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There is a lot of terrible news out there right now. Everyone was hoping to avoid Vladimir Putin's war in Ukraine. We continue to pray for the victims and their families during this awful time. Back at home we have had the highest inflation rate in decades at 8.5% over the past 12 months. Everyone seems to be pointing fingers at who is to blame. I tend to believe that it is a combination of the Federal Reserve keeping rates too low for too long as well as the government spending bills that kept the M2 money supply (cash, checking deposits and easily-convertible near money) very high. With lots of cash chasing fewer goods thanks to supply constraints due to the war in Ukraine, labor shortages and inventory back-logs, the odds of inflation increase. The good news in my mind is that the Federal Reserve has all of the tools needed to fix this situation – and it sounds like they are committed to stamping out inflation no matter if the resulting interest rate increases tip us into a recession or not. Let's hope they engineer a "soft landing" that doesn't tip us into a recession.

As you review the first quarter's Position Performance reports, you will notice that our bond funds took it on the chin. Please read Vanguard's white paper that you should have received with your last quarter's report titled "Risk of Loss: Should investors shift from bonds because of the prospect of rising rates?" I would like to reiterate that our bond funds are baskets of bond ladders. As the short-term bonds with lower interest rates come due, those proceeds are shifted to longer-term, higher yielding bonds in rising interest rate environments. While your current bond baskets lose ground to higher yielding bonds in the short-term, over the long-term you will be fine as managers invest in higher yielding bonds. With the latest inflation announcement earlier this week, the stock market did not go down as much as I thought it might. The reason is that there is some talk that inflation may be peaking and with forward looking bond markets pricing in an aggressive Federal Reserve, this may be as bad as it gets for our bond funds. No one knows for sure, but we will keep an eye on this situation for you.

Stocks have also had a rough go of it. If not for a two-week rally in the middle of March, it very well could have been much worse than what these reports indicate. As rates rise, my big concern is how investors will perceive corporations with less-than-ideal balance sheets. If you are a company that has a lot of debt on the books, then a rising interest rate environment will force you to service that debt at higher rates unless you are able to pay it off. Thus, companies have less proceeds dedicated to growing the business and more directed to servicing debt. Corporations with a higher debt load tend to be companies that are growing at a faster rate – i.e., growth stocks. I am not necessarily talking about Apple, Microsoft, Amazon and Alphabet (the top four holdings in our total stock market index) - those names have proven themselves during some very uncertain times over the past several years. I am more concerned about unprofitable companies that were given a free pass while rates were extremely low.

I am also concerned about the state of the overseas stock markets. Until peace reigns in Ukraine and the Europeans figure out where they are going to go for their own energy demands, I believe the European markets will struggle. China's growth will certainly slow over the next few years as countries around the world shift inward and decide to bring manufacturing and oil production back home. While I like that the US seems to be turning towards energy independence and bringing manufacturing back home, it also scares me – the rising tide won't lift all boats any longer. The countries that don't have a large percentage of global assets will be knocking on the doors of the countries that have the assets – if they haven't already begun to do this. The result could be more global instability.

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Your portfolios have been built around a theme of low-cost indexing on one hand that that will perform well as the stock market continues its long-term march upward and, on the other hand, a value-oriented approach (e.g. the Warren Buffett style of investing along with deeply discounted stocks) that should hold up better during down markets. By the way, note that Berkshire Hathaway was up 18% in the first quarter – investors felt comfortable with Warren Buffett at the helm during rising interest rate environments and bid up Berkshire. John Bogle, the founder of Vanguard, seemed to always mention in each of his interviews that no matter what your allocation of stocks to bonds, we should always be prepared for a 30% stock market drop at any given time. While I don't envision a drop of this magnitude any time soon, I do plan on making some adjustments to most of your portfolios to fine-tune this overall theme of indexing and value investing in the coming weeks.

Enclosed you will find your Portfolio Holdings statement as of March 31, Performance Analysis and Position Performance summaries, a quarterly Account Management Fee Statement, and our Privacy Policy statement. Please contact us for the latest version of the Form ADV Part 2A. Should your investment objectives or personal financial situation change, be sure to call us.

Warm regards,

A handwritten signature in black ink that reads "Bill". The signature is written in a cursive, slightly slanted style.

William A. Bullock

Enclosures

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