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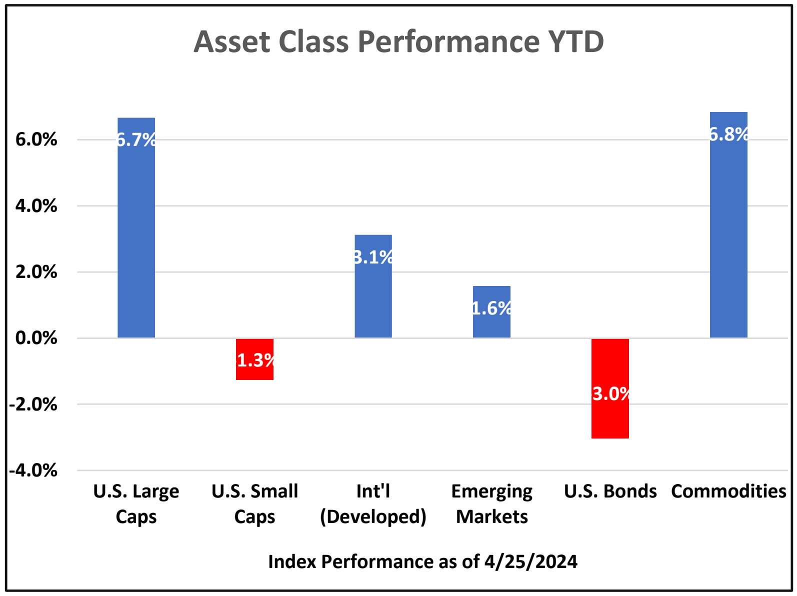
GR PROGRAM

Golden Rule Program Quarterly Review Q2 2024

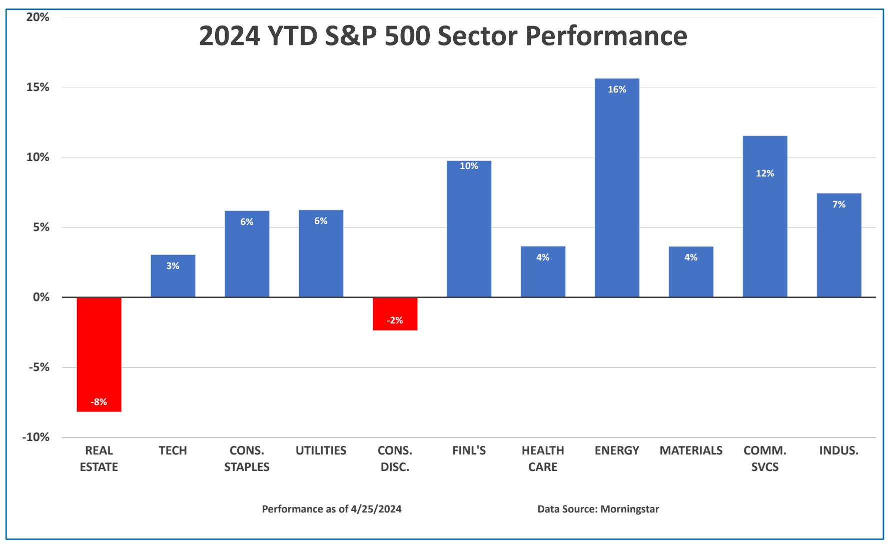
The GRP Quarterly Review is designed to keep you apprised of the markets and how your account is being managed.

Market Update

After a strong first quarter, the stock market has wobbled in the first weeks of April. The market had been assuming that the Federal Reserve Bank would lower interest rates several times starting early in the year. But expectations are falling, with rates cuts delayed, and the total number of cuts diminished. This is because inflation continues to run faster than expected, and lowering rates would likely exacerbate that problem. So, the Fed is delaying its cuts, and financial markets are responding negatively.



The graph at right shows results for several important asset classes. The results are mixed and muted. Large cap stocks have recently retreated but have still registered reasonable gains. However, small-cap stocks have posted losses. Strength in the U.S. dollar has dampened the results of foreign stocks (at least for U.S. investors). It is noteworthy that commodities have posted a strong gain, partially due to continuing inflation concerns. Gold and silver are both up more than 10%.



Although growth stocks have done slightly better than value stocks so far this year, technology stocks have sputtered, ahead only 3%. Energy is the best returning sector year to date, real estate the worst.

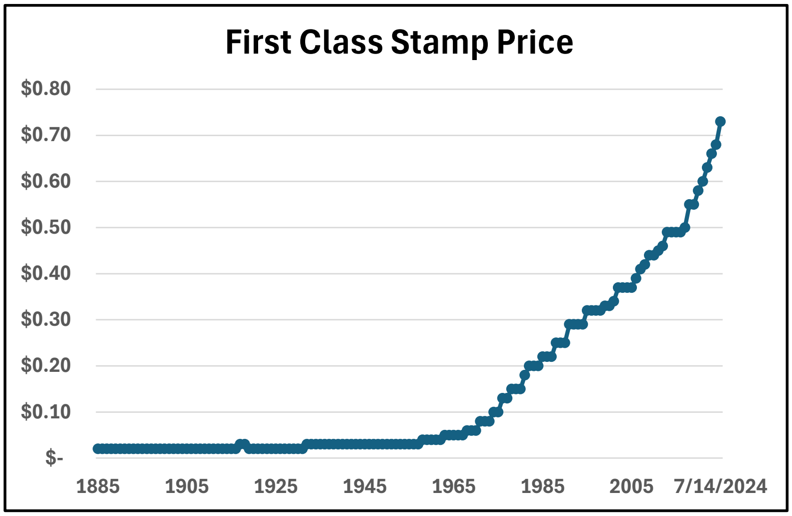
Bonds and Interest Rates

The Fed's delay in cutting interest rates has caused rates in general to rise. The 10-year rate started the year under 4.0% but is now above 4.7%. Rising rates are bad for bond prices, so this has caused the price of the aggregate U.S. bond index to slump about 3% so far in 2024. One of the important characteristics to understand with bonds is duration, or the period of time until the bond "comes due" and the issuer pays back the principal. The longer the duration, the higher the risk, since there is more time for something to go wrong and for the issuer not be able to pay back what it owes. Similarly, when rates change, longer-duration bonds are more heavily impacted. When rates go up, the price of a long-duration bond will be hurt more than that of a short duration bond, and vice versa. The average duration of the bond index is 6.1 years. While each GRP model is slightly different, the fixed-income allocation of the GRP portfolios has a lower duration (roughly 4 years), meaning that rising rates should hurt returns less.

It is worth noting that almost none of the fixed-income funds we use in the Golden Rule Program are passive products. Passive funds buy whatever investments are in the index they're tied to. We believe passive investing has significant merit when it comes to stocks. But with bonds, active management is usually better. The fixed-income market is less efficient, giving active managers a better opportunity to add value. Also, investing based on a market-weighted index has inherent problems in fixed income—it means buying more of corporations or other entities that are more indebted. While a growing stock price usually means a healthy company, rising debt does not.

A Guaranteed Investment Result 😊

One of the strictest rules in the investment management business is to never guarantee investment results, and for good reason. Over short periods of time, in particular, market prices are totally unpredictable. However, we do have a tongue-in-cheek investment that will return over 7% in just one day. In July the U.S. Postal Service is planning to raise first-class stamp prices to $.73. Stamps purchased for $.68 on July 13 will be worth $.73 on July 14. That's a one-day return of 7.3%. Load up!



Stamp prices do give an interesting example of the impact of inflation over an extended period. In the graph at right, we show the price of a first-class stamp from 1885 to 2024. You'll note that the price remained $.02 for 46 years (although it temporarily went to $.03 during World War I). For the 73 year period from 1885-1958, stamp prices advanced about 1% annually. From 1958-2018, the annual increase accelerated to 4.3%. Since 2018 prices have risen 6.6% annually. [We left out of the graph that stamp prices fell 67% between 1863 and 1885!] While most people can sustain inflation when it comes to postage stamps, overall inflation erodes nest eggs and showcases the importance of prudent investment mangement.

Quote of the Quarter: *"We ignore outlooks and forecasts… we're lousy at it and we admit it … everyone else is lousy too, but most people won't admit it." – Marty Whitman*

Fund Close Up

Many of the larger GRP portfolios have recently added an allocation to RCIRX, the Regan Total Return Income Fund. RCIRX is an example of an actively-managed bond fund which we believe can outperform passive alternatives. The fund is small and is able to focus its attention on one niche—residential mortgage-backed securities. We believe the portfolio managers of the fund have a very sophisticated knowledge of this specific market segment and are therefore able to take advantage of it. The firm's performance over the past ten years is impressive. It yields about 6.1% with a duration of just 2.5 years.

We thank you for investing in the Golden Rule Program. If you have questions, please direct them to your advisor.

Peter Hughes, CFA
President of LexAurum Advisors, Portfolio Manager of the Golden Rule Program.

Notes and Disclosures