



Well, it has happened again! Another year has passed, and we have another year in front of us. I'm excited to tell you that we are going to start something new with this email. I'm going to call it the MAG Corner. I am going to cease sending out the quarterly newsletter and instead of that send you a monthly email. This email will be designed to discuss anything pertinent that I have to share about the economy, the portfolio, or other happenings at MAG. My goal is to have this out within the first 15 days of each month.

Today, I want to share with you that we have recently gone through the portfolio with a fine-toothed comb, and we are in the process of making a few changes. We are going to be dropping a couple of the current holdings and adding several more holdings to further diversify the core portfolio. We're going to be reducing the BDC (business development companies) exposure by 5%. We had moved more into BDC's at the end of COVID. We did this by reducing the REIT (real estate investment trust) exposure and moving those dollars to BDC's. We thought real estate was going to be a problem and interest rates had to go higher. As you will remember, BDC's give us interest rate hedging. We believed interest rates would go up and therefore benefit from having more in the BDC's at that time. This proved to be more true than I ever expected. The market was down 30% at one point last year and we were only down 10%! A large part of that was because the BDCs proved to be very strong performers during that time. Now that interest rates are higher and the overall climate is different, it's time to readjust our strategy with an eye on what we think the future is going to hold.

We think that hard times are on the horizon, and we are always adjusting our core portfolio to put us in the best possible position to handle what we think is coming. So, what are our concerns, you might ask? I don't want to get overly technical but simply put, we've always ended up in a significant recession after we get an inverted yield curve. This is where short-term interest rates are higher than long-term rates. Short-term rates should generally be less than long-term rates, as you would expect, but there are times when short-term rates are higher than long-term rates and this is called an inverted yield curve. Historically speaking, going back to 1955, this has happened 8 times and 7 of those were followed by a significant recession. We do not believe this time will be different. Each time this has happened you would see the market initially drop (last year) but then it would go on a run, as it did recently. After this is when you would see a significant drop in the market as the recession gets serious and becomes fully mature. The problem is that there's a lag effect of raising the interest rates. It generally takes 6 months to a year to feel each one, and this time they raised them faster than we've ever seen before in the history of this country. We fully believe that the lag effect is going to catch up, and if you're sitting in common stocks, you are most likely going to get hit pretty hard. Fortunately, that is not where or how we are invested. Because of these concerns, we have reduced our exposure to BDC's by 5% and we have

transitioned that money into more conservative holdings within the portfolio.

I would like to make you aware that, even with all our best efforts to minimize it, I think that volatility could impact our portfolio this year, but to a lesser degree than the overall market as it did last year in the market. We think in June the FED will likely start lowering interest rates to help a shattered market and economy. The problem will be that the damage of raising rates so fast and holding them high for too long will be done, and the lowering of rates will take some time (possibly a few years) to repair the damage. What does this mean? My imperfect crystal ball indicates we will be facing volatility in the near future, and the market is going to trade sideways for some time. I don't expect much growth from the common stock market for some time. Even recently the market made a new high but it's important to remember the high was made almost three years ago. We think the market will trade sideways like this for a while. This is perfectly fine for us. As you will always want to remember, we are not in growth selling off assets with losses for the purpose of income. Instead, our constant interest and dividends have us always buying. Volatility helps us buy assets on sale and this drives the yields higher. This means growing the incomes faster and this is always a good thing. Last year's yields were some of the highest we've ever had in the 15 years we've been managing the portfolio. Again, this means our incomes are growing faster than normal because we're able to buy assets on sale. The FED says they are shooting for a so-called soft landing. They have never accomplished that in the past, and I don't believe they're going to accomplish it this time. They kept the rates too low for too long and we will be paying for that as we already have to some degree. We think companies are going to struggle with lower profit margins and therefore we are watching the portfolio very closely and doing some slight rearrangements to strengthen our core portfolio and try to obtain the highest safest yield that we can for our clients. We meet every week for strategy sessions to be sure we are on top of any potential changes in the market.

All this being said, don't be surprised when you see significant market volatility later this year. Our portfolio tends to have about a third of the market volatility of common stocks. I believe anyone in a growth model, not an income model like we're in, will really struggle. Those in retirement needing income in a growth model where there's no income coming in, will most likely get hurt the most. They will be forced to sell off assets at losses to maintain their lifestyle.

I will end this by reminding you, as I did when COVID dropped our balances significantly, that the chickens got skinnier, but they kept laying their eggs and everybody was to keep moving forward just like they were. We're always about eating the egg and leaving the chicken alone and/or not selling the land but eating the crops. When we can take our egg money or crop money and buy assets at a discounted price, or simply put "on sale," it actually helps us to achieve our income goals. As always, please let us know if you need anything. We are here for you.

Greg Melia
President
Melia Advisory Group
918-794-9290