KACHKOVSKY & FISHER
REGISTERED INVESTMENT ADVISOR

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Did you know that in the United States alone, around 122 million phone calls are made to moms on Mother's Day? It's not hard to understand why. Near or far, our moms and mother figures have seen us through our happiest and saddest, smelliest and grumpiest of times – through terrible twos, school plays, learners permits, graduations, first jobs and everything in between. As our teacher, protector, role model and friend, it seems only fitting that we set aside a day in their honor to share our love and gratitude in return. This Mother's Day – Sunday, May 14 – we hope you're able to spend time with or time remembering the mothers, and mother figures, who changed your life for the better. Whether with a phone call, a card, flowers, a shared meal, or time spent reminiscing on fond memories, there's no better time to express how much they mean to us.

Let's take a look at the numbers.

Major Stock Indexes	(As of 3/31/23)
Dow Jones Industrials	- 0.90 %
S&P 500 Index	+7.50%
NASDAQ Composite	+20.50%
Russell 2000	+2.71%
MSCI EAFE Index	+8.62 %
MSCI Emerging Markets	+3.96 %

Major Bond Indexes & Rates	(As of 3/31/23)
Barclays U.S. Aggregate Bond	+2.96 %
Barclays U.S. Corporate Bond	+3.93 %
Barlclays Global Aggregate ex US Bond	+2.86 %
Fed Funds Rate	4.75 - 5.00 %
30-year fixed mortgage	6.93%

Source: The Wall Street Journal and Barron's

*Inclusion of these unmanaged indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

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FINANCIAL AND INVESTMENT PLANNING

As we look back at the first quarter, the market concerns about inflation, interest rates and a possible recession continue. If those worries aren't enough, another was added. It's often said the Federal Reserve (Fed) tightens until something breaks. The Fed raised interest rates at the fastest pace in over 40 years, which lead to three banks (Silvergate, Silicon Valley and Signature) failing. However, the current situation resembles a more classic liquidity crisis and not a credit crisis (like 2008). Fortunately, authorities acted quickly and backstopped the uninsured deposits. Larry Adam, Chief Investment Officer at Raymond James recently wrote about the events, "The biggest question for investors: are the recent failures manageable events or is there significant risk of financial contagion that could have downside economic implications? Before we delve into these questions, let's review what led to the demise of Silvergate Capital and Silicon Valley Bank. The two banks had a lot in common:

- Niche Banks | Both banks were niche players that benefited enormously from areas of the market that flourished during the pandemic tech boom. Silicon Valley Bank catered to venture capital firms and tech start-ups. Silvergate Capital was a major banking partner for the crypto industry.

- Concentration Risk | The lack of diverse deposit bases and their concentrated loan books left both banks in a vulnerable position. Once venture capital funds started to struggle to raise capital, liquidity tightened as new deposit flow slowed dramatically. In fact, the bank's clientele started to draw down their deposits at an accelerating pace while they waited for the venture market to recover. The banks were unprepared for this. In addition, with so many companies having large deposits at the bank in excess of $250,000, the vast majority of the deposits were uninsured.

- The Pace of Interest Rate Moves | The speed of the Fed's rate hikes over the last year caught the banks by surprise. This exposed a huge mismatch between their assets (investments) and liabilities (deposits), and they were negatively impacted on both fronts. Deposits were getting more expensive to attract as short-term interest rates rose. Meanwhile, as their assets were invested in safe, liquid, high quality Treasurys and mortgages, these long duration bonds were sitting on huge mark-to-market losses due to the sharp rate increases over the last year. For reference, the 10-year Treasury yield increased 237 basis points over the last year alone. When the banks needed to raise cash to meet client withdrawals, they were forced to sell these long duration securities at a loss that reduced their capital base. To be clear, this was not like the Great Financial Crisis where lax lending standards and leverage exacerbated losses. This was a mismatch of assets and liabilities where interest rate moves caught them off guard.

The bottom line, the recent failure of three banks is an unfortunate result of the rapid rise in interest rates to combat the unprecedented rise we have seen in inflation. The quick response from the regulators and the creation of a lending facility should limit the contagion fall-out to the broader economy and financial markets. The silver lining may be that the Fed moves more slowly in raising interest rates and may potentially end its tightening cycle earlier which should be a positive for the economy and both the fixed income and equity markets."

We wanted to address any apprehension you may have about whether these events affect the standing of your financial accounts and cash balances at your custodian Raymond James. Reflecting the influence of client-first values and prudent management principles, rest assured that Raymond James is well-positioned to weather changing market conditions. The firm has been and remains committed to prioritizing risk management and long-term outcomes ahead of short-term gains. This dedication is exemplified by 140 consecutive quarters of profitability, which extend across multiple recessions and difficult markets, including the 2007-2008 financial crisis.

As further evidence of values in action:

- Raymond James has among the strongest capital ratios in the industry with double the regulatory requirement considered to be well-capitalized.

- Raymond James has A-level credit ratings with stable outlooks across all three major credit rating agencies – a testament to consistent performance and strong balance sheet.
- The firm is a leader in offering clients as much FDIC coverage as possible. The sweeps program offers up to $3 million of FDIC insurance, and the new enhanced yield savings program offers up to $50 million.

We hope these points offer you reassurance, but we recognize the short-term impact that a bank failure can have on financial markets and consumer confidence. We'll be closely monitoring the situation in the days ahead to evaluate any possible impact on your portfolio and financial plan. In the meantime, we are always available to answer your questions and offer perspective. Please do not hesitate to reach out.

Over the past few decades, the Fed, the Treasury and other authorities have stepped in to stabilize the markets during times of distress. It's as if failure is no longer an option in most cases. While this strategy works to calm the markets and investors, it does create moral hazard. It will be interesting to see if Treasury officials, the Fed and FDIC can resolve the moral hazard issue.

Turning to the equity and fixed income markets, both are off to a good start. The stock market was led by growth stocks and the belief that the Fed is closer to the end when it comes to raising rates. The yield curve continues to be inverted (meaning shorter term bonds yield more than longer term bonds). However, the yield curve has narrowed of late. The bond market is benefiting from higher rates and is more attractive now that it has been in years. Historically, the bond market has performed well after the Fed stops hiking rates and yield curve inversions.

In regards to the economy, the jobs market continues to be strong. According to the U.S. Bureau of Labor Statistics, the U.S. economy added over 1,019,000 jobs in the first quarter, while there were 270,000 announced layoffs. The unemployment rate is still historically low at 3.5%. The problematic labor participation rate is at 62.6%, but continues to improve (still too many people choosing not to work). The labor participation rate pre-pandemic was 63.3%. Inflation, as measured by the Consumer Price Index (CPI) is currently at 6.0%. The CPI high was 9.1% in June 2022. The Fed has withdrawn liquidity from the system at a nearly unprecedented pace. M2 money supply has fallen year-over-year at a pace not experienced since 1930. M2 is the Feds estimate of all of the cash people have on hand plus all of the money deposited in checking accounts, savings accounts and other short-term saving vehicles like CDs. A decrease in M2 money supply is a deflationary force.

After a tumultuous 2022 in both the stock and bond market, we are reminded of an editorial written by Warren Buffett during the depths of the Great Financial Crisis (2008). Here is an excerpt:

> "A simple rule dictates my buying: Be fearful when others are greedy, and be greedy when others are fearful… most major companies will be setting new profit records 5, 10 and 20 years from now…
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> A little history here: During the Depression, the Dow hit its low, 41, on July 8, 1932. Economic conditions, though, kept deteriorating until Franklin D. Roosevelt took office in March 1933. By that time, the market had already advanced 30 percent. Or think back to the early days of World War II, when things were going badly for the United States in Europe and the Pacific. The market hit bottom in April 1942, well before Allied fortunes turned. Again, in the early 1980s, the time to buy stocks was when inflation raged and the economy was in the tank. In short, bad news is an investor's best friend. It lets you buy a slice of America's future at a marked-down price.
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> Over the long term, the stock market news will be good. In the 20th century, the United States endured two world wars and other traumatic and expensive military conflicts; the Depression; a dozen or so recessions and financial panics; oil shocks; a flu epidemic; and the resignation of a disgraced president. Yet the Dow rose from 66 to 11,497."

Someone asked Buffett several years later how he knew it was the right time to buy. He replied he didn't know. In the short term, the timing of his article looked terrible. The S&P 500 fell another 26.5%

over the next 5 months before bottoming. However, the S&P gained 23% over the next year and compounded at 16% annually over 5 years and 14% over 10 years. Those short-term losses disappeared rather quickly.

This is an important perspective to keep in mind. Currently the S&P 500 and NASDAQ are still well below the highs reached in January 2022. The S&P 500 declined 27% and the NASDAQ nearly 35% from peak-to-trough last year. The two indexes are still 14% and 23% below their all time high, respectively.
No one can predict the future. We don't know if or when we will slide back into a recession, what future corporate earnings will be and where inflation will be at year-end. Historically, we do know that stocks have performed well coming out of a bear market. Below is a chart showing the S&P 500 returns after bear markets:

S&P 500 Index bear markets (declines of 20% or more) since 1950

Market peak	Peak-to-trough decline	1 year from trough	3 years from trough (annualized)
8/3/56	-20.47%	36.96%	13.15%
12/8/61	-26.87%	33.35%	17.45%
2/11/66	-21.97%	32.87%	8.38%
11/29/68	-33.33%	39.79%	12.86%
1/5/73	-47.99%	37.87%	15.69%
11/28/80	-22.19%	40.54%	18.78%
8/21/87	-33.34%	21.39%	12.90%
3/24/00	-47.59%	28.64%	15.35%
10/12/07	-56.24%	66.63%	26.08%
2/14/20	-31.81%	53.97%	?
1/3/22	?	?	?
Average	**-34.18%**	**39.20%**	**15.63%**

Source: FactSet, as of 1/31/23. Drawdown is a measure of market declines from a peak to a subsequent trough. The S&P 500 Index tracks the performance of 500 of the largest publicly traded companies in the United States. It is not possible to invest directly in an index. Past performance does not guarantee future results.

- Past performance is not a guarantee of future results. Individuals cannot invest in an index directly.
- The Dow Jones Industrial Average (DJIA), commonly known as "The Dow", is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal.
- The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material accurate or complete.
- The S&P 500 is an unmanaged index of 500 widely held stocks that's generally considered representative of the U.S. stock market.
- The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market and includes over 3,000 companies.
- Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. Bonds are subject to credit and interest rate risk. Timely payments of interest and principal payments are based on the financial condition of the issuer. Yield and market value will fluctuate with changes in market conditions. There is an inverse relationship between interest movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise. Diversification does not insure a profit or a guarantee against a loss. Investing involves risk and you may incur a profit or loss regardless of strategy selected. Please note that international investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility.

PERSONAL

“Just drop in,” Kora told herself as she peered over the edge. She took a deep breath, pointed the tips of her skis down and she was off. Macy was next. The ten-year old overcame her nerves and joined her sister. The last day of ski lessons involved taking the brave kids down their first EX run (extreme run). In previous weeks, they skied double black diamond runs. Today, their ski coach believed the youngsters were ready for a bigger challenge. When Angie and Kris picked the girls up at the end of the day, Kora and Macy had huge smiles on their faces and couldn’t wait to share what they had done! Angie and Kris vividly remember the early ski lessons - there were tears as the girls didn’t want to leave mom and dad (Macy and Kora also cried). Today, the courageous sisters love skiing the majestic Colorado mountains (and mom and dad can no longer keep up)!

As winter gives way to spring, Macy and Kora finished their long basketball season. They both had great coaches and developed friendships with their new teammates. The busy girls also enrolled in a STEM (Science, Technology, Engineering and Math) program at the Colorado School of Mines, which was taught by the college students. Macy and Kora weren’t exactly thrilled to go in the beginning, but they actually enjoyed the sessions and learned along the way. Volleyball season is now officially underway in the Fisher household. The girls are constantly in the front yard working on their overhand serves, digs and sets. Angie is an assistant coach for the volleyball team this year. The kids love having mom as a coach!

In January, the Kachkovsky and Fisher families re-united. Visiting Evergreen, CO during the winter is a wonderful experience, especially if you love skiing. The scenic beauty of the area is unmatched, with snow-capped mountains, frozen lakes, and towering pine trees. A highlight of the trip was undoubtedly skiing at Cooper Mountain. After a long day on the slopes, the families reminisced about the day's adventures and enjoyed each other's company. Ava and Elle fell in love with JoJo, Fishers’ Bernese Mountain dog, asking when the family can have one of their own.

Spring is here, and with it comes the start of softball season. Ava is excited to be playing on the 12U (twelve years old and under) team this year. She's been working on her pitching, hitting, and fielding skills, and can't wait to put them to the test on the diamond. Meanwhile, her younger sister Elle is also gearing up for her season of softball on the 8U team. She's eager to advance her fundamentals and have fun with her teammates.

Elle turned eight in March and spent her birthday with family and friends in Mammoth - skiing, sledding and having a ball in the record-breaking snowfall for the Sierras. This occasion wasn't just about having fun and getting presents. She wanted to do something special this year, something that would make a difference in someone else's life. So, she decided to donate three locks of her hair to Locks of Love, a charity that makes wigs for children who have lost their hair due to medical conditions.

Garry, Ava and Elle have been active participants in the YMCA Adventure Guides program for the last few years. This program is a great opportunity for parents and children to bond and create lasting memories while engaging in fun activities together. In March, Garry and his girls camped at the Dos Picos Campground in Ramona. One of the highlights of their trip was the pine car derby race. The girls, with a bit of help from dad, spent a lot of time designing and building their pine cars and were thrilled to compete against other families in the race.

"All along I have searched for knowledge when what I was really looking for was wisdom. Not the information that fills my mind with details and facts, but experiences that fill my being with freedom, healing and the light of insight."

— Unknown

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