THOUGHTS FOR THE WEEK

PREPARE FOR THE UNEXPECTED

June 28, 2024

As we glide into summer, things look pretty sunny, at least in the investment world. Bond prices have been relatively stable – the bond market is about flat for the year (as measured by the Bloomberg U.S. Aggregate), but up from a selloff earlier this spring; and stock market returns have been positive – the S&P 500 is +15.4%, and international stocks (as measured by the MSCI EAFE) are +5.4%. (all returns sourced from Bloomberg, as of 6/21/2024). The recession many forecasters thought would arrive sometime in 2023 never occurred, and there is little sign today of a US recession on the horizon.

Alas, we were flipping through Seth Klarman's book, "Margin of Safety", over the weekend, and were reminded that things can change, quickly. From Seth: *"Things that have never happened before are bound to occur with some regularity. You must always be prepared for the unexpected, including sudden, sharp, downward swings in markets and the economy. Whatever adverse scenario you can contemplate, reality can be worse."* Seth is a highly regarded investor, founder of the Baupost Group in Boston, and Margin of Safety has become somewhat of a rare, cult classic, out of print; a used copy is currently available on Amazon for $1,800. Klarman's thoughts have been an inspiration to how we manage investment portfolios on behalf of clients. He's a professional worrier, and so are we. To be clear, there is nothing we are acutely worried about today. But that can change. Quickly.

So, a good time to run through a contingency checklist, on both the planning and investment fronts.

Starting with planning, it's easy to put off today what you can (might?) do tomorrow. But you don't know for sure what tomorrow will bring. So here are few questions to consider, should the unexpected occur:

- Do I have a will in place?
- Do I have health care directives and financial powers of attorney established, so others may act on my behalf if I'm incapacitated?
- Are my assets held in single name, joint name, or trust? Should that change?
- Are my IRA or retirement plan beneficiaries set up the way I want them?
- Does my will and / or trust reflect my current wishes? When were they last updated?
- If I have young children, do I have a line of guardianship established?
- What is my expense overhead? How much is discretionary vs non-discretionary? Is my family's lifestyle covered if something happens to me?

Turning to the investment side of the ledger:

- Am I prepared to ride out a steep downturn in the economy and markets? Would anything have to change?
- What does my liquidity look like if that occurred? Would I be a forced seller of assets? Do I have enough cash and short-term investments to see me through an extended downturn?
- Am I comfortable with any leverage I'm carrying? What would happen if the value of the assets supporting that leverage declined -30%? Declined -50%? Would I have to sell assets?
- Am I comfortable with the illiquid assets I own if a downturn occurs? What percentage of my total assets do they represent? Am I prepared for that to increase during a downturn? If I have capital commitments for private investments, how would I meet those?
- Are my assets diversified or concentrated? If concentrated, am I comfortable with that concentration?

You're probably thinking, "These are some of the last questions I want to tackle over the summer." We don't blame you, not much on this list can be considered "fun". Most of it calls for planning for bad stuff: your demise; or a tornado raking your balance sheet. And you can never fully prepare, as none of us can ever predict every scenario that might arise, nor how each scenario might affect subsequent events. Moreover, there are rarely simple "right" answers - most decisions involve a series of trade-offs.

Nonetheless, a relatively small investment of time and thought can pay rich dividends. And we're here to help. We already think through many of these questions on your behalf, and we routinely engage in conversations to surface these questions. But if you're feeling unsure, anxious, or simply want to review what you already have in place, let's talk. 4th of July is upcoming, and summer will be in full force. Take a serving of worry off your plate, and deposit it on ours. And enjoy a beautiful summer.

Mike, Cate, Scott, Willis, Suzy, Oscar and Wes

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Awards:

2024 Barron's Top 250 Private Wealth Management Teams
Source: barrons.com (Awarded May 2024) Data compiled by Barron's for the period Jan 2023-Dec 2023.

2024 Forbes Best-In-State Wealth Management Teams
Source: Forbes.com (Awarded Jan 2024) Data compiled by SHOOK Research LLC based on time period from 3/31/22-3/31/23.

Mike Burbank | **2019-2020 & 2022-2024 Forbes Best-In-State Wealth Advisors**
Source: Forbes.com (Awarded 2019-2020 & 2022-2024). Data compiled by SHOOK Research LLC based 12-month time period concluding in June of year prior to the issuance of the award.

Mike Burbank | **2017-2024 Barron's Top 1,200 Financial Advisors: State-by-State** (formerly referred to as Barron's Top 1,000 Financial Advisors: State-by-State)
Source: Barrons.com (Awarded 2017-2024). Data compiled by Barron's based on 12-month period concluding in Sept of the year prior to the issuance of the award.

Mike Burbank | **2013-2020 Financial Times 400 Top Financial Advisors**
Source: ft.com. Data compiled by the Financial Times based the following time periods:
Awarded 2013-2020; data 12/31/12 - 6/30/19
Awards Disclosures

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Any type of continuous or periodic investment plan does not assure a profit and does not protect against loss in declining markets. Since such a plan involves continuous investment in securities regardless of fluctuating price levels of such securities, the investor should consider his financial ability to continue his purchases through periods of low-price levels.

S&P 500 Index is an unmanaged, market value-weighted index of 500 stocks generally representative of the broad stock market. An investment cannot be made directly in a market index.

The MSCI Europe, Australia, Far East (MSCI EAFE) Index is a capitalization-weighted index that tracks the total return of common stocks in 21 developed-market countries within Europe, Australia and the Far East. An investment cannot be made directly in a market index.

The US Bloomberg US Aggregate Index covers the dollar-denominated investment-grade fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS pass-through securities, asset-backed securities, and commercial mortgage-based securities. These major sectors are subdivided into more specific sub-indices that are calculated and published on an ongoing basis. Total return comprises price appreciation/depreciation and income as a percentage of the original investment. This index is rebalanced monthly by market capitalization. An investment cannot be made directly in a market index.

Bonds rated below investment grade may have speculative characteristics and present significant risks beyond those of other securities, including greater credit risk and price volatility in the secondary market. Investors should be careful to consider these risks alongside their individual circumstances, objectives, and risk tolerance before investing in high-yield bonds. High yield bonds should comprise only a limited portion of a balanced portfolio.

Bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally, the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which is the risk that the issuer will redeem the debt at its option, fully or partially, before the scheduled maturity date. The market value of debt instruments may fluctuate, and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer.

Bonds are subject to the credit risk of the issuer. This is the risk that the issuer might be unable to make interest and/or principal payments on a timely basis. Bonds are also subject to reinvestment risk, which is the risk that principal and/or interest payments from a given investment may be reinvested at a lower interest rate.