RIVERPLACE · CAPITAL ·
23rd Anniversary

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WHY RIVERPLACE CAPITAL?

- Top Tier Financial Performance
- 100 Years Investment Experience
- Personalized Investing
- Individuality of Thought

NOTICE

Riverplace Capital welcomes referrals you provide to us. They reflect the trust and confidence you have in our firm. We work very hard to give you the best results possible given your needs, circumstances, and constraints. We will do so for anyone you may refer, and you can always rest assured that we respect your privacy.

the Lonely Bull

Separate from the herd of same-minded investment strategies

October 2021 | A Quarterly Market Perspective by Riverplace Capital | Number 93

Featured Sections

TALK WITH US

Crypto has been all the rage for some time now. Ostensibly, it was created as an alternative, independent currency. Libertarians the world over saw this as money that would be free of government intervention, control, tracking, and manipulation. An imminently private, safe, transferable asset.

The reality has been quite different. Cryptocurrencies have been hacked (stolen), lost, are not easily transferable, and are too volatile to stand in for day-to-day currency transactions. In fact, the U.S. government has categorized these as assets, not currency, so upon transacting them, a gain or loss must be recorded, reported, and has tax implications. Convenience, safety, and independence have not been achieved.

Cryptocurrencies have become a medium of exchange for nefarious purposes. Ransom takers, drug dealers, and many other extra-legal actors use them. They are outside of the banking system and are more difficult to track, but not impossible. Governments are coming up with more tools to discover and identify the transactors. In some cases, they have been able to recover these assets.

China recently outlawed cryptocurrencies. Their government is not going to allow an alternative currency beyond its control to exist and bypass its monetary and fiscal policy, currency controls, and tracking. It is highly likely other governments will take similar actions. **The more successful cryptocurrencies become, the more this poses a risk to any government's ability to exert policy influence, collect taxes, and stymie illegal activity.**

Cryptocurrencies have been an interesting speculative medium. Riverplace Capital does not, however, view them as an asset class worthy of the risks to our clients' wealth. **Riverplace Capital believes it is much better to invest in productive, growing companies or lend money to worthy borrowers at a known and fixed rate of return.**

If you would like to discuss this category further, ***Talk with Us.***

PERSPECTIVES

Third Quarter

In like a lion, out like a lamb; that is how the third quarter in the stock market went. Since August, the U.S. market has been undergoing a rolling correction. In fact, most stocks are trading well off their highs with most of them below their 50-day moving averages. This has been an almost invisible process, because a few very large companies that make up a large percentage of the capitalization in the major averages held up or even increased in value. Therefore, the Dow Industrial Average and the S&P 500 indices have held up much better than the average stock.

Toward the end of the quarter, these mega-cap stocks also declined. The correction then became obvious. **The good news is that this setback has been well underway and now that the biggest of the big are correcting, it indicates that we are approaching the end of this process.**

Bond investors are clearly getting more nervous as the Federal Reserve signals their intention to remove quantitative easing from their support for the economy and may be raising interest rates by the end of next year. Compounding this concern is inflation. Recent measures indicate general prices are increasing dramatically. Even though **the Fed has stated that this price pressure should be transitory**, many investors are beginning to doubt this. **It seems many increases, such as wages, are now embedded in the cost of goods and services.** Is there more to come? We shall see. Our take is included in the *Forecast* section of this report.

MAJOR INDICES

as of 9/30/2021

Large Cap Stocks (S&P 500)	**14.7%**
Dow Jones Industrial Average	**10.6%**
Mid Cap Stocks (S&P 400)	**14.5%**
NASDAQ Composite	**12.1%**
Small Cap Stocks (Russell 2000)	**11.6%**
MSCI EAFE	**6.23%**
Barclay Aggregated Credit Index	**-1.34%**
Inflation	**5.0%**

Equity indices are nine-month returns excluding dividends.

> "Successful investing takes time, discipline and patience. No matter how great the talent or effort, some things just take time: You can't produce a baby in one month by getting nine women pregnant."
>
> *-Warren Buffet*

FORECAST

Economy

Despite the resurgence of Covid-19 cases in the U.S., our economy continues to recover and is strong. Certain parts of our manufacturing industry are being constrained by shortages. However, these are being gradually resolved. Some supply chains are being reworked, and this may promote more reshoring of production back to the U.S., adding even more strength to our economy.

One of the biggest problems many firms face is finding enough qualified workers. Eventually, this too will be resolved. Free markets find ways. More training, automation, re-engineering, and immigration are some of the ways. So, although there is some messiness in how the recovery is progressing, it continues to do so.

Demand for goods—and increasingly—services is strong. Where there is demand, our economy finds ways to fulfill it. **Helping this is the fact that money is still cheap and liquidity plentiful.** Even though that may change, it will be a long time coming. The consumer is in good shape. Many have saved money and even paid down debt. Therefore, economic strength should persist.

Equities

Stock markets correct. This one has been correcting along the way by rolling through sectors. However, there continues to be underlying strength. **Money flows into stocks have been strong.** With interest rates so low, fixed income is not much of an alternative. **Also, the low rates make it easier for businesses to produce excellent profits, further advantaging stocks over bonds.**

Margin pressure from rising input costs is one of the biggest concerns. Everyone knows many commodities and other inputs such as labor and transportation are much more expensive today. The question is, **will businesses be able to raise prices and pass on these increased costs?** History suggests that **they will, although there may be some lag.** In the meantime, expect some earnings disappointments. We will just have to see if investors see through these or react.

Fixed Income

The trend on interest rates has finally reversed. It is no longer down, or lower for longer, but instead higher. Rates will gradually climb for years to come. This trend will not be a straight line, but have fits and starts, and be irregular in its progression. Make no mistake, interest rates are going higher, both here in the U.S. and around much of the developed world.

An important question is, how much inflation will accompany these increases? The Federal Reserve has stated that the large increases in prices we are seeing are transitory. Only time will really tell. Inflation that persists will only drive interest rates even higher. **Riverplace Capital believes that inflation will be more persistent than projected.** It is now a global phenomenon. Inputs, such as wages, are very difficult to roll back once increases have occurred. Once a cycle of rising prices starts, calming it gets very difficult.

Rising interest rates depress current bond prices. The good news is that reinvestments take place at higher and higher rates. The shorter the maturities in a bond portfolio, the more this process helps in rolling up to higher and higher rates.

INVESTMENT STRATEGY

Equities

We see little reason to pull back allocations with the very positive business backdrop in the United States and increasingly in Europe. **Business momentum is strong.** There may be hiccups, **but the trend is decidedly for higher stock prices.**

Now that the Covid-19 pandemic has probably peaked in the U.S., this constraint on activity will gradually lessen. Much of the economy has already moved on from the shutdown period of last year. There has been little public support for returning to those policies. So even if the pandemic persists, people are adjusting and getting on with their lives.

In the meantime, there is much pent-up demand for both goods and services. The supply of many goods has been restrained by supply chain issues. These will also gradually lessen as more and more production comes back online and catches up. Logistical knots will also eventually untangle. The world has not forgotten how to do these things.

Riverplace Capital sees opportunity in the cyclical side of our economy. **We have already moved to increase the allocation to these sectors** in portfolios and expect to be rewarded as recovery continues.

Fixed Income

Short-term has been our mantra for managing fixed income assets for some time now. There will be no change in this stance, especially since **we expect interest rates to irregularly climb for years to come.**

Quality is paramount. There is too little improvement of yield in risky paper to warrant any investment. Also, we see fixed income assets as a means to reduce risk in a portfolio. Why introduce more? Risk and reward calculations are left to equity exposures.

Wealth Management

Riverplace Capital has recently pulled back from emerging market exposures in asset allocation portfolios. China is an outsized part of these indices and portfolios. We now see Chinese assets as un-investable. No rule of law and a hostile government make for unacceptable risks.

Allocation to Europe and other developed markets, such as Japan and South Korea, have been increased. Valuations are much cheaper in these markets and **recovery is taking place just like in the U.S.; there is a lot of opportunity.** Other allocations remain the same.