THANK YOU JULIE !!

December 2022 **Letter No. 113**

"Hello, this is Julie …"

Anyone calling our office over the years easily recognized that very familiar introduction from our co-worker Julie Levandowski. Sadly, that familiar voice won't be taking your calls at Stifel anymore. Julie had been on short-term leave throughout this past summer but in the absence of a return to full strength she has opted to make the leave a permanent one. It was undoubtedly a very difficult decision. Julie performed at a very high level and was a most invaluable resource to our Firm. Her career started all the way back in 1983 (with our predecessor firm, Smith Barney Harris Upham) where she was cherished by all to whom she served, clients and co-workers alike. Her wealth of industry knowledge, her ability to quickly find answers and solve problems, and her very upbeat and positive "can do" attitude was the direct result of her real passion for the business. Julie loved challenges, she loved having the opportunity to help others, but more than anything else, she loved the relationships that were cultivated over the course of her four-decade career.

Julie Levandowski then …. **…. and now, looking forward to the next chapter**

Julie grew up at Crystal Lake, Illinois, but made the decision to move up north (to Lake Tomahawk) shortly after high school with her new husband Jerry and her first child, Jeremiah. Julie started her professional career at a bank here in Rhinelander, but was soon coaxed by manager Bob Heck into joining Smith Barney (where my father Russell was employed as a Financial Advisor too!). In short order another child was soon on the way (Jessica). Julie didn't miss a beat as she quickly grasped the reins, learned the business, and became an Operations Manager (a position that she would maintain throughout her career). She had a knack for problem-solving, was highly organized, and seemingly got along with everyone. At Smith Barney Julie carried the title of Vice President and she had the distinction of serving on the elite National Counsel for Operations Managers.

Julie's last day with Stifel was made official early last month. She'll forge ahead in a new direction as she has always has, with her strong faith in a greater power and accepting the hands she is dealt with dignity and grace. It's definitely different in the office without her, but we will always be extremely grateful for her many important contributions and we wish her the very best for her future. Julie, we will miss you immensely.

[If you would like to send a card or e-mail of congratulations, we will definitely pass those on to her. Stifel, 3610 Highway 47, Rhinelander, Wisconsin 54501, or email your "Julie" messages to Jeanne at jensenj@stifel.com.]

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To all who had asked me what I thought could happen to the markets once the Mid-Terms were decided upon, we now have the answer …. not much! It's commonly understood that the stock market discounts the future in real time. All that is known has already been discounted, and that likely includes some very well-informed 'assumptions' that are rarely off the mark. While it is true that Wall Street does not like uncertainty, every great once in a while there are those **occasions** where a highly unexpected event turns out to be a major “market-mover.” As a matter of illustration, here are some that immediately come to mind (although this is not an all-inclusive list):

In August of 1998 there was a sudden collapse of a hedge fund known as “Long-Term Capital Management” (LTCM). This four-year old hedge fund had an all-star team of managers and was considered to be an elite fund. LTCM focused on a strategy of arbitrage of mispriced securities across global markets, using a high degree of leverage in an effort to attempt to deliver out-sized gains. While LTCM was successful initially, it collapsed in 1998 leading to a recapitalization under the supervision of the Federal Reserve. The fund was liquidated in early 2000.

The attack on the Twin Towers of New York City on September 11, 2001. Markets were already in a bearish trend as a result of the topping out of the Tech Bubble of the late 1990s, but this event accelerated the decline in substantial fashion. Markets were already skittish leading up to this completely unexpected attack. Trading volume (liquidity) had already been on the decline, but the sight of a commercial plane being used as a missile to slam into the side of one of the most iconic American buildings was enough to send buyers completely to the sidelines while sellers came out in force, resulting in an obvious market imbalance that tanked many assets, but notably, stocks of all types.

Pandemic, February 2020. There were voices warning that a virus from China with the potential to do extensive harm first came to light as early as late January, but it wasn’t until the virus was detected as having arrived onto the shores of other countries (ala Seattle, San Francisco, and New York City here in the U.S.) that panic rapidly escalated. Government leaders were ordering businesses and institutions to shut down. The S&P 500 Index declined by more than 33% in just a few short weeks before cooler heads finally prevailed.

Russia invades Ukraine, February 2022. This event had varying levels of impact on the global markets, but the one market that was torpedoed was the Moscow Exchange and all Russian stocks. These were immediately “suspended” from trading on every major exchange in the world (NYSE, the London Exchange, the

Singapore Exchange, the Hong Kong Exchange, et al.). To date all Russian-based company stocks are still under suspension and it is unknown if or when they will be "un-suspended". The lead-up to the Ukraine invasion may not have been the direct cause of declining prices on many stocks around the world, but once the actual fighting broke out, market losses quickly exceeded 20% on nearly every global exchange. To be fair, the massive stock bubble of 2020-21 had appeared to have already "popped" by late 2021 and a stealth bear market was already in process here in the U.S., but the Ukraine news accelerated that.

These four incidents each had a common denominator; they were unpredictable and quite unexpected and as a consequence they caught investors unprepared. Having been caught off guard, higher numbers of sellers than buyers hit the stock markets, creating a momentary loss of market liquidity. Prices dropped until a balance could be restored. The difference between these particular historical instances and other notable bear market events such as the 'Black Friday' stock market crash of 1987, the tech wreck in 2000-02, and the housing bust of 2008-09 is that those latter events were preceded with some significant early economic "cracks in the foundation" and where market action had already been erratic, suspect, and breaking down. It is one thing to know market conditions are weak and vulnerable, but yet another to get caught blind-sided.

I am making the point above for a reason. I have written frequently this year that we are officially in a Bear Market. Bear markets often play out over an extended period of time with lots of twists and turns. In bear markets, asset prices are more likely to experience declines punctuated by rallies that are more prone to failure. This is all a part of any bear cycle, which is really just a process of restoring more normal valuations in the wake of a prior rousing bull market cycle that elevated valuations to unsustainable levels. <u>Navigating a bear market is more of a survival exercise than a vacation.</u> However, the top priority during any bear market cycle is to do your best to avoid a big and unrecoverable loss. It is important to be well aware of your surroundings and may be a better strategy to prioritize capital preservation over any attempts to aggressively pursue a rapid recovery from realized or unrealized losses by taking out-sized risks that you wouldn't normally take otherwise. Bear markets do come to an end, usually without warning, and the potential for remarkable favorable returns early in the recovery process might favor those nimble enough to survive.

Due to current market developments, I urge all who rely on my guidance to consider being careful over the coming quarter or two. A few weeks may go by with no disruptions and with little in the news headlines, but that doesn't mean that the coast is clear and we no longer need to be vigilant. Sometimes a systemic event where one party fails and that failure slowly creeps into other corners of the financial eco-system. Other contra-parties doing business in the same pool of assets can seep into other areas by the slow squeeze of market liquidity that is supportive to a broad basket of asset valuations. If liquidity dries up, that frequently affects the marketability of many assets and can more generally result in lower valuations. By definition, lower valuations can change the equation with respect to others now meeting certain collateral requirements if they too are leveraged, which is common. This can fester behind the scenes for a while, but eventually when it bubbles up to the surface it can be lethal and unravel with intensity.

I end this letter with this cautionary guidance: Be on the lookout for companies and entities that announce that they are no longer able to do "business as usual." That is the 'tell' that there may be a structural and deeper flaw in the system. We are available to review your portfolios and to consider the many ways to potentially mitigate your risks.

David Holperin
Senior Vice President/Investments
Portfolio Manager – Solutions Program

Indices are unmanaged and are not available for direct investment. Past performance is no guarantee of future results and no one can predict the markets with any certainty. Index returns include the reinvestment of dividends but do not include adjustments for brokerage, custodian, and advisory fees. The Standard & Poor's 500 Index is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market. Due to their narrow focus, sector-based investments typically exhibit greater volatility. The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage that is often obtainable in commodity trading can work against you as well as for you. The use of leverage can lead to large losses as well as gains. Asset allocation (diversification) does not ensure a profit or help protect against loss.