

# BROKERAGESELECT NEWSLETTER

## Taxes

The RMD age has been extended to 73. You should consult your tax advisor to see if delaying your RMD is right for you.

## Money Market Funds

Investors seeking yield have been moving money out of banks and into money market funds. These are generally safe but there are nuances and risks. There are three main types. Prime is the riskiest. Government invests in US Treasury and agency debt securities and Municipal invests in short term debt issued by state and local governments and are tax-exempt.

## Callable

When buying broker CD's, or bonds, investors need to be aware of call features that allow issuers to pay off the security early. Yields are typically higher on callable instruments but the higher return will not last if they are called away.

## Perspectives

Earnings season is well underway and by most measures, companies are exceeding expectations. According to FactSet, with 92% of S&P 500 companies reporting, 78% reported better than expected profits and 75% had revenue numbers that beat expectations. Overall, companies did well despite inflation and concerns about the economy. Earnings in the 1st quarter were down just 2.5% from the previous quarter. Seemingly, businesses were able to increase prices and mostly pass on higher costs to consumers. The consumer staples, healthcare and technology sectors were the most resilient. Utilities and materials, both economically sensitive, were the source of most of the disappointments. Quarterly earnings reports are backward-looking. So far, of the companies providing guidance for the 2nd quarter, 50 companies issued a negative outlook while 37 said that their numbers will be higher. This is not upbeat. Analysts, per FactSet, are forecasting the 2nd quarter to post a 6.3% decline in earnings. Stocks can go up even if earnings decline but to do so there needs to be an expectation that things will get better and that interest rates will decline. Interest rates are important because lower rates increase the value of assets. The market is not cheap. The forward price-to-earnings ratio for the S&P500 is 18. This is slightly below the 5-year average but above the 10-year average. Stocks may be fairly priced and within the bounds of average but the stock market is not trading at bargain prices. Undoubtedly, we will be talking about AI (Artificial Intelligence) a lot. It is the new darling topic on Wall Street. The financial news can't get enough stories out and companies love to talk about it even if the use case is unknown. The fear of missing out is powerful and market capital will flow to these companies. Not all that glitters is gold. Investors need to be cautious and prudent and not get carried away. Remember pets.com?

## Out Of The Box

My career in business and investing began in the wake of the early



"Of all the markets, in all the world, you had to walk into mine."

## Something Else

Congratulations to all of the soon-to-be high school and college graduates. Cheers to their families as well. Getting a good education is not easy and should be a lifetime endeavor. Graduations are an important milestone and a symbol of a job well done!

"An investment in knowledge pays the best interest." - Benjamin Franklin

*BrokerageSelect is a boutique securities broker-dealer that sets itself apart by providing expert knowledge and dedicated service to our clients.*

*BrokerageSelect  
364 West 117th Street Suite 5A  
New York, NY 10026  
877-301-1550 (v)*

*[www.BrokerageSelect.com](http://www.BrokerageSelect.com)*

1990's Savings & Loan crisis. About 1,000 banks failed during the turmoil. The next big banking crisis came in 2008-2009 when the industry rode the sub-prime mortgage and collateralized debt train off a cliff. In March of this year, the third banking upheaval I've experienced began. This time the unstable business model of Silicon Valley Bancshares (SVB) exposed the challenges banks have been facing since the Federal Reserve began hiking interest rates to combat inflation. The history of banking is, to a large extent, a history of booms and busts. A particularly favorable environment leads to over-extending and bad practices that eventually unravel. This is followed by a period of caution and retreat until conditions create the set up for the next round of boom to be surely followed by bust. Each crisis is different but there are always rhymes and echos of past troubled periods. Today, like the Savings & Loan Crisis, the banks find themselves in a situation where borrowing (deposit) costs rapidly rose while the rates earned on the bank assets did not keep up. This is different than in 2008-2009 when loans went bad. In fact, credit quality today is, so far, very good. Further, the problems today are not in shaky under-collateralized loans but rather in the bank's highest grade government securities portfolios. The increase in rates has caused significant paper-losses in these high quality investments. However, over time the banks will likely get paid the full amount. Higher interest rates posed another problem. Banks were slow to raise the rates they were paying depositors. Steadily depositors have been taking money out of the banks and putting the funds in US Treasuries and money market funds. SVB saw more outflows than usual and needed to sell their securities to cover the withdrawals. The paper losses became real ones. This spooked the depositors and an old fashion "bank run" occurred. Shareholders sold their bank stocks and a full blown crisis of confidence took hold. It takes time to re-build confidence. When the dust settles there will be opportunities. In a panic everything goes down, the bad and the good. Those who can find the bargains will likely experience outsized returns as banking stabilizes. As the under-water securities pay off, banks can re-invest the proceeds into higher yielding loans and securities thus helping profitability. As long as loans don't go bad, the banks can recover. There's a lot of worry about commercial real estate. Some banks will have significant issues there but many will not. The case for careful valuation and stock selection is back.

*This newsletter is for informational and educational purposes. The thoughts expressed are not specific recommendations. Readers should consult their financial, legal and/or tax advisor(s) before making investment decisions. Before purchasing a mutual fund, investors should read the fund's prospectus. Investors should understand the risks before purchasing an investment. BrokerageSelect only conducts business in jurisdictions where it is registered to do so.*