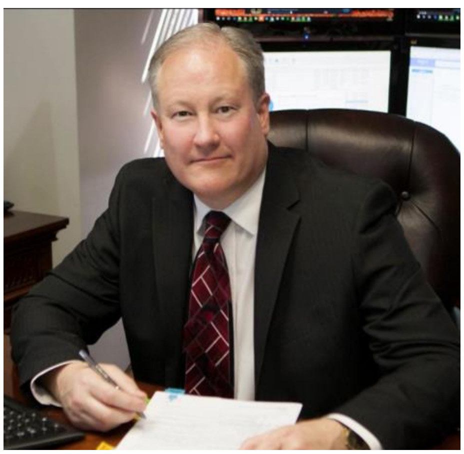
MASON FINANCIAL SERVICES
REGISTERED INVESTMENT ADVISOR

QUARTERLY UPDATE

"If you look after the pennies, the dollars will look after themselves."

-J Paul Getty



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I would like to take this opportunity to thank all of you for your enduring trust and continued support. The success of Mason Financial Services is based on the relationships we build, and we really wouldn't be where we are without you! We are so honored to be of service to you - to work with and for you.

The return of volatility

With inflation hitting 30-year highs and Covid news always changing and sounding ominous, the markets have been getting rocked back and forth. That often leads to higher risk to the downside. The biggest issues facing investors right now is both stocks and bonds pose undue risk. Undue in the sense that the risk of it dropping is higher than the upside potential. Most portfolios are built primarily or exclusively with a stock / bond mix. So, what do we do?

I have been researching and performing due diligence on alternative investments. Alternative investments is a catch-all term for things other than traditional stocks and bonds. I will be adding new classes of investments to our investment models that we apply to client's portfolios.

Private equity funds

In the pension and endowment world, private equity and credit investments have become a larger portion of portfolios. Usually you need to be a billion-dollar fund before you have enough to get access to the best investments. There are fund of funds that give smaller investors access to these investments, but they come with high fees. I think the time has come to get access to this segment as they have performed admirably and offer diversification from public markets. I have found a good one that has reasonable fees - Blue Rock. The fund I have selected is TIPWX. Its six-month performance is 13.8% vs 11.7% for the S&P 500. And, it hasn't experienced the volatility of the stock market as of late.

Buffered funds

Buffered funds are an interesting approach to stock market investing. What they do is provide a stated "buffer" against down turns. The best way to explain it is with examples.
One from Allianz (MPLACX) provides a 20% buffer with a upside cap of 18.3% over 2.4 years. What that means is by end of the 2.4 years, if the market is down, it will reduce the loss by 20%. If it loses 25%, you would only lose 5%. On the other hand, if it goes up 25%, you would only realize 18.3%
Two others from Innovator ETFs have 12 month windows. One is more conservative offering a 15% buffer and an 8.62% cap, the other more aggressive offering a 9% buffer with a 13.42% cap. That means any loss would be reduced by the buffer (15% or 9%) and the upside would be limited to the cap (8.62% or 13.42%)

Buy-write funds

These invest in typical stock investments, but then they sell put options against the positions. This is an income producing strategy. By writing the option, you're selling most of the upside in exchange for a payment. This not only provides considerable income, but it reduces downside risk because any loss is offset by the payment received from selling the option. Options have a reputation as being speculative and risky, but used in this manner, it actually reduces risk. The security I have settled on is Global X S&P 500 Covered Call ETF (XYLD). The best part about it is the 9.1% dividend. On top of that, it experienced appreciation of 6.8% over the last year for a total return of 17.3%. And it's performed well against the S&P 500 over the last month, losing only 0.8% vs 2.8% for the S&P 500.

TIPS

Treasury Inflation Protected Securities (TIPS) have been a part of the model for a couple of years now, but I thought it was worth mentioning because they are "alternative". They perform better as inflation goes up. They pay the rate of inflation plus or minus some margin. The principal is also adjusted for inflation, so that what is eventually paid at maturity is more than the face value. They have earned 5.4% in the trailing one year, which is pretty good vs the bond market at -1.1%.

Non-traded REITs

One of the problems with public markets is they can shift dramatically up and down for no good reason. There are high volume quant traders which is a fancy name for computers that do 80% of the buying and selling. They usually base their decisions on very short-term effects that have nothing to do with the quality of the investment. Non-traded securities don't have this problem. The one I like is Cantor Fitzgerald's Income Trust. This is a perpetual life REIT that buys single tenant properties and does very long-term leases with big name tenants. Companies like Apple, Walgreen's and Mitsubishi are tenants. Since these are contractual obligation with financially solid tenants, the risk is quite low. And they pay a nice dividend of 6.2%, plus there is capital appreciation.

Gold

I will be eliminating gold as part of the model. I foresaw inflation and in studying the 70s, I looked for investments that did really well despite stagflation. Gold was the winner going up 1,400%. So I added 5-10% positions in gold. It turns out it didn't do much. My theory is the gold bugs of the 70s are the bitcoin buyers today. I have never taken a position in gold before because it pays no interest and has no earnings. Since my thesis proved to be wrong, it's time to redeploy that money into more productive investments

Note: Not all of these investments are appropriate for all clients, therefore any particular client may not have all of these as part of their portfolio. Return data was current as of December 20th, 2021.

I Bonds

If there is such a thing as a perfect investment, it has to be I Bonds. They pay 7.12% with no risk and they are guaranteed by the federal government. The downside: I can't buy them for my clients. They can only be purchased online, directly from the federal government. And they're limited to $10,000 per person, per year. I recommend that everybody that can afford it to set up an account and buy up to $10,000 each. You can also buy them for family members, up to the limit. Each person has to have their own account. Start by going to the website: treasurydirect.gov. Click on individuals and open an account.

As always, give our office a call if you need any help.