Warnke/Nichols Ltd.
Investment Management

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PORTFOLIO NOTES **MARCH 2022**

To our Business Partners:

- ***WARS, OTHER CALAMITIES AND THE STOCK MARKET.*** With the current tragic situation in the Ukraine, it might be useful to examine the history of wars and their effect on the financial markets. Crises such as wars create uncertainty. Markets do not like uncertainty. Crises often lead to an immediate negative reaction in the marketplace. Studies we've recently come across cover more than fifty crises – mostly military, but also economic, and other – that have occurred since the start of the 20th century.

  A summary of the studies found that the immediate onset of a crisis, on average, initially produced a market decline of 7%. But, over the subsequent year, prices were about 10% higher, which is not much different from the long-term annual return for stocks in general. There were exceptions, most notably the Russian invasion of (former Soviet) Georgia in 2008 when, a year later, stock prices plunged by one-third. Importantly, during that time markets were quite expensive before the Great Financial Crisis of 2007-09.

  While wars and other calamities are indeed devastating to those involved, they have had only a minimal impact on the long-term returns of the financial markets. Far more important are fundamental factors like profitability, earnings growth, balance sheet strength, and valuation parameters.

  When these events do occur it is important to remain rational, avoid panic, and pay attention to the current environment at home. As often happens during these events, emotions can run high and investors act emotionally. Paying attention to fundamentals, particularly valuation in comparison to stock prices, helps immensely in avoiding making mistakes that will impact long-term returns.

- ***PORTFOLIO VALUATION.*** The recent rally in the popular stock market indices did nothing to improve valuations of our widely held stocks*. And it's still hard to find quality companies at bargain prices. Despite how the elevated level of consumer and producer prices ("inflation") erodes the value of a dollar, a large allocation to portfolio cash seems like a prudent strategy today.

- ***RECENT RESULTS.*** February results were mixed for the various indexes we monitor. The large company indexes declined from 3-3.5%, while the smaller company indexes rose around 1%. For just the two months of the year so far, all the indexes have declined in a range from 6+% for the smaller companies to over 12% for the NASDAQ. Over the past twelve months, the large company indexes still maintain an advantage over the smaller companies, but the gap has narrowed. Year-to-date and trailing year, our equity composite* has done significantly better than the averages.

Steve Nichols, CFA   *Bill Warnke, CFA*

The group of "portfolio stocks" -- our Equity Composite for the purpose of evaluating investment performance -- consists of 18 stocks that are held in our clients' accounts. Portfolios might hold some or all of these stocks, depending on investment guidelines unique to each client, the timing of purchases and sales, and start dates of accounts. The performance of this group of stocks is a good proxy for our equity performance but might vary widely among accounts. Of course, past performance is not necessarily indicative of future results.

We hereby offer to deliver to you without charge a copy of our current Form ADV Part 2, in accordance with the U.S. Securities and Exchange Commission's "Brochure Rule." Please contact us if you would like us to send you a copy.

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