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INVESTOR MARKET UPDATE
(FALL 2022)

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The first 9 months of 2022 has just flown by, but not without much negative financial fanfare. With the markets so gloomy and bearish, I thought an Investor Market Update letter might help us keep a healthy long-term outlook and a well-balanced investment approach.

The last time I wrote an Investor Market Update letter to clients was in early 2009 of the Global Financial Crisis. The U.S. stock market hadn't seen such a crash like that since The Dot Com Bubble of 2001. For those of us advisors serving clients during that timeframe, the heightened fears of investors today seem much like the 2009 and 2001 market corrections. With the average price of gasoline in the U.S. at more than $5 a gallon for the first time in history and the Consumer Price Index (CPI) reaching 9.1%, the highest rate since 1981; the fear and outlook for the remaining 3 months of the year seem to have all the telltale signs of a significant economic slowdown and ongoing recession.

What was the U.S. stock market performance for the first 9 months of 2022?

- Year-to-Date ending September 30th, 2022; the S&P 500 Index (Ticker: SPX – consists of 500 stocks chosen for market size, liquidity, and industry group representation) finished with a loss of -23.9%; its steepest 9-month decline since 1970. Bonds fared a bit better, with the Bloomberg U.S. Aggregate Index (represents the U.S. investment-grade fixed-rate bond market) down about -14.6%, on pace for its worst year in the index's history since 1994. It's a rare and unusual situation when bonds and stocks are both down double digits over a given period. Bonds typically provide protection to investors when stock prices fall; allowing investment portfolios to lose less money. But the combination of high inflation and rising interest rates has put significant pressure on both bonds and stocks for the first time in decades.

What is the good news?

- Markets don't move on good or bad news, they move on better or worse news, specifically better or worse than expected. We just need the news to get 'less worse' so it's all about rate of change.

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- Inflation is unlikely to stay elevated in the long-term. One of the main reasons the stock market is struggling is Inflation. It can't stay at 9% or higher indefinitely and when it slows, this market headwind will end!
- The stock markets historical data shows that a long-term perspective and approach will reward investors with solid long-term returns. There has been a 53/47 split between "up" and "down trading days in the US Stock market over last 50 years (1972-2021). In spite of the near "every-other-day" volatility, the S&P 500 Index still generated an +11.1% rate of return per year.

Where do we go from here?

- Think more about Buying than Bailing! ~ Warren Buffet, Chairman and CEO of Berkshire Hathaway and 6th richest man in the world stated in a letter to shareholders in 2009: "Whether we're talking about Socks or Stocks, I like buying quality merchandise when it is marked down." Price dips are a good chance to increase our positions.
- The stock market typically rises quietly. Uncertainty can cause stock market volatility, and no news is good news. So, try to avoid spending too much time watching the headlines — you'll more likely be able to stay the course when the stock market declines.
- Recessions have been relatively small blips in economic history. American Funds research found that over the last 70 years (1950-2020), the U.S. has been in an official recession less than 15% of all months.
- Bear Markets have been relatively short compared to bull markets. American Funds research found that over the last 70 years (1950-2020), the Average Bull Market lasted 67 months and provided a Total Return of +265% while the Average Bear Market lasted 13 months and provided a Total Return of -33%. So, while recessions have been painful, they have given way to long robust expansions.

What does this mean for my investment portfolio?

- The Silver Lining for Investors: Bear markets are very unsettling, but since 1957, the average bull market saw the S&P 500 climb 184%, and those gains more than made up for any losses sustained during downturns. In other words, the market has always recovered, and there is no reason to believe the current situation is any different.
- Three catalysts in the market to keep an eye on that could propel stocks, and your investment portfolio, back from their lows: 1.) An end to the Ukraine-Russia conflict. 2.) China reopening in earnest from its "zero Covid" lockdowns. 3.) Inflation burning itself out.
- Study after study demonstrates that trying to time the market (getting in and out of market) can be dangerous and costly to a portfolio. BTN Research found that over last 30 years (08/01/1992 to 07/31/2022) that the S&P 500 gained +10.0% per year. If you Remove the Best 22 trading days over the entire 30 years (so 22 trading days out of 7,554 trading days), the return for the S&P 500 Drops in half to +5.0% per year. So, missing a few days of market performance can substantially reduce your overall investment return!
- With that said, investors have historically benefited from a long-term mindset and a stay-the-course investment strategy.

I hope this Investor Market Update was helpful. Please reach out if you would like to discuss anything in more detail.

Your Trusted Advisor,

Darin M. Schmidt

****Please Note: Past performance is not indicative or a guarantee of future results.*