



# Report

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## THE EVER-CHANGING INVESTMENT LANDSCAPE

FEATURE



BY **Deron McCoy**  
CFA®, CFP®, CAIA®, AIF®  
Chief Investment Officer

If you've been following us for a while, you'll recall a quote from Sir Isaac Newton (or perhaps Alexander Hamilton) which we occasionally refer to: *"Every action has an equal and opposite reaction."* While it may

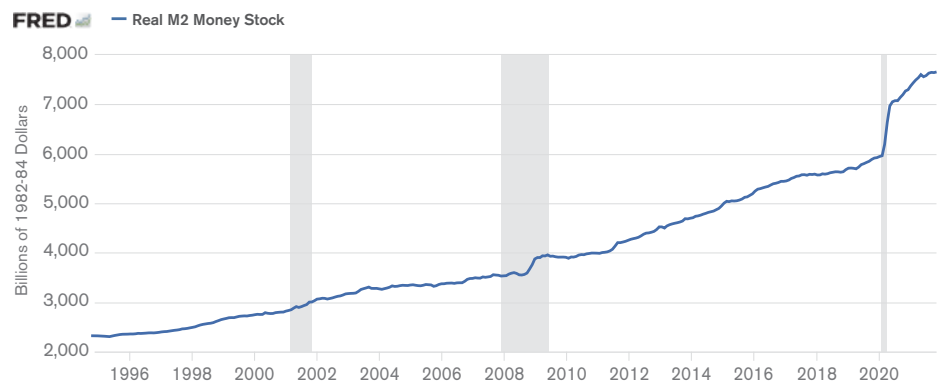
seem like a bit of a disconnect to apply the laws of physics to finance, there's clear evidence that the investment landscapes of one era often have echo effects that impact the next. Look no further than recent events:

- The landscape of the pandemic in 2020 saw the U.S. throwing massive amounts of stimulus money at the problem – on a scale that had no historic precedent;
- This in turn beget the frothy 'over-caffeinated' investment environment of 2021;
- Which in turn led to the 2022 landscape – with 40+ year highs in inflation causing tighter monetary policy via one of the fastest hiking cycle in modern history;
- All of which equated to the largest rise in 10-year Treasury Bond yields since before Alexander Hamilton was issuing those same Treasuries in 1788!; and
- That rapid rise in interest rates steadily pushed bond prices lower – which now brings us to 2023...three bank failures in one week including the second and third largest FDIC-covered bank failures in U.S. history.

Wait, are you saying that the global pandemic caused a bank failure in Silicon Valley?

Well yeah, kind of. When the pandemic hit, Washington DC (both Congress and The Federal Reserve) flooded the system with liquidity (cash). Economists don't like the term cash and instead prefer to use the more sophisticated term known as 'M2 Money Supply.' In the adjacent chart, you can clearly see the sharp spike upwards during 2020. And while this stimulus of cash certainly helped a great many individuals and companies make it through the lockdown, it also had repercussions (as it always does).

### M2 MONEY SUPPLY



Shaded areas indicate U.S. recessions.  
Source: Federal Reserve Bank of St. Louis. Time period displayed: 1/1/95 – 10/31/21.

While it may seem like a bit of a disconnect to apply the laws of physics to finance, there's clear evidence that the investment landscapes of one era often have echo effects that impact the next.

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# STRATEGIES TO IMPROVE YOUR PERFORMANCE IN 2023



BY **Jennifer Kim**  
MS, CFP®, CMFC®, ChFC®, CLU®  
*Managing Senior Partner*

If performance reports on your investments show you ended the year 2022 with an overall loss, you are not alone. Not by any means. While corrections do occur most years, 2022 was an entire year of corrections. And

your investing style, whether low-risk/low return, or high risk/high return, simply did not matter. As CNN Money put it, last year there were “few safe places for investors to park their money.”

To illustrate, if your 2022 investments leaned heavily on the bond market, here is how bonds fared.

- S&P U.S. Treasury Bonds were down 10.7 percent.
- 30-Year U.S. Treasury bonds were down 35 percent, their worst return in a century.
- Corporate Bonds were down 14.2 percent.

So much for the low risk “safe havens” in 2022. And if you favor stocks over bonds, the three major averages ended a winning streak of three years in 2022 this way:

- The Dow was down 9 percent for the year.
- The S&P 500 was down 20 percent at year end.
- The Nasdaq Composite Index fell 33 percent in 2022.

So, the question is, as we enter 2023, what might you do to avoid a second year of losses? Changing advisors may seem like one solution, but down performances were so widespread last year, you may regret ending a relationship that, until now, worked to your advantage. The same goes for just dumping underperforming investments because they underperformed. Instead, here is what we suggest.

First, meet with your advisor and do a thorough analysis of your current allocations. Carefully-thought-out diversification of investments has never been more important. This does not mean a major overhaul of your allocations, but even making small changes can make a big difference.

Second, identify winning sectors (yes, there were/are some).



For example, while tech dragged down the market—PayPal went from \$308.53 on July 23, 2021 to \$79.09 as of January 20, 2023—food investments did well this past year, as did energy. According to CNN Business, “The energy sector has returned more than 60% this year. In fact, energy made up the entirety of Wall Street’s 2022 profit gains.”

Third, identify losing sectors. Not just to avoid them, but to invest in them, or hold onto them. That’s right. As Warren Buffett famously said, “Be fearful when others are greedy, and greedy when others are fearful.” Keeping PayPal in mind, buying it now at \$79.09, even if it only returns to half its former value, you have doubled your money. And many are predicting a recovery in the bond markets.

Fourth, identify new products. For example, consider adding structured notes to your portfolio. They not only pay monthly dividends, whatever their performance, your original capital investment is returned to you.

To wrap up, while 2022 might have been a year-long correction that produced almost across the board losses for investors, taking a deep breath, carefully reviewing your investments, and making tweaks to your allocations won’t guarantee a profitable 2023—nothing can—but you will begin this year with a smart and strengthened portfolio.

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**Carefully-thought-out diversification of investments has never been more important. This does not mean a major overhaul of your allocations, but even making small changes can make a big difference.**

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I believe successful wealth management is the result of an ongoing collaboration between investor and advisor, built upon trust and maintained according to the highest standards of integrity and expertise.

**Brian D. Holmes.**  
MS, CFP®, CMFC, AIF®, *President & CEO*

**ABOUT SEIA**

Signature Estate & Investment Advisors, LLC® (SEIA) is a Registered Investment Advisor firm offering Investment Supervision and Financial Planning Services tailored to align the unique needs of affluent individuals and corporations. Fundamental experience and professionalism enable the financial advisors, with SEIA's research and support staff, to design a financial plan or investment portfolio to align the client's goals.

## INTERNATIONAL WOMEN'S DAY

Last month (on Wednesday, March 8th) we once again celebrated International Women's Day – a global day to celebrate the social, economic, cultural, and political achievements of women. This year's theme of #EmbraceEquity is intended to shed light on the need for gender equity (not just equality) to be part of every society's DNA.

Rooted in an understanding that we all start from different places, it's an effort to increase awareness that true inclusion and belonging require more than just equal opportunities; they require equitable action.

At SEIA, we've always held fast to the belief that gender equality and equity isn't just a women's issue—it's a business issue. One that helps us bring a greater diversity of opinions, insights, and understanding to the challenges associated with managing your family's complex wealth.

**We're proud and honored to have so many women in key leadership roles throughout our organization, including the following leaders who will be celebrating their 5-year anniversary with the firm in 2023:**



**Dana Aude**  
*Registered Associate*  
May 2018



**Vannara Murphy**  
*Client Service Manager*  
August 2018



**Kelli French**  
*Client Service Manager*  
October 2018



**Ellen Baldecchi**  
*Operations Associate*  
July 2018



**Michaela Hurtienne**  
*Associate Advisor*  
June 2018



**Tamara Patterson**  
*Client Service Manager*  
September 2018



**Sara Hendrix**  
*Associate Advisor*  
August 2018

## SAVE THE DATE

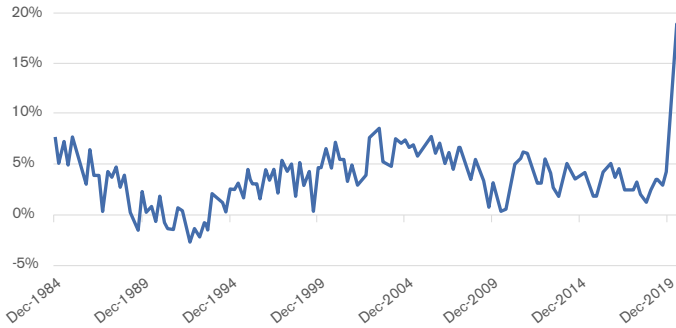
**Q2 2023  
Investment  
Roundtable  
Webinar**

**Thursday, May 18th  
1pm PT**

Please check with your financial advisor for further details.

All that stimulus money had to be placed somewhere. And the most natural landing spot was the banking system itself – as witnessed by the flood of deposits flowing into FDIC-insured banks.

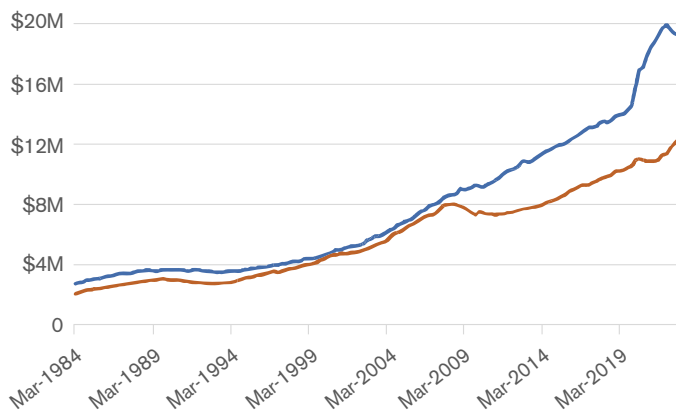
**1-YEAR GROWTH IN DEPOSITS AT FDIC-INSURED BANKS (THROUGH 2021)**



Source: FDIC. Data is as of December 31, 2022.

When banks take in deposits, they typically loan the money right back out. Essentially, that's the banking business model—borrow short (via nearly free deposits) and lend long at significantly higher interest rates. But according to the FDIC and Eddie Duzlak, CIO of Virtuent, "Typically, deposits and loans have historically tracked each other quite closely. The lines in the chart below are almost indistinguishable through 2008, after which they diverge. At the risk of oversimplifying, loan demand in the U.S. weakened after the 2008 crisis, and banks increased securities portfolios as a result. This growth in securities portfolios saw another acceleration in 2020 and 2021, as deposit growth spiked." The statement 'growth in securities portfolios' is important as it immediately preceded the inflationary period of 2022.

**DEPOSITS AND TOTAL LOANS & LEASES**



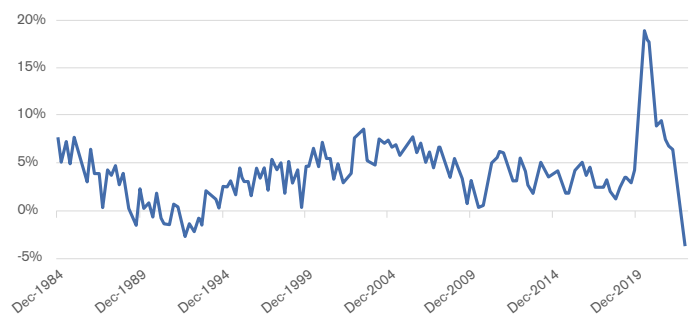
Source: FDIC. Values are in millions of USD. Data is as of December 31, 2022.

To combat the inflation problem, the Fed tightened monetary policy through a rapid series of short-term interest rate hikes (450 basis points in less than a year). And as interest rates rose, bond prices declined. Who wants to buy an older bond paying 1% when you could get a new one paying 4%? Any potential buyer certainly wouldn't pay you par for the bond – they'd only purchase it at a steep discount. Thus bond prices went south as yields went north.

This has resulted in banks carrying unrealized losses on the massive 'securities portfolio' that they had just purchased a few years prior. And again, according to Mr. Duzlak, "these unrealized losses are unprecedented in a historical context, driven by 1) the increased share that securities portfolios make up as a percent of banks' assets and 2) the rise in interest rates being so rapid relative to history in response to U.S. inflation."

Which all leads us to 2023. With short-term interest rates poised to reach 5%, depositors suddenly realized that they could get higher yields elsewhere and started moving money en masse away from low interest bearing checking and savings accounts – completely reversing the huge growth in deposits from a year ago; leaving banks scrambling to unwind all of those previous purchases and turning unrealized losses into realized losses.

**1-YEAR GROWTH IN DEPOSITS AT FDIC-INSURED BANKS (THROUGH 2023)**



Source: FDIC. Data is as of December 31, 2022.

Silicon Valley Bank was one of the first bank failures due to their unique situation (close ties to Private Equity, their founders, and large amounts of uninsured deposits) which only served to exacerbate the problem. But the underlying problem remains relevant for all banks. According to Mr. Duzlak, "it would be shocking if we are not talking about loan-level delinquencies, charge-offs and credit losses later this year. This is the slower-moving risk in banks that has been dormant for many years now thanks in part to easy monetary policy, and it seems to be awakening due to the knock-on effects of higher interest rates and the draining of liquidity from the financial system."

# Happy WOMEN'S DAY

Thank You

## OUR FEMALE ADVISORS



**Jennifer Kim**  
*Managing Senior Partner*  
March 1997



**Hayley Wood Bates**  
*Financial Advisor*  
June 2015

## 10+ YEARS OF SERVICE



**Joyce Mizuhata**  
*Client Services Manager*  
March 1999



**Stephanie Mills**  
*Client Services Manager*  
September 2000



**Sabina Pinsky**  
*Senior Marketing Associate*  
October 2005



**Stephanie Perkins**  
*Client Service Manager*  
September 2009

## CENTURY CITY, CA

**Liselotte Richards**  
August 2014

**Rachel Otto**  
May 2015

**Jessica Cherness**  
November 2015

**Andrea Mitchell**  
January 2021

**Misha Yim**  
February 2021

**Elizabeth Carberry**  
January 2022

**Donna Chanthakone**  
April 2022

**Samantha Driver**  
April 2022

**Kellie Smith**  
May 2022

**Karen Tongol**  
January 2023

## HOUSTON, TX

**Annette Gibson**  
May 2019

## REDONDO BEACH, CA

**Chelsea Traub**  
November 2021

**Stephanie Chow**  
January 2022

## NEWPORT BEACH, CA

**Natalie Rodgers**  
May 2016

**Ghazal Zamani**  
February 2020

**Natalie Boblit**  
August 2022

## PASADENA, CA

**Julia Fahlen**  
June 2022

## TYSONS, VA

**Gabriella Cajina**  
July 2016

**Arvette Reid**  
June 2017

**Kathleen Persak**  
March 2019

**Christine Sol**  
August 2019

**Levene LeBlanc**  
March 2020

**Jennifer Late**  
August 2020

**Jill Eisemann**  
November 2021

**Faye Lawrence**  
March 2022

**Lisa Windsor**  
2023

THE EVER-CHANGING INVESTMENT LANDSCAPE *continued from page 4...*

Because of these banking woes, many are now fearful of a material economic slowdown that may push interest rates back down as investors clamor for the safety of bonds (as of this writing, the two-year Treasury Bond yield has already dropped a full percentage point). Given these potential headwinds, we have been advocating that investors reposition portfolios accordingly.

We are honored that you entrust us with your hard-earned cash. And rest assured that our custodians (unlike your banks) are indeed paying you a fair amount on all that cash. To restate our January commentary, we continue to be on recession watch and shall adjust appropriately if these problems in the banking sector begin to bleed into the greater economy – all while keeping an eye towards 2024 and the next change in the investment landscape.

# SIGNATURE FUND for GIVING



**John P. Keenan, CFP®, AIF®, C(k)P® is a Senior Partner in SEIA's Virginia Office. John has been in the securities and insurance industry since 1996. His practice**

**focuses on investment management and overall wealth strategies for affluent individuals and owners of government contracting businesses.**

#### **Current Involvement**

Our team and my family currently sponsor two students at the Washington Jesuit Academy (WJA). Twice a year we visit the students at the school to learn more about how our support is impacting their lives in and out of the classroom. During the holidays sponsors pick out presents for the kids based on their interests.

#### **Purpose of WJA**

The mission of the Washington Jesuit Academy is to provide a high-quality and comprehensive education to boys from low-income communities, offering them a safe, rigorous academic setting and advancing their spiritual, intellectual, emotional, and physical growth.

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“As the beneficiary of a Jesuit education I feel compelled to help other less fortunate kids reap the rewards of a strong educational foundation. There is no other organization in the Washington DC area that has improved the futures of so many kids.”

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#### **Anything else you would like to add**

For any clients in the DC, Maryland, or Virginia area interested in this organization you can learn more about the school at <https://www.wjacademy.org/>

**If you have any questions regarding our fund or how to participate, we invite you to contact Hayley Wood Bates at 310-712-2323 or [hwood@seia.com](mailto:hwood@seia.com).**

SEIA

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