NEWSLETTER

WINTER 2024

TOWNSEND
Retirement & Investment Advisors

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IN THIS ISSUE.....

33 YEARS OF TOWNSEND RETIREMENT & INVESTMENT ADVISORS QUALITY SERVICE

BBB ACCREDITED BUSINESS

THIS TIME IT'S DIFFERENT?

I hope that everyone had a wonderful holiday!

If you were born before January 10, 1973, you've already lived through three episodes in which the U.S. stock market has gone down by roughly half. From January 1973 through October 1974 the S&P 500 declined 48%. From March 2000 through October 2002 the S&P 500 declined 49%. And from October 2007 through March 2009, the S&P 500 declined 57% (sources: Standard & Poor's, Yahoo Finance). These three major declines were driven by very real crises.

Let's get into our wayback time machine and visit the root cause of these three major market declines.

The first major decline back in 1973 had all kinds of scary events starting with the events in the Middle East. Arab states led by Egypt and Syria and supported by the Soviet Union launched an all-out war to exterminate Israel. This pulled the U.S. into the war in support of Israel. Within a few days Americans awoke to the news that our military and its nuclear forces had been placed on a global alert of DEFCON 3 which caused the Soviet Union to back down.

Then Vice President Spiro Agnew was accused of tax evasion from accepting bribes. While he pled no contest he resigned from office. Then there was Watergate! President Nixon ordered Attorney General Elliot Richardson to fire Special Prosecutor Archie Cox. Richardson refused and resigned. Ultimately Richard Nixon resigned as well.

Remember the oil embargo? Arab OPEC members embargoed oil exports to the U.S., driving long lines and skyrocketing prices for gas. That's what happens when we become dependent on other countries for our energy supplies.

To top off this period, unemployment peaked at 9%.

(Continued on page 2)

(Continued from page 1)

The next big market decline was another perfect storm, in the sense that so many different things went terribly wrong at about the same time. First was the greatest stock market bubble known as the tech bubble, the Nasdaq was down 80%. Prior to the tech bust I remember clients desperately wanting to get in on the tech derby because of the fear they were missing out. Pretty much like what we are seeing today!

Let us never forget the terrorist attack of 9/11, plunging us into a global war with an enemy we could not see. Calling it this generation's Pearl Harbor doesn't begin to capture the horror of it, if only because it happened on our soil (Hawaii didn't become a state until 1959) and was televised in real time. I remember exactly where I was during this and I too watched it live on television while getting ready for work.

Then there was Enron, which Fortune magazine had dubbed the company as America's most innovative company six years in a row. Practically overnight the company vaporized due to the biggest accounting fraud ever. Shortly thereafter several other companies like WorldCom went down in flames for similar corrupted accounting. Investors lost faith in the numbers and feared what companies were next. Like the previous period we experienced a recession.

The third major market decline occurred from October 2007 through March 2009. This was ignited by the subprime mortgage catastrophe, the global credit system ceased to function. At that time, I remember seeing a map of the U.S., state by state was lighting up with unemployment numbers. Maybe we experienced this generation's 1929-1932.

Here's the amazing thing, from 12/31/1972 through 12/31/2022 the S&P 500 has gone up 32-fold, earnings 35-fold (sources: Standard & Poor's, Yahoo Finance), dividends up 21-fold while the Consumer Price Index (CPI) was only up 7-fold (sources: Dividends-NYU Stern School; CPI-Bureau of Labor Statistics).

What must we learn from this? Simply that the death song of panicking investor "This time is different" is narrowly correct. The point that I'm hoping to make is yes, every major crisis is somehow different, however it's not the end of the world. You need to ride it out! As the late Charles Munger once said, "You must stay in it to win it. This too shall pass!"

Human nature has it backwards when they sell quality companies during a market downturn. When stock prices are falling the value of the underlying companies are rising. The last thing in the world you would ever want to do is sell your highest quality companies when their true long-term value is soaring. The key is to buy quality companies at reasonable prices. Be sure to read John's article in this newsletter regarding how we invest and our outlook.

Thank you for all of your referrals last year and wishing everyone a happy, healthy, and prosperous 2024!

Jeff Townsend, CEO, CRPC

NEWSWORTHY ITEMS

Will you be able to maintain your pre-retirement lifestyle? According to the Center for Retirement Research between 47% to 51% of working households will not be able to maintain their current lifestyles in retirement.

Gen Xers (ages 43 to 58) retirement outlook is alarming. Being mostly the first generation to not be covered by defined benefit plans but mostly by 401(k) plans are facing a dismal retirement outlook. Researchers found that the typical Gen Xer household has only $40,000 in retirement savings however, it's highly weighted among the highest earners (source: Kiplinger 11/23).

Lack of retirement savings isn't the number one issue for today's retirees. To pick up from our fall newsletter article the number one struggle for retirees is loss of identity, followed by lack of routine, lack of friends, lack of community and watching too much television (source: Retirement Coaches Association).

Tell your kids! When it comes to investing for retirement, the sooner you start the better. Based on an annualized return of 8% a single $10,000 investment at age 21 would be worth $295,560 by age 65. If you don't start until you turn age 40, at age 65, you'd have just $68,485. Another example is investing $400 per month starting at 21 would be worth $1,786,730 by age 65. By waiting until age 40 you'd only have $365,935 (source: Calculator.net).

Where do the wealthy get their advice? In a Harris Poll survey, 70% of millionaires said that they work with a financial advisor compared to just 37% for the general population. 53% of millionaires said that their financial advisor was their most trusted source for financial advice (source: Northwestern Mutual).

Do you trust AI for your financial advice? In a survey by the Certified Financial Planner Board, 51% of US adults said they have little or no trust in financial advice from AI tools like ChatGPT or Google Bard. When asked whether AI or social media will eventually take the place of the financial advisor, 11% said it would while 25% said it would not. The remaining surveyed said that they expect AI would merely supplement the financial advisor (source: CFP Board).

HOW TO START PLANNING YOUR LEGACY

The first step in any legacy planning process is to gather together your financial information. You will want to have a list of all your assets including bank accounts, investment accounts, retirement accounts, real estate and insurance policies.

Next, you'll want to think through several questions. Who do you want to leave your property and other assets to? Do you want them to have the assets outright or be held in trust? Are you charitably motivated? Do you want to minimize taxes and provide asset protection to your beneficiaries? Having a rough idea of these things at the start of the process will help to streamline things. You've worked hard to build what you have so it's only natural that you want to establish and nurture a legacy that will last for years or even decades after you are gone.

Accomplishing the estate planning basics like a trust or will and lifetime documents such as powers of attorney and advance directives are of vital importance and it's beneficial to think about the process holistically. Creating and maintaining a legacy plan gives you your best chance at that lasting legacy, whether it involves creating a trust, crafting your last will and testament or starting a foundation. By creating your legacy plan, you are ensuring that you can continue to support the people you love even after you have died.

Finally, you should seek help from experts. Everyone wants different things out of their life and their legacy, so no two legacy plans will be exactly the same. Everyone has a unique financial situation. Further, you're subject to distinct laws and tax rules depending on what state you live in, if you're married, if you have out-of-state property and how much wealth you have. You should understand the state and federal laws pertaining to probate, taxation and asset distribution.

These reasons are why it's important to get professional help. To get advice on what steps you should take to get the process going, your best bet is to talk things over with your Townsend financial advisor who is familiar with your situation and who knows your full financial picture. Your advisor is a crucial part of the legacy planning process. By working as a team, the lawyer will then be able to help you by drafting a full legacy plan based on your wishes.

I would love to help you start planning your legacy. Call me at Townsend or send me an email so that I can help you through the process.

Sallie Diamond, JD
Legacy Planner
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Thank You!

It is an annual tradition at Townsend to support The Salvation Army. Each year, our clients donate hundreds of toys so underprivledged children can have a very merry Christmas.

The Townsend Toy Drive

Our clients also donated their time and money to our annual Salvation Army bell ringing event. This resulted in **$4,855.91** of donations and the Townsend Foundation matched this amount for a total of **$9,711.82**.

"It's so simple. You spend less than you earn. Invest shrewdly, avoid toxic people and toxic activities, and try and keep learning all your life. And do a lot of deferred gratification because you prefer life that way. And if you do all those things, you are almost certain to succeed. And if you don't, you're going to need a lot of luck."
– Charlie Munger

Munger, Markets and Magnificent 7

Charlie Munger passed away on Nov. 28, 2023 at age 99 -- 34 days short of his 100th birthday. Probably best known as Warren Buffett's business partner in the world's greatest compounding machine, Berkshire Hathaway, Charlie was one of the greatest minds of the 20th century. His observations and ideas have had a profound impact on me.

According to the Wall Street Journal, Munger possessed what philosophers call epistemic humility, which is a profound sense of how little anyone can know, and how important it is to be open to changing one's mind. He was a fiercely independent intellectual who, in the words of Buffett, "Marches to the beat of his own music, and it's music like virtually no one else is listening to."

When asked the secret to his success, Munger answered, "I'm rational." He was a voracious reader and drew from his study of psychology, economics, physics, biology, and history in developing a system of multiple mental models to cut through the difficult problems of complex systems. Adopting this approach to thinking is difficult but using its core tenets helps provide clarity and maintain objectivity – both being super-important for investors.

There are too many great Munger quotes to include in this article but they are all available online with a simple search. Poor Charlie's Almanack – a collection of Munger's talks and speeches –is worth reading if you'd like valuable investment insights without mathematical models. The best description of Poor Charlie's Almanack is it is a compilation of uncommon sense and brilliant insights with logical simplicity.

A Recent Market Look Back

After three months of declines, stocks saw a broad-based bounce back in November and December. The reasoning appears to be mostly related to a continuing moderation of inflation, along with the belief that central banks are done raising interest rates and in fact, may be heading to cuts. Not surprisingly, the Magnificent 7 (Apple, Google, Microsoft, Amazon, Meta, Nvidia, and Tesla) led the rally.

As of this writing, 1.25% of rate cuts are expected by Fed funds futures traders by the end of 2024. The yield on the 10-year Treasury has also declined significantly, from 5.00% at the end of October to 4.00%. This reflects some growing worries about the strength of the global economy that has caused bonds to rally, and stocks have followed suit. There are also some signs that the labor market is weakening, as continuing unemployment claims are now at the second highest level since November 2021. Plus, private sector job growth is now 130,000 versus the 2022 monthly average of 376,000.

Impact to Interest Rates

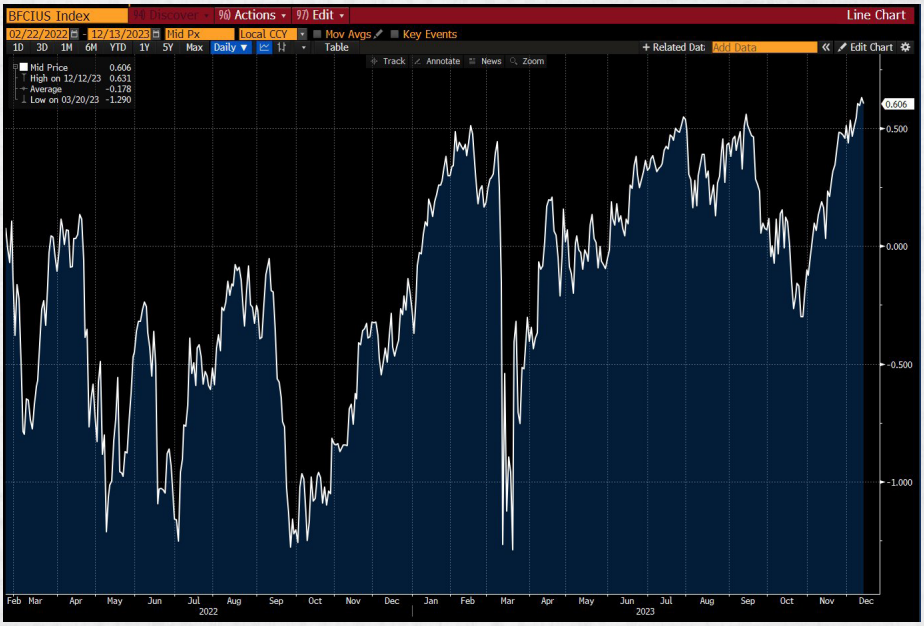
But in the longer run, many other factors will contribute to the future level of interest rates. The massive amount of public debt must be financed by an ever-growing increase in the issuance of Treasuries, which now have fewer buyers than they used to. And paradoxically, if the labor market continues to soften, it's highly likely that budget deficits will expand even more to fund-growing unemployment claims and expansion of government benefits. As Treasury issuance (supply of bonds) grows, it will put upward pressure on interest rates.

Right now, with a growing economy and full employment, the Federal government is running a $2 trillion annual budget deficit. Interest expense alone on the existing debt will be around $745 billion for fiscal 2024 according to the Congressional Budget Office, which is on par with the Department of Defense budget. High debt levels are a risk and have a negative impact on the economy and markets.

Central bankers may be hesitant to cut rates absent any meaningful slowdown in the economy because the current high levels of fiscal stimulus is inflationary. The Fed went all-in when it came to easing monetary policy in response to COVID-19 but were very slow to reverse course, which is partly behind the 2022 40-year inflation high. Despite inflation now being down, the battle is still not over. Keeping it down will be a challenge. We still face inflationary pressure from de-globalization, wars, trade friction, poor health of the labor force, demography, environmental policy, government spending, and crime. Therefore, it's possible that stock prices - especially among the most popular stocks - are ahead of themselves at this point.

Understanding Financial Conditions

Probably the most important chart to explain stock prices in 2023 is this one:



Source: Bloomberg

This shows the financial conditions index for the last two years and, as you can see, financial conditions have loosened throughout 2023 to a new high – despite some bumps along the way. What does financial conditions measure? Broadly speaking, financial conditions measures stress in financial markets. It's an amalgamation of things, such as equity prices, interest rates, credit spreads, the US dollar, price volatility, and other variables. Loose financial conditions indicate low stress.

(Continued on page 8)

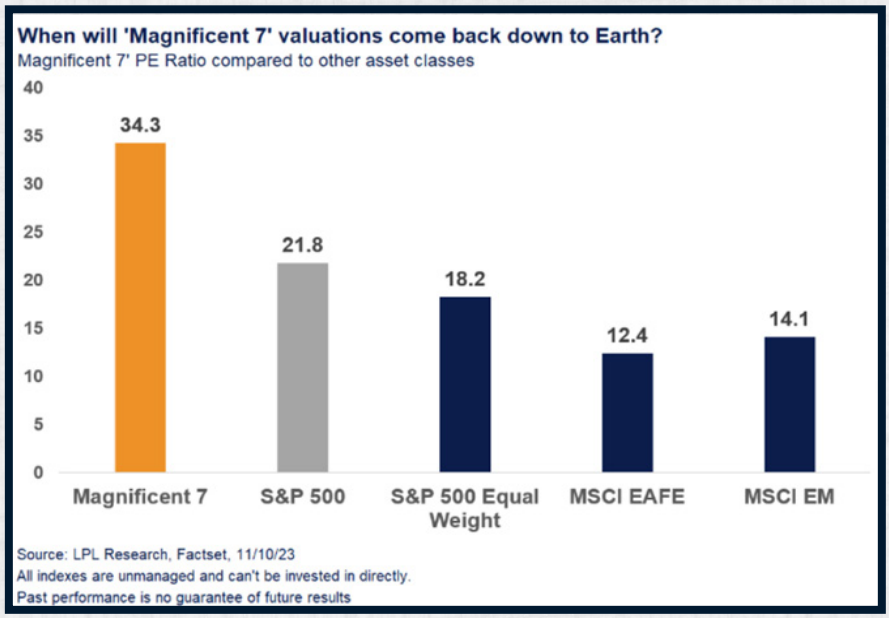
The thing about financial conditions, however, is that it has limited predictive value and can change on a dime. Any upside surprise in the inflation statistics, downside surprise in employment numbers, geopolitical or credit events can cause conditions to tighten quickly. Tightening conditions can have a negative impact on markets.

Had we known with certainty a year ago that financial conditions would ease significantly in 2023, (despite rising interest rates and tight monetary policy), we, of course, would have positioned differently. In fact, we probably we would have loaded up on speculative stocks.

That said, it would have been imprudent for us to do so because the valuations of speculative stocks are still astronomically high relative to sales and earnings, and valuations do matter. We will not play musical chairs with our clients' money. We know that we do not know the future, and the future is often very different than what we think it will be.

Even though stocks were generally up, returns were bifurcated in 2023 between the cultish Magnificent 7 stocks, which are up a lot, and everything else, which are only up slightly. Stocks are broadly only back to where they were two years ago. And it didn't matter if you were in growth or value stocks over that two-year period. Value stocks were down a little in 2022 and up a little in 2023. Growth stocks were down a lot in 2022 and up a lot in 2023. For the most part stocks are right back to where they started in December 2021 in both styles. Even the Magnificent 7 are mostly back to where they were at the end of 2021. In 2022 they were down 40% - 70%, and in 2023 they were up 50% - 230%. Same same.

The Magnificent 7 are similar to what was referred to as the 'Nifty Fifty' in the 1970s, which were stocks of large dominant companies and top-index constituents. Then, it was thought that they could be bought without regard to price – 'price' being the relationship of the stock price to sales and earnings of the company. That proved not to be true and the Nifty Fifty stocks ended up being poor investments.



We have continued to not own the Magnificent 7 simply because they do not present great values in relation to profitability and their likely future growth rates. And owning things that are wildly popular at the moment and trade at expensive levels, (see above price-to-earnings ratios) has proven to be a losing strategy for long-term investors time and time again.

The more recent decline in rates along with a stock rally reflects increasing hopes that the Federal Reserve will be much more accommodative going forward, but even if it is, that is not necessarily

(Continued from page 7)

super bullish for growth stocks, (which have already rallied). Any cut in rates from here will likely be modest because of the aforementioned inflation pressure, and those rate cuts would likely be in response to an economic slowdown or recession.

The other thing people have forgotten is that Fed policy (with increasing interest rates) acts with a 12- to 18-month lag. Actually, it may be a longer lag because when rates were super-low, most people and businesses refinanced debt at low levels and the re-financing cycle hasn't kicked in. So, the economic effect of increasing rates has not been seen yet because the effective Fed Funds rate in July of 2022 (18 months ago) was 1.7%.

If we are indeed at the end of an era of easy money, stock valuations will matter a lot. Investors and traders will be much more discerning and rational in how and where they invest their capital. Today's speculative euphoria will likely fade and capital should come back to companies that are making money and that have valuable, enduring assets.

Applying Munger's Learnings for the Long Term

It is important to remember that investing is interpretive. Two different people can look at the same set of data and form completely different perspectives. Being interpretive is what makes investing more art than science. Two investors may also have completely different motivations. One might be long-term oriented and trying to protect clients from big risks like high valuations, and one might not care about risk at all because he/she is paid for short-term returns. This is why it is impossible to predict how human beings will interpret and react to future data, let alone what that data will be. The best a long-term investor can do is to own good risks and avoid bad ones. Charlie Munger understood this.

Munger said, "It is remarkable how much long-term advantage people like us have gotten by trying to be consistently not stupid, instead of trying to be very intelligent." Buffett said, "Rule Number 1 is don't lose money. Rule Number 2 is don't forget Rule Number 1." They weren't talking about normal price variability; they were talking about suffering a permanent loss of capital, which comes from overpaying.

Here at Townsend, we have spent a lot of time on our investments and believe we own good long-term risks with high upside and low downside. From year to year, we can't know how other people will feel about them or how they will be priced but all possess ingredients for higher prices, later. We try to apply the lessons of Buffett and Munger and, while we probably won't earn the 2,000,000% (20,000:1) return that Berkshire has over its 58-year tenure, we believe that we can at least help you earn high returns without exposing you to the risks that so many other investors are making today.

If we can answer any specific questions about what is happening in the market and what that might mean for you, please don't hesitate to reach us.

John Goltermann, CFA, CGMA
Senior Vice President and Chief Investment Officer

CAYLE'S CONNECTION

Hello and Happy 2024! I hope this year finds you well and enjoying all there is to do. I'd love to hear any ideas you have or your feedback if you try any of these. A few ideas for you:

On the banks of the San Juan River in Pagosa Springs if the Pagosa Hot Springs – something you can do in the winter. Plan a weekend away and enjoy their accommodations. https://www.pagosahotsprings.com/

Are you a donut person? In Glenwood Springs Sweet Coloradough sells donuts and pastries fresh every day. https://sweetcoloradough.com/ Even better – the hot springs pool is nearby. https://www.hotspringspool.com/

The Museum of Illusions in downtown Denver is new and is full of illusions. Might make a cold afternoon go by quickly! It's hands-on and interactive, so you'll be able to get lots of fun pictures. https://moidenver.com/

In Steamboat Springs in addition to great skiing they also have bumper cars on ice! Reservations are recommended.
https://www.steamboatsprings.net/1273/Bumper-Cars-On-Ice

Are you looking for a new place to go for all things Cajun cuisine? Lincoln's Roadhouse promises "Once you walk in … you know you found your spot". They also offer burgers, sandwiches, and apps and live music with artists that vary from blues to rock to rockabilly.
http://www.lincolnsroadhouse.com/

Looking for a place to go sledding? Here's a short list of good hills:
Frisco Adventure Park https://tinyurl.com/2mrxtdw5
The Meadows at Elk Camp (Aspen) https://tinyurl.com/3f7ew4m5
Adventure Point (Keystone) https://tinyurl.com/2a4r46md
Copper Mountain Ski Resort https://tinyurl.com/yr6u4243
Snow Mountain Ranch (Granby) https://tinyurl.com/4fmnf2e4
Ruby Hill Park (Denver) https://www.rubyhilldenver.com/ruby-hill-park/

Be sure to share your favorites with me!

Townsend's Recipe Round-Up

Each month, we want to share some of our favorite recipes. This month's recipes come to us from **Savanna Brown**, the event & communications manager for Townsend.

I eat so much during the holidays. My family and I make a big meal for Thanksgiving and eat leftovers for days, my sister and I bake cookies as soon as Christmas songs come on the radio and don't even get me started on how much there is to eat on Christmas Eve and Christmas. After the new year I like to start eating a little lighter so I am sharing my favorite recipe to make for dinner when I want to be a little healthier. This recipe is pretty hands off and while it may take a while to make start to finish, it is mostly oven time. I serve this over brown rice and I usually double the sauce because it is so delicious! My dad doesn't tend to like meals without meat so he adds rotisserie chicken on top of his bowl. This is a good recipe for meal prep too as it tastes just as good the next day!

Buddah Bowls

Ingredients

VEGGIES
2 Tbsp olive oil
1/2 medium red onion (sliced in wedges)
2 small sweet potatoes (cubed)
Bundle of asparagus (cut to bite sized pieces)
Bundle of kale (larger stems removed)
1/4 tsp each salt + pepper

CHICKPEAS
1 (15-ounce) can chickpeas (drained, rinsed + patted dry)
1 tsp cumin
3/4 tsp chili powder
3/4 tsp garlic powder
1/4 tsp each salt + pepper
1/2 tsp tsp oregano (optional)
1/4 tsp turmeric (optional)

TAHINI SAUCE (OPTIONAL)
1/4 cup tahini
1 Tbsp maple syrup
1/2 medium lemon (juiced)
2-4 Tbsp hot water (to thin)

Directions

1. Preheat oven to 400 degrees F (204 C) and arrange sweet potatoes and onions on a bare baking sheet. Drizzle both with a bit of oil, making sure the flesh of the sweet potatoes are well coated and placed skin side down on the sheet.
2. Bake for 10 minutes, then remove from oven flip sweet potatoes and add broccolini. Drizzle broccolini with a bit of oil and season with a pinch each salt and pepper.
3. Bake for another 8-10 minutes, then remove from oven and add kale. Drizzle kale with a touch more oil and season with a pinch each salt and pepper. Bake for another 4-5 minutes then set aside.
4. While vegetables are roasting, heat a large skillet over medium heat and add chickpeas to a mixing bowl and toss with seasonings.
5. Once hot, add 1 Tbsp oil and chickpeas and sauté, stirring frequently. If they're browning too quickly, turn down heat. If there isn't much browning going on, increase heat. I found 10 minutes total at slightly over medium heat was perfect.
6. Once the chickpeas are browned and fragrant, remove from heat and set aside.
7. Prepare sauce by adding tahini, maple syrup and lemon juice to a mixing bowl and whisking to combine. Add hot water until a pourable sauce is formed. Set aside.
8. To serve: slice sweet potatoes into bite size pieces. Divide vegetables between 3 serving bowls and top with chickpeas + tahini sauce.
9. Best when fresh, though leftovers will keep for a few days in the fridge.

Recipe taken from www.minimalistbaker.com

P.S. Please share your comments with me if you do try this. Also, if you have a favorite recipe you would like to share, please send it to savanna@townsendretirement.com

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