WESTBOURNE
INVESTMENT ADVISORS

INVESTMENT PERSPECTIVE — SECOND QUARTER 2023

"…lightning wasn't supposed to strike in the same place twice? Sure it does, but only if you're too dumb to move"

- Author Jodi Picoult

Run For Cover Investing

The National Weather Service estimates the odds of being struck by lightning each year are "only" one in 1 million. An exception to the rule: one Roy Sullivan, former park ranger for the *Shenandoah National Park* in Virginia, is the Guinness Book of World Records holder for lightning strike survival – he was struck seven times over a 35-year period – if true, a veritable black swan only partially explained by Roy's profession.

Those versed in keraunopathy[1] may see a parallel to current "run for cover" investor behavior resulting from the 2020 and 2022 "lightning strikes" of significant declines in the S&P 500. Precipitous declines have occurred only a handful of times in the last 100 years, nonetheless, nervous investors adopt a bunker mentality, seeking the "safe" haven of cash, money markets, and U.S. Treasuries in the face of the Federal Reserve's recent rate increase actions – seeking shelter from devastating lightning strikes at the sight of a few raindrops. Our discussions of pervasive fear-based investing behavior are long-documented and, as in the past, fear provides excellent investment opportunities for patient investors. Equity investing is inherently volatile, but over the long-term a proven wealth builder for those who stay the course.

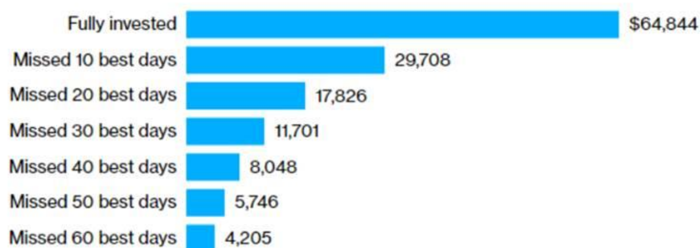
Great Returns Despite Multiple Lightning Strikes

Over the last fifteen years since *Westbourne* was founded (2007, just before the financial crisis), there has been near-daily volatility clouds and lightning dominating the daily news cycle – there's always a storm happening somewhere. The Financial crisis of 2008 with its bad mortgages and rampant bank failures. Ebola. The Venezuelan implosion. Brexit. The Covid pandemic. Runaway inflation. Rising interest rates and the recent regional banks failures – stormy weather indeed. Despite these events, the return in the market, albeit quite volatile, since January 1, 2007, has been…wait for it…

+270%

So, $100,000 invested 1/1/2007 in the S&P 500 market is worth ~$370,000 on 12/31/22. Or an ~ 8.5% annual return.

Trying to Time the Market is Futile… and Costly



Missing just a handful of good days is a BIG deal.

[1] *Keraunopathy* – The pathology of lightning; the scientific study of the effects of lightning on living things, with emphasis on anatomic and functional effects.

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A Comment on recent Bank Failures

"Don't you see what's happening? Potter isn't selling. Potter's buying! And why? Because we're panicky and he's not. That's why. He's picking up some bargains!" **- George Bailey during the bank run, *"It's A Wonderful Life."***

We've witnessed the failure of several banks due to bank runs on "uninsured" deposits above the applicable FDIC limits. In the wake of these events, we believe larger banks offer significant investment value.

For several years, we have invested our clients' accounts in the large "money center" banks *aka* "Systemically Important Financial Institutions" (SIFIs) *aka* "too big to fail" banks. These banks served as shelter from the banking storms during financial crises and have gained market share consistently with each passing crisis (including gaining depositors recently.) In addition, SIFIs have the backing of the Federal Reserve, have multiple lines of business to diversify themselves during good and bad economic times (banking services, investment banking, underwriting, trading, asset management), and most importantly, earn good returns on capital. SIFI institutions are subject to annual "stress tests" and are required to hold significant amounts of capital. We agree with a recent Barron's article[2] pointing out that Bank of America, Citigroup, Goldman Sachs, JP Morgan, and Morgan Stanley offer significant bargains resulting from the recent selloff.

"The biggest banks…could be buffeted in coming days and weeks as the troubles surrounding First Republic and other banks play out. But these giants are positioned to prosper over the longer term, and their shares are inexpensive."

There may be additional bank failures, most likely weaker regional banks, but we do not see a replay of the 2008 collapse of the U.S. financial system and continue to favor the large banks.

TINA is dead

Until recently, the acronym TINA - *"There Is No Alternative"* (to stocks) described the stock market, as bonds, such as 3-year U.S. Treasuries, yielded 0.22% in January of 2021 and 1% in January of 2022. These bonds now yield 3.9%. Note that these yields are still significantly below the rate of inflation, currently ~6%.

You may ask, "Why don't I put all my money in money markets earning, say, 4.5% and steer clear of all this market volatility? Our response: We believe that Equities will continue to outperform "risk-free" Treasury bonds and other low-risk Fixed Income instruments, as has been the case historically. If they don't, over the long-term, then the stock market will cease to exist.

We believe that the eventual pause in interest rate increases will help stocks continue their historical march upward. Recent support of this belief was in January 2023 as stocks were +9% <u>for the month</u> on data indicating easing inflation. Interest rates declined temporarily, until the next data point indicated that inflation was not dead yet - and markets took all those gains back, piling-on further during the latest banking nervousness. Patient (and calm) investors should be rewarded when inflation pressures subside.

Final Thoughts

For the last 100 years, annualized inflation has been ~ 3%. We've all witnessed price increases on milk, bread, housing, gas, college tuition, theater tickets, etc. If history is a guide, a bunker mentality of 100% "fixed income" will likely erode the long-term purchasing power of cash balances due to inflation and other external factors. Fear caused by recent "lightning strikes" caused many investors to pursue "safe haven" investments in cash and fixed income while shunning equities. Historically, equities have produced 6-8% annualized returns and equities are underappreciated at this point.

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[2] Barron's 3/23/23, "*Big Banks Look Like Winners*"

Should you wait until the coast is clear to invest in the stock market, or add to investment portfolios now? We believe strongly in the latter, as Equities should continue to outperform Bonds over the long-term. But <u>if you have cash sitting around earning very little</u> and want to pursue 4.5%-6% money markets & bonds, by all means let's put it to work.

We recognize the past 12-18 months have been volatile and unnerving for investors and continue to take a positive 3+ year view on equities. While we never welcome a panic in the capital markets, if any crisis *du jour* results in a significant sell-off in U.S. markets, we would look to marginally increase the equity exposure in those accounts where appropriate.

We wish you a wonderful spring season and look forward to hearing from you with any questions. With best regards,

Scot E. Labin   Joseph C. Wilkinson   Jon Levin

Scot Labin, CFA - Director of Research
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Annual ADV Disclosure

Securities and Exchange Commission (SEC) regulations require that *Westbourne Investment Advisors* annually offer a copy of our firm's Form ADV Part 2 Disclosure Document (also on file with the SEC) to our clients. If you'd like a copy, please let us know and we will send you one free of charge. We had one material change in our ADV Part 2A: Item 5, we updated our fee schedule to include the addition of clients from another advisor. No client fees were affected by this disclosure change.

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