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Issue 122 ***Winter Quarter, 2023***

We work as a team of advisors here at Woodard and Company to provide investment services to you. Unlike brokerage firms and some other advisory firms, we act together to manage your portfolio and assist in investment planning. Please note that as our client you may work with any individual you choose. However, we work as a team in the management of your assets. If the individual you regularly speak with is not available, any other member of the team can readily step up and assist you. We determine allocations and strategy for you with our investment committee and also keep careful notes in order to provide continuity and knowledge of your needs and specific circumstances. Our intent is to provide a seamless approach in order to enable any of us to provide the necessary assistance to you. So please don't ever hesitate to speak with any member of our team. We are all ready to help you.

Market Review and Forecast. Last year in our January newsletter we addressed the volatility inherent in mid-term election years. As you may have noticed, it occurred. We had hoped that corporate earnings growth would help sustain a positive close for the year, but that was not the case. It was a rough road for nearly all asset classes, with notable exceptions including energy, the U.S. Dollar, various agricultural commodities such as corn and soybeans, and a few miscellaneous minor foreign currencies which faired reasonably well. There were no financial asset classes with positive returns in 2022. None.

For 2023 we see a recession likely. We believe the Federal Reserve wants (needs) a recession. The Fed created the rapidly rising mortgage rates we have seen this year (mortgage rates rose from 2.5% to over 7% in 10 months). The Fed did this to cool the housing market. A recession would cool it down even further and would provide other benefits discussed below. When you are worried about losing your job in a recession, you don't buy a new house or borrow money.

Why did they need to cool housing? COLAs (cost of living adjustments) to Social Security and other transfer payments were costing the government too much and are primarily based on housing prices. Unlike in the 1980's when COLAs were adjusted to inflation based on food and energy, that calculation was changed in 1995 by the Boskin Commission to primarily reflect housing as the primary component for inflation calculations. They did this to mitigate the volatility of the inflation calculation and to pay less in Social Security to recipients. We had an 8.7% hike in Social Security for 2023, following a 5.7% hike for 2022. This was costing the U.S. Government too much in their opinion.

Furthermore, the Fed created the problem. They created the housing bubble with

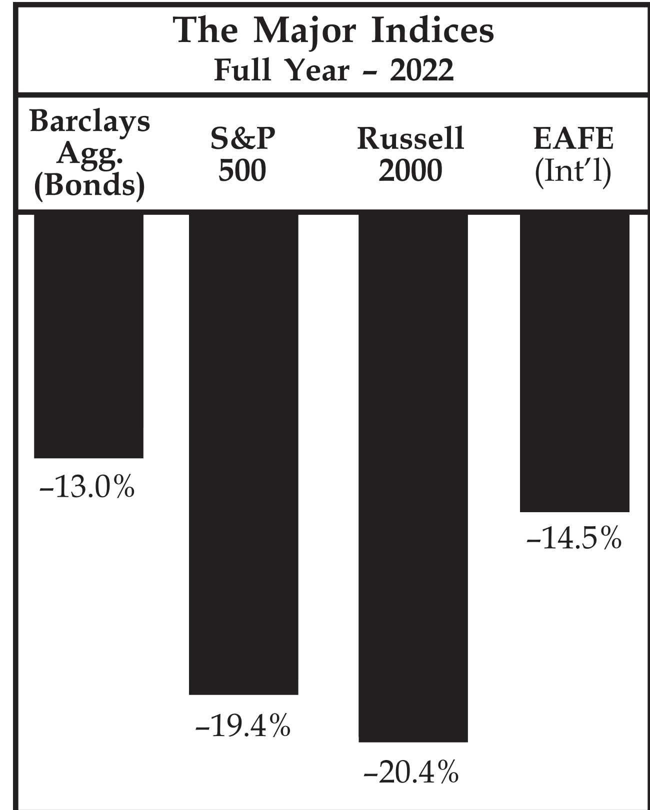
their 2009 Quantitative Easing program targeting 0% interest rates, and now they are collapsing it. Nice folks. On top of that, the national debt is now over $31 trillion. They do not want to pay a high rate of interest on the debt. The politicians want to borrow and spend, but they do not want to pay interest. A recession would cause declining interest rates, making the continuous refinancing of the debt a lower number as they continue to spend wildly and further reduce the housing boom in spite of declining interest rates.

What does this mean for the stock market? There likely will be a downturn in the early to middle part of the year and then a rise towards the end as an economic recovery is anticipated in 2024. We can't know the future but this is our best estimate. We see interest rates moving above 5% briefly and then declining in a recession.

Tactical Asset Allocation. Overall we are presently "style neutral" and target weight stocks. We were underweight stocks by 10% early in the quarter, but during the market downturn we went back to target weight. The S&P declined 19.44% for the year 2022, a miserable performance for the markets and the first negative year since 2018.

The reallocations we had made in late 2021 and early 2022 proved fortunate. We are aware the tax consequences were unfortunate, but our shift from growth/tech (S&P Growth Index down -30% for 2022) to value (S&P Value Index down -7.5%) was correct as was the shift to short bond maturities, giving us overall outperformance versus the indices. When you are in the market, you have to take what it gives you. It is good though when you can be mostly in the better places.

We were underweight bonds for much of the year. We used cash/money market funds as a proxy for bonds. Money market funds do not decline in value during rising interest rate periods. Their rate of interest fluctuates reflecting higher yields in that environment with stable principal. We stayed underweight bonds until the final Fed rate hike of the year in mid-December. Our average duration is currently around 4 years, but we are target weight bonds. When short-term Treasury rates rise above 5%, we will likely extend maturities as a recession would bring rates back down and longer maturity issues would rise in value. Due to inflationary pressure and changes in Fed policy this year, our allocation proved correct as the Bloomberg Bond Aggregate Index declined nearly 13% for the year, and we lost but little by comparison. To emphasize how badly longer maturities impact bonds in a rising rate environment, the 30-year Treasury bond was down nearly 35% YTD in early December (we had none of these bonds).



Market Leaders Stock Portfolio. It was a good year for our stock portfolio relative to the S&P 500. We were underweight

technology by design. That action along with our investments in energy, financials, defense, retail, and consumer nondurables were outstanding contributors to the relative outperformance. The defensive nature and high quality of this blue-chip portfolio furthermore contributed to the outperformance. Anticipating the slowing economy and earnings disappointments with a rising interest rate environment impacting technology, housing and other sectors, our allocation reflected that.

Furthermore, as with our Tactical Asset Allocation above, we were underweight stocks 5% early in the fourth quarter as the stock market declined and went back to target weight utilizing an ETF as we had difficulty locating a stock which we wanted in the asset sector we needed to target. The market increased back to the 200-day moving average as the quarter proceeded.

Interest Rates. 2022 saw the Federal Reserve begin their rate hiking cycle earlier in the year. In their December 2021 meeting they signaled plans to make three, separate, interest-rate increases over the course of 2022. However, as inflation marched on the warpath with the economy, they quickly moved into a more aggressive rate hiking mode. The Fed is continuing to hike as we enter in 2023 as they are bound and determined to crush inflation, something they casually ignored as "transitory" in 2021. In addition, their "balance sheet runoff," also known as "quantitative tightening," began in the spring of 2022 about the same time as the first-rate hike. As mentioned in previous newsletters, time will tell if the Fed is ahead of the "inflation bus" or about to get run over by it.

Inflation ended 2022 around 7.1%, after peaking last summer at 9.1% but up from over 6% a year earlier in November 2021. Consumer prices have increased at the fastest pace in 40 years. Savings have declined and consumer debt has increased as consumers try to combat the inflation attacking their household budgets. Wages were up 5.5% year over year in November of 2022, adding to the inflation problem.

The Bloomberg US Aggregate Bond Index finished with a negative return of -1.54% in 2021. Last year (2022) saw a much worse return with it finishing down 13%, one of its worst since the 1970's. The 10 Year Treasury began 2021 yielding .95% and ended 2021 yielding 1.51%. It ended 2022 yielding 3.8%. This rapid increase in rates put significant downside pressure on bond prices last year as mentioned previously.

Taxes. Taxable accounts (i.e., non-IRA/ retirement accounts) will receive a 1099 from Fidelity **which will show realized gains/ losse**s in your account. Since Fidelity may not have all cost basis information, they have what is termed "covered" and "not covered" assets. For example, they may or may not have the cost for the entire number of shares purchased, but may appear to report it as though they do.

The following is your decision. However, we would recommend that you consider asking your tax preparer to wait until March 15th to file your return. On occasion there are revisions to the 1099's after they are initially issued. The revisions have become fewer as the years pass but they still do occur. Unfortunately, we have on rare occasion seen data corrections even after March 15. Please understand that all of the financial institutions involved do their best to provide accurate data, but 1099's are generally sent by the end of January and unfortunately sometimes that data requires revision.

We are pleased to discuss your account tax information on your behalf with your tax preparer, we simply need your verbal authorization.

As always in the past when 1099's are issued, they are coded by the issuing firm; even if the code is wrong the custodial financial institution (in our case Fidelity) will not change or reissue the 1099. It is our understanding that all financial institutions are now essentially the same as they have gone to a more generalized coding system and will not correct and/or reissue the 1099. In order to change 1099 code instructions, the tax preparer must go to IRS.gov to get the IRS form to make the change.

Required minimum distributions (RMD). For those of you over 73 or those of you who have inherited a non-spousal IRA, you are aware of the RMD requirements for your Individual Retirement Account (IRA). The materials for this will go out to you in January. It will include a sheet that details your minimum distribution amount. It also enables you to instruct us the amount of tax withholding you wish us to implement on your behalf, and tell us when and in what manner it would be convenient for you to receive the distribution. The Federal penalty for not taking an RMD is 50% (that is in addition to the required taxes). If you have any questions or you would like a distribution before this material is available, please give us a call.

ADV Document. We are happy to provide you with a copy of our "ADV" which is our disclosure document that we file annually with the U.S. Securities and Exchange Commission (SEC). You can also view it on the SEC's website at www.sec.gov and there is a link to it on our website. We are also pleased to provide our confidentiality statement and code of ethics. If you wish to receive a copy let us know and we will mail you one.

Security transactions. You may wish to do a stock trade or other securities transaction in your account which we are pleased to implement for you; please however do not leave these transactions on our voicemail or email. Please speak with an individual; otherwise, the transaction may not be implemented in a timely fashion, if at all.

Non-Managed Assets. Many clients have brought in stocks, bonds, funds, and other assets that were purchased previously which they either do not wish to sell due to the tax implications or other reasons. We have placed these assets in a "non-bill" category to take into consideration these facts. We are pleased to facilitate custodial services and furthermore we are pleased to consult on these assets when requested for the convenience of our clients. However, we do not assume responsibility for tracking these assets or responding to news, mergers, events or information regarding these unmanaged assets.

Change in Objectives, Risk Tolerance, or Circumstances. Take a look at your current allocation; does it reflect your objectives, risk tolerance, and needs? Please let us know if your circumstances, needs, risk tolerance, or objectives shift which may have an impact on the way we manage your assets. We can and will respond to your needs by tailoring the allocation to meet your criteria. We look forward to hearing from you and discussing any issues that would relate to our management of your assets.

If you have any other questions about your account or any concerns, please give us a call at 336-998-7000. We always enjoy talking with our clients.

This newsletter represents the opinions of Woodard & Company which are subject to change and does not constitute a recommendation to purchase or sell any security. The information contained herein has been obtained from sources believed to be reliable but cannot be guaranteed for accuracy.