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GEO-POLITICAL RISK

In our January newsletter, we acknowledged the possibility of Russian aggression toward the Ukraine. At the time we considered it a possibility but not a probability. However, it has now become a reality and its effects upon the world economy and stock markets have been dramatic. Presently, it is not clear how far Vladimir Putin will go.

The timing is unfortunate as we have been enduring the first 10% correction since March of 2020. This military action has certainly exaggerated the impact. The reaction of Putin to the sanctions imposed by the US and other countries of the world will determine whether any non-military actions will have any effect. Cutting Russia off from the world's banking system is probably the most potent sanction available. However, sanctions will only be effective as long as the world is united over the long term.

At this time, we have shifted 10% of the portfolio from growth-oriented funds to value-oriented funds in order to reduce the volatility. We did not move into cash because the market could strongly rally if a resolution is reached in this conflict. We definitely want to participate in the recovery. The two funds that were added or (added to) play much better defense than the funds that were sold. Also, we are continuing to build our inflation hedges on a monthly dollar-cost average basis. We are monitoring the situation and will take further action as events unfold.

Our rationale behind this decision is based on four main factors that we consider to be problematic.

1. The Federal Reserve and Chairman Powell are "in a box" meaning that normally when something like the Ukraine invasion takes place the Fed would step in with a cash infusion and lower interest rates to combat the impact. However, with the inflation problem they do not have that flexibility.
2. Putin has threatened nuclear weapons and has put his military on high alert. This may be only a bluff and a negotiating ploy but it is not something that makes the markets feel good.
3. It is still unclear what actions China may take (regarding Taiwan) while the world is busy dealing with Russia.
4. The possibility of a cyber-attack in the US and other countries that assist the Ukraine is significant. Russia has strong cyber capabilities and has not been hesitant to use them, an example being the Colonial Pipeline Cyber Attack in June of 2021.

This is how we see the events that are affecting the markets at this time. As things change, we plan to

respond accordingly.

As always if you have any questions please feel free to email or call us.

Your team at Southern Capital Services, Inc.

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