

INVESTMENTS & WEALTH MONITOR

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Investment Insights: 2023 Market Outlook

*A Discussion with Todd Wagenberg, CIMA®, Scott Welch, CIMA®,
and Brian Ullsperger, CIMA®; moderated by Tony Davidow, CIMA®*



INVESTMENTS & WEALTH INSTITUTE®

2023 Market Outlook

INVESTMENT INSIGHTS

A discussion with Todd Wagenberg, CIMA®, Scott Welch, CIMA®, and Brian Ullsperger, CIMA®; moderated by Tony Davidow, CIMA®

This discussion focuses on investment insights for the new year. Participants were three Investments & Wealth Institute thought leaders: Past Chair Todd Wagenberg, CIMA®, managing partner, Integrated Fiduciary Advisory Services; Treasurer Scott Welch, CIMA®, chief investment officer-model portfolios, WisdomTree Asset Management; and Brian Ullsperger, CIMA®, managing director, Andersen. Investments & Wealth Monitor Editorial Advisory Board Chair Tony Davidow, CIMA®, president of T. Davidow Consulting, moderated the discussion.

Davidow: Let us begin our discussion with your outlook for 2023. What are your expectations for the coming year? Specifically, do you think we'll have a recession or not? What do we think about the equity markets? What about the bond markets?

Wagenberg: My expectations for 2023 are for what we had in 2022. I don't see much difference. I'll be surprised if we end the year outside of a band of either up or down 10 percent. I would say that there's a higher probability of being down more than 10 percent than there is of being up more than 10 percent.

Will there be a recession? Seems like they keep changing the definition of what a recession is these days. The economy's pretty strong although it's definitely slowing. My biggest doubt about there being a recession is that everyone's looking for one. When everyone's looking for something, it usually doesn't happen.



(l-r): Todd Wagenberg, CIMA®, Scott Welch, CIMA®, Brian Ullsperger, CIMA®

Welch: There's been myriad social media postings recently that list multiple different firms' outlooks for the year, and of course we produced one, too. If you read through those, the consensus seems to be recession in the first half of the year, recovery in the second half of the year. Somewhat tongue in cheek, we are referring to this as the most widely anticipated recession in history.

So, what is more interesting is: What if we are all wrong? Where might we be wrong?

And, perhaps most importantly, what hasn't been priced into the market at this point? If you look at the bond market, for example, the market doesn't seem to believe the Fed is going to continue its aggressive rate hike regime. It's not reacting as if that's what it expects to happen. Certainly, if you happen to watch or listen to Professor Jeremy Siegel, my firm's since-inception strategic advisor, he thinks the Fed will pivot after the February meeting because it will realize it has gone too far.¹

So, there is perhaps an out-of-consensus view that the Fed will pivot sooner than expected, and the market will rally accordingly.

At the same time, one of our narratives for this year is, "There is income back in fixed income." For the first time in a long time, you can allocate to fixed income strategies and generate a decent real yield. I think you will see a more equal

weighting on the scales between how advisors and investors feel about equity and bonds.

Another consensus view is that earnings are going to decline. If you look at multiples right now, while I won't suggest that U.S. large-cap stocks are undervalued, they're not as overvalued as they have been for the past several years. They're in line with historical levels. At the same time, I would argue that small-cap stocks may have already priced in a recession and are trading at multiples that make them very interesting to look at.

The last thing I'll say is that our primary equity investment themes for 2023 are dividends, value, size, and quality.

Ullsperger: I think we're in a recession already. It's always after the fact that the economic bureau comes in and says, "Yes, we were in a recession, and it started this month." After the fact, it's now lasted X months and then it's over. I'm of the belief we're going through the recession right now from a spending standpoint.

A few weeks ago, JPMorgan came out with a piece where they outlined all these different times where the market bottomed and asked whether the market

bottomed at the end of September 2022. I know we're always supposed to talk in exact terms, but it feels like it did bottom. The point was that the market bottoms well in advance of earnings, GDP [gross domestic product], and unemployment numbers.

It is very likely that we're going to see GDP go down, we're going to see earnings numbers go down, and we will see unemployment numbers go up. Given all the layoffs we've seen coming out of Silicon Valley, it's hard to imagine that the unemployment numbers won't go up. Thinking about the markets going forward, I would say that there's going to be more volatility but I would also say there's going to be less correlation between the asset classes.

We're going back to a period of time, and I've said this to our clients, that it feels very similar to what we went through right after the dot-com crash, where there was a big rotation into all these other sectors and areas of the markets that didn't have outrageous valuations, had strong balance sheets, had strong cash flows.

I'm in agreement with Scott's opinion that higher-quality names should outperform—companies with better cash flow, revenues, and companies that do well in a non-zero interest-rate environment—that's the change and challenge that advisors and investors need to think about. Think back to how companies earn money and which companies are successful when money is not free.

Davidow: Brian, I'm in your camp. I believe we may already be in a recession, and the NBER [National Bureau of Economic Standards] will declare a recession when we're coming out of it. This frequently happens as they are evaluating the data.

Welch: Tony, I'm going to gently push back against the two of you. If you look at the manufacturing and services indexes, yes, they're declining. There are

certainly signals out there that we're in a recession. What's frustrating the economists is that both consumption and the labor market remain strong. Yes, Brian, there have been layoffs in big tech and within the financial services industry, but small businesses are still hiring as fast as they can find qualified workers.

Now that may change tomorrow. That's what's frustrating people who are trying to determine if we're in a recession or not right now. I won't argue that there are signals out there suggesting we are, but there are other signals out there that are suggesting that we're not.

Ullsperger: There's a phrase that I think Liz Ann Sonders used.² She called it a "rolling recession." It might not be a recession where everything just feels awful.

There may be a situation where there's job recovery, strong growth, and people going back to work—whether it's in retail or restaurants or other areas. It felt like that's what happened with dot-com too, where the technology area got absolutely crushed but the rest of the economy was strong and doing well.

Davidow: I agree with that. Scott, you're exactly right that there are mixed signals on this. We don't always get clear signals. The real thing that we should focus on, though, is what is the market factoring in? It seems like there is a consensus that we're almost looking at two different markets in 2023.

The first half of the year is going to be challenging and we experience a recession. The consensus seems to be that the Fed's going to stop raising rates in March, and the second half of the year is anticipated to see a rebound. What would change that? What are the shocks that maybe we should be thinking about? Is it another geopolitical issue? Is there something homegrown?

Welch: You can't predict geopolitical issues. I won't try other than to just

acknowledge that they remain, with the tensions with Iran and with China and North Korea, and of course the continuing Russia-Ukraine war.

Here's something perhaps many people know, but perhaps some people don't know. The Fed is certainly concerned with inflation. The headline numbers they focus on are CPI [Consumer Price Index] and personal consumption expenditures.

What not everybody knows is that a big chunk of CPI is housing, but those numbers are reported with a six- to seven-month lag. The headline CPI numbers that we see today reflect where the housing market was six or seven months ago. In our opinion, that's keeping the headline number higher than what inflation actually is, and we believe we will start to see that as we move into Q2. It's one reason we think the Fed may pivot sooner than expected.

If you look at supply chains, if you look at producer price indexes, if you look at contemporaneous or current housing numbers, which are in a freefall, there is an argument that inflation is not nearly as bad as the Fed is reacting to.

If you ask for a surprise, Tony, a surprise could be that in the first quarter those headline numbers—or certainly by the second quarter when the year-over-year numbers start to roll off—inflation actually is not as high and the Fed will be forced to pivot.

I don't think the market is taking that into consideration. If I had to pick a surprise that would be it.

Wagenberg: I think that would be a big surprise. I thought that the first quarter of 2023 would have been more disruptive. I think the weakness in the economy is going to come in the second half of the year because the economy was much stronger than people gave it credit for coming into the end of the year [2022].

I also believe that the effect of going from 0 percent to 4.5 percent on the Fed funds rate has not worked its way through the system yet. The increased cost of capital at some point will cause trouble. In fact, we saw yesterday, the first crack in the eggshell where Bed Bath & Beyond is going to have to reorganize and go through bankruptcy.

I would not argue with Fed Chair Jerome Powell when he says expect pain. I'm a big fan of being liquid. I love six-month paper paying me almost 5 percent. If I get 5 percent next year, I will be pretty happy.

Foundations need a 5-percent return to make their distributions. An interesting thing that happens is when the 10-year bond goes above 4 percent, defined benefit plans look to offload their liabilities at that rate and that brings in demand for long bonds.

If I'm the Federal Reserve, I would be dumping my 10-year bonds into the market. I think economic distress has been pushed out a little bit. Historically, I usually underestimate the strength of the economy. In times like 2022, my clients appreciate that I'm more conservative than they would be.

I don't see the impetus to a large upside in 2023, except market participants seem to be very pessimistic right now. That's another reason why I think any downturn will be later in the year, because of the current negative consensus.

Davidow: Todd, are you doing anything different with your portfolio? You've talked about picking up yield, which is something we've had a tough time doing over the past couple years. That's easier to do now. Are there any other shifts that you're thinking about?

Wagenberg: My clients have target allocations that we manage to. I reduced some of the equity exposure, especially the longer-duration big growth names. I increased cash quite a bit. I have targets

on the S&P 500 that I will start to deploy, and I am extending duration a little bit.

In March 2022, I started putting in requests for capital from some of our liquid investments. This was a result of rebalancing portfolios. I am surprised that the distressed marketplace hasn't really picked up a whole lot. The bankruptcies and delinquencies haven't increased as much as I would have thought.

I find it interesting that private equities have not increased their preferred rates of return. The risk-free rate was zero, now it's 4.5 percent, we should be getting more of a risk premium on these investments. You should be giving us 11 percent or 12 percent before you start participating in your 20/80 or 30/70 portfolio.

We're not seeing that at all and it's showing us that you're getting a lot less risk premium for your dollar than a lot of these private transactions that don't make sense at this point.

Davidow: We will delve into alternative investments shortly. Brian, maybe we'll start with you and get everyone to weigh in on this. There's obviously been a lot of debate about the merits of the 60/40 portfolio. We just came off a year where the 60 percent allocated to stocks and the 40 percent allocated to bonds were both down double digits. Should we just scrap the 60/40 portfolio and if we do, what replaces it?

Ullsperger: Actually, there's an article in the *Wall Street Journal* by Jason Zweig about the 60/40 mix and the call was it's time to double down on it.³ I would say that maybe three or four years ago in our practice we were adjusting our capital market assumptions with the idea that interest rates were so low that you just couldn't have 40 percent of your portfolio in things earning 2 percent.

In a 12-month span, we went from getting 0 percent in money markets now to almost 4.5 percent in Treasuries.

If you have a taxable client, you can get an equivalent yield in a high tax bracket of more than 5.5 percent. I would argue the 60/40 mix will work better because the 40 is finally paying something. You have far less to have to grow.

I think it depends on the expectations for the portfolio. When the 40 percent—and again, this is just if you're in pure bonds—is paying 4.5 percent to 5.5 percent, it increases the probability of achieving the required rate of return whether it's for a taxable client or an institution over the long term.

When the 40 percent ... is paying 4.5 percent to 5.5 percent, it increases the probability of achieving the required rate of return whether it's for a taxable client or an institution over the long term.

I'll push back on whether the 60/40 did or did not work, depending on the choices made in portfolio construction last year—the incorporation of alternatives, real assets, etc., of how the 40-part was built—you may not have done nearly as bad. The question is whether you believe a 10- to 12-percent drop is acceptable when the equity market is down 20 percent. It's not a matter that 60/40 is going to make it so that you don't lose any money. If you can protect and preserve more and then rebalance back into equities—and rebalancing is always a key ingredient—you will have done better than the equity market. Again, I would also argue that the lean you had—and Scott, I'm certain you can comment on this given the value lean that I often see at your firm—is if you leaned toward value last year you may not have done that badly, definitely not relatively.

Wagenberg: By the way, Brian, to that point, that's exactly what happened in 2000, right? During 2002 to 2003, small value crushed it.

Welch: Brian, you said a couple things I want to key off of. One is there's income back in fixed income. The argument against the 60/40 has weakened to some degree because you can actually generate a reasonable return, hopefully with lower volatility than we've experienced the past couple years. You're getting an 8-percent-plus yield on high yield right now, and to Todd's earlier point the default rates have not been all that bad.

People need to remember that when there is this factor rotation from growth, where we were, to value, where we are now, that historically is not a one-year phenomenon—it's a multi-year phenomenon.

That's a pretty good cushion even if default rates go up a little bit. There's opportunity that maybe hasn't been there for a while.

Another of our sound bites is that we would rather be late than early to the duration party. We've been short duration relative to the Bloomberg Agg for some time. Within the past couple months, we've taken steps within our own portfolios to lengthen that duration—we are still short the Bloomberg Agg, but we are longer than we were. Rates are starting to normalize a little bit. Our equity portfolios, to Brian's point, are definitely tilted toward value and dividends and size and quality. That's who we are as a firm and it's also a conscious decision at the investment committee level. That's where we want to be.

You're right, Brian, our portfolios didn't avoid the tsunami of 2022, but on a relative basis they did a lot better than cap-weighted index-based portfolios.

The second thing is our endowment models, which have allocations to real assets and alternatives, performed quite well on a relative basis.

If you had commodities in your portfolio last year and managed futures and you had decent managers, some decent long-short, maybe a decent global macro manager, you did much better than the traditional 60/40. We maintain that within some of our models. The last point I'll make, and it goes to something that Brian was talking about, is the importance of portfolio construction.

A lot of people who read this article have had the bulk of their careers dominated by passive investing. What has outperformed has been passive index allocations, whatever they happened to have been. What you saw last year, however, is that active management can add value if you make smart allocation decisions and you make smart manager decisions.

What I'm suggesting is that we perhaps have entered a regime where the "beta wave" is not going to be the only answer. Advisors should be considering intelligent use of active or factor-tilted strategies going forward.

Just one last point if I could, to something that Todd said about the dot-com era. People need to remember that when there is this factor rotation from growth, where we were, to value, where we are now, that historically is not a one-year phenomenon—it's a multi-year phenomenon. People should take that into consideration as well.

Davidow: I think we need to define the 60/40 portfolio here. The classic definition is 60 percent allocated to U.S. stocks (S&P 500) and 40 percent allocated to bonds (Bloomberg Agg). If we start to

break up the 60 and include value, growth, and international and emerging, we're getting different outcomes. Scott, you're exactly right then if you start to layer in factor tilts and factor bets and manager selection, you're potentially changing the complexion of the 60/40 portfolio. Many retail investors will look at the naïve 60/40 portfolio and think they can do it on their own.

They just hit the "easy button" and get the cookie-cutter 60/40 portfolio. My hope and expectation is that we move beyond the easy button. Investors need to understand that an advisor's value is navigating through these challenging environments. An advisor's value is customizing the asset allocation of portfolio construction to help achieve their clients' respective goals. We put too much weight on outperforming arbitrary benchmarks and should focus instead on achieving client goals.

We earn our stripes navigating through these challenging periods. What we're all talking about here is the art and science of investing.

Ullsperger: Tony, I agree with you and will echo one comment. I think that the asset allocation, whatever it is that is your safe part—whether it is alternatives, whether it is fixed income—to me that is what allows you to stay invested in growth vehicles, which are often more volatile. When you have a year like 2022 where equities are down almost 20 percent on a blended basis and clients who are heavily weighted toward tech stocks were down 30 percent to 40 percent—what do you have in that portfolio that can keep them invested?

I agree, we don't need to get into the investor psychology aspect of this, but a big part of our job is keeping people invested. And when it feels the absolute worst, that is trying to inspire them to do something that feels awful—which is invest more money in equities because this is where the opportunity resides.

It's not going to be when the market goes up 15 percent or 20 percent. The opportunity is now if you can stomach a little bit more volatility. If everyone were invested in perpetuity, there's no problem because time is always on your side with the markets. The longer you have to invest, the better off you will do in the long run. During the volatile times, having that 40 percent—whatever it is—allows you to stay invested in the more volatile investments. And, potentially, have it be that dry powder to actually improve the return in the recovery.

Wagenberg: I would just push back on one thing about the 60/40 conversation. Even when interest rates were at 1 percent or 2 percent, typically, we don't invest in the 40 percent for growth. I see your point, it's the ability to be able to rebalance when the 60 gets underwater. I would argue that 2022 was a unique year in which the 40 percent drove the 60 percent.

The fixed income markets were taking such a beating from the speed at which interest rates went up and caused the equity markets to go down, which doesn't happen very often. You probably haven't seen it since the early '80s. Typically, when your 60 percent is doing well, you normally don't care what your 40 percent is doing.

When the 60 percent is doing horrible, whether it's a naïve portfolio or completely passive, or whether you have the best money manager in the world, the 60/40 conversation is not about the 40. The 40 is there strictly as a shock absorber for the 60. When it comes to the professional advisor versus the individual investor, it is important to understand that the 40 is there to rebalance the 60 percent when it takes a 20-percent hit.

Ullsperger: One thought regarding potential risk: Now that bonds are paying 5 percent—and again, this goes to whether it's a sophisticated investor

or not—if investors start to pull money out of the market because it fits their needs, or their time horizon, or their risk tolerance, and they buy those bonds and it drags equity markets down, a lot of investors won't understand. The opportunities might become more attractive on the equity side of things as companies become more efficient, remove some of the bloat, and figure out how to actually improve their earnings.

That to me, Tony, to your point, is where advisors really can add a lot of value by peeling it back and explaining what is going on in the markets. That it's the market of stocks, not a stock market. Well, it's also a market of sectors, and different sectors perform differently than the market as a whole at different periods of time.

Welch: One of the traditional market adages that I believe to be true is that whatever led the last bull market is not going to be what leads the next bull market. It's simplistic, but I think there is some wisdom there.

The market, as measured by the S&P 500 Index, was for years dominated by high-growth tech stocks. Five or six stocks represented something like 23 or 24 percent of the market cap, and even after last year they still represent roughly 17 percent. Those were the stocks that were most susceptible to the rise in interest rates, to Brian's point.

You did see an anomalous correlation between stocks and bonds last year. I think it's only happened once or twice in the past 100 years where you see that level of correlation between stocks and bonds. Now rates have gone up. I suspect nobody here believes that rates are going to go back to zero.

I don't think they will, and already you are seeing signs of falling correlation. Investors are focusing on fundamentals again and the air has been taken out of

the tires of the stocks that were very interest-rate sensitive.

In one sense you're approaching a market that at least to me feels more normal. It doesn't mean it's not going to be volatile, it doesn't mean there's not going to be some pain, but I can understand what's driving the market now a little better than I could when it was just rallying because of meme stocks and high growth expectations and everything else.

Davidow: This has brought us to the natural next step, which is discussing the role and use of alternative investments. If we think about the expectations for 2023, we're likely going to see lower returns—Todd mentioned we could even see negative returns.

We're likely in an environment where correlations across most traditional investments remain elevated. We're still going to be dealing with inflation. Inflation's not going to the Fed's target rate anytime soon. We'll likely see continued bouts of volatility, whether it's from Fed policy, a global recession, or geopolitical risks.

To me, this sets up an environment where advisors need an expanded toolbox. They need to utilize alternative investments to respond to these challenges. There are now more alternatives available to more investors, at lower minimums, and with more flexible features.

Are there different types of strategies that you think are particularly interesting in today's market environment? How are you using these tools in your portfolios? What role do they play?

Wagenberg: I have a couple clients that have a lot of alternatives, but most of my portfolio do not. My thesis of liquidity leads me to an alternative that we haven't been involved with since about 2010 and that's the secondary PE [private equity] market.

Many of the secondary funds are in the process of coming out with new funds to take advantage of market illiquidity. I've been talking to some funds that are going to be coming to market in the next 30 to 90 days. Some of my institutional clients, wanting to rebalance their portfolios, ran into gates in real estate. Requests to take money out of some of our private REITs [real estate investment trusts] in March of last year were denied.

Right before the distribution on June 30, a couple of their largest clients put in distribution requests as well. Funds are distributed pro rata as opposed to first in, first out. This is what happened with Blackstone in terms of putting up gates. It's strictly a rebalancing situation.

There haven't been a lot of transactions in the real estate market. No one's real excited about going into real estate—and all of a sudden you have this liquidity heading for the door and they put the gates up.

Without leveraging the portfolio, we're not getting our money back from some of these illiquid investments to take advantage of new opportunities. That leads me to, "The secondary marketplace looks pretty interesting because I think we're not the only people doing this."

Some of these secondary managers are getting 20- to 25-percent discounts in LP [limited partnership] positions in other PEs. That to me seems pretty attractive.

Welch: I'll focus my comments more on the liquid side of things. I certainly agree there's almost always good opportunities on a relative basis in privates. You do have to watch your entry points and you do have to watch your managers.

If you think about the broader investor base, I'll talk about two things very quickly: alternatives and real assets. If you look at the alternative space—and what I'm talking about there are what

the three of us would call alternatives—long-short, global macro, managed futures, arbitrage strategies, things like that—they historically have worked best in a rising-rate and rising-volatility market environment.

One of the reasons they fell so out of favor in the previous 10 years is because we did not have either of those in place. We didn't have any volatility and we didn't have any interest rates to speak of. Well, that market has changed. We've been advocating that people consider those kinds of strategies since 2020, at least. If people listened to us, they were happy they did, especially in 2022.

There haven't been a lot of transactions in the real estate market. No one's real excited about going into real estate—and all of a sudden you have this liquidity heading for the door and they put the gates up.

I still think there's a role to be played for a lower correlated set of strategies to offset what I expect to be a relatively volatile year in stocks anyway, maybe less so in bonds. On the real asset side, you've got a push me-pull you going on. You have the dollar declining—I think trending downward, not just going down for now, after a remarkable rally for at least the last 12 to 15 months. That tends to be not so good for global commodity prices. At the same time, you have China attempting to come out of its COVID-lockdown policies and reinvigorate its economy. It is the world's largest consumer of commodities at the input level. It's difficult to make a hard and fast call on commodities, but I still like the space overall. I don't think 2022 was an anomaly in terms of how well commodities did.

If my mandate as an advisor or as an outsourced portfolio manager is to build a diversified portfolio, I would definitely be allocating to both real assets and alternatives right now.

Davidow: Brian, I know you and I have talked about managed futures.

Ullsperger: Yes, I had to fight my personal bias and appreciation of managed futures last year being up almost 40 percent. Within the alternatives bucket, we had allocations to real assets and managed futures and some other things. You have to trim even though it's "Wow, it's doing really well." But they take the hit when the trend goes the other way until they readjust. It's just like any other asset class, you have to rebalance.

What we've been doing on the alternative side of things is, and maybe it's going to be a little early, but we have started to dip our toe in with the idea that a recovery will come and that it is inevitable. I know we're not ever supposed to say anything's guaranteed, but we believe the economy and equity markets will recover.

We have started to dip back into what I will call hedged strategies—a strategy that can capture 60 percent to 70 percent of the upside and protect on the downside. There are a lot of different ways to go into that—global macro, a directional hedge fund, some obviously liquid alternatives are long-short. We look for something that can take advantage of the good opportunities in the market and things that they could short on the other side they still think are frothy and might have some trouble on the horizon. We have started to drip into that with an idea that if you're making the choice between—let's just talk about that 40 bucket—if we're making the choice between being in bonds or alternatives in that space, you have a higher hurdle now. The hurdle was zero to 3 percent. Now, the hurdle is maybe 3 to 5 percent in the fixed income side of it.

Wagenberg: Don't forget the liquidity aspect of it.

Ullsperger: That's correct. We are looking for things now that can generate some higher yields. Last year, we added some middle-market lending strategies and interval fixed income funds. Whether or not you put that in fixed income or alternatives I think is debatable.

Those are areas that we're looking into in the marketplace to try to find some consistency. To use Todd's language, a shock absorber or at least something that can generate a more consistent return to allow you to stay in equities but to also allow the assets to compound.

Davidow: What are you telling clients as we enter 2023? Is there anything different that you're telling them? I would suspect that some clients were surprised with the events and results of 2022. Is there anything you're telling them to stay the course?

Wagenberg: Stay the course, I do not expect a lot in 2023. Obviously, it depends on the client you're talking to, but we have an asset allocation for a reason. We're making modifications as we go. We're being a lot more conservative than we have been in the past and our conservative bucket is earning 4.5 percent. Patience. It's amazing how hard it is to be patient.

Davidow: Brian, I know communication is one of your passions.

Ullsperger: I strongly dislike the word "normal" because I always feel that normal is whatever environment you're in. I don't know how anyone would argue that the past 14 years of zero interest rates were normal. I think that the environment we're in now where interest rates may settle somewhere between 3.5 to 5 percent is probably more historically normal.

What happened last year, while very, very challenging, was actually fairly

orderly and normal. Markets have corrections, we have bear markets, companies don't go up forever, you have market rotations. We are having a lot of conversations with clients about staying disciplined, adding more money, and taking advantage of opportunities created by the pullback.

To use the Warren Buffett line: Be greedy right now, while others are fearful. Take advantage of the opportunities of the fear that's in the marketplace and find investment opportunities because a lot of people are pulling money out because they don't understand what is happening. Stick with the long-term plan because it will reward you when we do have an inevitable recovery.

Welch: There are a couple of primary themes that we believe in right now. One, value rotations tend to last multiple years. Two, this is going to be the decade of dividends—people rediscovering the joy of getting more of their return sooner in the form of dividends versus waiting for some total return expectation out in the future. Three, fundamentals matter again, or we believe they will. What that leads into is quality, but it also leads into valuations. Our opinion is that U.S. small-cap stocks have already priced in a recession and their valuations. Even though the dispersion between the valuations of large caps and small caps has narrowed a little bit because the large caps came down so much last year, there's still relative value in U.S. small-caps.

If you take that outside U.S. investments, when you combine dividends and valuations and what we expect for the dollar, people need to take their blinders off with non-U.S. investments. They haven't needed to for a while and they have not been hurt by that. It's always dangerous to make a claim that EAFE [Europe, Australasia, and the Middle East] or EM [emerging markets] is going to outperform the U.S. for all the reasons that we know about.

But if you look at valuations and you look at dividends, there's a lot of opportunity outside the United States that people have not paid attention to in a long time and they probably should.

Davidow: I think this has been an informative conversation. I'm encouraged by your views and outlook. It's going to be a challenging environment—but that's the environment where an advisor's insights and guidance are most appreciated.

We went through a period during the bull market where everyone thought they could invest on their own and they could hit the proverbial easy button. The easy button isn't going to get you through the next 10-year cycle. Thank you so much for your insights. 🟡

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ENDNOTES

1. Jeremy Siegel is the Russell E. Palmer Professor of Finance at The Wharton School of the University of Pennsylvania and a world-renowned expert on the economy and financial markets. The author of the award-winning investment classic *Stocks for the Long Run*, now in its third edition, he recently expanded that book's ideas in *The Future for Investors: Why the Tried and the True Triumph Over the Bold and the New*. A frequent guest on CNN, CNBC, NPR, and other networks, he is a regular columnist for Kiplinger's and Yahoo! Finance.
2. Liz Ann Sonders is managing director and chief investment strategist at Charles Schwab. She has a range of investment strategy responsibilities, from market and economic analysis to investor education, all focused on the individual investor. She is regularly quoted in financial publications including the *Wall Street Journal*, the *New York Times*, *Barron's*, and the *Financial Times*, and she appears as a regular guest on CNBC, Bloomberg, CNN, CBS News, Yahoo! Finance, and Fox Business News.
3. J. Zweig, "Your Investing Strategy Just Failed. It's Time to Double Down," *Wall Street Journal* (January 6, 2023), https://www.wsj.com/articles/asset-allocation-60-40-portfolio-11673020720?mod=Searchresults_pos3&page=1.



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