



04/19/24

FFG Partners Market Pulse Newsletter, Q1 2024

With the incredible amount of uncertainty swirling around the world today, we thought it would be helpful to review some of the large potential risks and how we are addressing them.

The World Today

1. Inflation and interest rates are still high – the likelihood for considerable rates cuts has diminished, with the increased potential for rate hikes
2. Geopolitical tensions remain high and are primed to escalate

The World Tomorrow

1. Will inflation remain high and potentially increase again?
2. What will happen with interest rates?
3. Will these wars ever end? What about China and Taiwan?
4. Decoupling of the world economy?
5. Presidential election?!

The FFG Plan

At FFG, our philosophy has always been to prepare, not predict. With all the uncertainty in the world today, it would quickly get overwhelming trying to forecast all the potential different outcomes. Even if we were able to predict the outcomes, we would still have to correctly anticipate how everyone else would react to them. Making an impossible task that much more difficult. Instead, we attempt to construct the portfolio to be able to withstand various degrees of uncertainty and offset our risks without giving up much of the potential returns. By thoughtfully balancing our exposures, we believe we can achieve a higher risk-adjusted return over time.

We have been actively preparing the portfolios over the last few years and we believe we have positioned them to succeed in this increasingly uncertain environment. By reviewing our current exposures below, we hope to shed light on our philosophy and how we are thinking about the current environment.

1. Equities
 - a. Our current equity allocation is the lowest it has been in the history of the firm. On average, the allocation within the portfolios is between 50%-60% depending on the client and model. This is in stark contrast to years past when the allocation was closer to 90%.
 - b. Within the equity allocation we have significant exposure to energy (oil and gas), aerospace and defense and cyber security. Although these are equity positions, we

believe these sectors will perform differently during periods of heightened geopolitical tensions and war.

- c. We have also increased our exposure to international markets. Specifically, we have increased allocations to India and Japan, as we believe these markets should do well if relations between the US and China continue to be tense or escalate further.
- d. We will also periodically use options positions to protect certain holdings from adverse movements in the market. We believe this can sometimes be a cost-effective way to add additional protection to the equity allocation when it makes sense.
- e. Although we have reduced the overall equity exposure, we do not believe that we have reduced the upside potential of the portfolio in a significant way.

2. Fixed Income

- a. We have made fixed income investments in a big way over the last two years. This is the first time we have owned fixed income materially in the past decade. We were opportunistic with our bond purchases during periods when interest rates were elevated and believed we were being properly compensated for owning the asset class.
- b. We believe fixed income provides us with a return stream (interest payments) that have little to no correlation with the equity markets. Also, during times of volatility and an economic downturn, bond prices tend to do well as investors flock to more predictable investments amidst the uncertainty.
- c. We believe the fixed income portfolio will provide a buffer to the equity markets should they become volatile and preserve value throughout the period.

3. Alternative Assets

- a. The alternative asset allocation is comprised of gold and a hedge fund replication strategy. These positions are in the portfolio to hopefully provide a buffer during volatile market environments.
- b. We believe gold will do well during periods of heightened inflation, geopolitical tensions, and war. It is currently trading near an all-time high, and we believe it should continue to appreciate amidst the continued uncertainty engulfing the world. We increased our gold allocation last year for most portfolios.
- c. The hedge fund replication strategy trades assets such as commodities, interest rates and currencies. These less traditional assets are meant to have an uncorrelated return relative to equities. This position is meant to outperform the equity markets during a downturn and is in the portfolio to preserve value during such periods. It has been a pleasant surprise that it has performed better than expected during this recent market rally.

4. Structured Notes

- a. Structured notes have become a sizable portion of the portfolio since we moved over to Goldman Sachs last year. Our relationship with Goldman has allowed us to customize these notes to complement our current portfolio and outlook.
- b. As a reminder, structured notes are an investment vehicle that enables us to take a thesis and wrap parameters around it, minimizing the potential outcomes at the onset of the investment. Most of our notes have a principal protection feature included in them where if we are wrong about the thesis, we will receive our principal back when the note matures. However, if we are correct then we have the potential to earn a return based on the provisions of the specific note.

- c. We believe these notes help insulate a portion of the portfolio from the volatility in the markets and reduce our downside potential, without giving up much of the upside.

In summary, we do not think we have to make bold predictions to have investment success. Instead, we believe an approach where risks are contemplated, considered, and counterbalanced as best as possible is the best overall strategy. Our goal is to minimize the downside when it comes and recover any losses as quickly as possible. By doing so, we believe our overall risk-adjusted return will be better overtime than if we made predictions and stuck to them blindly.

Yours Truly,

A handwritten signature in black ink, appearing to read 'G. Levy', written in a cursive style.

Gabriel Levy, CFA
Portfolio Strategist, Fiori Financial Group

FFG Partners, LLC DBA Fiori Financial Group is registered as an investment adviser and only conducts business in jurisdictions where it is properly registered or is excluded or exempted from registration requirements. Registration is not an endorsement of the firm by securities regulators and does not mean the adviser has achieved a specific level of skill or ability. The firm is not engaged in the practice of law or accounting. Information presented is believed to be current. It should not be viewed as personalized financial advice. All expressions of opinion reflect the judgment of the author on the date the article was written and are subject to change. You should consult with a professional advisor before implementing any strategies discussed. *Certain investments described in the Pillar Portfolio are only available to qualified investors.

Securities and advisory services offered by Registered Representatives and Investment Advisor Representatives through Private Client Services. Member FINRA, SIPC. FFG Partners, LLC DBA Fiori Financial Group and Private Client Services are unaffiliated entities.

All investment and strategies have the potential for profit or loss. Different types of investments involve higher and lower levels of risk. There is no guarantee that a specific investment or strategy will be suitable or profitable for an investor's portfolio. There are no assurances that a portfolio will match or exceed specific benchmarks. Asset allocation and diversification will not necessarily improve an investor's returns and cannot eliminate the risk of investment losses. Index returns do not represent the performance of Fiori Financial Group or any of its advisory clients.

Fixed income investments are subject to liquidity risk, market risk, interest rate risk, credit risk, inflation risk, purchasing power risk, and taxation risk.

Options holders risk the entire amount of the premium they pay. Principal protected and non-principal protected notes may be subject to caps, participation rates and other factors that affect the return. Alternative investments are sold to qualified investors only by a Confidential Offering Memorandum or Prospectus. Alternative investments are speculative and involve a high degree of risk. Investors could lose all or a substantial portion of their investment. Investments may be illiquid, and there may be significant restrictions on transfers. Alternative investments may be leveraged, their performance may be volatile, and they may involve complex tax structures.