

February | 2023

Alpha Wealth Monthly Brief

*“Nothing is linear.
The world doesn’t
move towards what
we think is rational a
little bit every day.
The best way to
manage volatility is
to have a strategy
that you can stick
with.”*

-Cliff Asness

This month’s edition of the Brief is intended to reflect on a challenging 2022, what worked, and where investors may be able to find opportunity in 2023. We’ll also cover recent commentary from Berkshire Hathaway’s Charlie Munger and take a look at Blackstone’s Ten Surprises for 2023.

Reflecting on 2022 and Investment Ideas for 2023

Last year was an incredibly difficult time to be an investor. It saw one of the worst performances for the traditional 60/40 portfolio on record, with stocks and bonds both yielding negative returns. The ability to shield client portfolios from pain was largely driven by reducing allocations to stocks and bonds and increasing allocations to liquid alternative strategies that had been underperformers for years. If limited to stocks and bonds as the only options, it was very difficult to avoid substantial portfolio losses.

Coming into 2023, nearly every traditional asset class is significantly cheaper than it was just one year ago. The repricing that’s occurred in stocks and bonds puts investors in a position to construct diversified portfolios of assets that are fairly valued or better. Having said that, uncertainty and risk are still present. Although we are trending in the right direction, year-over-year CPI remains well above the Fed target of 2%, coming in at 6.5% last month. Secondly, fundamental growth leading indicators continue to point to economic contraction. With this as a backdrop, a few investment ideas and themes stand out as attractive opportunities for investors to improve forward looking returns and diversify risk.



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1. **Value over Growth.** Value stocks stand poised to continue to outperform growth stocks. According to research done by AQR, in order to justify current multiples from a fundamental perspective, expensive companies would have to outgrow their cheap peers by 80% over the next 5 years. That is 4x higher than analyst estimates and 50% higher than the maximum growth differential ever seen. We continue to place an added emphasis on free-cash-flow generating companies with strong balance sheets.
2. **Liquid Alternatives.** These strategies played a key role in client portfolios in 2022 and should continue to do so as macro uncertainty remains elevated. Elevated macro volatility should create opportunity for trend following strategies. Trend following has historically demonstrated low correlation to the stock and bond market. Often overlooked, it is an asset class that is essential to proper diversification and risk reduction.
3. **Emerging Market Equities.** Emerging market equities forward looking return premium is normally accompanied by materially higher risk. This is no longer the case as the Portfolio Solutions Group at AQR notes the near identical realized 5-year volatilities for both Developed and Emerging Market equities. The US Dollar was a wrecking ball to non-dollar assets in 2022. A reversal from this high could provide an additional tailwind to the EM sector. We continue to stress active management here, seeking managers that target high quality companies with attractively priced future growth prospects.
4. **Gold.** Often viewed as a hedge against inflation and a storage of value, one might wonder why 2022 wasn't a banner year for gold given the high inflation that has persisted over the last year. Much of this can be attributed once again to the strength of the US Dollar as well as a historically aggressive Fed. If the dollar reverses course and starts to weaken, gold stands ready to benefit, especially in a more stable interest rate environment. Looking beyond 2023, gold will remain an integral part of client portfolios as its long-term stability is of great value in times of economic volatility.

Charlie Munger Sounds Off

Charlie Munger, vice chairman of Berkshire Hathaway and long-time business partner of Warren Buffett, recently spoke at The Daily Journal's annual meeting, touching on a wide range of topics from market volatility to US healthcare costs and investing in China. Below are a few of the best sound bites from Munger's interview with Becky Quick of CNBC.

On the cost of US Healthcare. "It's a disgrace. If you go to Singapore, you will find that they do the whole thing better than we do and it costs 20% of what we pay. And, by the way, I have no idea how to get from where we are to where Singapore is because all the people that are getting all that extra money fight like fierce tigers to hold onto it."

On Alibaba. "I regard Alibaba as one of the biggest mistakes I ever made. In thinking about Alibaba, I got charmed by their position in the Chinese internet and didn't stop to realize they're still a g** d*** retailer. It's gonna be a competitive business - the internet."

On personal biases. "If there is one factor that dominates human bad decisions it would be what I call 'denial.' If the truth is unpleasant enough, people's minds play tricks on them and they think it isn't really happening and of course, that causes enormous destruction of business."

Blackstone's 10 Surprises for 2023

Recently, Blackstone published their “10 Surprises for 2023” – an event the average professional investor would assign a 1/3 chance of taking place, but which Blackstone believes has a 50% or better chance of happening.

1. Both Biden and Trump will not run in 2024.
2. The Federal Reserve will maintain their restrictive monetary policy – no pivot.
3. Jobs continue to increase, and earnings reports remain strong.
4. A buying opportunity will present itself spawned from bleak market related news.
5. An unanticipated event will impact markets. Think Ukraine/Russia, Chinese invasion of Taiwan, crypto collapse, etc.
6. US Dollar remains strong.
7. China continues economic recovery and edges closer to its long-term growth target.
8. WTI oil will hit \$50/barrel due to possible recession in the United States and slow growth elsewhere.
9. A meaningful ceasefire will take place in the Russia-Ukraine war.
10. Elon Musk will successfully turn Twitter around by the end of the year.

Fast Facts

The average American family spends \$1900 on food it does not eat.

The price of consumer goods has increased by a factor of four since the late 1970s.
College costs have increased by a factor of 14.

Shell earned nearly \$40 billion in 2022, making last year its most profitable in its 115-year history.

The money supply growth rate for December was a negative 1.3% versus a year ago, the lowest ever and marking the first-ever decline in M2 based on all data available going back to 1959.

Contact Us

As always, feel free to reach out to us if you have any questions regarding your investments or financial plan or would like to schedule a meeting with our advisors.

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