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THE AEGIS

Quarterly insights from your friends at Armor Investment Advisors

SETTING THE STANDARD

by John Purrington, CFP®

After college, I was an early employee for a software company which produced software for tracking investments. I loved helping our clients, being part of building a successful company, and learning about a great profession. Many of our clients in the early 1990s were a new breed of financial advisors. They were 'fee-only' meaning that they received no commissions, were compensated only by their clients, and focused primarily on financial planning and holistic client wellness.

Thirty years later, it is hard to appreciate how radical a business model shift this was. It flipped the industry compensation model on its head. It put the buyer first, not the seller. It shifted the focus from transactions to relationships. It set a new standard for serving clients. And it inspired me.

By the mid-2000s, when it was time for me to leave the software world, I studied to become a financial planner and searched for a firm that embraced the fee-only business model because it was (and still is) the highest standard for serving clients. I was fortunate to find Walt Sheffield and Jeff Miller who shared my commitment to putting the client first.

In 2009, we introduced our Fiduciary Pledge to clearly articulate our Fiduciary Duty to our clients.

Armor's Fiduciary Pledge

- We will always put the clients best interests first, ahead of our own and those of our firm and its employees. We will always act as a fiduciary.
- We will act with prudence; that is, with the skill, care, diligence, and good judgment of a professional. When selecting investments, we will act as the client's agent, seeking the best investments at the best prices at all times.
- While neither we nor anyone can promise superior investment returns, we will provide impartial advice.
- We will always be truthful with our clients, providing full and fair disclosure of all important facts, including our compensation from all sources, as well as fees we pay to others on our client's behalf.
- We will always seek to avoid conflicts of interest. We will fully disclose any potential conflicts and place the client's interest first at all times.

A Fiduciary Duty is a legal concept which traces its history to English common law and Roman law. Simply put, a Fiduciary Standard of Care represents the highest level of care including a duty of care and a duty of loyalty. It is a **Principles Based** standard of conduct (as opposed to a **Rules Based** standard) meaning that a Fiduciary is bound to act in the best interest of his or her clients whether or not there is a specific regulation covering a situation.

In the last ten years, well-meaning regulations have narrowed the accepted definition of Fiduciary to be rules based and have watered down the 'duty of loyalty'. Over that time, I have written numerous articles bemoaning the misuse of the term 'Fiduciary'. But we continue to stick to our Pledge regardless of the changing definitions.

While a lowering of the standard has allowed more people to claim that they are acting as fiduciaries, Armor has followed the tradition of those early 'fee-only' firms and focused on elevating our standard of care and making meaningful differences in the lives of our clients.

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Because we are a boutique employee-owned firm dedicated to multigenerational relationships, we have committed to a longer 'business time horizon.' This commitment has allowed us to intentionally structure the business to be more client focused; to set a higher standard.

- We limit the number of clients with which each advisor works to well below the industry average. This allows us to focus on building deeper, longer-term relationships with our clients.
- We do not receive commissions or sales fees which might otherwise bias us towards short-term decisions against the client's best long-term interest.
- We have invested in talented young professionals who have enhanced our services and ensure that Armor will continue serving clients long after I retire.
- Through an annual meeting review process and quarterly financial planning focus areas, we have committed ourselves to true 'proactive planning' so that we can anticipate and plan ahead for client needs.
- We have leveraged partnerships with top firms in the industry to give us all the resources of larger firms while still remaining 100% independent and client focused.
- All of our financial planning and investment management is done in our office by professionals who know and work directly with our clients.
- We have committed ourselves to our Client Experience Pledge to articulate how we work to inspire trust in every client interaction.

Armor's Client Experience Pledge

It is our highest calling to earn our client's trust each and every day.

- Trust that we are always working in the best interest of our clients. Our business is built from the ground up to remove conflicts of interest; we are only paid by and report only to our clients.
- Trust that we are knowledgeable in our profession. With five CFP® Professionals, two CFA® Charterholders and a CPA and over 50 years of experience among us, we have a team uniquely qualified to work on the behalf of our clients.
- Trust that we will always take the time to listen to and understand a client's unique situation and to craft the best solution possible.
- Trust that we will deliver what we commit to deliver, every time and for years to come.

In an industry where it is sometimes hard to distinguish talk from action, we are committed to serving clients with the highest standard of care. We listen to our clients and will continue to innovate to raise the standard.—*J. Purrington*

PROTECTING PURCHASING POWER FOR SHORT-TERM SAVINGS

by Graham Shepherd, CFP®

When working with a client's financial plan, we first establish their goals, objectives, and values, as these will impact each decision around the financial advice we recommend. When — as is often the case — there are several goals competing for resources, we discuss prioritizing the goals and earmarking assets and investment strategies to each goal based on their respective time horizons. This approach of aligning accounts and investments with financial goals can be thought of as "bucketing". We create a "bucket" for each goal based on the time within which we need access to funds and select the appropriate investments accordingly. Consider the following.

(Please see disclosures on page 4.)

Short-Term "Bucket"
(capital needs 1-3 years in the future)

- Examples can include an impending down payment on a house or a car, an emergency fund, or a wedding.
- For investors with a short-term financial goal, the relative volatility of the stock and bond markets is generally inappropriate. We recommend one of the cash alternatives discussed below, or perhaps a Conservative investment strategy.

Intermediate-Term "Bucket"
(3-8 years)

- Examples can include upcoming education expenses.
- For investors with an intermediate-term financial goal, we often recommend a Moderately Conservative, Balanced, or Moderately Aggressive investment strategy.

Long-Term "Bucket"
(8+ years)

- For investors in their early and mid-career, retirement is often the prime example of a long-term financial goal.
- For those with a long-term financial goal, we often recommend a Moderately Aggressive or Aggressive investment strategy.

Through an evaluation of the investment time horizon and the thoughtful selection of investments, we seek the appropriate balance between protecting capital — by reducing investment volatility — and protecting purchasing power by increasing investment return.

Vehicles for Short-Term Savings

Between the Great Recession of 2007 and 2022, the interest rates you could earn from deposits in savings accounts, Certificates of Deposit (CDs), Money Market Funds, and short-duration government bonds such as T-Bills were paltry at best. Investors seeking yield were forced to make a compromise in terms of taking on additional risk in longer-term bonds, bonds with a lower credit quality, or in the stock market. The current interest rate environment, however, has renewed interest in these cash alternatives to keep capital available in a low-risk, liquid vehicle while earning a respectable yield. As of this writing, while core inflation is high enough to negate the interest rates of most bank accounts, some cash alternatives are now yielding rates that will allow one to "lose less" versus inflation than the typical low-yield savings account.

Generally, there is an inverse relationship between the liquidity of a cash alternative investment and the yield of the investment. In order of decreasing liquidity, some of these cash alternatives include:

Online Savings Accounts

- Often, online banks offer higher interest rates on savings accounts than those offered by traditional "brick-and-mortar" banks.
- You can typically access these funds within days.
- The Federal Deposit Insurance Corp. (FDIC) offers protection up to $250,000 per depositor, per FDIC-insured bank, per ownership category in the event the bank becomes insolvent. One way to ensure your bank is covered is by scrolling to the bottom of your bank's website to find the FDIC logo. If you maintain more than $250,000 in cash deposits, you can hold accounts at several banks to ensure all the deposit is covered.

Money Market Fund

- A money market fund (not to be confused with a money market account offered by banks and lending institutions) is essentially a mutual fund that is invested in US Treasury Bonds or other short-term low risk instruments to generate a modest yield while protecting the value of the investment.
- Money market funds are held in brokerage accounts and trade like mutual funds, and cash is available for transfer one business day following a sale.
- One important caveat is that money market funds are not bank deposits and are thus not insured by the FDIC. As such, while money market funds are considered generally safe investments due to their low-risk holdings, there is no absolute guarantee against loss in value.

Certificates of Deposit (CDs)

- CDs provide an interest payment in return for locking up a lump sum deposit for a period of time. CDs compensate for the reduced liquidity by paying generally higher interest rates than those found in traditional savings accounts.
- CDs with different maturities can be "laddered" to increase liquidity while mitigating risk of missing out on higher interest rates in future years.
- CDs purchased through FDIC member banks offer deposit protection similar to savings accounts.

T-Bills

- T-Bills are US government bonds which mature in terms ranging from four weeks to one year.
- Since they are debt obligations of the US government, T-bills are considered a virtually risk-free investment.

If you are able to sacrifice liquidity beyond the scope of T-Bills — especially for expenses anticipated more than a year or two in the future — a well-allocated investment portfolio consisting of the more conservative or stable asset classes may suffice.

If you foresee an upcoming large expense or are otherwise holding a significant cash balance, please reach out to your Armor team and we can help evaluate your options!—*G. Shepherd*

(Please see disclosures on page 4.)

FOUNDER'S CORNER: THE MORE THINGS CHANGE...

by Jeffrey R. Miller, CFA

The pundits keep calling for a recession. I decided to review the historical record of recessions to establish that I have lived through ten of them since birth. I was blissfully unaware of them until college. Now we wring our hands anxiously while awaiting the next economic implosion. This has been predicted as now, the end of this year, 2024, or whenever. Yet the economy remains strong and unemployment low. Welcome to the power of prediction. With the incredible growth of computer power and immensity of available data, we still can't get it right. Data is not knowledge.

The first half of this year has given us a strong recovery from last year's debacle. This year's winners are most concentrated in 20 stocks which represent the prior year's biggest losers, and vice versa. Until recently, gains have not been broadly shared across the markets. It has been a good first 6 months of the year,

though it doesn't feel like it. Wall Street is consistently telling us that markets are overvalued, the economy is sputtering and the Recession is just around the corner. This has been a confusing time.

Now we have Artificial Intelligence! ChatGPT will tell us what to expect if only we ask the right questions. Perhaps ChatGPT can give us the date of the economic contraction. Consider me skeptical. In any event markets have been on a roll and momentum may or may not keep this going. It is true that specific measures of market valuation are stretched and certain sectors are experiencing great difficulty, such as commercial real estate.

The economy has changed much over the past 40 years. Globalization has reversed, geopolitical friction is high and interest rates may be on the rise for the longer term as First World debt burdens are at decades-long highs. Whole economic sectors are being re-engineered due to innovation, and no longer experience simultaneous economic cycles. This is a process which will only accelerate. This is disconcerting to our million-year old ape-brains which find it difficult to adapt to a 24/7 news feed and social (antisocial?) media. It requires us as investors to **remain focused** on fundamental principles.

Stay diversified, manage risk, focus on the longer trends, because the more things change, the more they remain the same. Only faster.—*J. Miller*

ARMOR GIVES BACK

Last quarter we volunteered with Habitat for Humanity of Wake County building affordable housing. 1 in 4 families in our county are in need of a safe and affordable place to live. Without cost-effective housing options, folks are often forced to forego necessities like groceries, healthcare, and education.

Join us this quarter for our Armor Volunteer Day with Project CATCH through The Salvation Army on Friday, August 18. Project CATCH, Community Action Targeting Children who are Homeless, will be hosting a Back-to-School Event to provide school supplies for children in our community.

If you're unable to join us, we will have a collection box for Project CATCH in the office to take donations of pencils/pens, pencil boxes, binders, notebooks, notebook paper, crayons. Please drop-off donations by July 28, 2023.

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.

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