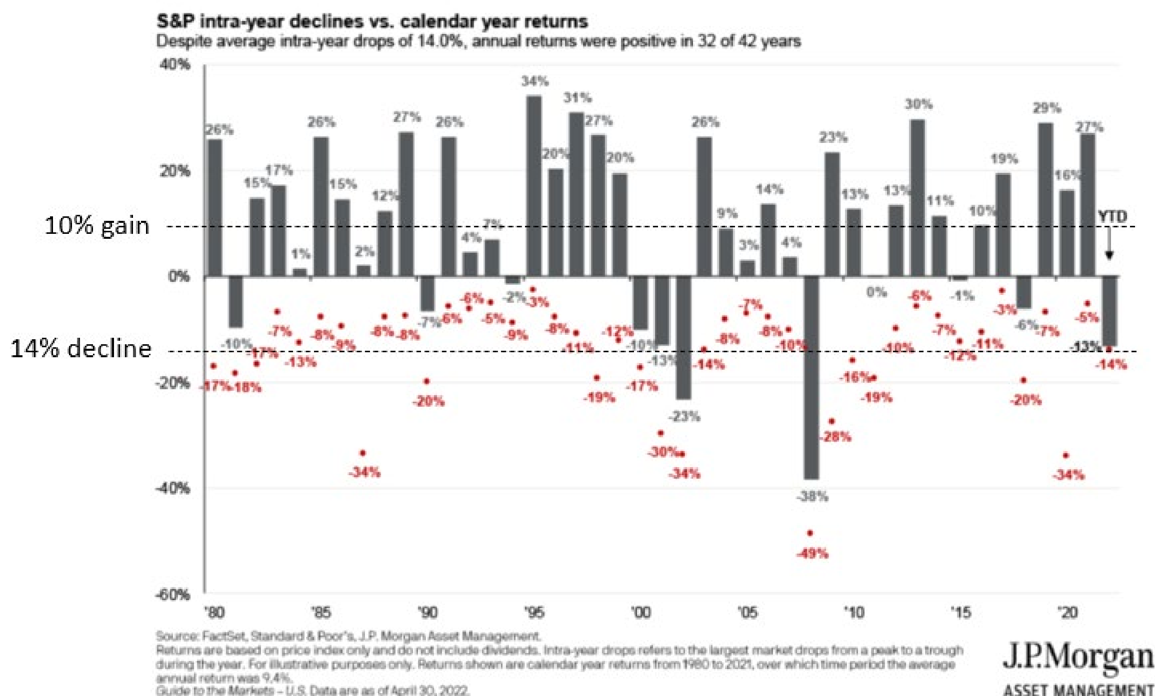
Alexis Investment Partners, LLC
Practical ✦ Tactical

There's a lot to worry about this year including the protracted war in Ukraine, COVID lockdowns in China, a broad range of supply chain disruptions, very high inflation, rising interest rates and a pending mid-term election. These are widely known, and we believe that much of the potential impact on growth is reflected in falling stock prices.

The S&P500 index has fallen approximately -18% from peak-to-trough through May 22, 2022. The Bloomberg Aggregate Bond Index dropped -10% as interest rates rose and a balanced portfolio of 60% stocks and 40% bonds fell -14%. The drop has been relentless, but not unprecedented. To put this in perspective, the bars on the chart below from JP Morgan show the annual gain or loss of the S&P500 index in each year from 1980 through the current year to date as of April 30, 2022. The red dot below each bar shows the maximum peak-to-trough decline in that year. The average intra-year drop during this 42-year period was -14%. There were 17 years with drops greater than -14% and despite that drop, stocks finished the year with a gain in 9 of those years. In fact, 7 of those years finished with a gain of 10% or more. In 1980, for example the S&P500 index fell -17% from peak but finished with a 26% gain.



According to an article by Tim Sablik, Federal Reserve Bank of Richmond, published on www.federalreservehistory.org, "Prior to the 2007-09 recession, the 1981-82 recession was the worst economic downturn in the United States since the Great Depression. Indeed, the nearly 11 percent unemployment rate reached late in 1982 remains the apex of the post-World War II era (Federal Reserve Bank of St. Louis)…Both the 1980 and 1981-82 recessions were triggered by tight monetary policy in an effort to fight mounting inflation."

I find this an interesting parallel to today's concerns; specifically high inflation, Fed tightening policy and concern about potential recession. The chart below shows the S&P500 performance between 1980 and 1983. Note that in each of the 3 calendar years 1980-1982 stocks faced an intra-year drop between -17% and -18%, yet 2 of the 3 years ended with very strong gains.

I wanted to show this as a chart so you could also see how quickly stocks recovered once each rebound began. This is one reason it can be dangerous to assume that one can sit on the sidelines and wait to reinvest after stocks stabilize. It can be easy to end up stuck on the sidelines – or worse, getting back in only to face another similar decline having missed the prior advance.

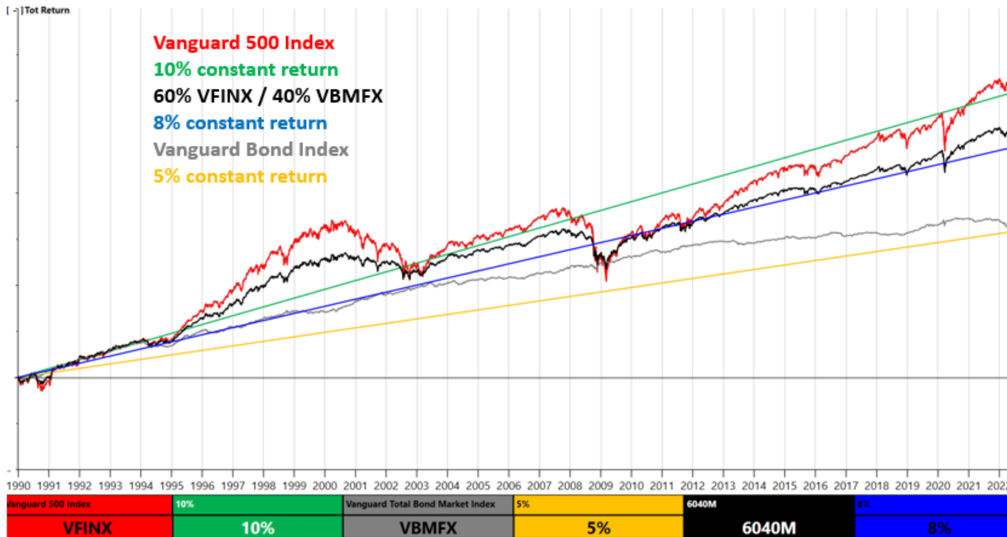
Pundits keep raising flags that if our economy is heading into recession stocks must face much deeper declines, yet the data they cite is heavily skewed by the generational bear markets of 2000-2003 and 2007-2009. As the chart above illustrates, recessionary bear markets aren't necessarily any more severe than what we've already experienced.

I would add that although stocks have priced in a risk of recession, this is not a foregone conclusion. My own base case is that the economy is slowing from red hot to a more sustainable rate of growth. As consumption continues to shift from goods to services and employment softens, inflation pressures may ebb late this summer. This may allow the Fed to tighten less than expected. This may be wishful thinking, but there are reasons to be optimistic as we work through this challenging period.

The chart below shows the trailing 5-year performance of the S&P500 index with its 200-day MA. This period includes the Fed induced -19% drop in 2018, the COVID meltdown and the current -19% "bear market". The annualized return was slightly over 12% per year (8% for a 60/40 balanced portfolio).

According to Factset, 95% of S&P500 companies have reported earnings and despite some disappointing misses, 77% beat expectations. Most acknowledged challenges related to inflation, supply chains and tight labor – but earnings are up almost 10% in the last year and as stocks have declined, valuations have improved considerably.

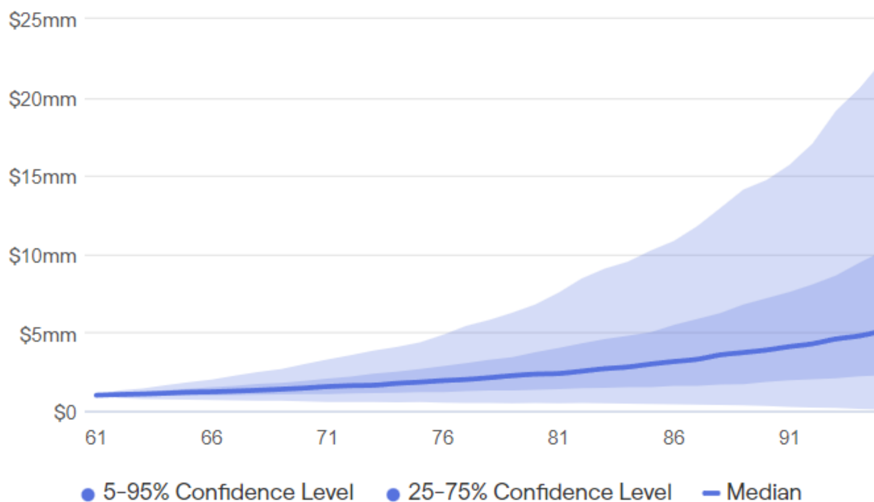
The chart below shows the 32 years from 1990-the current year-to-date. Over this period, stocks have earned approximately 10% per year, bonds have earned 5% per year and a balanced portfolio holding 60% stocks and 40% bonds earned about 8% per year. These results are the culmination of numerous up- and down-market cycles.



Source: Investors Fasttrack using Vanguard index mutual funds as proxies for stocks and bonds

Most retirement income plans are based on an assumed return between 6% and 8% annualized with volatility similar to the balanced portfolio shown above. Illustrations like the one shown below project a median outcome (dark blue line) based on withdrawing lifetime income and assuming long-term historical average performance. The shaded areas above and below are based on running hundreds of simulated hypothetical results and allowing for volatility using historical patterns and data. In down markets, it can be comforting to have a plan that allows for both good and bad outcomes.

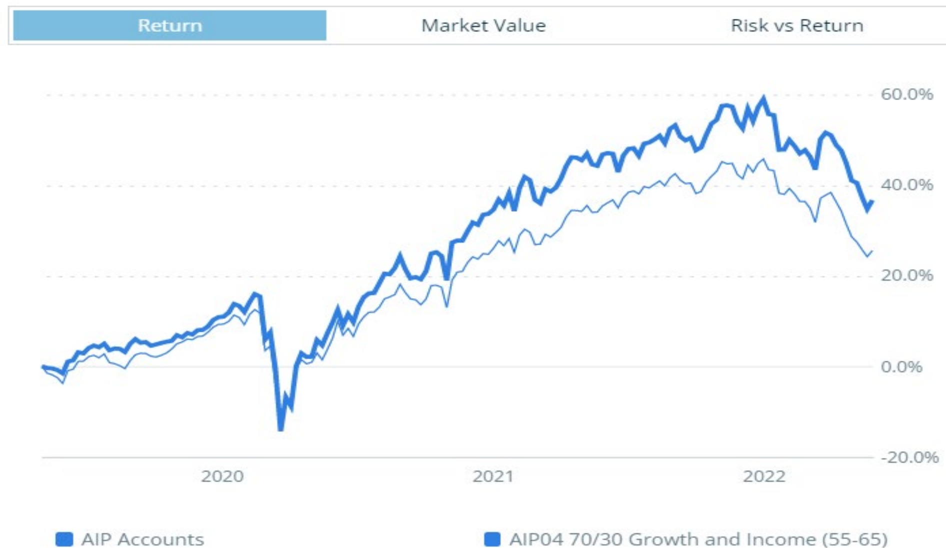
Asset simulation results of Proposed plan



Source: RightCapital, based on a hypothetical client

Although the above illustration is based only on an investment portfolio, retirement income plans factor in taxes, additional sources of income such as Social Security or rental properties, and expenses (both current and projected). This allows us to build in and model contingencies and create a game plan for a broad range of potential circumstances.

I'll close with a reminder that our goal at AIP is to participate less in declines than advances and therefore add value through full market cycles. It has been just over 3 years since we began operating as Alexis Investment Partners (under the Sowell umbrella beginning April 30, 2019 – and as our own RIA since May 2021). The chart below from Black Diamond shows a composite of all accounts in our core strategy (with a benchmark of 70% stocks and 30% bonds):



The annualized return from inception (4/30/2019 - 5/23/2022) of 10.7% net of all fees and expenses compares with a 7.7% return from our benchmark of 35% S&P500, 35% MSCI All World Index and 30% Bloomberg Aggregate Bond index. Although part of this is attributable to our investment selections, I attribute much of our excess return to the actions we took through COVID (incrementally adding exposure with the goal of greater participation in eventual recovery than in the decline). This increased our volatilty late in the COVID crash but also helped speed our recovery. We lost less than the benchmark so far in 2022 and have again used this as an opportunity to add equity exposure. The breadth of the decline also brought opportunities to make other portfolio improvements – again, our goal is to participate more in the eventual recovery than we did in the decline.

As we move forward, we plan to rebalance back closer to our benchmark allocation as stocks recover and will determine whether to assume a more defensive posture by monitoring trend patterns like the slope of the 200 day moving average, alongside our sentiment, monetary and other indicators. We'll continue to adapt to leadership changes independently from our asset allocation decisions, which may provide additional opportunities to manage risk and add value.

Individual portfolios are managed based on each client's goals, resources and preferences. Down markets like we are now enduring are a challenging but consistent part of long-term investing. It's nice when we can sidestep more of the decline but the most important factor in our long-term success is particpating at least as much in up markets as we do in periodic pullbacks. After recovery, we strongly encourage you to schedule a portfolio review so we can discuss both your performance and how you felt we managed both market volatility and communications in case we need to make any adjustments. We appreciate your confidence and are deeply commited to your long-term success.

Disclosures

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Composite performance is calculated on a time-weighted basis by Black Diamond software and is not audited. Returns for periods greater than 1-Year are annualized. Performance is net of all fees and expenses. There are 109 accounts represented in the composite that vary in size and start date. Since the inception of the Alexis Practical Tactical ETF (LEXI), several of these accounts invest significantly in that ETF. Benchmark performance is based on published indexes that do not incur fees and expenses. Investors cannot invest directly in an index.

	Current (4/30/2019 to 5/23/2022)		Most Recent Quarter End (4/30/2019 to 3/31/2022)	
	1-Year	Since Inception	1-Year	Since Inception
AIP Accounts	-5.2%	10.7%	8.1%	15.0%
70/30 Blended Benchmark*	-6.3%	7.7%	6.7%	11.7%

**70/30 Blended Benchmark is 35% S&P500 Index, 35% MSCI All Country World Index and 30% Bloomberg Aggregate Bond Index*

Rebalancing assets in a portfolio can have tax consequences. Selling assets in a taxable account may result in a taxable gain. Alexis Investment Partners, LLC. is neither a law firm nor a certified public accounting firm and no portion of this newsletter should be construed as legal or accounting advice.

From April 30, 2019, until Alexis Investment Partners, LLC registered with the SEC as an investment advisory firm in May 2021, Jason Browne offered advisory services using Alexis Investment Partners, LLC as a trade name through Sowell Management, LLC an SEC Registered Investment Adviser. Alexis Investment Partners, LLC and Sowell Management, LLC are independently owned and operated.

Advisory services are offered through Alexis Investment Partners, LLC; an investment advisory firm registered with the Securities and Exchange Commission.