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THE AEGIS

Quarterly insights from your friends at Armor Investment Advisors

WOLFPACK ECONOMY

by Adam J. Morgan, CFA, CMT

Like an #11 seed playing their way into the Final Four, our economy has exceeded expectations so far in 2024. Go Pack!

Over the last few years, inflation has successfully eroded away at the confidence underlying our economy. The dramatic rise in interest rates that would soon follow inflation's lead called into question our economy's ability to handle the weight of higher borrowing costs on top of higher prices on goods and services. At some point, we lowered our expectations.

Over the last few months, the US economy has shown signs of strength that most did not believe possible this late into a monetary tightening cycle, me included. Advancements in artificial intelligence kicked off a buying frenzy that led to a broader rally in stocks that exceeded our lowered expectations.

When real world outcomes exceed the expectations currently baked into the market, prices rise. With that in mind, let's take a look at a chart (see page 2) that illustrates the growth in the market value of large company stocks in the United States over the last two hundred years of history.

How many times over this history do you suppose investors thought the market was over-valued or nearing a market top?

This chart is a log scale chart which in this case means that it does a good job of showing the long-term trend. The US

stock market has developed a very clear long-term trend of exceeding expectations and pushing higher. In fact, that's what it does.

Perhaps many of the things that investors are told to worry about today aren't things worth worrying about at all. I wonder what this same chart will look like two hundred years from today.

> "...our bout with inflation has felt like a really tough ACC regular season schedule."

In all fairness, what the log scale chart above doesn't show as well are the shorter-term periods that live between the all-time highs, the periods of time that convince us to lower our expectations in the first place. After all, before NC State could become the first team in college basketball history to lose fourteen games and still reach the Final Four, they had to lose fourteen games. To continue with this analogy, our bout with inflation has felt like a really tough ACC regular season schedule.

This all appears to be a cycle that recreates itself over and over again. In the short term, anything can happen and often does. In the long term, prices rise on the back of exceeded expectations.

This quarter saw the passing of Daniel Kahneman, 2002 Nobel Prize award recipient in Economic Sciences and pioneer in the field of Behavioral Economics. His theory around "Loss Aversion" may provide some insight into why we continuously fall into the trap of becoming too pessimistic. In his words, "loss aversion refers to the relative strength of two motives: we are driven more strongly to avoid losses than to achieve gains."

Look at it this way, the long run average rate of inflation in the US is roughly 3%. The long run average annual return on the US stock market is roughly 10%. So, on average, in the long run, you earn a 7% annual premium, or real return, for bearing the perceived risk of owning stocks.

Over the long term, the premium earned by owning a properly diversified portfolio of equities far exceeds the risk of ownership. In my opinion, all things considered, there's no better deal in the world available to investors who want to grow wealth in a relatively safe environment. But in the short-term, well that's where brackets get busted.

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In the short term, anything can happen. In the short term, there will always be enough investment risk to warrant an "equity risk premium". After all, we all know that at any time, the stock market could experience volatility such that it drops some amount exceeding 7%. In fact, it happens all the time. Ten percent market pullbacks are a fairly common occurrence in stock market history, yet so too are all-time highs.

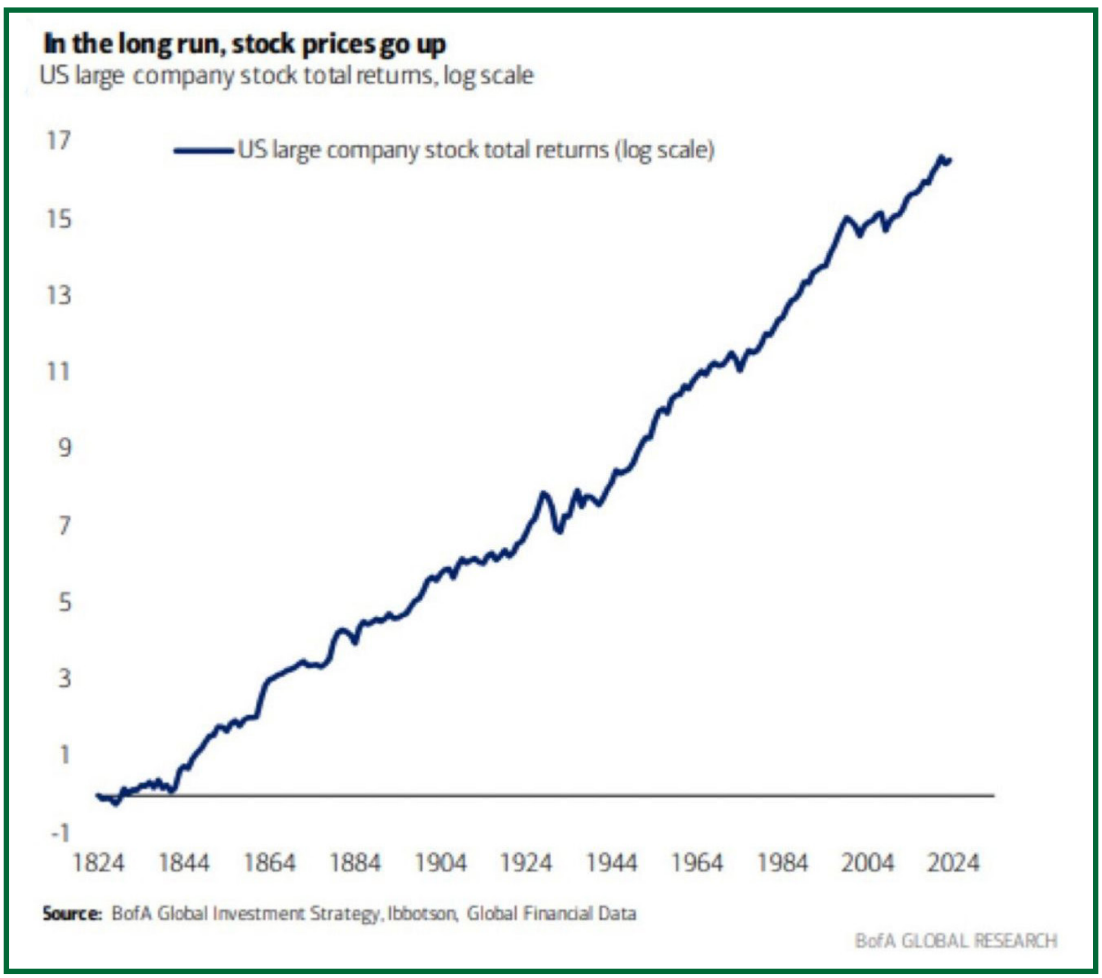
A review of our bout against this current era of inflation also serves to illustrate how easy it is to let psychology play a role in how we view the stock market. Inflation is measured as a period-over-period growth rate. As we enter the third consecutive year of above-trend inflation, that growth rate is compounding.

For example, the US experienced 6.9% inflation over the calendar year 2021, as measured by the Consumer Price Index (CPI). That growth rate is well above the Federal Reserve's target rate of 2%. We then experienced 6.5% inflation over the calendar year 2022 and yet another 3.2% in calendar year 2023. The rate of inflation came down quite a bit, but prices continue to rise at a rate greater than the historical trend and from already higher prices.

It appears logical to conclude that the stress on the American consumer would ultimately bring an end to the stock market rally, and it may still. However, the stock market is currently pricing in the kind of relief that Americans haven't yet felt and won't for some time. The market is a forward-looking entity that is already pricing in a few interest rate cuts at some point later in 2024 and into 2025 which is thought to ultimately provide the relief needed to justify higher prices in stocks.

Chasing the market is a game that is easy to lose. Here's our approach. If you have been through a rigorous financial planning process that is customized to reflect your lifestyle and time horizon, your investment manager should have all of the information they need to properly allocate more return to your long-term goals and less risk to your short-term needs. That is what allows you to capture the premium the market can offer without any additional undue risk to your total portfolio.

It is that same boring old asset allocation strategy that allows you to hold some allocation to risk assets while still bracing for the impact of short-term losses. After all, it is far more common for the #11 seed to lose early in the tournament, but it's a lot more fun when they don't.—*A. Morgan*



(Please see disclosures on page 4.)

ARMOR GIVES BACK

Last quarter we volunteered with the Food Bank of Central and Eastern North Carolina sorting and boxing 7,000 meals. The Food Bank has been an imperative program serving 34 counties in central and eastern North Carolina since 1980 by providing food to those in need and developing solutions to end hunger in our communities.

This quarter we are partnering with The Diaper Train by hosting a Diaper Drive through May 2nd. The Diaper Train provides diapers and wipes to families in need in Wake County. We extend an invitation for all to join us, as well as welcome any suggestions for volunteer initiatives you are passionate about. Reach out to Allison at amiller@armorinvestmentadvisors.com with suggestions for future events, requests to participate, or if you would like to donate to this cause.

INSURANCE REVIEW

by Matthew C. Miller, CFP®

Believe it or not, I try not to think about insurance too much on the weekends. Sometimes, though, life hands you a scenario that puts the article you were going to write on the backburner, and makes you think about risk. Not the game of strategy (Kamchatka, anyone?), but the possibility of something unpleasant or unplanned happening.

In our meetings with clients, the risk we think about most visually, and perhaps most often, is portfolio risk. All of our clients have seen pie charts along the efficient frontier, discussed optimal asset allocation (another way to talk about "risk management") and viewed personal asset class weightings on Armor reports in vivid color. This focus on and colorization of the concept of portfolio risk is an important -I would even say vital – part of how Armor communicates. Quantifying the art and science of portfolio management is a craft that may never be mastered anywhere, but I think we do it well here. There are, however, other risks…

A few weeks ago, I witnessed a "confused the accelerator for the brake" car accident that fortunately damaged only a stop sign and an empty building, but nearly took some bystanders out in the process. While the new-ish dad in me immediately started thinking about my own little one and all of the big-picture things we cannot control, the financial planner side of my brain couldn't help but think about insurance. Like fiber in a diet, insurance isn't the most exciting thing on anyone's plate, and you don't want too much of it, but its importance as part of a well-balanced financial plan is irrefutable.

> "Like fiber in a diet, insurance isn't the most exciting thing on anyone's plate, and you don't want too much of it, but its importance as part of a well-balanced financial plan is irrefutable."

As your net worth and the overall complexity of your financial life grow, the threat of "not having enough" can give way to the danger of "not protecting what you've got". Life, health, and disability insurance are a great place to start, but as careers and families take root, it is often wise to add more layers. P&C, or Property and Casualty insurance, is one place to make sure you are adequately covered. Auto, Home, and Umbrella policies often get set on autopilot and overlooked (sometimes for decades!) as lives and markets change. To make sure a short-term adverse event doesn't get in the way of your long-term goals, Armor is continuing to evolve how we look at protecting our clients.

To that end, we have partnered with a local independent Property and Casualty expert to help review and analyze current policies for opportunities to better protect or save. As always, Armor is only compensated by our clients, so that our advice is always aligned with your best interest.

We often remind our clients to let us know if their financial or personal circumstances have changed, and we mean it! Clients shouldn't hesitate to reach out to schedule a check-in or ask for an in-depth review of insurance, tax returns, or anything else on their mind.—*M. Miller*

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