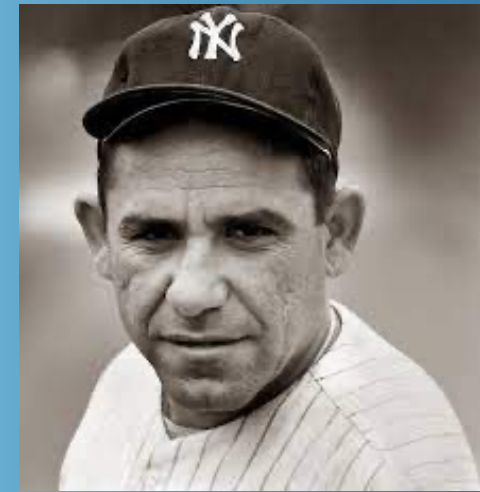


# Beware the Forecasts



“The only function of economic forecasting is to make astrology look respectable.”

John Kenneth Galbraith



“Predictions are difficult,  
especially about the future.”

Someone, maybe Yogi Berra

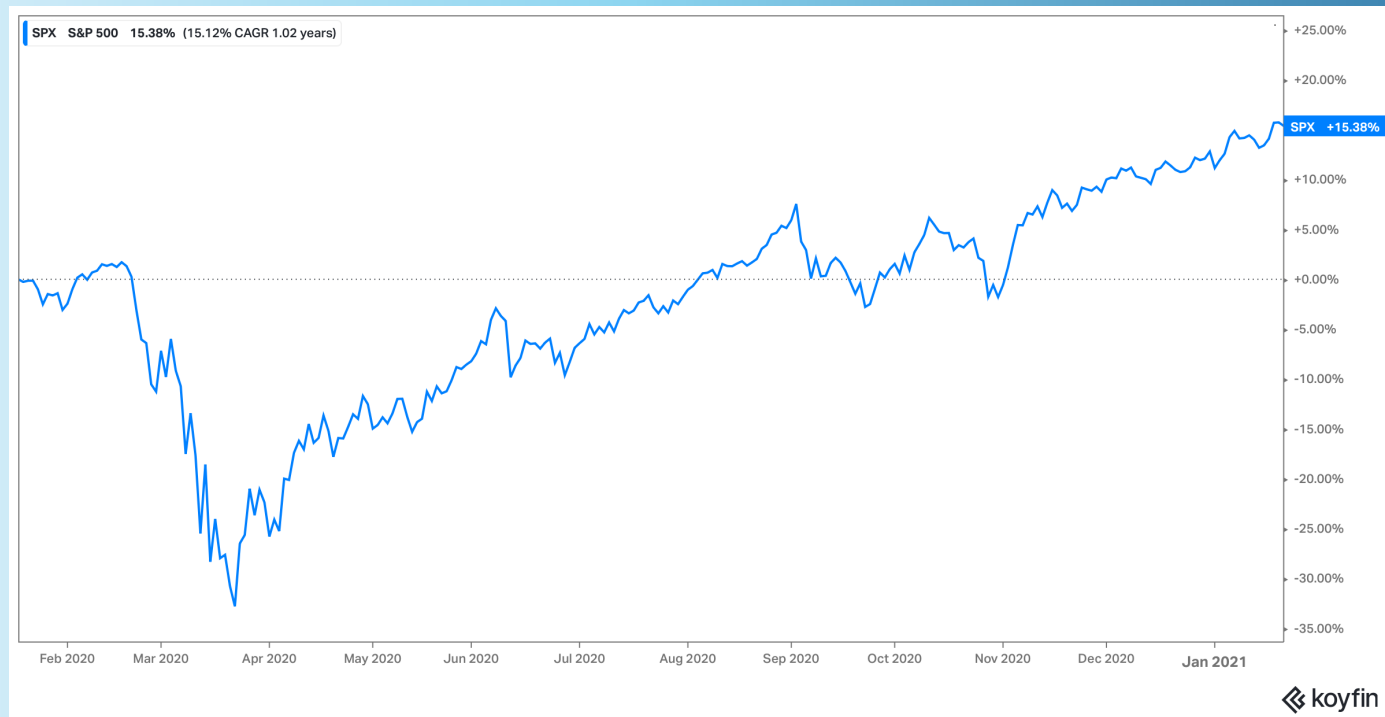
## Especially difficult in finance

- Not only does the future have to be divined...
- Its impacts must be guessed

## A thought experiment

- A worldwide event is going to occur that will kill millions of people
- The U.S. Presidential election will be contested
- The peaceful transition of power in the U.S. is threatened; the Capitol Building stormed

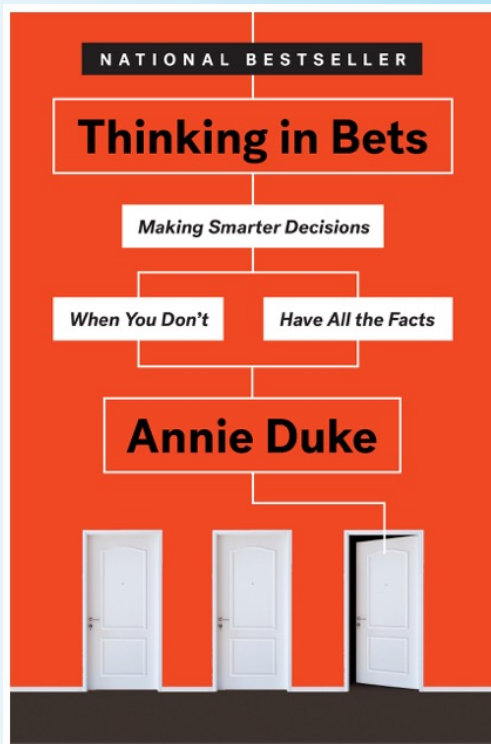
# What actually happened



The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

# Uncertainty

# Thinking in Bets – Annie Duke



- If you had to wager a sum of money on the certainty of your forecast, how much would it be?
- How certain are you of your outlook?

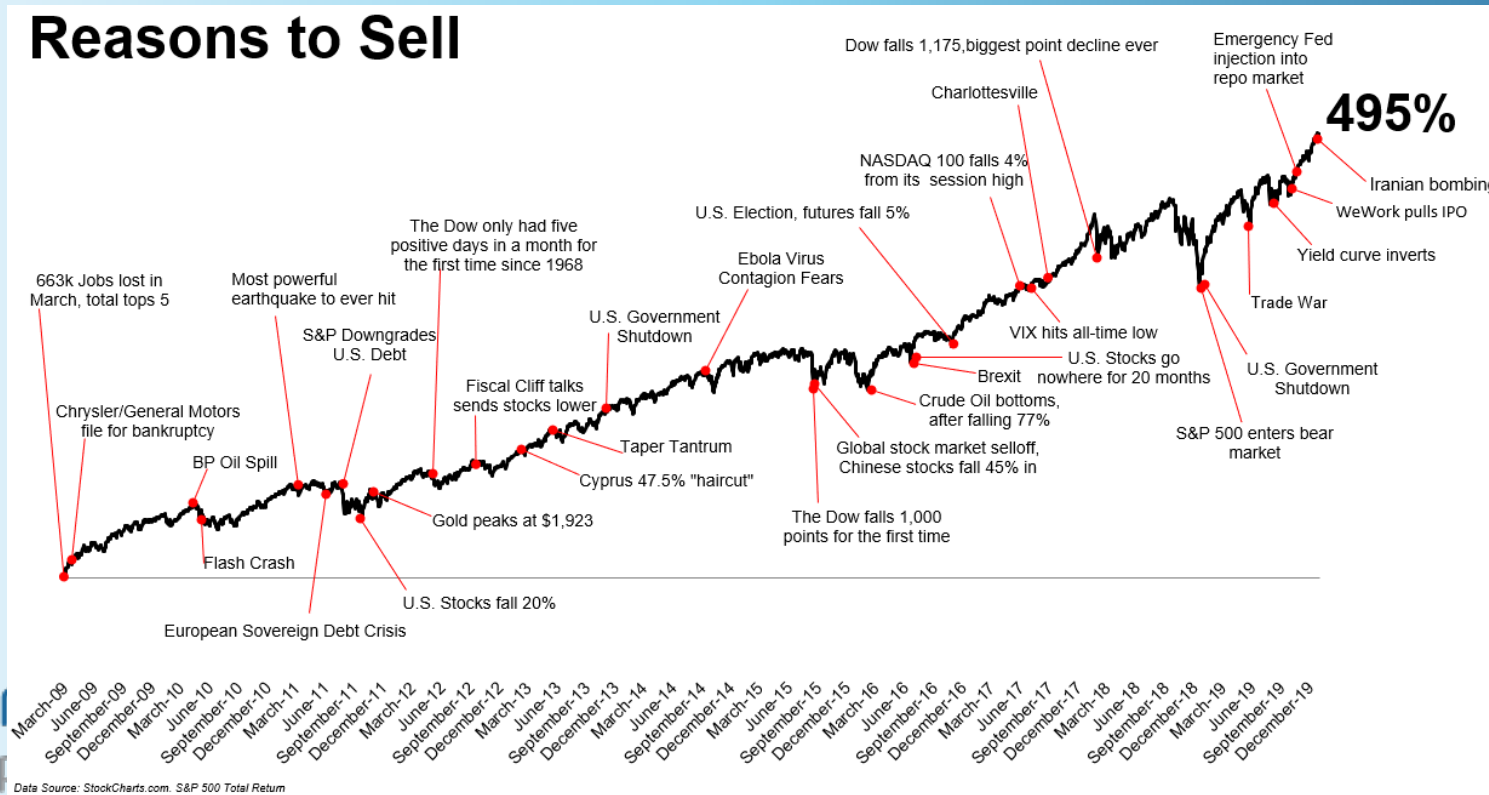
## Other thoughts

- Does your opponent/the other side possess no truth at all?
- Might there be something you don't know?
- What does the party buying/selling your stock from you know that you don't know?

# Wall of worry



# There are always reasons to be nervous



St  
Cap

# The long view

U.S. Stock Market

Market and Economic Chartbook | May 4, 2023



## Stocks Since the Great Depression

S&P 500 Index since 1928 (Log Scale)



Latest data point is May 3, 2023

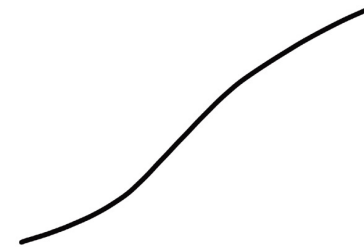


Sources: Clearnomics, Standard & Poor's  
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DAYS



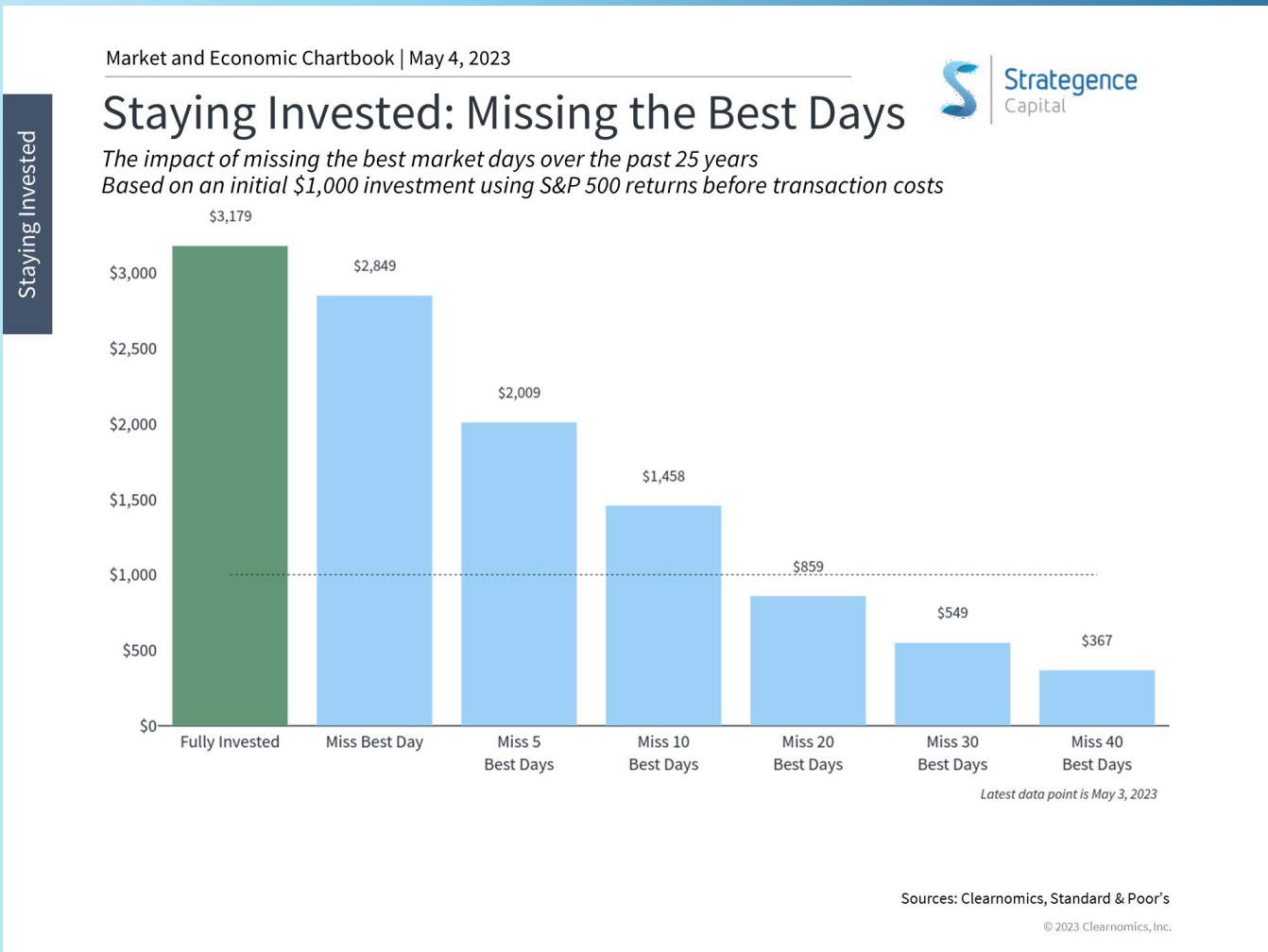
DECADES



DECIDE WHICH TO FOCUS ON...

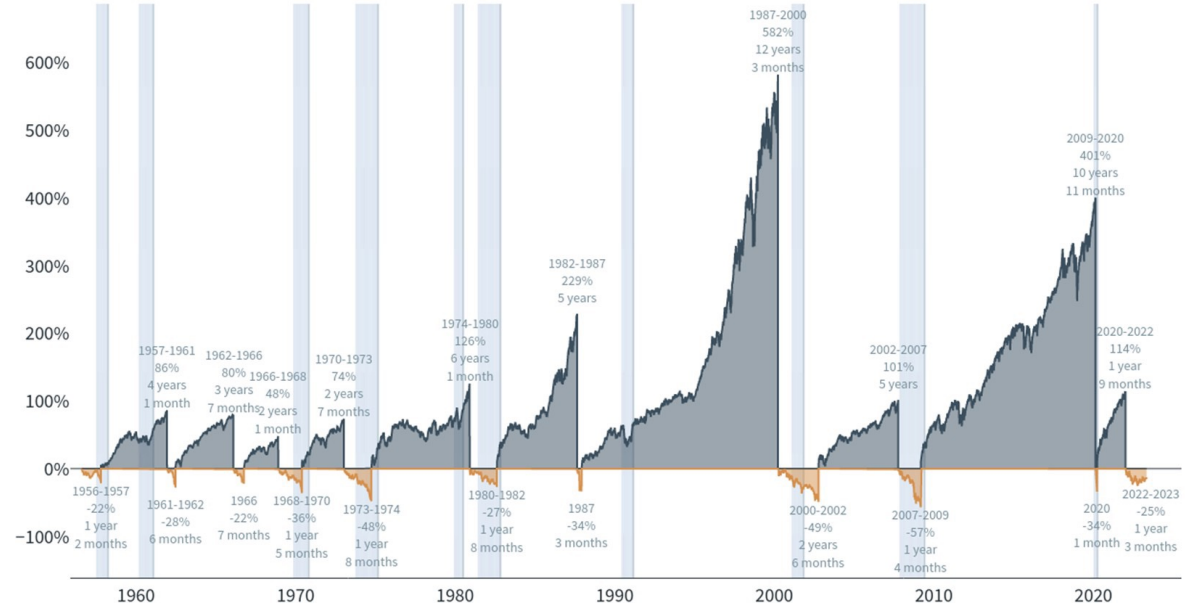
BEHAVIOR GAP

Getting spooked by minus signs can upset your financial future.



# Stock Market Bull and Bear Cycles

S&P 500 price index since 1956 bear market with recessions shaded.  
For the purposes of this chart, bear markets are 20% declines in price from prior peaks.  
Bull markets begin at each market bottom.



Latest data point is May 3, 2023

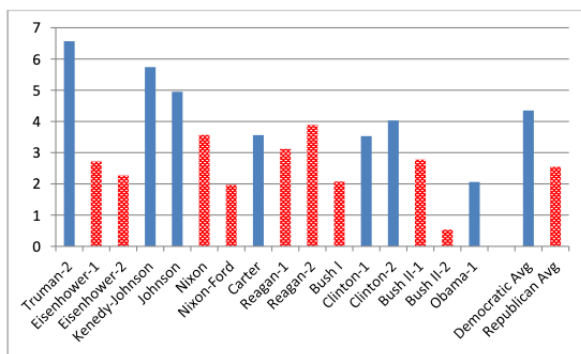
# Presidential administrations

## 3.13.23 email from client

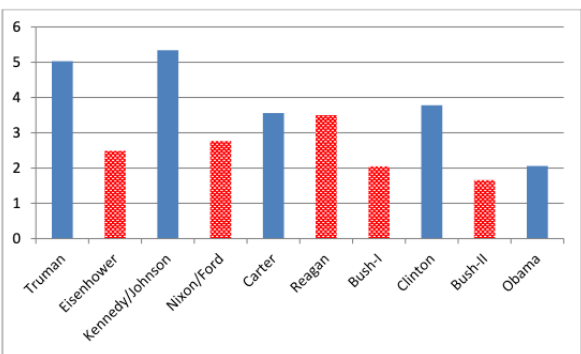
...anything but my retirement. Consider me as an emergency fund. I don't want to have to do  
nothing and need it and take a huge loss. I know you're not supposed to time the market but I almost  
want to get more in cash so there is no risk. Normally I am not worried about anything but **with this  
administration anything is possible.** I am starting to lose my normally aggressive risk tolerance. Feel  
free to tell me I am wrong and have nothing to worry about but I just don't know the odds. Hope all is

# 3.13.23 email from client

A. Average annualized GDP growth, by term



B. Average annualized GDP growth, by presidency



Presidents and the U.S. Economy: An Econometric Exploration  
Alan S. Blinder and Mark W. Watson  
NBER Working Paper No. 20324  
July 2014  
JEL No. E30,E60

## ABSTRACT

The U.S. economy has grown faster—and scored higher on many other macroeconomic metrics—when the President of the United States is a Democrat rather than a Republican. For many measures, including real GDP growth (on which we concentrate), the performance gap is both large and statistically significant, despite the fact that postwar history includes only 16 complete presidential terms. This paper asks why. The answer is not found in technical time series matters (such as differential trends or mean reversion), nor in systematically more expansionary monetary or fiscal policy under Democrats. Rather, it appears that the Democratic edge stems mainly from more benign oil shocks, superior TFP performance, a more favorable international environment, and perhaps more optimistic consumer expectations about the near-term future. Many other potential explanations are examined but fail to explain the partisan growth gap.



More...

<b>PRESIDENT</b>	<b>DEMOCRATS</b>	<b>REPUBLICANS</b>
Roosevelt	15.30%	
LBJ	5.90%	
JFK	4.50%	
Clinton	4.40%	
Reagan		3.90%
Nixon		3.70%
Carter	3.40%	
Eisenhower		3.30%
Trump		2.60%
GW Bush		2.40%
GHW Bush		2.30%
Obama	1.70%	
Ford		1.50%
Truman	1.20%	
Hoover		-8.50%
Total	36.50%	11.20%
<b>Annual Average</b>	<b>5.20%</b>	<b>1.40%</b>
<b>Ex-Hoover/Roosevelt</b>		
Total	21.10%	19.70%
<b>Annual Average</b>	<b>3.52%</b>	<b>2.81%</b>
Source: <a href="https://www.thebalancemoney.com/democrats-vs-republicans-which-is-better-for-the-economy-4771839#citation-56">https://www.thebalancemoney.com/democrats-vs-republicans-which-is-better-for-the-economy-4771839#citation-56</a>		

# Our Reminders and Advice

## Reminders

- The U.S. economy is a strong and resilient one
- The economic pendulum repeatedly swings, and we'll often have recessions
- Stocks are potentially a suitable long-term investment
- Selling stocks in a panic is rarely a good idea
- Buying stocks when others are panicking has historically been a good long strategy

## Advice

1. Determine an asset mix appropriate to you and your situation
2. Rebalance it when it gets out of alignment
3. Don't pay too much attention to the news
4. Only change #1 when *your* situation changes

