



**ALBION
FINANCIAL
GROUP**

Guiding Clients
To A Lifetime of
Good Decisions



JANUARY 2024

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INTRODUCTION

Welcome to January, named after the Roman god of doors, gates, and transitions. In the spirit of Janus, the contributors to this letter review the lessons of the past year with an equal focus on the year ahead. CEO John Bird cuts through the cacophonous headlines with a calm outlook informed by facts. Then CIO Jason Ware recognizes the importance of short-term humility when investing for the long-term. Finally, Financial Planner Adam Haynes makes his Quarter Letter debut and compares the planning experience to that of the elite athlete confronting the unknown.

We hope this letter provides valuable insights for the upcoming year. Thank you for your trust and partnership.

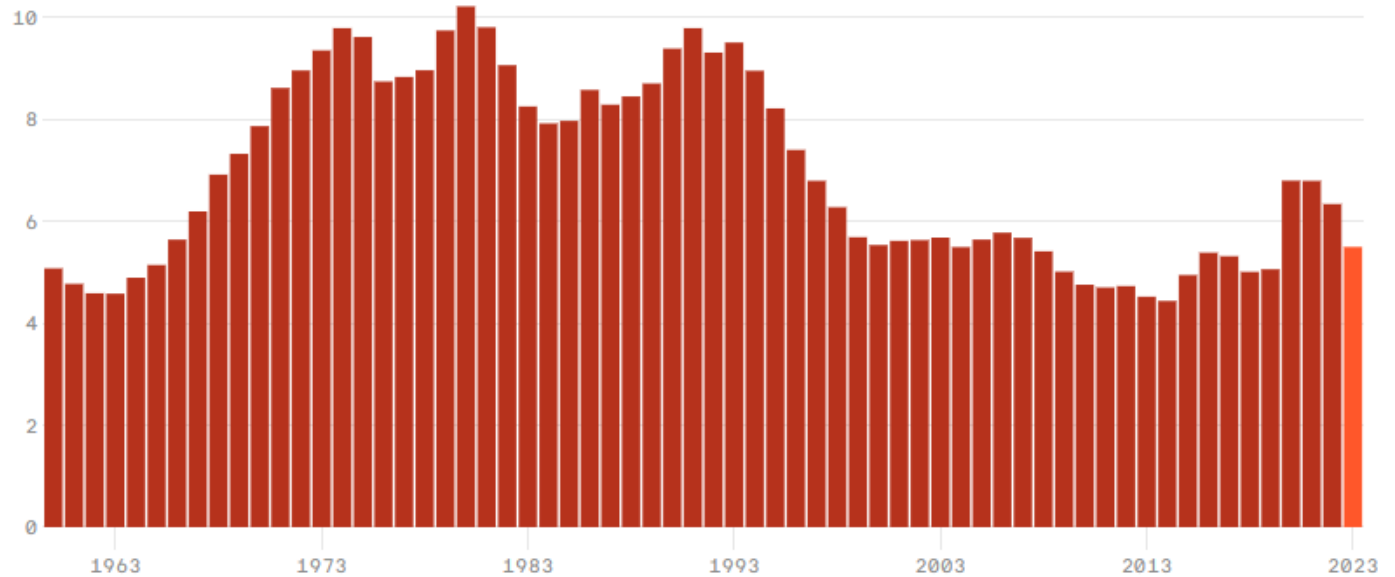
FROM JOHN BIRD'S DESK

For the last year and a half Albion has been sponsoring children at the Woodrow Wilson school, a Salt Lake City elementary school where 90% of the students qualify for food aid. Each month in conjunction with the Utah Food Bank we fill grocery bags for the children to take home to their families.

The students are just like you'd expect from a group of youngsters. Curious, energetic, funny, loud, silly, and occasionally contemplative. The food makes a significant difference for them and their families. For us it highlights the similarities among all of us. Regardless of economic circumstance most of us hope to have strong and caring relationships with our family and friends and live in a world where we are safe and

Annual rate of homicides in the U.S.

Homicide rate per 100k, 1960 to 2023; 2023 data is estimated



Reproduced from [Datalytix](#); Chart: Axios Visuals

The U.S. is on course to end 2023 with one of the largest annual drops in homicides on record, however, the findings appear to be at odds with Americans' perception of crime, both in their communities and in the rest of the country.

find fulfillment while earning a reasonable living. Most of us do strive to get along with our neighbors despite differences of opinion we may have.

You wouldn't know that by reading the headlines. A recent sampling (with names removed) includes:

"Presidential Candidate augers divisive year in angry Christmas rant"

"2024 could bring a radical upending of the global order"

"The Supreme Court could correct Politicians' huge mistake"

"With support fading and corruption building, will politician quit the race?"

"National anthem kneeler cancels Christmas and gift giving"

"Campus antisemitism finally gets its reckoning after students cheer terrorism"

From these headlines, and hundreds more like them, one might surmise that our overriding emotions are

anger and fear. Yet that's not the case. Yes, there is anxiety and anger in the population. And yes, unfortunately some of the most prominent voices feel they benefit by stoking anger, resentment and fear. Yet the facts show a different story.

Per FBI data violent crime fell 8% in the third quarter of 2023 compared to the same quarter last year and property crime fell 6.3% to its lowest level since 1961. But the dire headlines do work. Per Gallup 92% of Republicans, 78% of Independents and 58% of Democrats believe crime is rising.

We hear a lot about unemployment. Some choose to focus on job losses and high unemployment while others are focused on job creation. The current unemployment rate is 3.7% which is close to the low end of the long-term historical range. That's impressive particularly in light of the rise in interest rates over the last several quarters. However despite high employment and consistent economic growth over half

of us think the economy is getting worse, per a recent CNN poll.

Misleading headlines can be found regarding virtually any quantifiable measure. Why do we bring this up in an Albion letter? To highlight that in the work we do we must look past the headlines to what the underlying data tells us is actually happening. While there are clearly challenges in the world, the economic outlook has several bright spots. The Federal Reserve effort to rein in inflation is working. Higher interest rates, while clearly slowing economic activity, have not tipped us into a recession. Consumers have remained resilient as spending has held up even in the higher rate environment. Companies continue to innovate and in many cases continue to show solid year-over-year earnings growth.

Our professional goal for 2024 is to continue to scour the many opportunities to invest in what is working in the world and build and manage portfolios around those bright spots. Our personal task is to see the humanity in everyone and do what we can with our family, friends, colleagues and peers to ratchet down the temperature that headlines work to inflame.

We wish you all a peaceful and prosperous new year.

ECONOMY & MARKETS by Jason Ware

What does it mean to have humility? Classically defined, it is *“a feeling or attitude awarding no special standing that makes you better than others.”* As we close out the year, there are many lessons 2023 can teach us. Perhaps most salient is the concept of humility, especially relating to financial markets. Sour moods festooned the investment landscape as the year began. Inflation was high, interest rates were rising, stocks (and bonds) had just closed out a

tough year, and recession was expected by most. Fast forward twelve months, as the year closes inflation is lower, rates have peaked, stocks (and bonds) logged solid returns, and the US has so far avoided recession. On the latter, while our process is thorough, I got it wrong in 2023. But it's fanciful to expect that we'll get everything right. Rather the aim is simply to go to bed a little smarter than when we woke up. To be lifelong learners and compound our knowledge. Fortunately, our toil and tenets position us to do just that.

We lost the venerable Charlie Munger this year. For over six decades Charlie was Warren Buffett's sage right-hand at Berkshire Hathaway. He used to say, *“we try to arrange our affairs so that no matter what happens we'll never be sent ‘back to go,’”* [Monopoly board game reference]. At Albion, we manage money under a similar belief. We don't speculate. We invest. We don't bank on short run forecasts when building portfolios. We take a long-term view. Indeed, an investment strategy shouldn't hang on getting macro and market calls correct, and any such projections must carry a sizable dollop of *humility*. In practice, this means portfolio execution is incremental as opposed to extensive. Again, avoiding 'back to go.' This conduct is core to our investment philosophy. Adhering to these principles, plus sound investment selection, work together to deliver laudable risk-adjusted returns over time. Knowing the future is impossible. Accepting this is the first step to becoming less fragile and more adaptable. Instead, we pursue strategies that can survive whatever may occur.

Now, let's review the fourth quarter.

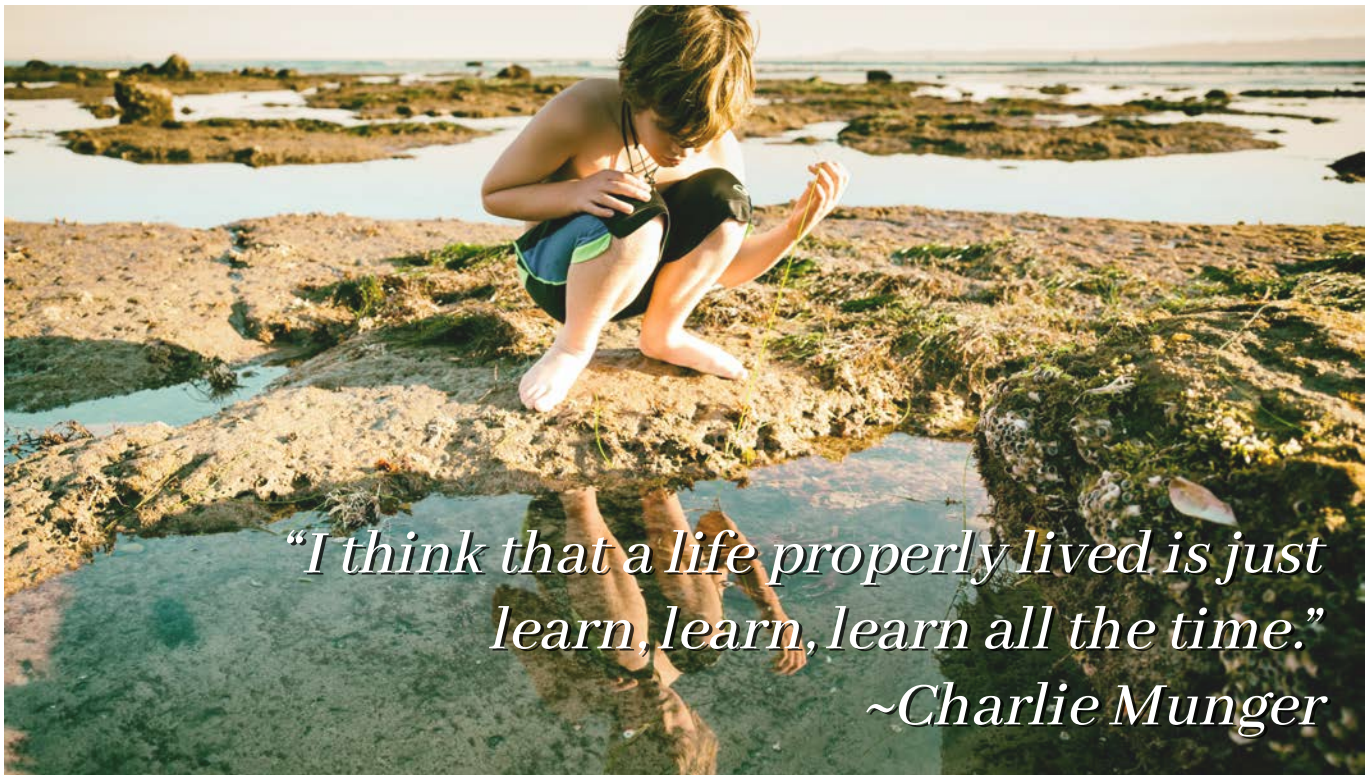
The October through December period saw a continuance of the post pandemic expansion. GDP was (very likely) somewhat higher, the labor market is healthy, and consumer demand endures. Meanwhile, as we've

anticipated, inflation is now about 3% (sub-3% by some measures!) and the Fed has clearly communicated that they're done hiking rates. On balance, economic and market conditions sit somewhere between favorable and improving. This sent equities bounding higher. Concurrently, business profits – the lifeblood of stock prices – have perhaps bottomed *if* we avoid recession. That last piece is critical; we'll revisit in a moment. A ding against the quarter was the awful Israel / Hamas war that broke out on October 7th. While markets, including energy, have taken the turmoil in stride, the human cost has been immense.

The overall good vibes sent valuations higher. The S&P 500 now goes for about 21.5x trailing earnings and 19.5x 2024 estimates. Not cheap, especially against yields that, despite the recent drop, are near multi-year highs. It's also not wildly expensive. Profit growth for the whole of 2023 will settle in slightly better than flat (versus 2022) and growth expectations for 2024 infer an impressive +12% stride. And it's here where the

question of recession / no recession matters most. As for Wall Street's big picture 2024 outlook? The consensus is now (unsurprisingly) cheerful. Economists and strategists expect a decent year for stocks (i.e., building on '23 gains) and no recession. Our outlook? Unhappily we still see elevated risk of a mild recession. Yes, the economy has been resilient. But just because a slump hasn't happened yet doesn't mean it won't. The business cycle always looks good just before it slides.

Generally, when you spike rates it has a negative impact that works with a lag. The idea that the Fed can take rates from 0% to nearly 5.5% with over a trillion in quantitative tightening (QT), over a short period of time, and that the economic pendulum will stop from strong growth to perfect growth without going negative doesn't make sense to us. It would be ahistorical to expect that. There's evidence of this in many of our preferred leading indicators, like LEI and the Treasury yield curve, as well as some early signs that strong employment and a robust consumer may be waning. Add to this those higher rates – plus the view that they



*"I think that a life properly lived is just
learn, learn, learn all the time."*

~Charlie Munger

may stay up here for a while (“*higher for longer*”) – and we still see heightened odds of recession near-term. We’re not out of the woods yet.

Despite this stance, with great *humility* and borrowing from Munger’s book of wisdom, we’re not betting the farm. Instead, the result of our uncharacteristically cautious macro outlook means we’ve added some “defense” to growth portfolios while, importantly, staying fully invested. We consider this approach to strike a functional balance between respecting short-term risks while staying true to our DNA as long-term investors. The big money is not in the buying and selling, but in the waiting. We will continue to manage your precious capital using a resolute investment philosophy, quality securities, and the best possible information. Many thanks for your trust in us. Happy New Year!

PLANNERS CORNER by Adam Haynes

The New Year is a good time to review your financial strategies to ensure they are aligned with your long-term goals – an expertise we bring to bear for our many client families. As the calendar turns and we look to the year ahead, what’s on your mind? What worries you? What excites you? Any hopes for the new year? As your wealth advisor, we endlessly ponder these questions. And while some items are more pleasant to contemplate, it can all feel daunting. We can’t know what the future will bring. But uncertainty is part of life, and each new year brings unexpected events that will impact who we are and how we think about the world.

Often, January is when we set goals for the coming year. But how when we can’t know exactly what’s ahead? Early-2020 threw us a global pandemic; 2021, a new US president; 2022 began with a Russian invasion of Ukraine: and in 2023 we jumped headlong into an artificial

intelligence craze. Some developments are more consequential than others, but each brings unique haziness. What might 2024 hold?

The good news is we don’t actually need to know, though we must be ready for anything. It’s in our nature to believe we can think on our feet and quickly adapt to a changing environment. Unfortunately, that’s easier said than done. For instance, consider a soccer player receiving the ball without having analyzed the whole field. Focusing solely on the ball forces them to react without proper scope. Should they pass, shoot, or perhaps execute a Maradona turn? Whatever the decision, they must act. Despite ardently training for this moment, full preparedness is lacking because they’ve neglected their surroundings. As it turns out, context and the bigger picture matters.

Just as situational awareness is necessary for athletic success, it also greatly impacts financial outcomes. Indeed, if you aren’t keenly aware of the backdrop (including self-awareness which takes into account our own behavior and biases) your abilities alone may not be enough when the “financial ball” is passed and critical decisions need to be made. As you’ve likely heard us say, we believe in the importance of quality advising where financial success is the compounding result of a series of good decisions over time.

In soccer, it’s easy to know who wins – just look at who scored the most goals. Financial plans are different. What does it mean for you to win the “money game” you’re playing? Standard replies often center around the notion of financial independence, retirement, or a specific net worth. In fact, you could probably tell us precisely how much you’d like to make this year and what you’d like out of your investment portfolio(s), real estate, etc. Yet, viewing your finances in this way implies that money is a finite game with clear “winners” and

“losers” bound by defined rules, limited resources, shared objectives, with cookie cutter endpoints and benchmarks. In truth, money and personal finance is an infinite game with no set finish line or buzzer. We must create individualized rules to offer our money utility. This personalization gives wealth purpose as we define both our goals and values. From there, we keep proactively “playing the game” based on this custom framework dedicated to your specific situation.

Bestselling finance author Morgan Housel has said the following about investing (one of the many areas of financial planning):

"It's so easy to lump everyone into a category called 'investors' and view them as playing on the same field called 'markets'. But most of the time you're just a marathon runner yelling at a powerlifter. So much of what we consider investing debates and disagreements are just people playing different games and unintentionally talking over each other. A big problem in investing is that we treat it like it's math where $2+2=4$ for me and you and everyone – there's one right answer. But it's something closer to sports, where equally smart and talented people do things completely differently depending on what game they're playing."

Perhaps the single best game to impart the complexities of financial planning is three-dimensional chess with multiple opponents. Every move, every choice, creates additional uncertainties and interdependence that didn't exist prior. And every move made by an opponent (e.g., externalities) creates the opportunity to reexamine one's strategy. Financial plans can be continuously adjusted as each piece moves in the multi-dimensional chess game of life. Establishing an always monitored, ever evolving financial plan where we work together increases the odds of successful financial outcomes.

A central purpose of a financial plan is to help weather economic storms so that no matter what stage of life – accumulation, preservation, or distribution – you're capable of absorbing and adapting to shifting environments. Let's briefly revisit the notion of event-driven uncertainty. Think about the most recent significant global, national, or even local event. Did any of those catch you off guard, feeling unsure of your surroundings? Were you concerned about potential financial impacts? Going back to our soccer analogy, now imagine how would it feel to receive that “pass” amid the deafening stadium chaos, but this time you know exactly where you're going. You're prepared, situationally aware, and have filtered out the noise. Your coach's (advisor's) voice, the person with the best view of the entire playing field, comes through with great clarity and together optimal decisions are made.

Such arrangements bestow enhanced confidence to continue with the plan. When most are fearful, finding the signal in the noise provides us the refreshing opportunity to concentrate on other areas of life that truly bring joy and fulfillment. As your trusted wealth advisor, that's the role we play. We'll be here for you this year and beyond. Happy 2024!



ALBION COMMUNITY UPDATE

We're Back!

In office, that is. After many arduous months of rebuilding, our office is open and functioning like normal again. We look forward to seeing many of you in person, throughout the coming year, in more familiar territory.

Save the Date - February Conference Call

We will be having another conference call on **Wednesday, February 14th @ 10:00 AM MT.**

Be on the lookout for an email invitation to register and submit questions in the coming weeks.



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