



## BAPTIST FOUNDATION OF ILLINOIS

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EXECUTIVE DIRECTOR

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Dear BFI Investor:

I seem to recall that March was supposed to come in like a lion, but it seems like the entire quarter has been as tumultuous as any jungle cat. Let me give you some numbers that help put this in perspective.

On the equity (stock) side of things, every major market is off considerably. The total return of the Dow (30 prominent industrial stocks selected for the index) is -4.55% and the S&P 500 (500 of the largest US companies) is down -4.46%. The NASDAQ (computer exchange driven market with, appropriately enough, lots of tech and financial stocks) is down -8.21%.

It's often the case that when stocks go down, bond prices go up, right? Except not this year. Every major bond index is down, from US Government Credit at -6.52% (again, total return) while their yield has ticked up to 2.95%. Corporate bond indices (total return) are also in negative territory, with long term corporate bonds<sup>1</sup> having a yield of 4.02% at present.

So where do you go when it seems to be raining everywhere? What investment choices can you make when you really don't need an umbrella as much as you need an ark?

### **Quality, Yield and Cost Basis**

Market values fluctuate. They always have and always will. Sometimes they are driven by rational behavior (i.e. a company is poorly performing and the market downgrades their value) or money flooding the market indirectly because of the federal government injecting money into the economy (a rational response to an irrational act). Sometimes they are driven by irrationality, just as we see in bidding up a stock beyond all measures of value (the recent GameStop bubble comes to mind).<sup>2</sup>

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<sup>1</sup> US Corporate Indices, Bloomberg Fixed Income as reported in the Wall Street Journal 4 April 2022.

<sup>2</sup>

<https://www.marketwatch.com/story/the-dark-side-of-the-gamestop-bubble-driving-stock-prices-to-the-moon-can-hurt-america-11612457839>

The good news about such fluctuation is that values for fundamentally good securities do come back. It's the "fundamentally good" thing that one has to address, since, if you simply pay attention to short term market movements, you can easily conclude that everything is bad or "unsafe." Bailing out of such a market is when investors can get hurt and cause permanent damage to their savings goals.

Last Friday, the BFI Board of Trustees met for their Spring session. Among other things, one of the things I shared with the board is that the "best time to check for leaks is when it's raining." In other words, when all markets are stressed as they are now, do we have anything that doesn't meet the criteria of "fundamentally good" that I described earlier?

I'm pleased to report that as of this writing, nothing in our various investment funds (LTFI, Blended, Endowment, or Charitable Trusts) is in default or shows signs of having difficulty. Bonds are paying as agreed and, in general, equities continue to meet their dividend expectations due to sufficient earnings.

One way of testing for quality is to examine how the "cost basis" is holding up in the account. Put simply, an increase in cost basis over time ignores market fluctuations and allows you to focus on things like dividends and interest (yield – how much did you earn divided by how much you invested).

With this mailing, you are receiving the first of our highly anticipated statements that allow you to track both cost basis and market value. And, depending on the objectives of your particular account, can determine how well things are performing. For example, our yield on the LTFI is expected to come in at 4.7% (net) for sub \$1,000,000 accounts in 2022 based on our current holdings. Two things to keep in mind – first, **with every quarter, this estimate gets a bit more accurate.** June is a higher interest month than say, January, so to experience the full yield requires a full year. And, second, **the actual yield will be affected by how efficiently (and where) we deploy new money brought into the fund.** Our new software and changes in our daily standard operating procedures helps us improve this efficiency.

Total return (noted by the ending market value) does indeed matter. In contrast to cost basis, however, it's only relevant if funds are being "cashed out" or if it seems to be a long term trend – longer than an investor has before they plan on exiting the fund. This "long term" trend is why it is sometimes wise to harvest gains (if increased over a number of years) or cut one's losses (if decreased over a number of years).

**So how do the statements help?** Take a look at the various sections and you can track all activity in your account during the month, including earnings and unrealized/realized gains. Realized gains adjust cost basis, while unrealized gains do not adjust cost basis until they are sold or "cashed out." Secondly, you can see the difference between cost basis and market values on the summary section (often at the bottom of the first page).

Oh, and there's two other things I would add. If you have multiple accounts, you will receive multiple statements. We still set off the description with a "CUST" if it's owned by you or "GIFT" if owned by BFI

and you have an interest. That's a function of our new system and we can't change it at this time. The software developer is working on a grouping function in a future release (which we have requested), but it's down the road a bit. Secondly, in the conversion, we often find a description on the account that isn't as helpful as we like. For instance, if your church owns a "building fund," and it would be helpful to have that description on the statement, let us know and we should be able to adjust it accordingly.

As always, thank you for the privilege of service. We are grateful for your confidence as you serve the Lord with your stewardship of His resources.

As you adjust to this new reporting format, you may have further questions. Please don't hesitate to contact me personally at 217.391.3102 and I'll be happy to help.

For our King and His Kingdom,



Larry Douglas (Doug) Morrow, Jr.

*A complete list of holdings (as well the performance) for each fund can be viewed at the investing and saving section of BFI's website covering this first quarter here: <https://baptistfoundationil.org/investing-and-saving/>. This includes the Blended, LTFI, Endowment and CRUT funds.*