

# NAPLES GLOBAL ADVISORS

“ **Volatility is a fee, not a fine.** ”  
 - Morgan Housel, *The Psychology of Money*

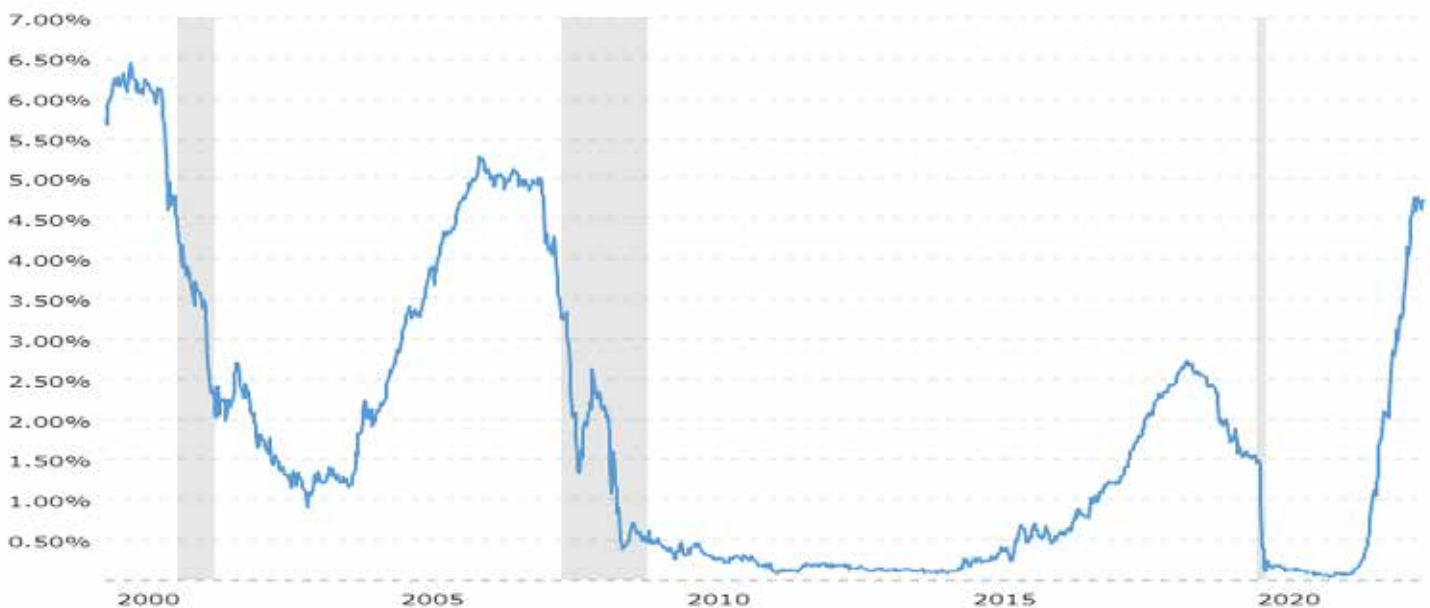
**John M. Suddeth, Jr., CFA**  
 Chief Investment Officer



Market volatility is a phrase thrown around by the press rather frequently, typically describing a given day or week of unusual price swings in a single stock or index. While the media loves a good crisis, and often embellishes the facts, 2022 proved itself an authentically unnerving year for investors. The intensity of the price declines were bone jarring and confidence draining. As an example, on September 13th the Dow Jones Industrial Average plummeted 4% from prior-day close to intraday trough. You may know that the 30-year average annual return of the S&P 500 Index is just over 10%. However, having prior knowledge of that metric proved to be little comfort during the 87 trading days when stock indexes moved in excess of 1%.<sup>1</sup> The last time that level of volatility occurred was 2008. By a similar long-term measure, the Bloomberg Aggregate Bond Index (formerly known as the Barclays Bond Index) has averaged 4.5% annual returns with about half of the volatility of stocks. Bonds, normally a portfolio anchor, suffered a comparable level of return dispersion versus their historical averages as the Federal Reserve raised rates throughout 2022 from 0.25% to 4.5% in order to combat inflation. There is an old saying, “don’t fight the Fed,” which once again proved accurate. Whether tilted to equity or debt, most fully invested portfolios took heavy punches in 2022: round houses, upper cuts, body shots, and a few right hooks. The Federal Reserve may have started the round slowly, but it proved to be Mike Tyson, George Foreman, and Muhammad Ali all rolled into one.

Looking forward, we see a silver lining in that inflation and interest rate increases are unlikely to replicate the pace or magnitude of the past year. As such, we welcome the revival of a normalized asset allocation model where fixed income can again be prominently featured. As indicated in the chart below, the last time we could invest in +4% U.S. Treasuries was 2007. While those pesky 6% mortgage rates, 8% car loans, and 14% credit card rates offered today are painful for borrowers, they are indeed sweet for lenders. Using a headline from an ETF sponsor’s recent email, “finally, there is income... in our fixed income holdings.”

**1-Year U.S. Treasury Yield**



Source: Macrotrends.net

Jeff Bezos, the founder of Amazon, once asked Warren Buffett, “Warren, your investment thesis is so simple, and yet so brilliant. Why doesn’t everyone just copy you?” Buffett’s response, “Because nobody wants to get rich slow.” We’ve been a sideline observer to the get-rich-quick mania involving cryptocurrencies. Getting on board the “crypto train” has been easy (as of November 2022 there were reportedly 9,314 active cryptocurrencies), driven by conductors with grandiose plans to develop a new world electronic currency, attracting “make me rich too” passengers. Industry leadership, often hoodie wearing antiheroes exhibiting untethered bravado, either ignores or lacks any knowledge of banking history. Intoxicating sales pitches filled with “tax me if you can” undertones and exotic HQ locations all add to the grand illusion of a secretive, untraceable, new wealth creation tool.

Yet, year after year we kept reading about one crypto fraud after another. The financial pain was falling mostly on retail investors, until finally the serial collapse of a string of critical crypto firms involving large-dollar institutional players brought it to a head: **TerraUSD** (a “stable coin” that was intended to be worth \$1 USD at all times) had a pinnacle value of \$18 billion before collapsing to \$275m and is still spiraling; **BlockFi’s** losses are somewhere north of \$1 billion; and topping headlines is Sam Bankman-Fried’s **FTX** losses of \$3 billion and counting. The statements from the appointed bankruptcy manager for the **FTX** debacle revealed a chaotic corporate structure and unauthorized leveraged trades compounded by “I’m all in bro” advertising using well paid celebrities like David Ortiz, Tom Brady, and Matt Damon. As the cookie crumbled, Mr. Bankman-Fried, the founder of **FTX**, cited “messy accounting” as a key reason behind the collapse. Interestingly, significant portions of the capital supporting the **FTX** electronic Ponzi scheme came from the pockets of the institutional investment world including **Sequoia**, **Ontario Teacher’s Pension**, **Temasek**, and **SoftBank**. All are entities with professionals who are paid to vet risk and perform critical due diligence on behalf of their investors.

While others in the industry do not always perform proper due diligence, we pride ourselves on our “boots on the ground” investment mentality. To that end, we sent two of our intrepid colleagues, Greg Debski and Kent Cheesborough, to Tokyo in December for a firsthand analysis of our Japanese-centered investments. In meetings with corporate leadership, our team was focused on long-term business growth opportunities, general macroeconomic trends, as well as certain financial statement authenticity (i.e. the messy accounting). While in-person corporate visits do not guarantee investment success, they provide valuable investable information and strengthen our understanding of the risk/reward paradigm for the companies and region visited. We live and invest in a world full of corruption and ineptitude (**WireCard**, **WeWork**, **Theranos**, **FTX**). Simultaneously, we live in a world of ethical and unimaginable innovation, creativity, and exactitude. We take our fiduciary responsibilities quite seriously and aspire to astutely decipher between those extremes, going the extra mile for our clients—7,377 miles in December to be exact and well over a quarter million miles traveled since inception.

Delivering negative performance reports quarter after quarter is never fun, yet it comes with the career. Our entire team understands that reality. It is like making an active choice of living on or near the Florida coastline where hurricanes are inevitable, so we must be prepared, not surprised. Financial and investment-specific education, economic and market literacy, company and country due diligence, along with actively shared tenured experiences are the necessary preparations which we adopt at NGA. Because of our continual preparations and improvements, we aren’t discouraged after 2022’s financial storm. You shouldn’t be either. In a recent interview, Howard Marks, the renowned CEO of **OakTree Capital Management**, noted it is folly to try to predict interest rates or inflation: “What matters is the long run. Buy the stocks of companies that will become more valuable, and the debt of companies that will pay their debts. It’s very simple. Isn’t that a good idea?”<sup>2</sup> We agree with Howard and recognize that the “volatility fee” is a component of the ticket price for investing in financial assets. Ultimately, the long-term benefits of public market equity ownership have proven to outweigh the price of admission.

<sup>1</sup> Hansen, Sarah. “Like a Rollercoaster”: Stocks Haven’t Been This Volatile since 2008.” Money, 1 Sept. 2022, <https://money.com/stock-market-volatility-frequency-2022/>.

<sup>2</sup> Agnew, Harriet. “Investor Howard Marks: ‘the Short Run Is by Far the Least Important Thing’.” Subscribe to Read | Financial Times, Financial Times, 25 Nov. 2022, <https://www.ft.com/content/a2d6df4e-5b24-4268-b770-6c514ac378de>.



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naplesglobaladvisors.com | (239) 776-7900  
720 Fifth Avenue South, Suite 200 | Naples, FL 34102