KELLEHER FINANCIAL ADVISORS

Newsletter

May 2022

In This Addition:

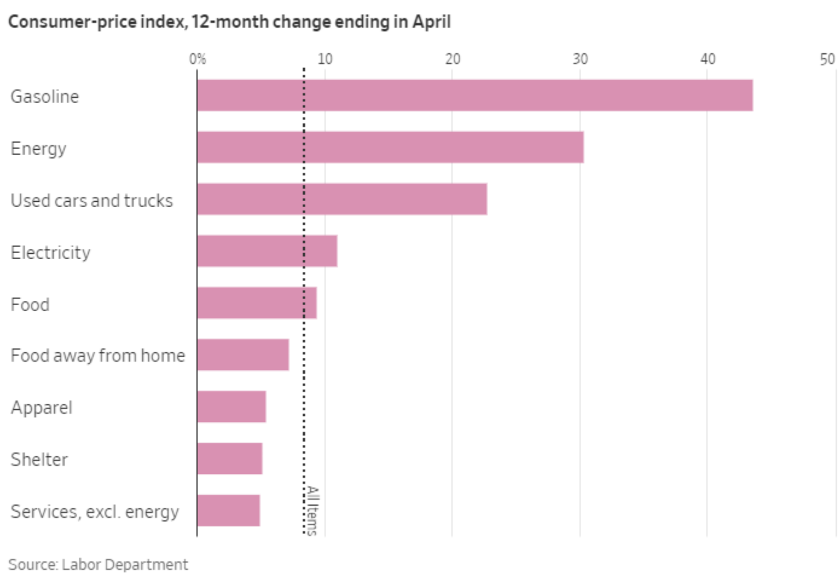
"Over the long-term, the future is determined by optimists."

- Kevin Kelly

Since I **joined KFA** in January 2022, I have met with many of our clients and the reception could not have been warmer. Thank you all! Many of our clients welcomed us into their homes or met us here at the office. We appreciate your hospitality, your time, and most importantly, your confidence. For those clients that I have not met yet - I look forward to doing so very soon.

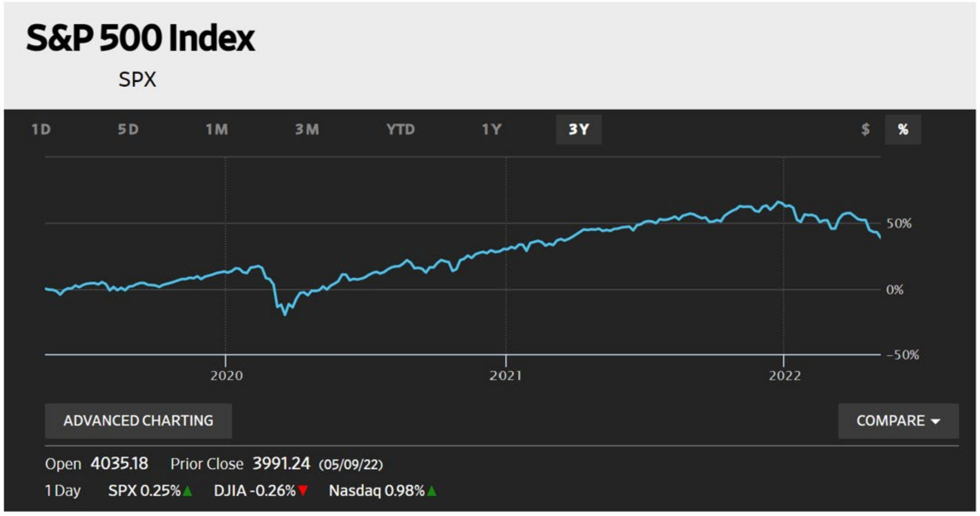
As my colleagues discussed in my announcement, we are deliberately building our team to service our clients even better than before. To be clear, our definition of a "team" could take the field for the Red Sox. We have no interest in being a conglomerate spread out over hundreds of thousands of square feet of office space around the country trying to attract billions of dollars of institutional assets. Instead, we are here to build close relationships with families who want their intent recognized in all aspects of the financial planning process. Asset management is one component; trust and estate planning is one component; tax planning is one component; family governance and business succession is one component; and charitable giving is one component. We work with our clients to coordinate this complex process - it is not a cookie cutter approach.

Working together, we'll get this right and we we'll revisit your intent frequently so we can make timely adjustments along the way.



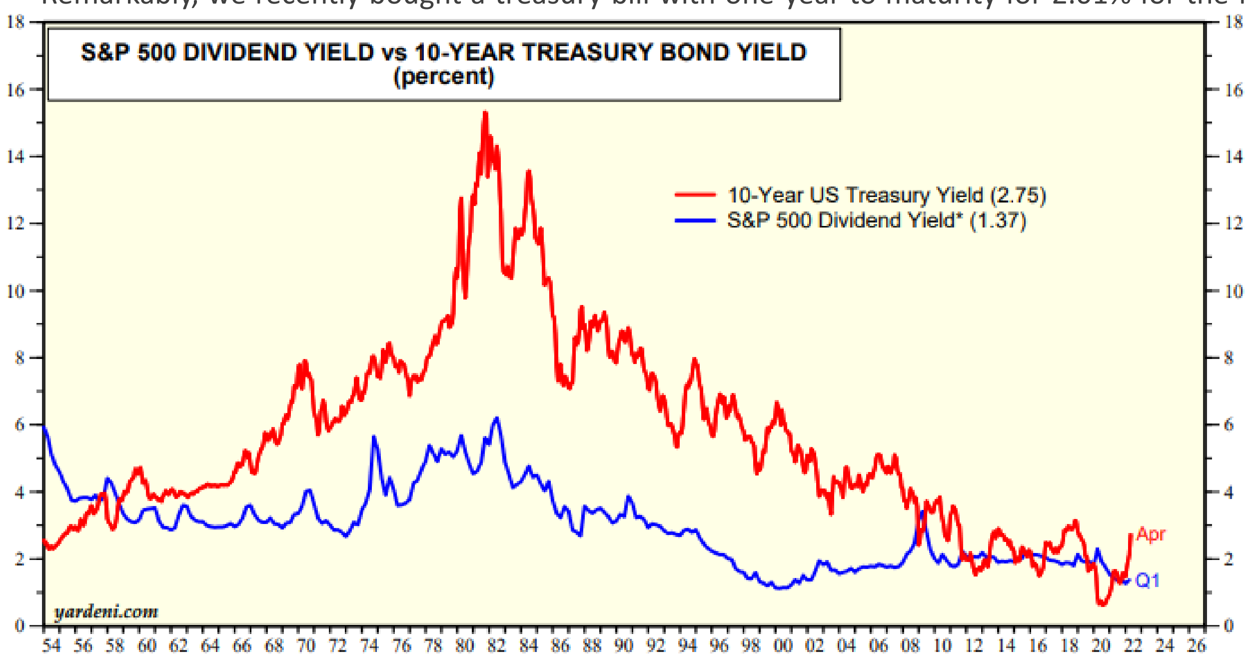
On the market front, the final trading bell rang for the month of April and our clients surely heard the market is down 13% for the year coupled with other unexpected news of a 1.4% downturn in GDP. The other sensory point is our client's eyes are witnessing higher prices at the pump and at our local supermarkets – all of us might not know how much higher actual prices are but we know that we are getting much less for our dollar.

A year ago, the Fed called inflation "transitory" – a term that meant to imply short-term. However, inflation has grown continuously over the past 12 months to levels not seen since 1981. Here at KFA, we are preparing for inflation to settle in the 4-5% range over the short to mid-term. The Federal Reserve Bank has maintained the position that a long-term inflation target of 2% is healthy for our developed economy but getting back to a 2% target will take time for a "soft landing". For many of our clients, this is the first time that inflation has become a true discussion point in their planning process. Other clients recall the days of double-digit interest rates and tell us the exact percentage point of their first mortgage. Regardless, we created a short write-up, **"A Look at Inflation"**, to remind us of what inflation is and how it impacts our economy and planning decisions.



Source: WSJ 05/10/2022

With this type of sensory overload, it's impossible not to express concern – we are all human. Our clients will be challenged over the next several days to hear more positive comments amid the fractured noise that emerges from the daily financial news. They probably won't hear that the stock market is still up 40% over the past 3 years; or they probably won't hear that the Treasury yield is now higher than the dividend yield of the S&P 500 which rewards all of our long-term investors with more cash flow in their "sleep-at-night" bond portfolio; or you won't hear about the price/earnings multiple of America's finest businesses are in line with long term averages – in other words, these great companies are right where they should be. For our clients that have additional cash, we have been selectively adding to equites that are on sale – about 15% less! Remarkably, we recently bought a treasury bill with one-year to maturity for 2.01% for the first



* S&P 500 four-quarter trailing dividends per share divided by quarterly closing value of the S&P 500 index.
Source: Standard & Poor's and Board of Governors of the Federal Reserve System.

time in many years. Our long-term investors are being offered opportunities that we haven't seen for some time.

While we expect the Fed to do its job and navigate us through this time of inflationary concern, we will continue to adjust our clients portfolios amid the turbulence and we will continue to focus on our "planning first" process. A process whereby we work with each of our clients to identify their "intent", we map out a long-term plan, and we stick to the plan through thick and thin. Along this journey, we will encounter difficult periods of time but in those exact moments we look for opportunity like today. Together with you, we are the optimists.

My very best,

Michael Ouellette
President
Starboard Advisors, a Division of Kelleher Financial Advisors

ON TO THE MARKETS

*Analysis and Review by **[Thomas Burnett, CFA](#)**, Vice Chairman & Director of Research at Kelleher Financial Advisors*

As the Table clearly reflects, investors learned the message "Commodities Rule." Faced with several headwinds (Federal Reserve tight money policies, 40-year inflation highs, rising interest rates and geopolitical uncertainty), the stock and bond markets weakened dramatically. Stock markets across the globe declined sharply with energy stocks providing the only relief. Bond market performance was equally disappointing with global fixed income markets selling off in reaction to increasing interest rates. The Index for International bonds declined 4.9% and the long-term U.S. Treasury market fell by 10.9%. According to the April 1, 2022, Wall Street Journal, the 6.0% decline in the overall Bloomberg Aggregate Bond Index was the largest quarterly loss since 1980. During the quarter, the yield on the U.S. Ten-Year Treasury bond rose from 1.51% to close the quarter at 2.32%.

INDEX	% Change YTD as of 03/31/2022
Dow Jones Industrial AVG. (TR)	-4.2%
S/P 500 Index (TR)	-4.5%
Nasdaq Composite	-9.1%
Bloomberg Commodity Index	25.5%
Nikkei Tokyo	-3.4%
China (Shanghai)	-10.6%
EURO Stoxx 600	-6.5%
Gold $ per oz.	6.7%
Crude Oil per bbl	32.2%
RATE on Ten-Year T Bond	2.32%
VIX Volatility Index Change	17.6%

Source: WSJ.com April 1, 2022

Among the strongest performers in the Commodity Index, natural gas prices rose 51.3% and gasoline prices increased by 43.1%. Crude oil prices, influenced by the Russian invasion of Ukraine, rose more than 33% in quarter. Gold prices rose by a less dramatic 6.7% in the quarter.

In March, the Federal Reserve raised short-term interest rates for the first time since 2018, and most observers now expect several additional rate hikes in the coming months. The next Fed meeting is set for May 4, when the decision will likely be an increase of 50 basis points on top of the 25-basis point move in March. After enjoying the tailwind of low interest rates for the past three years, investors must now deal with the prospect of several Federal Reserve rate hikes which will damper the market's appetite for stocks. The current dividend yield on the S/P 500 Index is just 1.4%, materially lower than the yield on the Ten-Year Treasury bond. After three years of highly positive returns from the S/P 500 Index (2019, 2020, 2021), it appears that investors will need to tone down their expectations while preparing for a difficult period of weak performance.

There are no shortcuts for positive investor performance and success in the equity markets is built over time. The stocks of quality companies will recover and patient investors will be rewarded, but the immediate outlook is cloudy and highly volatile, with no obvious winners likely over the near term.

MARKETS UPDATE

Despite Recent Recovery Investors Face Daunting Head Winds in 2022

By Tom Burnett CFA

On May 4, 2022, the Federal Reserve raised its fed funds target rate by 50 basis points to a range of 0.75-1.0%, the largest single upward move since the year 2000. In his press conference following the announcement, Chairman Jerome Powell made several positive comments that led to an impressive 3.0% rally in the major equity indexes. Chairman Powell said that a 75-basis point move is not under discussion, and he sounded confident that the Fed could slow down the economy and reduce inflation without causing a recession. The fixed-income markets did not move materially during this comment period, but the equity markets rallied sharply. The equity indexes then proceeded to give back much of the rally over the next trading day. Investors must still deal with several negative factors, however, and most observers expect the difficult start in 2022 to continue. Inflation will not go away easily, energy and food prices continue to rise as the Russian invasion of Ukraine causes supply shortages that will not be quickly overcome. While the Federal Reserve is not likely to raise rates by 75 basis points at a single meeting, it will act to raise rates and shrink its $9 trillion balance sheet. The balance sheet activity will lead to less liquid bond markets where prices will continue to be under pressure.

There can be no doubt that 2022 has been an investor obstacle course. Bond and stock investors have been dealt negative returns among all the major indexes. Commodities have been on fire this year, led by the energy and food sectors. The Bloomberg Commodity Index has risen by more than 30% in the first four months of the year. During this period, stock and bond markets have realized negative returns across the globe. The S/P 500 Index is down over 10% while the technology heavy NASDAQ Composite is down 19%. In April, the NASDAQ Index was down 13%, the worst monthly performance for that Index since 2008. The Euro Stoxx Index is down 13% and the Shanghai Composite in China is down 16%. Bond investors have suffered as well. The Index of International Bonds is down 8% while the Index for Total Bonds in the U.S. is down 10%. The Index for 20+Year Treasuries is down a stunning 20% this year as higher interest rates force bond prices lower.

Looking at the U.S. economy, the IMF's most recent Global GDP Forecast Report, issues in April, targets GDP growth of 3.7% for the 2022 year. The first quarter GDP, however, was negative at the annual rate of 1.4%. Revisions in the GDP growth rate are likely to be more cautious, give the first quarter performance. On the bright side, corporate earnings estimates are holding up well. In the latest FACTSET report, dated April 29, the consensus estimate for the S/P 500 Index is $230. In January, the FACTSET estimate was $225. Using a 4,200 level for the S/P 500, gives an earnings multiple 18.3x on the latest earnings estimate. If earnings hold up this year, then the 18.3x multiple is in line with the FACTSET five-year average multiple. Earnings will be under a great deal of pressure, however, as inflation raises costs and the Fed policies will slow economic growth even if a recession can be avoided. Inflation cannot be brought under control overnight, and investors must learn to live with the uncertainty brought on by an aggressive Federal Reserve policy stance.

The correction to the market's unsustainable high levels has brought valuations back to a more normal level, but interest rates are moving higher, and earnings estimates must be carefully watched as companies face the economic consequences of inflation, geopolitical pressures and an aggressive Federal Reserve policy framework. For investors, the 2022 year appears to be a difficult transition from the strong 2020-2021 rallies to a more traditional reversion to the mean of investment returns. Based on history, the good times will return for long-term investing, but this year may well be a negative return environment for bond and stock investors. Patience is the key element for investment success and the 2022 downturns will not last forever.

SOURCE: WSJ.com for May 5, 2022

EVENTS AND FAMILY OFFICE MEETINGS

New York RIA Summit

In April, Colleen Kelleher Sorrentino contributed to the RIA Viewpoints at Portfolio Summits. In this article, she addressed the impact of the Russia-Ukraine war on the markets and what it means for the investor here in the US. You can view the entire article **here**.

Family Office Workshop

Kelleher Financial Advisors and **Starboard Advisors** will be hosting a family office workshop just outside of Philadelphia, PA in early June. By design, it will be small, including only a handful of families from the Greater Philadelphia area where we will be sharing of professional best practices as family office fiduciaries. Additionally, we are planning to host client gatherings this fall in Portland, Maine.

ABOUT US

Since 1995, our firm has provided clients with thoughtful and personalized solutions in many areas of financial planning. At KFA, we place our clients at the center of everything we do. And while situations and experiences differ, our belief is that every client deserves the very best of what we have to offer.

Our firm acts as both an advisor, formulating long-term strategies, and as a manager, making specific recommendations and implementing decisions in areas such as portfolio construction, estate planning and investment management.

KFA educates our clients, communicating with them and sharing our rationale and analysis about issues that should be considered on an ongoing basis and ensuring that appropriate actions are taken. We do not sell proprietary financial products and are paid solely by our clients. In this way, KFA is able to recommend and incorporate investment vehicles and managers of all kinds into a portfolio as needed.