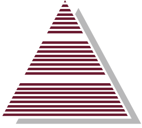

KARPUS
INVESTMENT
MANAGEMENT

COMMENTARY

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Investing in today's markets: Keep an eye on your destination

Anyone with investable assets is keenly aware of the challenges facing today's market environment. They are uncertain where stocks will go and they are unsure if bonds can help them get to their intended destination after negative performance in large part due to the abrupt rise in yields. They are also concerned about inflation and global economic growth prospects. With these and many other concerns at the forefront of investors' minds, the logical questions are: how and where should I invest my money?

To get to the answers, one could argue that stock valuations may be stretched or that economic growth may hamper companies revenue prospects if growth declines. They could also argue that bond yields may be near a short-term peak or that "higher for longer" will be the new norm. Acting on these types of thoughts in isolation though can be extremely dangerous to an investor's long-term financial well-being.

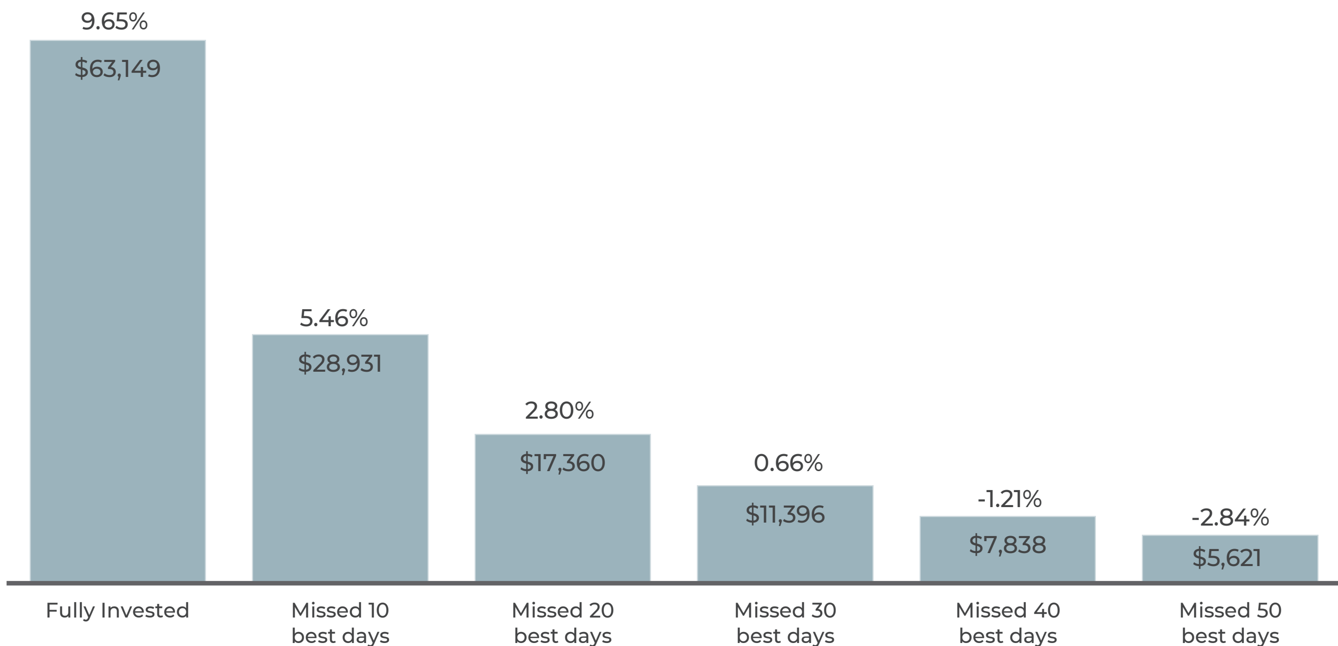
Indeed, numerous studies have been published showing the costs of market timing. The concept is simple. If you are not invested on the best days, you could lose out and the long-term implications could be very costly. While it has also been shown that if you missed the worst days, you could end up with a substantially larger amount of money than if you stayed invested all of the time, this strategy could hurt you long-term because of the question of when to reinvest into the market.

The bottom line is that market extremes are difficult, if not impossible, to predict. This is why investing must be approached as a *process* rather than an *event*.

Looking at stocks and bonds, each asset class serves a specific function within an investor's portfolio. Stocks offer the potential for growth and capital appreciation (and dividends where applicable). With the trade-off generally being higher volatility over shorter time horizons, over longer time frames volatility tends to get smoothed out, helping well-diversified investors minimize stock-specific pitfalls. With bonds, and especially bonds in a balanced portfolio, we believe it is essential to be mindful of fixed income investments' ability to: generate predicable income, provide diversification benefits to equities, and help preserve capital during periods of economic weakness.

With these simple concepts in mind, investors with varying time horizons and risk tolerance must focus on three key concepts: (1) extensively diversifying their portfolio; (2) thoughtfully setting an asset allocation based on their tolerance for risk; and (3) sticking to their plan. To be absolutely clear, we are not advocating in this article that investors cannot change their tolerance for risk over time. What we are trying to say is that by investing with a purpose and plan, we think that investors can better achieve their goals than they could by trying to speculate as to what may happen in the markets.

Returns of the S&P 500 Index
Performance of a $10,000 investment 9/30/2003 - 9/29/2023



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Following are a few items we think you should periodically review to help you stay on the right path:

1. Review your investment allocation. You should, at least annually, take a hard look at your overall asset allocation mix to assess the weightings you have in each. As you get older and your retirement approaches, in most cases you should take your foot off the gas pedal in equities and lean more into bond/fixed income securities. Yes, bonds have been volatile over the past few years with raising interest rates, but we believe they're still a prudent investment in a portfolio and can act as a ballast in times of equity market volatility. And, since interest rates have risen dramatically since the Fed began raising rates, we think that the go-forward returns on bonds can be attractive.

2. Review your long-term account performance. When evaluating your investment results, you should compare your performance against similar market benchmarks and/or other money managers to see how your results stack up. Are your results lagging over 4 or 5-year time periods or even longer? Do you even know what your results are? How has your portfolio performed in both bull and bear markets? If you don't know the answers, we think that asking your financial advisor these questions can be well worth your time. For instance, you may find out your account performance is lagging over long-term time periods and thus maybe a change is necessary based on what you may have expected.

3. Review your account beneficiaries on your various investment portfolios. From time to time, you should look at the beneficiaries listed on your individual retirement accounts, 401(k) accounts, etc. to make sure they're in-line with your estate wishes. Life changes quickly and beneficiaries listed on existing accounts might not always align with your original plan.

In a sentence, investors stay the course and rebalance their portfolios, while speculators try to guess the movements in the markets. Interestingly, the questions at the beginning of this article are the same questions that plague investors in both good times and bad. Not surprisingly then, the answer we would advocate is to approach your decisions in all environments with logic and continuity. If a particular asset or asset class feels overvalued and feels overly risky compared to how you thought it fit in your overall strategy, perhaps you should reassess that asset or asset class' weighting to realign with something more in tune with your expectations.

Very few (if any) individuals or investment managers will consistently be able to predict what equity markets will do or where interest rates will go. What a successful investor can count on is that the best recipe for achieving their goals is to thoughtfully establish a plan and only make changes based on changes in personal circumstances – not on attempts to time the markets. In this regard, today's markets are no different than others.

For other Karpus insights, please see our website.

Sources: Bloomberg Finance, L.P.

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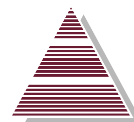

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