INVESTMENT
UPDATE

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WEALTH MANAGEMENT
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December 2022

DAD, ARE WE ALMOST THERE YET???

It's hard to believe that my children Leo and Tessa are now both in High School, but for me that all too familiar road trip expression still rings in my ears. For those of you with young children this is something you're likely to hear ad nauseum at regular intervals on the snowy ride (at least around Chicago) to Grandma and Grandpa's house. With my "babies" growing up, trust me and enjoy the fleeting moment!

The same can likewise be said of our volatile market this year—is this roller coaster ride almost over? As of November 23 the Dow Jones has returned -6.16%, the NYSE Composite -9.8%, and the S&P 500 and NASDAQ Composite bringing in the rear returning -16.0% and a whopping -28.6% respectively!

As mentioned before, almost entirely due to rising interest rates, bonds have performed poorly returning -12.5% via the Bloomberg U.S. Aggregate Bond Index. They certainly have not been the safe haven they often are in times of broader market duress. So much for diversification this year. The traditional 60/40 portfolio (portfolios allocating 60% to stocks and 40% to bonds) has gotten clobbered, with Bank of America reporting that this widely used strategy was down 32% through mid-October, its worst return in 100 years.

Market performance has thankfully improved since then, and for the moment at any rate, stocks are having a strong fourth quarter, relieving some of the pain. Investors have been betting in recent weeks the Fed will "pivot" to a lowering of interest rates sooner rather than later. They are bolstered by the latest inflation measure coming in better (0.2%) than expected and see this continuing. In my view (and I use emphasis as we've had healthy debate amongst all of our managers) inflation needs to come down faster (more than just a couple of a tenths of percent on an annualized basis) for the Fed to make a change, which is most likely to happen with a recession taming inflation. Hence, we should beware to look for signs of layoffs and squeezes on profit margins (I cite recent examples in Amazon, Twitter, Meta, and as of today HP).

For my two cents, I agree with the consensus that the Fed will raise interest rates at least 50 and maybe even 75 basis points in early December. Thereafter it's anyone's guess. While recently some Fed governors have hinted at a reduction in the size of future hikes, I'll leave that for economists to debate but what appears almost certain to me is that there are multiple hikes ahead of us as we look into the New Year and beyond. In short, I am willing to bet that December will not be the last rate hike.

So why is this even significant? What does it mean for you and your portfolio? Well, I believe it gets back to our original question—when will we be "there" and when will this all finally be over? Over the past 50 years, there has been a historical relationship between Fed policy and the return of the S&P 500 with no bear market finding a bottom prior to the last Fed rate hike.

Could this time be different? Absolutely. But the point is that whether the market retests its lows or not is less certain—but I believe what is more certain is that we are not out of the woods yet and it is too soon to say the worst is behind us (or that it is all up from here). I believe we are still headed for more volatility over the next 6 to 9 months at the very least, as we learn if we head into recession to tame inflation (as I expect) and we see how deep that recession is.

In parting I would remind everyone that this is normal—that economies sometimes contract and markets don't always go up. In general, staying the course is the best, albeit sometimes painful, option. While the reprieve has been welcome, this is the time of year where we review all portfolios for tax loss harvesting and individual asset allocations going into the New Year. While we have no crystal ball, rest assured we will conduct our review with a mindset of caution and prudence for the

(continued on page 3)

BOND MARKET TRADING EXPLAINED

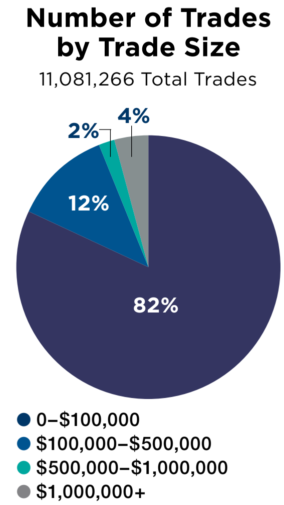
In a year when interest rates have soared higher and bond trading has increased dramatically, I thought it would be insightful to examine the intricacies of fixed income trading.

The practice of buying or selling shares of a stock is relatively simple. You can quickly check the price of a stock on a listed exchange and execute at that level through a broker. Conversely, bond trading is accomplished mostly in an over-the-counter market and not on a listed exchange. This is due to the vastly greater number of issuers (over 50,000 different municipal and corporate entities versus 6,366 listed stocks) and the infrequent trading of many issuers' bonds.

The primary market is where new bond issuance occurs. Corporations will hire investment banks to advise, price and place their debt at the lowest interest cost to them for an underwriting fee. Similarly, states and municipalities issue debt in this fashion but mostly take advantage of a competitive bidding process. Through a competitive sale, any financial firm or bank can bid to purchase the debt with the issue being awarded to the bidder that offers the lowest net interest cost to the issuer. This debt will then be priced with a markup and sold to investors.

The secondary market is where trading of existing bonds occurs and it is enlightening to examine this process. If an investor needs to sell an existing bond holding, they will most likely put the bond "out for bid" through a broker to ascertain the best possible price. Every trading day there are a few thousand "bids wanted" for bonds investors might consider selling. This auction-based market is where bond traders place bids on issues they feel are attractive in quality and yield to their client base. Many of the issues out for bid do not result in a trade due to the seller not liking the bid price, or perhaps putting out multiple positions with the need to only sell one or two.

This auction process provides the majority of secondary offers available along with sell orders that can be traded if a specific offer price is received. All bonds trade with a markup/markdown spread. If a dealer believes it can offer and sell a bond at 102, it will bid a lower price and look to profit on the difference. Romano Wealth is actively engaged in this process in order to obtain better pricing on bonds. In acting as the middle man, our time and capital commitment often allows us to secure bond positions at better prices and yields for our clients. This market is vast and year to date there have been over 11 million secondary municipal trades with the majority in par amounts of less than $100,000.



Corporate bond issues are typically larger in size (500 million and higher) than the majority of municipal bond issues. The increased size of issuance can lead to more frequent trading and additional transparency with active bid and offer prices similar to stocks. Recently, a $500 million issue of Abbott Labs 3.875% bonds maturing in 2025 were offered at a purchase price of 99.06, while the bid price was $98.35 (price received if selling). We have developed strong relationships with market making dealers as well as having inside market access through multiple electronic trading platforms. These tools allow us to get between market quotes in order to provide better pricing for our clients, even after markups are considered.

The market for US treasury securities is very efficient and offers similar liquidity and spreads to listed stocks. Therefore, Romano clients who participate in our managed account program (92% of clients) enjoy commission free treasury and equity trades.

I am wishing a safe and happy holiday season to all of you and your loved ones.

Doug Geisser
VP Fixed Income Principal

Actual Bid Wanted Screen

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2880-1	**100**	**593237FE5**	MIAMI BEACH FLA REDEV AGY TAX REV REF BDS A	**FL**	**5,000**	**12/01/26**	**C 24@ 100**	**A1/**	**A**	**11/29/22**	**11:30 1:30PM**

Dad *(continued)*

aforementioned reasons.

It has been a wonderful year of celebration and joy to have you alongside us for our 60th anniversary. If you haven't already, please check out our video on our website as you may even see a familiar face or two.

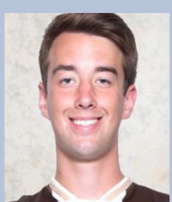
Best to you and your family for the Holidays and I'm sure I speak for all of us when I say we look forward to 2023!

Joe Romano
PRESIDENT

ROMANO NEWS

Romano Intern Experience a Positive One

Declan Chhay Vickers and Tommy Zipprich took part in internships with Romano during the past year.



While a student Beacon Academy Montessori High School, Declan sat with most members of the firm, learning basic financial analysis and the macroeconomic factors that impact markets.

Culminating his time with us, Declan made a firm-wide stock presentation on Haliburton, presenting his case for why the stock made sense in a mock client portfolio. According to Declan and his parents, the internship with Romano was the 'pinnacle of his high school experience'. What kind praise! We wish him well during his first year at Wabash College, a liberal arts college of 900 students on 65-acres in Indiana.

Tommy Zipprich is a Division I soccer player studying business at Lehigh University in Pennsylvania. He spent time at Romano learning about our proprietary stock screen model and also built a hypothetical balanced portfolio that he continues to monitor while back east.

With plans to major in finance, Tommy enjoyed both the hands-on software and database experience as well as getting his feet wet picking some stocks for his mock portfolio. It's safe to say he's converted a few new Patriot League Soccer fans around the office. Good luck Mountain Hawks!

Romano Welcomes Laurie Koniarski

Romano is pleased to have proud, retired United State Air Force Veteran Laurie Koniarski in a operations role within the firm. Laurie's years in the service began as an enlisted Airman in 1981 in Communications and Computer Systems, rising through the ranks to eventually take command of the entire unit. Laurie retired honorably as Major in 1999, to spend time with her children and take a role within RE/MAX.

We are proud to have a decorated veteran as part of the team. At Romano, Laurie will spend her days aiding Chief Operating Officer Eric Bederman and Valerie Romano in the operations department. In her spare time, Laurie continues her commitment to serve by offering support to the Veteran community. She is a life-long member of the Illinois National Guard Association, United States National Guard Association, Military Officer's Association, American Legion member, and has recently become the Evanston Post 42 Charitable Foundation Secretary. Welcome aboard, Laurie!

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THE ROMANO REDBIRDS END UP ON TOP

Romano was proud to sponsor a team of 1st and 2nd graders for the Evanston Baseball and Softball Association this year. Though no official scores were kept, a player who wished to remain anonymous reported, “We won every single game....except for two which were probably ties!” Let’s keep that same positive mentality heading into the coming new year.