Winter 2023

Long before legendary high-wire walker Nik Wallenda, a seventh-generation member of the famed Flying Wallendas family, takes his first step, above Niagara Falls or the Grand Canyon or Times Square, a lot of work has been done to ensure a safe journey to the other side.

On a walk like Times Square, twenty-five stories above the city streets, for example, Wallenda and his uncle Mike, an engineer, took wall-thickness and building measurements, creating drawings of distance and height, to understand where best to secure the wire. They used a dynamometer, a big scale, to determine the ideal tension, ensuring the right amount of sag in the middle.

He chooses the right wire, usually deciding on a galvanized 7 x 19 inner core, which is rust-proof, highly compressed, and uses very little lubrication.

Then there's the putting up of the wires, which can include screw-pin anchors, stabilizer cables, and 500-ton hydraulic cranes.

The structuring in place, they begin preparing for possible obstacles once the walk has begun. Wallenda has practiced in front of an airboat, revved up to seventy or eighty miles per hour, during training. He researches the sun's position on walk day, preferring it shine from directly above. While rain won't necessarily cancel a walk, he and his team carry a portable weather system to make sure there are no lightning strikes within fifteen miles of the area.

Investing is not exactly analogous to funambulism, as tightrope walking is known. It's not life or death, after all. But to be successful at both, planning ahead is crucial. Once the client's goal is understood, OCM installs safety measures, forecasts, and prepares for possible variables – likely and unlikely.

It's an important reminder, and worth discussing again, especially at a time when stocks and bonds have been down for a full year, the first time that's happened since 1969 (with a near-miss in 2018), and the possibility of higher rates and a definitive recession lingers.

Your portfolio is designed, and consistently tweaked, to withstand this, and continue to grow well into the future. We've made it through wind and rain before. Now, to paraphrase economist Paul Samuelson, is a time to sit and watch the grass grow.

Of course, individual circumstances, fortuitous and otherwise, may call for a tweak now and then. Perhaps you've found yourself with extra cash, wondering if investing during a down market is wise. Or, more stressful, are in need of cash and worried about the potentially deleterious effects of taking it out of your portfolio.

In the first case, the simple answer can be found by tracking the market's valuation as measured by its price-to-earnings ratio and earnings yield. What you'll find is prices came down and earnings are still expected to grow through 2023 and beyond, though forecasts are for a slower growth rate. In other words, companies are on sale. And relatively soon, a year or two or three, history and reason tell us prices will follow earnings.

Of course, these things never happen in a tidy manner. Buying today at reasonable prices doesn't assure you'll see an immediate increase in value. Likely, there will be short-term ups and downs in stock prices. We, of course, include this in our calculus.

As for bonds, their yields are (measured by the U.S. Treasury issued bills and bonds) 4% higher that they were a year ago. For example, a 90-day T-bill paid 0.06% on the last day of 2021 and 4.42% a year later (a couple weeks ago). Accordingly, a one-year bond paid 0.39% and now 4.73%. Go up to 10-years and you go from 1.52% to 3.88%. That's an increase in yield of seventy-four times for the 90-day T-bill, twelve times for the one-year bond, and two and one-half times for the 10-year. It's a good time to be in the bond business.

If you're gonna go to the store, best to go when everything has a red tag. And right now, nearly every asset on the planet is on sale.

Last year tested everyone's mettle, but it's the reason assets are now so attractive, even downright cheap, relative to expected yield or cash flow over the next several years. If you're looking to hold investments for at least a year or so and have cash, this is a wise time to invest.

But sometimes we find ourselves unable to sit and watch the grass grow, or plant more seeds. If you're in a position where you need cash, we encourage you to discuss with your advisor.

The first question you'll be asked is if the cash is for a need or a want. If the latter, perhaps it can wait until asset prices recover. If it's the former, the advisor will help you find the best way to access cash – whether it's borrowing or selling an asset that's not down quite as much.

Which brings us to process, essentially how OCM is constantly working to get you safely across the wire. As it is for Wallenda, the key is balancing, in his case wearing suede leather shoes, made by his mother, and a 23-foot-long, 45-pound pole, and rebalancing.

Not every day, of course, but OCM is perpetually rebalancing your portfolio, constantly watching the movement of assets, many of which behave differently in the short run. Most often, stocks and bonds are a great example of things that move in different directions during the same time frame. They don't need to move in the exact opposite direction to tamp down your portfolio's volatility.

We trim assets that have outperformed their peers in your portfolio. If stocks appreciated 20% and bonds appreciated 4%, and by design or asset allocation, each had made up 50% of your initial portfolio, the former now represents 54%. So, while managing taxes, we trim stocks and fund bonds to bring your portfolio back to the strategic allocation of 50/50.

Remember, in the initial planning of your portfolio, you shared with us your distribution needs and we forecasted the impact of markets like 2022. In fact, we ran simulations (a thousand to be exact) including good and bad markets to find the optimal allocation of your assets.

Entering 2022, OCM was intentionally shorter in duration in our bond allocation, in order to protect principal more effectively when interest rates rose (as they, of course, did). We were lighter in our allocation to higher valuation companies, like those in tech and telecom) and heavier in more favorably valued companies, like energy. As history has taught us time and again, higher priced assets such as 2022's technology and telecom led the market's march down, falling 28% and 39% respectively. More reasonably priced energy companies, however, were up a whopping 65%. Shorter duration government and quality credit was down 5.5%, while the broad and longer duration bond market was down 13%.

All this to say, raising cash for your *needs*, emphasis intended, can be achieved in ways that protect your long-term goals.

Our process is trite, but true. We buy low and sell high, perhaps not to perfection, the enemy of the good, to use another old adage. And helps our clients meet their goals, one methodical, balanced step at a time.