KARPUS
INVESTMENT
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COMMENTARY

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A Simple Checklist for Your Investment Portfolio In Volatile Times

War in Ukraine, high inflation, and rising interest rates are among some of the key factors that have caused stock and bond market turbulence so far in 2022. Adding in the mid-term elections, we anticipate additional volatility as the year progresses.

Following are a few points we believe you should consider for your investment portfolio in these challenging times:

1. Have an appropriate asset allocation that fits your needs and objectives.

   Making sure you have an appropriate level of stocks and bonds in your portfolio can help weather volatile times and also keep you on pace for your goals. It is strongly recommended that you review your overall allocation and fine tune or rebalance your portfolio regularly. For example, say your targeted asset allocation is a 60% equity and 40% bond allocation and the stock portion has made significant gains recently. Now, your overall allocation might be 65% in stocks instead of the intended 60%. If something like this happens, rebalancing toward the intended allocation by lessening stock exposure can help you avoid taking too much risk. The same is true if the market does the reverse and you have less in stocks. You then should then consider rebalancing more to stocks to get you back to your 60% equity objective.

2. Stay diversified with your equity portfolio.

   "Don't have all of your eggs in one basket" is a common investment saying to remind investors to not have you all of their assets concentrated in one sector, region, country, or single security.

   One of the commonly overlooked area of diversification within an equity portfolio can be investors' allocation to international equities. With international equities, we think it's important for a well-diversified portfolio to be mindful that the U.S. accounts for only 4% of the world's population and 25% of economic output, yet it constitutes 60% of the MSCI All-Country World Index. With so many companies being domiciled outside of the U.S., we believe it is critically important to have a portion of one's portfolio invested abroad.

   In fact, a recent BlackRock study indicated not having international equity holdings can prove detrimental when U.S. stocks returned less than certain thresholds. More specifically, they looked at rolling 10-year periods from 1971 – 2021 and found that international stocks (measured by the MSCI EAFE Index) outperformed 94% of the time when U.S. stocks (measured by the S&P 500 Index) returned less than 6% and 100% of the time when U.S. stocks returned less than 4%.

   By constructing a portfolio with exposure to stocks around the globe, investors can help reduce (but not eliminate) volatility. If investors experience lower returns for U.S. stocks over the coming years, international stocks can be primed to outperform and, in our opinion, shouldn't be ignored as a key part of a well-balanced portfolio.

3. Review your bond portfolio.

   Let's face it: talking about individual stocks is probably far more interesting than discussing bond yield curves and the income a fixed income security can generate. Indeed, much of the news is focused more on the stock market than the bond market. Even though they might not be as fun to talk about, fixed income not only acts as a much-needed diversifier to equities, but it also offers income and capital preservation to a portfolio. Investors should also frequently review the credit quality and duration (price sensitivity of interest rates) of their investments to determine the risk characteristics of their fixed income portfolio.

It's never too late to review your investment portfolio and now it's just as important as ever. If you have questions on where to start, seek an investment professional that can guide you and provide investment or asset allocation recommendations. Investment professionals can help eliminate the stress of investing so you can enjoy the aspects of your life that are more important to you. They also help you take the emotion out of investing, which is often times difficult for individual investors to do.

For other Karpus insights, please see our website.

Sources: BlackRock, Bloomberg Finance, L>P., The U.S. census Bureau, The World Bank.

Index definitions: The S&P 500 Index is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalizations as of 12/31/2021. The MSCI All-Country World Index captures large and mid-cap representation across 23 Developed Markets and 25 Emerging Markets countries. With 2,966 constituents, the index covers approximately 85% of the global investable equity opportunity set as of 12/31/2021. The MSCI EAFE Index is an equity index which captures large and mid-cap representation across 21 Developed Markets countries around the world, excluding the US and Canada. Developed Markets countries in the MSCI EAFE Index include: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK. With 826 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country as of 5/31/2022.

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