INVESTMENT
UPDATE

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December 2023

TAKING A LOOK UNDER THE HOOD OF THE STOCK MARKET

Through this writing (November 14) the S&P 500 is up 15% year to date. This is a welcome reprieve, especially coming off the 18% drop in the S&P last year. But overall, this has been a tough year for the wider stock market. Many other investment professionals share this view and it is being widely discussed in the financial media.

So what gives? The S&P has 500 components, so isn't it a broader index and the perfect yardstick? Like so many things yes—and no. While the S&P 500 is the most commonly used measure of equity performance, the truth is there is no perfect benchmark.

The S&P 500 is constructed by measuring the performance of each of the 500 companies in the index and then weighting each based on its market capitalization. In its simplest terms, size matters. This means that at times the few of the largest companies can mask the performance of the many in the index. This year has been one of those times, as a group of seven or eight mega-cap technology related names have had an average 88% return this year through October 24, and due to their immense size they have pulled the S&P 500 Index return higher with them.

But this has also hidden the weakness experienced in almost every other corner aside from these handful of large and heavily weighted tech performers. One other common factor is the "breadth" or "participation" of the market. To use an automotive reference, by looking under the hood we see a much different picture.

Another index that has garnered attention as of late is the S&P 500 Equal Weighted Index. Instead of weighting the performance of companies by size as described above, it simply averages the performance of all of the 500 individual companies in the S&P. So while the S&P 500 was up 11% through 10/24, it's equal weighted counterpart was actually down 3% over the same period, a vastly different result. Even broader indices like the Russell 2000 fared worse and were down 5%. CNBC ran an article yesterday entitled "Stock Picker's Nightmare" citing the small number of stocks participating in the rally and warning of the possibility of a swift decline if one of the market leaders falters. Who knows?

Note that I am not suggesting that the conventional S&P 500 is an irrelevant benchmark and should be disregarded. Nor am I saying we should use a moving benchmark that makes our portfolio appear in the best light. I am simply saying that no one benchmark is perfect and at times a look under the hood is warranted. This is one such time.

Switching gears slightly, the market continues to be volatile since our last note around Labor Day. As mentioned in previous letters, the Fed's posture in regards to interest rates and inflation continues to rule the day. With speculation on those two factors, it's been the bond market that has stolen the show. Doug Geisser will focus more on recent rate action inside, but in this fourth quarter we have been busy reviewing portfolios and specifically asset allocation. Where commensurate with client goals, we are trying to lock in the higher rate environment by purchasing high credit bonds now that there is an alternative to equities.

We wish you and your family a joyful Holiday Season and the best in 2024!

Joe Romano
PRESIDENT

FIXED INCOME UPDATE

In 2022, fixed income investment performance went down as one of the worst in history. So far 2023 has been an encore performance with longer term interest rates reaching multi decade highs further depressing existing bond prices. The Bloomberg aggregate bond index declined 13% in 2022 and is slightly negative year to date.

When interest rates rise, existing bond prices will fall. Ten-year treasury yields have risen from a low of 0.50% in 2020 to a high of nearly 5% in 2023. This move has decreased the price of ten-year bonds purchased between 2020 and 2022 by 8% to 23%.

Loss of value in fixed income investments never has to be realized if a bond is held to maturity. Investors do realize an opportunity cost when rates rise if they are holding older issues at lower rates. However, we ladder maturities in our customized client bond portfolios, which will allow for the reinvestment of principal at higher rates.

10 Year Treasury Bond Yield (percent, daily)

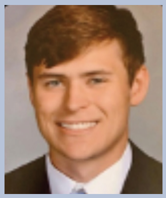
As contradictory as it sounds, rising interest rates are making fixed income investments more appealing. The major stock market indices have annualized returns ranging from 6.5% to 7.25% since December, 1999. Having the ability to lock in guaranteed returns of 5% to 6% in high quality bonds is an attractive alternative that hasn't existed for years.

Where does the bond market go from here? A generation of investors has become accustomed to low rates and used the excess liquidity created to bid up stock prices. Today, interest rates are actually closer to historical levels. It wasn't normal to have a 0% Fed Funds rate in the U.S. and negative interest rate policies in Europe. These policies inflated other asset prices and required investors to shift funds into these other sectors in search of a return.

In the near term, I expect to see interest rates staying near these more normal levels. Futures markets are predicting Fed Rate cuts beginning by the middle of 2024 due to a slowing economy. Futures are not predicting the Funds rate will go back to 0% but potential cuts to 3% levels by 2026. It's important to keep in mind that economic conditions can vary, and the Fed's approach to monetary policy depends on the prevailing circumstances. For twenty years prior to the 2008 financial crisis, the Fed Funds rate fluctuated between 3% and 5% under similar economic conditions we have today. This should lead to similar future policies unless the economy experiences a major setback.

Doug Geisser
VP Fixed Income Principal

ROMANO NEWS



Please join us in welcoming our new Associate Portfolio Manager, Kyle Munson, to the Romano Wealth Management Team. Kyle has been working with customers as a financial consultant and financial services representative since his graduation in May 2019. He graduated from the University of Illinois Urbana-Champaign with a Finance in Agribusiness Bachelor of Science Degree. Kyle also has received his Securities Industry Essentials (SIE) License, Series 7 and Series 66 Licenses. During his free time Kyle enjoys water sports, basketball, football, golf and bowling. Welcome to the team, Kyle!

Romano Staff attend The Evanston MashUp

The Evanston Chamber of Commerce's largest fundraiser of the year, hosted by The AutoBarn. E-Town restaurants, breweries, bakeries, cafés and distilleries had booths for tastings. (left to right: Scott Miller, Laurie Koniarski, Joe Romano, Kim Carter, Valerie Romano (Incoming Board President), Brett Larson & Peter Hemwall)

A CONVERSATION WITH RICHARD ROMANO

by Kim Carter

The following contains excerpts from our interview. Here, Dick offers some sage advice to younger generations about using time to their advantage and the need to put an investment plan in place at an early age.

KC: What are the top three pieces of advice you would give to a young adult such as your grandson Leo, who is just beginning his financial journey?

RR: That's an interesting question because being up in years and having seen the change in young people's behavior compared to what it was when I was a young person, I think it comes down to a couple of things.

Number one, manage your spending. I think that young people are quick to get themselves indebted and they don't understand completely and emotionally that these debts need to be repaid. They are spending future income by spending it now.

The corollary to that is managing debt. Debt is very expensive. On a credit card you may be paying close to 20 percent on that debt.

The third is to save and invest some of your earnings. This is critical.

In the investment business, time is either your enemy or your friend.

If you make it your friend, your savings can compound over a period of time. And, it will grow very nicely, not always consistently because markets aren't always consistent, but over the long-term history has shown your investments will grow over time.

Time is your enemy if you don't have that savings and investment program in place and all of a sudden you are sixty years old; you are four or five years away from retirement, and you say, goodness gracious, I don't have any retirement funds other than what I make after my company savings plan. **You don't have the time to accumulate that wealth and let it compound. So now, you're up against it. Time is now a problem.** That's an important message that I emphasize with young people all the time.

KC: In the last 35 years, we've had the stock market crash of 1987, the mortgage meltdown in 2007 and the panic of the pandemic. In financially trying times such as these, how do you advise your clients?

RR: ***Investing is a long-term process. It's not to be done on a short-term basis***. I can tell you that if the number of people that are successful trading the daily stock market over a long period of time is not zero, then it's close to zero. The reason is that markets are volatile and unpredictable. You might be right today and you might be right five times in a row but there is going to be a time you are going to be wrong. And if you are trying to speculate in the market, that one time you are wrong can be disastrous.

Dick's father (Joe Romano) pictured with his grandchildren instilling yet another life lesson on the ice and teaching them "how to fish."

KC: So, Dick, it seems like having a long-term mindset is similar to using time as your friend.

RR: That's exactly right. ***The question then comes down to whether you have the right time frame in mind and be firm in what you are trying to do. People lose sight of volatility.*** We just don't know what is in the mind of the investor.

Here's another point to consider using Tesla as an example. If you go back one year and look at the trading of Tesla, it trades at about 150,000,000 shares a day. The average price of that share over the year is about 200 dollars a share. ***That's $30 billion dollars a day that's trading in that stock. Now this is not mom and pop trading, these are large speculators playing this game, trying to beat each other.*** You might be right on this particular move but you are going to be wrong on another move and it may be a costly one.

You have to constantly keep in your mind, what am I trying to do in my investment program? If I take a long-term investment approach, my attitude is more conservative and over a period of time, I'll be fine.

KC: Could you tell a story of your most memorable experience that you will never forget?

RR: I wish I could tell you about a wonderful investment success. Of course, we've had those…I think one of the most memorable events is something that occurred about 30 years ago. We had a very wealthy client who died and the estate taxes on her account were $37 million dollars. The check to pay the IRS was written out of our account: $37 million dollars. ***What impacted me is what a bite the government can take out of your wealth and that has stayed with me all of these years.***

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ROMANO HAPPENINGS

Welcome Baby Annabella

Brett Larson & Valerie Romano welcomed Annabella Delaney Larson on August 29, 2023. She weighed 8 pounds 7 oz. and was 21 inches long. (Annabella pictured at 11 weeks)

Beacon Academy Visits Romano

A group of Beacon Academy High School Students met with Joe Romano to explore different career opportunities. During their session, they learned about the workings of Wall Street and the investment industry. Joe was impressed with their thoughtful questions and beautifully written thank you notes.

"Thank you so much for the amazing and educational experience that you provided for my class. It was incredibly inspirational and you taught me so much about the stock market, investing, client assets, and about the relationship between the client and consultant." –J

"I could tell you really care about what you do since you think of your clients like family and truly want to help people out with their money. Your business really has a warm and friendly environment you said you strive for." –Y.

"This business is genuinely based on helping and creating comfort and trust in the clients, which really stuck out to me and is not always common in the financial world...I am so grateful for this meeting as it opened my eyes to many new possibilities and perspectives, especially for the future." –E.S.