SALTMARSH FINANCIAL ADVISORS, LLC 1st Quarter 2023

INVESTMENT UPDATE

Upcoming Deadlines

TAX, IRA & SEP IRA CONTRIBUTIONS

Please reach out to your advisor if you plan on making a 2022 IRA contribution – the deadline to make a Traditional or Roth IRA contribution(s) is April 18th. For SEP IRA contributions, the deadline is the due date (including extensions) for filing your federal income tax return for the year.

DOSS RECEIVES "WOMAN IN BUSINESS" AWARD

We are proud to announce that Christina Doss, AAMS®, Investment Advisory Services Shareholder and Managing Director of Saltmarsh Financial Advisors, LLC, was honored as recipient of the Woman in Business, For-Profit Award at the Junior League of Pensacola's Women's Empowerment Awards on Wednesday, March 8th. This award is "presented to a professional woman in the for-profit sector who has been motivated and driven in her own career while maintaining a great balance of empowering herself while helping and mentoring other women in our business community".

INSIDE THIS ISSUE

Building Confidence: A Woman-Focused Series

PART 2: TAKING CARE WHILE GIVING CARE

Thursday, May 18th @ 10:00-11:00 AM CST

LIVE Webinar via GoToWebinar

Women comprise 75% of informal caregivers. Whether a parent, spouse, or child needs additional care because of health challenges, becoming a caregiver has a significant impact on your life, including financial, emotional, physical, and logistical challenges. This expert panel will speak to the transitions women experience as caregivers and offer guidance on caring for themselves while caring for others. The panel will feature experts in the areas of financial planning, emotional wellness/mental health, physical health, and elder care/assisted living.

This is part 2 of the Saltmarsh Financial Advisors 4-part woman-focused series centered on building confidence and community around the unique financial situations individuals may face in their lives. This event is not exclusive to women, the knowledge shared within this series is valuable to men and they are welcome to attend as well. If you are unable to attend the live webinar, we encourage you to register to receive the recording and follow-up materials.

Learn more about the series and register: saltmarshcpa.com/cpa-news/blog/buildingconfidence2023

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WHEN HEADLINES WORRY YOU, BANK ON INVESTMENT PRINCIPLES

BY PERPECTIVES MAGAZINE, DIMENSIONAL FUND ADVISORS | MARCH 15, 2023

On Friday, March 10, regulators took control of Silicon Valley Bank as a run on the bank unfolded. Two days later, regulators took control of a second lender, Signature Bank. With increasing anxiety, many investors are eyeing their portfolios for exposure to these and other regional banks.

Rather than rummaging through your portfolio looking for trouble when headlines make you anxious, turn instead to your investment plan. Hopefully, your plan is designed with your long-term goals in mind and is based on principles that you can stick with[1], given your personal risk tolerances. While every investor's plan is a bit different, ignoring headlines and focusing on the following time-tested principles may help you avoid making shortsighted missteps.

1. UNCERTAINTY IS UNAVOIDABLE

Remember that uncertainty is nothing new and investing comes with risks. Consider the events of the last three years alone: a global pandemic, the Russian invasion of Ukraine, spiking inflation, and ongoing recession fears. In other words, it may have seemed as if there were plenty of reasons to panic. Despite these concerns, for the three years ending February 28, 2023, the Russell 3000 Index (a broad market-capitalization-weighted index of public US companies) returned an annualized 11.79%, slightly outpacing its average annualized returns of 11.65% since inception in January 1979. The past three years[2] certainly make a case for weathering short-term ups and downs and sticking with your plan.

2. MARKET TIMING IS FUTILE

Inevitably, when events turn bleak and headlines warn of worse to come, some investors' thoughts turn to market timing. The idea of using short-term strategies to avoid nearterm pain without missing out on long-term gains is seductive, but research repeatedly demonstrates that timing strategies are not effective. The impact of miscalculating your timing strategy can far outweigh the perceived benefits.

3. "DIVERSIFICATION IS YOUR BUDDY"

Nobel laureate Merton Miller famously used to say, "Diversification is your buddy." Thanks to financial innovations over the last century in the form of mutual funds, and later ETFs, most investors can access broadly diversified investment strategies at very low costs. While not all risks—including a systemic risk such as an economic recession—can be diversified away (see Principle 1 above), diversification is still an incredibly effective tool for reducing many risks investors face. In particular, diversification can reduce the potential pain caused by the poor performance of a single company, industry, or country.[3] As of February 28, Silicon Valley Bank (SIVB) represented just 0.04% of the Russell 3000, while regional banks represented approximately 1.70%.[4] For investors with globally diversified portfolios, exposure to SIVB and other US-based regional banks likely was significantly smaller. If buddying up with diversification is part of your investment plan, headline moments can help drive home the long-term benefits of your approach.

When the unexpected happens, many investors feel like they should be doing something with their portfolios. Often, headlines and pundits stoke these sentiments with predictions of more doom and gloom. For the long-term investor, however, planning for what can happen is far more powerful than trying to predict what will happen.

1. *http://www.saltmarshcpa.com/cms/_fle/56470QUSEG-83030.pdf*
2. *http://www.saltmarshcpa.com/cms/_fle/13654RNQUC-52290.pdf*
3. *Consider that a study of single stock performance in the US from 1927 to 2020 illustrated that the survival of any given stock is far from guaranteed. The study found that on average for 20-year rolling periods, about 18% of US stocks went through a "bad" delisting. The authors note that delisting events can be "good" or "bad" depending on the experience for investors. For example, a stock delisting due to a merger would be a good delist, as the shareholders of that stock would be compensated during the acquisition. On the other hand, a firm that delists due to its deteriorating financial condition would be a bad delist since it is an adverse outcome for investors. Given these results, there is a good case to avoid concentrated exposure to a single company. Source: "Singled Out: Historical Performance of Individual Stocks" (Dimensional Fund Advisors, 2022). http://www.saltmarshcpa.com/cms/_fle/81167PZKJJ-81774.pdf*
4. *Regional banks weight reflects the weight of the "Regional Banks" GICS Sub-Industry. GICS was developed by and is the exclusive property of MSCI and S&P Dow Jones Indices LLC, a division of S&P Global.*

DIMENSIONAL NAMED #1 IN *BARRON'S* "BEST FUND FAMILIES OF 2022"

We're excited to share that our investment partner, Dimensional Fund Advisors, has been named #1 on Barron's "Best Fund Families of 2022" list! The rankings look at the one-year records of how each firm's actively managed funds performed vs. peers, based on data from Refinitiv Lipper. Barron's also commented on how Dimensional keeps close tabs on equity premiums through daily price information. The firm's managers watch for buying opportunities when growth stocks fall into value territory, and they also rely on factors such as momentum to help determine if it's time to buy.

"The 28-year relationship between Saltmarsh and Dimensional Fund Advisors is grounded in a shared investment philosophy and a strong focus on assisting clients realize a successful investment experience," said Saltmarsh Financial Advisors Managing Director, Christina Doss, AAMS. "Saltmarsh's ability to provide broadly diversified portfolios based on our clients' risk tolerance, combined with Dimensional's strategic and systemic approach to achieving higher expected returns, has proven to help clients tune out noise and take the emotions out of investing. We are very pleased and proud to see Dimensional receive this well-deserved recognition."

Read more at: saltmarshcpa.com/cpa-news/blog/dimensionalrankedinbarronsbestfundfamiliesof2022.asp

SILICON VALLEY BANK COLLAPSE EXPLAINED

BY CHRIS STENNETT CFP®, SENIOR FINANCIAL ADVISOR, SALTMARSH FINANCIAL ADVISORS | MARCH 30, 2023

Silicon Valley Bank (SVB) was founded in 1983 in Northern California with the specific purpose of banking the up-and-coming technology sector. Over the next few decades, it grew into one of the 15 largest banks in the nation. In March 2023, financial regulators stepped in to remove management and control deposits, as the bank experienced a run on deposits. Though the dust has yet to settle, it's important to understand the problems that lead to the bank's downfall.

PROBLEM #1 – LACK OF DIVERSITY AMONGST DEPOSITORS

As mentioned above, the purpose of creating SVB was to offer bank services to an up-and-coming market which was underserved and not well understood by the larger national banks. Clients of the bank who needed to access capital for funding (loans, lines of credit, etc.) were incentivized to hold large balances within the Bank, often well more than the FDIC's $250,000 insurance limit. This means that businesses banking with SVB were exposed to significant uninsured losses, should the bank fail. Generally, banks have several ways to manage their risk and avoid failure, but in SVB's case, not all risks were managed appropriately. This bank's clientele, both the business and the individuals, were heavily involved in the technology space. 2022 was a particularly challenging year for Tech, as new deposits started to dry up and accounts began to see greater withdrawals.

PROBLEM #2 – POOR INVESTMENT RISK MANAGEMENT STRATEGY

The 2020 COVID Crisis brought about nationally low interest rates as the nation began to recover. Silicon Valley Bank was a big benefactor of those low rates as the bank saw an influx of new depositors. These new depositors were often businesses who were able to start their own venture at historically low financing costs. The bank's growth ballooned in 2020 and 2021 with deposits growing by 65% and 85%, respectively. As the bank grew, so too did its investment portfolio, as deposits were used to purchase U.S. Treasuries and Mortgage-Backed Securities. While these funds are traditionally "safe" investments, they have very long-term maturities, often 20 years or longer, and more are sensitive to interest rate changes than short-term maturities. Should interest rates begin to increase, these investments would not only lose value, but they would also be unattractive to buyers as they have lower yields than newly issued bonds.

PROBLEM #3 – INFLATION

In 2022, The Fed began rapidly raising interest rates to combat inflation. As interest rates rose, the value of existing bonds (such as the U.S. Treasuries and MBS' purchased by SVB the prior two years) plummeted in historic fashion. Banks hold their securities in 2 different portfolio buckets: Available For Sale (AFS) and Held To Maturity (HTM). Losses or gains to securities in the AFS portfolio reduce (or increase) a bank's capital base. Losses or gains in the HTM portfolio do NOT impact a bank's capital base.

In late September of 2022, Silicon Valley Bank said the losses on its HTM portfolio exceeded the total value of the bank itself, but CFO Dan Beck stressed in an email[1] that, "There are no implications for SVB because, as we said in our Q3 earnings call, we do not intend to sell our Held To Maturity securities." Translation, there would be a loss if we sold them today, but we don't have to sell them today. And furthermore, there won't be a loss, because we will hold them to maturity. This would all be true if SVB always had enough cash on hand to cover withdrawals.

PROBLEM #4 – BANK RUN

On March 8, 2023, Silicon Valley Bank announced it was raising money, by selling some equity and by selling these recently purchased, Available For Sale (AFS) bond assets at a significant loss. The reason the bank did this is believed to be because of the capital needs of the underlying clients of SVB. As the bank's clients navigated a tighter economy, deposits declined and outflows increased, forcing SVB to raise cash to cover the withdrawals. The announcement to raise capital seemed to have scared its clients and problems began to compound. The following week, the bank faced a record $42 billion of account withdrawals as the bank's clients pulled all their exposed and uninsured assets from the bank. SVB was unable to raise the cash it needed to cover the requests, forcing regulators to step in and shut down operations.

The good news is depositors with the bank have been backstopped, meaning they will still have access to their money even if SVB doesn't have any. The more concerning part is how many more institutions will this impact, as now Signature Bank and Credit Suisse have faced similar challenges. Unfortunately, smaller, regional banks will likely take a hit for this as depositors move to large national banks and safe, U.S. Treasury-backed, money market mutual funds, reducing competition and lending. There's an important lesson to be learned from the demise of Silicon Valley Bank: risk and reward are inseparable. Ensure you understand how your money is invested.

1. https://www.wsj.com/articles/rising-interest-rates-hit-banks-bond-holdings-11668123473?st=own7x3b4y63vmm5&reflink=desktopwebshare_permalink

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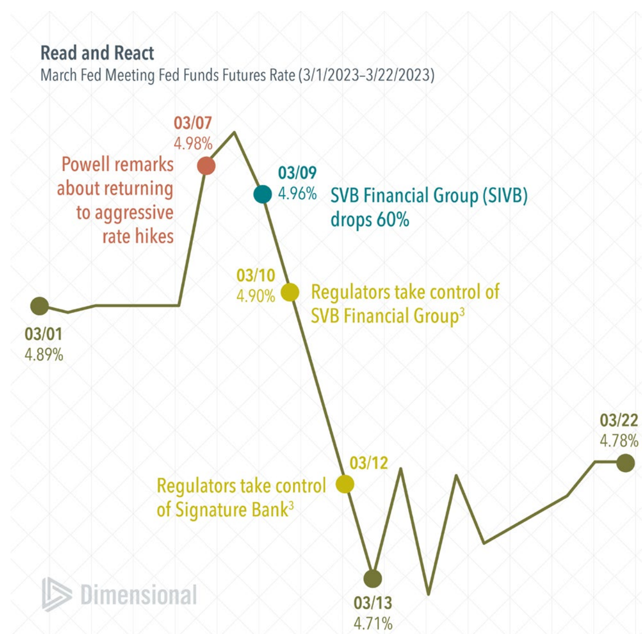
ABOVE THE FRAY: RATE EXPECTATIONS

DOUG LONGO, CO-HEAD OF PRODUCT SPECIALISTS AND VICE PRESIDENT & WES CRILL, PHD, HEAD OF INVESTMENT STRATEGISTS AND VICE PRESIDENT | MARCH 22, 2023

Yesterday, the Federal Reserve raised the Federal Funds Rate by another 25 basis points. Fed watchers attempting to predict the ultimate rate decision had lots to absorb in the month of March. Market participants quickly reacted to news during this period, as demonstrated by comparing the prevailing Fed Funds Rate of 4.58% to the Fed Funds Futures Rate—the market's expectation of where the Fed Funds Rate will be set in the future.

Fed activity of late has been directed at balancing two problems—inflation and financial instability,[1] and both objectives were impacted by the events of March. Hawkish remarks by Jerome Powell on March 7 indicated a desire to raise the Federal Funds Target Rate by 50 basis points, in response to "stronger than expected" economic data.[2] This was quickly followed by the Silicon Valley Bank (SVB Financial Group) collapse, prompting concerns about the greater economy. The Fed Funds Futures Rate dropped rapidly, suggesting investors interpreted economic concerns as a reason for the Fed to reduce its rate increase to 25 basis points.

This is a helpful reminder of how quickly markets incorporate news into prices.



Fed Funds Futures rates sourced from Bloomberg.

1. *Federal Reserve Faces Tough Decision on Rate Increase (Wall Street Journal, Mar 20, 2023).*
2. *Fed's Powell sets the table for higher and possibly faster rate hikes (Reuters, Mar 7, 2023).*
3. *SVB, Signature Bank Depositors to Get All Their Money as Fed Moves to Stem Crisis (Wall Street Journal, Mar 13, 2023).*