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THE CAPSTONE QUARTERLY

Happy New Year! The turning of the calendar brings a sense of reflection and a celebration of new beginnings. We hope this upcoming year is even better than the last. Volatility seems to be here to stay, and what feels like an abnormal market is actually a return to the norm. In this newsletter, Bryce and Casey both discuss our investment philosophy and some of the processes that we use to choose our investments.

BRYCE'S POINT OF VIEW

Bryce Pease, CFP®

Chief Investment Officer

Rules-Based Approach



Although many of our domestic equity benchmarks are at or near all-time highs many sectors of the market like large or small companies rotated in and out of favor on a seemingly regular basis.

Part of this trendless environment could be attributed to the stop-and-go mentality of the reopening trade driven by the lingering uncertainties surrounding the delta and omicron variants, vaccination status, and interest rate landscape.

For 2021 many times there wasn't a clear trend and, if anything, the trend was that there was no trend. Because the S&P 500 and Dow (Dow Jones Industrial Average) are outperforming much of the overall markets, we currently have a higher allocation to matching these indexes than we normally do. As of this writing, we believe our domestic equities remain in a strong trend. How much longer will that be the case? We do not know; however, we do know that eventually the market will change. And when it does, our goal is to change with it.

Using a rules-based, disciplined approach helps us to navigate and adapt in both rising and falling market environments. We have been avoiding international and emerging market funds because, to us, the risk may outweigh the potential gains in the current state of world volatility.

Did you know?

You still have time to contribute to your IRA accounts for tax year 2021. Both Traditional IRA and Roth IRAs (and even SEP IRAs) can accept deposits up until the tax filing deadline in April for the prior year. Roth IRAs can be a great way for some individuals to have tax free income someday. Don't have one set up? No problem, there's still time. Contact us to see if it would be right for your situation.

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CASEY'S CORNER

Casey Morris, CFP®

Relative Strength



As a financial advisor, I get the chance to meet a lot of new people. Some want help with creating a financial plan; others just want a second opinion on their investment portfolio. But regardless of who they are or what they want, many ask the same question: "How can I grow and protect my money so I can reach my goals in life?"

It's a great question because growth and protection are both important. You don't want to see your money just sit around and rust. You want to do things with it. Whether it's retirement, travel, starting a new business, sending your grandkids off to college, or even building a new home, you want to invest in your own future by investing in the markets. But if you're like many people, you also want to have confidence that your money will last through your lifetime.

One of the tools and strategies we use is called relative strength (also known as momentum). But what our strategy is called is less important than what it does. To explain what it does, picture this scenario:

Imagine you are alone in a sailboat on the water. How would you determine where you want to go? Obviously, you can't control which way the wind blows. But what you can control is how you respond to it. After all, that's what sails are for. So, if the wind is blowing east to west, and you want to go west you would put your sail up. If the wind were blowing west to east, you would tack. What you wouldn't do is just sit there with your sail up, at the mercy of the wind, going wherever it goes, waiting for it to change in your favor.

Simple, right? Now, apply that analogy to investing. Many investors practice a philosophy called "buy and hold". They put their money in a few investments and hold onto them, hoping the value will go up. In other words, they wait for the wind to blow in their favor. In the meantime, they go where the markets go: up, down, sideways, you name it.

That's not a smart way to sail, and in our opinion it's also not a smart way to invest. Things get even worse when a hurricane comes. Remember what happened in 2008? In our opinion a good investor will try to get out of the markets to protect against losses. A not so good investor will - you guessed it - just hold on for dear life.

Back to relative strength. No one can control which way the markets go. But we can control how we react to them. Relative strength is a system for calculating which investments are currently strong relative to the overall market. Instead of buying an investment and simply waiting to see what happens, relative strength enables us to look for those investments that are in demand now, compared to other investments that look similar but are less in demand. Instead of guessing which investments will rise in the future, we focus on investments that are already on their way up and look likely to keep rising. But as soon as an investment begins to lose some of its strength - if its value falls below a certain point, for example - we will likely sell it and buy into the next rising investment.

Keep in mind that no strategy is perfect. Relative strength is not foolproof and it's not infallible. It's also not immune to periods of underperformance. But it is a tried and tested strategy based on common sense and not emotion. It's how we keep moving in the direction we want to go. It's how we use all the tools available to us instead of simply relying on the wind. It's also our exit strategy for attempting to not stay in any one investment too long when the next hurricane hits.

FINALLY...

As you probably know, we have volumes of information coming across our desks each day. Bryce discovered some research that he's never seen before. The study from Rutgers linked mortality to a person's credit score rating. There is apparently a correlation between having a lower credit score and a higher death rate. It seems to be more pronounced around retirement age and beyond. For example, if a person has a stroke or heart attack it sometimes substantially reduces their income and brings upon unforeseen expenses. It appears that financial stress may lead to an earlier death, which seems to make sense. But there also seems to be a relationship between long term credit scores and higher mortality.¹ Add in the recent holidays which can also bring about stressful times for many people, and we can see the potential problem. What we took away from this article is to avoid the temptation to confuse our self-worth with our net-worth. It also increases our appreciation for our friends and heroes who struggle with financial, physical, or serious issues beyond their control yet somehow still manage to keep a positive outlook.

It has always been an honor to be trusted enough by our clients to invest their money, many times their life savings. Thank you for letting us worry about some of your investment net worth issues. Our prayer and hope is that this reduces stress by letting you concentrate on self-worth and not net-worth. Maybe for more years to enjoy things like family, friends, hobbies, volunteering, good books, etc., no matter which way the wind blows.

For the holidays here in our office, the appointment schedule slowed down a bit. Bryce enjoyed time with his family and two grandkids and made a quick trip in his RV to Indio where the campsite had its own individual pool. Casey also enjoyed time with her husband, two labs, and their newest golden retriever puppy, Husker.

Sincerely,

The Team at Capstone Pacific

P.S. If you ever run across anyone who could use our services or is unhappy with their current adviser, we always appreciate it when you pass on our name.

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1. De Giorgi, G., Harding, M., & Vasconcelos, G. F. R. (2021). Predicting mortality from credit reports. *Financial Planning Review*, 4(4), e1135. <https://doi.org/10.1002/cfp2.1135>