INVESTMENT UPDATE

ROMANO BROTHERS & CO. WEALTH MANAGEMENT

Protecting Your Prosperity. Securing Your Future. Since 1962.

Member FINRA/SIPC

September 2023

ALL EYES (REMAIN) FIXED ON THE FED

In reference to the Spring newsletter, I simply added the parenthesized words to my old title, signifying the ongoing battle between inflation and the Federal Reserve's efforts to combat it through rate increases. The Fed has made four 0.25% increases this year, the most recent arriving this past July 26th. The federal funds rate now stands at 5.25%-5.50%, the highest level in 22 years.

Stocks have mostly been in rebound mode for most of 2023 with the S&P 500 still up 14% YTD (through 8/18/23) even despite the Fed rate increases. This was driven mainly by declining inflation, which while still a good distance from the central bank's 2% target, has made marked progress since peaking above 9% in June 2022. Technology stocks, after being pulverized in 2022, have led the rebound in 2023 and got a further boost late this Spring from the AI craze (dare I even mention this stands for Artificial Intelligence?).

GDP gains have averaged above 2% this year and employment growth has been slow but robust (the unemployment rate sits at 3.5%), leading to the pervasive market sentiment for almost the entire 2nd quarter that a "soft landing" was within reach (i.e. that the Fed could raise rates and quell inflation without tipping the economy into recession).

But there has been a sharp change in sentiment since the beginning of August, with the S&P down 5% through the month's first three weeks. After the release of the latest Fed meeting minutes, there seems to be a fresh realization that rates could stay higher for longer despite some initial forecasts and hopes of cuts in 2024. Factors prompting this outlook are that economic growth is still so strong that it may lead to more persistent or "sticky" inflation, making it more difficult to get to the Fed target, thereby necessitating higher rates for longer or possibly even more increases. Some analysts have even gone so far as to say that a 5% rate environment could be the "new normal", just as the 0% rate environment was for the last 15 years.

In a new twist, longer term rates have been on the move as bond investors digest higher government deficits and a downgrade by Fitch. The 10-year treasury recently hit 4.35%, its highest level since 2007. This also means that bonds are now a very interesting alternative to stocks for the first time in 15 years, which could be an additional headwind for equities if these rates persist or continue to rise. We are now starting to see bonds with yields of 6%!

In last year's holiday newsletter I said it was conceivable that at least 6 to 9 months of volatility was ahead of us. Hard landing or soft landing, the market and investors often oscillate back and forth until the verdict is in since the jury is still out on the ultimate outcome. Dick Romano discusses this in more detail inside, but "doom and gloom" and "rose colored stock projections" are a dime a dozen at any time in the market, so it is more important to be aware of volatility and create diversified portfolios which are reviewed at regular intervals.

To that point, the traditional 60% stock/40% bond portfolio had its worst year in 50 years last year as it got crushed -15.6% due to sharp declines in both stocks and fixed income prices in the face of steep rate increases. This year that portfolio is up over 7% which still lags the year-to-date performance of the S&P 500. However, the diversification benefit of a 60/40 portfolio has led to annualized returns of 9.4% over the past 50 years. That's only slightly behind the S&P 500's 10.9% return, but it carries far less risk.

All of us here will continue to vigilantly and prudently manage your family's savings with an eye towards diversification, lower volatility, and a long-term outlook—i.e. a steady hand. Once again, thank you for your partnership and your trust and confidence in us.

Warmest Regards,

Joe Romano, PRESIDENT

MY OWN INVESTMENT OBJECTIVES

Politics is probably the only topic about which there is more speculation, prognostication, and opinion than investments. The media is rampant with reports and predictions about economics, interest rates and stock market movements. We are bombarded daily with such reports. Experts abound on radio, TV, newspapers, podcasts, all of them telling us why or how it happened or telling us the next move.

Howard Marks, long-time respected author and investment manager, in his book *The Most Important Thing* observes that some economists and market strategists get it right some of the time, and they get great notoriety. But very few get it right consistently. We constantly hear and read about the market strategist that correctly predicted the course of a market, but chances are very high that he will miss the next major change of direction. On any day stock prices are the result of thousands of individual decisions to buy or sell, and in the short term the aggregate of these actions is unpredictable.

Markets are extremely volatile as demonstrated by just a few examples. Short term interest rates have increased from approximately one percent to over five percent in about 15 months – a historically rapid change. The Dow Jones Average has a variation from low to high of 31.1% in the last 12 months through August 11. Over the same time span, the Standard and Poor's 500 stock index has fluctuated 32.0% and the Nasdaq Composite Index has varied 43.2%. This is enormous volatility, and trillions of dollars are traded annually speculating on these price changes, but little evidence that more than a very few are consistently 'winning'.

So, what are average investors who are trying to act prudently to do? We believe that the best course of action is to think about their own circumstances and to set their own intermediate and long-term objectives. We believe that they should review what has worked well for them considering their own risk tolerance, cash income needs, retirement needs, tax bracket, family situation, estate concerns, etc. Once investors have considered these issues with the help of a qualified professional, together they are ready to embark on an investment program.

Romano Wealth Management is now 62 years old, and we have helped many hundreds of clients conceive and manage their investments, always with the long-term view and in concert with their own investment goals. We are here to help clients clearly establish their investment goals and strategies and invest accordingly. The key is that every client is a bit different from the next one, and each should clearly understand where they are headed. If you haven't recently reviewed your investment goals with your advisor, I urge you to do so soon.

Richard C. Romano
FOUNDER AND CHAIRMAN

RWM EYES $2 BILLION IN ASSETS UNDER MANAGEMENT

Just as we manage your money like our money, **we** are growing because **YOU** are growing! The firm now oversees in excess of $1.5 billion and the next milestone is right around the corner!

We are so grateful for your trust and confidence in us and thank you for your partnership over many, many years. We want to remind you that we are growing and we'd like to enlist your help continuing to do so!

Our ask is simply this: please take just a few minutes and think about why or how you and your family came into our family here at RWM. How did you hear about us? Who introduced you?

What were you hoping to change or accomplish?

What do you like most about our services and your relationships here?

Now, who might have a need now that is similar to yours when you first came on board? Who might value what you value be it a friend, family member, neighbor or co-worker?

The point is, ours is a referral business and we are just not very good (or comfortable) at asking for them. To the many of you who have made introductions, we thank you once again. And to those of you who might know someone we should know, your Portfolio Manager will gladly follow your lead and within your comfort zone.

You always come first. Thank you for being a RWM Ambassador!

ROMANO NEWS

DOUBLE THE DIAPERS, DOUBLE THE FUN

On June 24th, nine-year RWM employee Peter Hemwall and his wife Holly (a former employee herself) welcomed baby boy Robert "Bobby" McCoy Hemwall at 7 pounds, 12 ounces and 20 inches long. Bobby joins big brother Will and is the grandson of former RWM employee Rick Hemwall.

The entire office celebrated Peter, Valerie Romano Larson and husband Brett (with a combined 25-years of service to RWM) at a June baby shower. Just in time to make the newsletter deadline, Valerie gave birth to Annabella Delaney Larson on August 29th at 8 pounds, 4 ounces and 21 inches long. We're all eager to welcome the newest generation of extended Romano family to the fold.

BEST WISHES TO OMAR HAQ

We bid both cheerio and "see you soon" to nine-year Romano employee Omar Haq. Omar will continue working in the same capacity for Romano, albeit from London to be near his wife Amira's family and to capitalize on educational opportunities for his two young children.

If you work closely with Omar, expect no change as he is keeping US hours and traveling back to Evanston often. We wish him and his family well on their big move across the pond!

WELCOME ABOARD KIM CARTER

Romano is pleased to welcome Kim Carter as a sales assistant to our Portfolio Managers. Her background in account management for Xerox Corporation and teaching lend themselves to her new role assisting RWM clients. Kim graduated from DePauw University where she majored in English Composition and earned her Master of Arts in Teaching from National-Louis University.

Kim has lived in Evanston for 30 years where she has raised two daughters, Annie and Rachel. She lives in South Evanston with her dog Daisy. Kim can often be found practicing yoga, paddle boarding at Dempster Beach or walking along the lakefront with friends. She is certified in Radiant Child Yoga and holds her 200-Hour Yoga Certification. She is currently preparing to take the S.I.E. & Series 7 certifications. Welcome to RWM Kim!

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CONGRATULATIONS!

PLEASE JOIN US IN CONGRATULATING DEB CROSS ON 20 YEARS WITH ROMANO

Deb is celebrating two decades of employment with RWM in October. Deb joined the firm in 2003 after serving as an investment executive for National Securities Corporation. Certainly, Deb's long time clients appreciate her loyalty and sharp wit. To quote Deb, "I am sincerely grateful for the strong relationships and countless friendships formed over the years helping my clients, and appreciate working alongside my Romano colleagues in a team-oriented environment each day."

Please send Deb a note to commemorate this milestone. Thank you, Deb. Here's to 20 more!