



# Confidence in Your Investments: Retirement Plans, Financial Planning & Wealth Management

## Chasing One's Tail

The Cambridge dictionary defines chasing one's tail as "to be busy doing a lot of things but achieving very little." Effectively, one is running in circles without meaning or direction. ***Such could be used to describe the strategy many have taken in managing the fixed income portion of their investment portfolios over the past three (3) plus years.***

Article after article, symposium after symposium have touted the importance of getting the next move by the Federal Reserve (and subsequently, in bonds) right. Managers large and small have referenced history as they advocate moving from cash and short duration assets to core bond or index-like exposure. ***They've suggested reducing or eliminating credit exposure...and their guidance has been terribly wrong to this point.***

The amount of ink that has been spilled over airplane analogies and Fed policy is nothing short of incredible! Soft Landing, Hard Landing or No Landing has nearly become common lingo among investors. We have heard from managers like Bill Gross (who retired from money management 5 years ago) voicing their opinions on what lies ahead for investors. In Mr. Gross' case, his thesis currently suggests staying short and higher yields on long-dated paper (we generally agree). However, Mr. Gross is the same manager who, in September 2009, suggested that bonds would offer a safer and competitive return compared to equities in the years ahead. ***That has proven to be costly advice!***

When an investor hears phrases like "the New Normal" and "it's different this time" you should immediately become skeptical. The greatest money managers of our lifetimes are NOT those most adept at predicting the future, anticipating the next move by the Fed, or identifying the next big wave of innovation in its infancy. Rather, they are the disciplined and discerning allocators of capital who stuck to a core discipline when others were proclaiming "it's different this time."

Warren Buffett was chastised for not buying Tech stocks in the later 1990's. Twenty years later they said he was foolish for making Apple his largest holding. Jean Marie Evillard was critiqued for not owning Chinese exposure during the EM boom. Peter Lynch stuck to his basic principles, rather than rely on screens and algorithms. When markets correct and volatility and fear increase, one must have complete confidence in both what they own and why it's owned. These men did just that!

***So why the walk down memory lane of retired and aging money managers?*** We would like to draw a parallel to how we have approached fixed income over these last few quarters. Beginning in the Fall of 2023, we began slowly, steadily, and selectively reintroducing durations to portfolios. We have been doing so in areas we believe offer attractive risk/reward characteristics and with managers in whom we have supreme confidence. Our duration profile has been

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lengthened from less than 2 years in mid-2023 to a bit over 3 years today.

**We aren't looking to make one big, correct call on rates.** Rather, we are looking to slowly but surely provide meaningful out-performance in fixed income for our clients. Not only are we seeking better total returns than the Bloomberg Aggregate Bond Index, but with considerably less volatility.

**Below are excerpts from recent client communications, along with a quick positioning update:**

**November 2023 Newsletter: How has HIP posted 5 - 6% out-performance vs. the AGG YTD for our clients?** For 2023, the key for us has been owning "spread" and low duration. Spread refers to credit-sensitive bonds like high yield and leveraged loans...Our approach over the last few weeks (and likely into 2024) has been to increase exposure to IG credit (high quality) while adding duration to portfolios. We still believe it's early to extend duration to that of the AGG...

**February 2024 Newsletter:** We weren't seeking a long duration (quite the contrary...our duration is about half that of the Bloomberg US Bond Aggregate Index at present). Instead, we are allocating selectively to managers, strategies, and segments of fixed income that offered a favorable "carry", modest duration, and strong credit profiles. We remain constructive on securitized debt (think home mortgages) and are paid attractively for the additional risk relative to US Treasuries. We are allocated to high yield selectively and out of leveraged loans.

### **Today:**

Through 5/6/24, per Black Diamond reporting, our client portfolios are posting out-performance vs. the Agg of over 4%. This is consistent with our objective and emphasizes the importance of **avoiding unnecessary bets**. We've heard many anecdotes of advisors betting on TLT during the last 12 months, only to suffer extensive losses. To us, making up for double-digit losses in bonds is very difficult and time consuming. Our current portfolio position continues to emphasize quality bonds, discounts to par, modest duration, and under owned parts of the market. We continue to believe in the resilience of the top quartile US consumer and that yields remain attractive on the short end of the curve. **Bonds don't have to be exciting to be highly useful!**

***A lot of investors have chased their tails long enough in bonds. We would welcome an opportunity to introduce them to our approach! As a trusted friend, we would be honored by your introduction.***

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