ANCORA® | FAMILY WEALTH
ASSET MANAGEMENT
RETIREMENT PLANS

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An Investment Publication for Clients and Friends

Ancora consists of three primary business units; Family Wealth, Asset Management and Retirement Plans. With experienced portfolio managers, proprietary investment strategies and an entrepreneurial spirit, Ancora delivers tailored solutions so you can achieve more ... on your terms.

The Role of Interest Rates in Investing

John Micklitsch, CFA, CAIA
Chief Investment Officer

With so much attention on inflation, the Fed and interest rates these days, we thought it would be helpful to discuss the role interest rates play in investments. Interest rates essentially represent the cost of money; higher interest rates raise the cost of money while lower interest rates reduce the cost.

The Federal Reserve sets the federal funds rate, which impacts short-term interest rates, or the short end of the curve (short and long-term rates are frequently referenced along the spectrum of the "yield curve"). The market, absent Fed intervention, sets intermediate and longer-term rates via investor sentiment around things like the outlook for the economy, interest rate speculation, inflation, etc. When the Fed wants to slow the economy down, they raise the cost of money and, when they want to speed it up, they lower the cost. Right now, it looks as though the Fed is becoming more concerned about inflation and the economy overheating than the risk of the economy falling back into a recession, so they may begin to raise the cost of money.

Interest rates also impact investor's appetite for taking risk. In general, a lower interest rate environment induces risk taking, while higher rates tend to make lower-risk investments just a bit more attractive to investors, at the expense of equities and other risk-seeking assets. This is mainly because the forward return on risk-free investments such as Treasuries (held to maturity) goes up when rates rise, allowing investors to get an improved return with low risk. The flip side is that when interest rates are low, the returns on conservative investments are not enough to satisfy many investors. We like to say that every dollar needs to find a home somewhere, so there is a constant tug of war between conservative and riskier assets that is frequently influenced by the level of interest rates.

Lastly, interest rates impact asset valuations. Lower interest rates tend to drive up asset values and higher interest rates tend to lower them. Think about housing prices and the affordability factor that comes with lower mortgage rates. Or think of the S&P 500 as a single business which you personally own 100% of and therefore could control the distribution of earnings. The S&P 500 currently

trades at approximately a 20x price to earnings ratio. Looked at the other way around, a 20x P/E ratio equates to a 5% earnings yield ($1 of earnings / $20 price). So, when the alternative for that dollar is to invest in things like Treasuries with lower yields, generally speaking an investor would be willing to pay more for investments like equities, provided their earnings yield and growth outlook is sufficient to compensate for the risk associated with owning a business versus simply lending to it.

While we expect to continue seeing much discussion over the direction of interest rates in the coming quarters, which could result in increased episodic market volatility, it's important to remember that in an absolute sense, interest rates are likely to remain low from a historical perspective. In addition, the economy continues to recover, liquidity remains robust and the corporate earnings backdrop remains solid, in our view. It's important to consider all these factors, including the concept that every dollar must find a home somewhere, in the context of your long-term allocation and investment decisions. ◊

Is the Fed Behind the Curve on Inflation?

Kevin Gale
Managing Director, Head of Fixed Income

From 1994 to 2020, the Federal Reserve's preferred inflation measure, the Personal Consumption Expenditure Core Price Index (PCE), rose above 2.5% just briefly in 2006 and averaged 1.74%, well below the Fed's target of 2% over time. Since the onset of the pandemic in early 2020, supply chain disruptions have negatively impacted the ability to obtain certain products in a timely fashion. This has led to higher prices for many products. In April of 2021, the PCE jumped to 3.08%, its highest level since 1991, and on October 31, 2021, the PCE rose even higher to 4.12%.

For months, investors and the Fed have been contemplating if the recent spike in inflation is transitory or a longer-term trend. In a speech on November 30th, 2021, Federal Reserve Chair Jerome Powell said the word "transitory" may not actually be the best way to describe the current high inflation environment we are in. This makes us think the Fed is behind the curve on fighting inflation. To intensify that sentiment, Powell also said the Fed needed to consider quickening the pace of its taper of monthly bond purchases, prior to that taper program even beginning.

For context, in early November the Fed announced that it would begin to reduce its monthly bond purchases by $15 billion per month beginning in December ($10 billion in Treasuries and $5 billion in mortgage-backed securities). The Fed has been consistently purchasing $120 billion of securities each month since June of 2020 ($80 billion in Treasuries and $40 billion in mortgage-backed securities). From March through May of 2020, the Fed had purchased significantly more to help reduce the impact of the economic shut down on the markets.

The Federal Reserve will likely increase the pace of its bond tapering sooner rather than later. In addition to a quickened pace of tapering, we would not take off the table the possibility that the Fed could begin to raise rates prior to completing its tapering, meaning it could still be purchasing bonds while raising interest rates.

The likely impact of the Fed being "behind the curve" is a flattening of the Treasury yield curve. As the Fed is increasing short-term rates to slow inflation, investors will become more concerned about the impact of those higher rates slowing growth. This could lead to short-term rates rising more rapidly than long-term rates, flattening out the yield curve. While it is tempting to maintain a fixed income portfolio of all short-dated maturities, we believe that may not be optimal in a flat yield curve environment, depending on your unique needs. A well-structured laddered portfolio will, in our opinion, continue to be one of the best long-term approaches for fixed income investments. It allows for the ability to re-deploy capital into different investments upon maturity alongside some continuous longer-term fixed income exposure if rates remain subdued due to slowing economic growth. Laddering remains a good way to diversify for both the knowns and unknowns that lie ahead. ◊

Lessons Learned from Forty-Five Years in the Investment Industry

James Bernard, CFA
Managing Director, Fixed Income

I recently had a conversation with a long-time client and the discussion turned to mistakes investors have made and repeated over their investment careers (myself included). He asked what some of the mistakes were that I have witnessed during my 45+ year career investing and observing investors alike. Afterward, I thought I would share the highlights of our conversation, as many of the points are issues that we can probably all relate to from one point in our investing experience or another.

The first item we discussed is the tendency of some investors to hold excessive cash reserves or wait for a better buying opportunity to get in the market when it is cheaper. While dollar cost averaging or other disciplined approaches to walk cash reserves into the market is a time-proven approach, waiting for that meaningful correction to get funds invested has proven to be an elusive goal more often than not.

For example, if one defines a “good” opportunity as a hopefully temporary correction of, say, 10% or more, then the last 20 years has only provided a handful of “good” opportunities to get funds into the markets. These would be the dot-com meltdown of 2000-2001, the financial crisis of 2008-2009, the government shutdown and related issues in late 2018 and of course the beginning of the pandemic in 2020. I would argue that each of these periods involved significant stress for both the markets and for most investors; I have the gray hair to prove it! While prudently deploying funds during these periods would prove to be profitable, I would argue that many investors were actually more inclined to sell at these times, given the grave uncertainty the events created. So, sticking with a disciplined approach to deploying cash may be best in the long run.

Another general observation is that many investors tend to reduce equity exposure (often too much, in my opinion) to be more conservative, especially as they look through the lens of their retirement years. As we often remind investors, there is risk in not taking risk in a portfolio. The current environment, with interest rates at historical lows, does not, however, present a normal backdrop for this discussion, as being conservative in this market has unusually punitive results.

For investors who will likely consume a reasonably significant portion of their retirement funds during their retirement years, being more conservative is likely the right decision as a prudent investor. For others who will likely transfer a meaningful percent of their funds to family members or charitable bequests, maintaining a balanced portfolio with sufficient equity and alternative exposure, in many cases, is the preferred approach for longer-term time horizons. Certainly, many investors are of the mindset that they worked hard to accumulate their retirement funds and don’t want to see those funds eaten up in a bear market. This concern should be addressed during the risk assessment and financial/liquidity planning process when developing an asset allocation, rather than serving as a blanket statement that all investors need to become ultra conservative once they stop working.

A third observation I noted is how often we see individual investors (as opposed to institutional investors) significantly underweighted (often no exposure) in international equities, including both developed and emerging markets. Certainly, the last decade plus has seen poor relative results for many international equity markets, including above average volatility. When asked, the common response to why an investor has little or no international exposure is a lack of trust in many international markets, economies, etc. While these concerns are often well founded, limiting one’s investment universe to only the U.S., exposes an investor to less than 5% of the world’s population. As the U.S. economy continues to mature, many younger and more rapidly growing economies and markets may offer a prudent diversifier to an investor’s domestic stock allocation.

My final observation (though there are certainly many others to consider) relates to the area of fixed income and bond market investments. Since I spent most of my career managing bond portfolios, I have seen many approaches to fixed income allocations. As a general observation, I found many investors who, in the spirit of being conservative, wanted to primarily hold shorter maturity bonds since they offer better liquidity features (mature sooner) than intermediate or longer maturity bonds.

The other reason given over the years (and I realize today's bond market is unique and we will hopefully normalize interest rates in coming years) is that rates are not high enough to invest more than a few years given the lack of yield. Investors taking this approach over the last 40 years have earned significantly less income than if they had just stuck with a traditional bond ladder extending out 7-10 years. Of course, if an investor has regular liquidity needs or could benefit from the diversification of a diversified fund, owning bond mutual funds or ETFs is a prudent approach for investors in those circumstances.

Forty-five years in the business will teach you a few things. As a firm, Ancora is always striving to bring this collective wisdom to you, as your partner on your financial and life journey. ◊

Cybersecurity Best Practices

Joe Spidalieri
Chief Operating Officer

During this time of year, cyber-attacks are on the rise. Ancora wants to help you stay cyber-safe during the holidays, so we have compiled some general tips to help protect you all year-round.

Use Dual-Authentication whenever possible. If you take only one thing from this article, this should be it. You are probably familiar with this form of protection from several websites you may visit that require a single-use code be entered in addition to your password. This is called dual-authentication or two-factor authentication and, most typically, involves a code is sent to you via text or email that must be entered as part of the log-in process to verify your identity. This type of protection significantly reduces the likelihood of a cyber-criminal gaining access to an account. This is an important protection because, if an attacker does gain access to your email or financial institution, they can wreak havoc that can take years to recover from. Dual-authentication is a simple step that can save you time and potentially money.

Use Different and Complex Passwords for Different Sites

Using the same, simple password for all of the websites you visit is potentially making it very easy for a cyber-criminal to compromise various aspects of your identity. Longer passwords that use a combination of upper and lowercase letters, numbers and special characters can make it much more difficult for cyber-criminals to guess a password. Make sure you do everything you can to minimize the impact of a compromised password.

Do Not Broadcast Travel Plans

This time of the year is prime travel season and you may want to make all your friends jealous by announcing that "We are boarding our flight to Florida!" on your social media page. It's great that your friends and family know, but you also just announced to the rest of the world that you won't be home anytime soon. Keep your home safe, your friends can be jealous of your pictures after you are home.

Slow Down

Unexpected shipment email from Amazon? Don't click on that tracking number. Free gift card for a survey? Doubtful. Don't be in a hurry to click on any link or attachment in an email you weren't expecting, even when it appears to be coming from a trusted source. Take a moment to verify the legitimacy prior to clicking on any links. If it sounds too good to be true, it probably is.

Ancora is committed to protecting your assets and personal information. If you believe your identity or email has potentially been compromised, please reach out to an Ancora team member immediately. We will put protections in place to ensure all your assets and information gets locked down. Additionally, we are happy to make resources available to help remediate your issues.

For additional resources on this topic, please visit our website. As always, thank you for your trust and stay cyber-safe this holiday season. ◊

Ancora in the Community

Donation to Local Food Banks

You may have seen that on Giving Tuesday this year we were very proud to be able to make a sizable donation to both the Greater Cleveland Food Bank and Detroit's Forgotten Harvest. We are very thankful to be in a position to give back to our communities, especially during this season of giving.

According to the USDA's Household Food Insecurity in the United States report, more than 38 million people in the United States experienced hunger in 2020, including over 6 million children. The Greater Cleveland Food Bank helps provide over 57 million meals each year, serving a territory where one in five people is food insecure. Forgotten Harvest also fights hunger and food waste in the metro Detroit area by delivering over 50 million pounds of surplus food each year to local charities. Both organizations are members of Feeding America.

Pictured left to right: Mary Lavigne-Butler (Greater Cleveland Food Bank), Dan Hyland (Ancora), Rachel Jerpbak (Ancora), Brittney Garrett (Ancora), Fred DiSanto (Ancora), Geoff Masten (Greater Cleveland Food Bank)

Hope for the Holidays

Ancora volunteers helped sort and package donated gifts for Cuyahoga County's Division of Children & Family Services' Hope for the Holidays program, which helps make the holidays special for the more than 2,500 youth currently in foster care in the county.

Chagrin Falls Festival of Trees

Cleveland locals can visit Chagrin Falls this festive season to view the many holiday lights and decorations throughout the village. If you do, be sure to walk through Riverside Park's Festival of Trees and see if you can spot Ancora's sponsored tree on display, supporting the Chagrin Valley Chamber of Commerce.

Giving back to our communities and supporting those in need has always been a core value at Ancora. In 2021 alone, Ancora as a firm has supported over 68 organizations, not counting the many causes supported by employees individually. ◊

As always, don't hesitate to contact your Ancora advisor or relationship team if you have any questions or would like to learn more about these topics. Visit our website at www.ancora.net to read past newsletters and find other news and insights from the investment professionals at Ancora.

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