SAM NEWS

1st Quarter 2022 Report
April 2022

War in Ukraine

Stocks Suffer First 10% Correction Since Early 2020

Exactly a year ago in this newsletter we were covering the one-year milestone of COVID-19. Today, U.S. COVID cases and deaths are steadily declining and mask mandates and travel restrictions are easing. This time, the Russian invasion of Ukraine is dominating the headlines and has caused most of the recent volatility in the stock market. Over the last 100 years, U.S. investors have faced many comparable events and the result has been the same in every instance - the stock market always recovers.

Stock market declines are a natural part of investing and while the historical declines have varied in intensity and frequency, they have been somewhat regular events. Market timing, or what some clients may refer to as "doing something" during a downturn or period of uncertainty has almost always resulted in a poor outcome. Although inaction may seem counterintuitive, staying the course has proven to be the wiser choice over the long run. After being down over 12% for the year in early March, the S&P 500 rapidly recovered during the last few weeks to end the quarter down only 4.6%. Please read on for our latest SAM Outlook and Strategy.

1st Quarter 2022 INVESTMENT REPORT

The broad U.S. stock market suffered its first 10%+ decline and first negative quarter in two years. In the last several weeks, the S&P 500 erased all of post-Ukraine invasion losses, but still ended the quarter down 4.6%. The tech heavy Nasdaq Composite swooned 9.1%, small company stocks as represented by the Russell 2000 lost 7.5%, and the DOW 30 dropped 4.1% for the quarter. International stocks as measured by the MSCI EAFE Index declined 6.6%. The Bloomberg Barclays Capital Aggregate Bond Index sank 5.9% marking the worst quarter for bonds in 40 years. Gold set its first all-time high of $2,040 per ounce since last peaking in 2011, then settled back to $1,949 per ounce by the end of the quarter.

INVESTMENT INDICES

All numbers listed are total returns (including dividends) and are percentage gains or losses.

	1st Quarter	2021	2020	2019
Dow 30	-4.1%	20.9%	9.7%	25.3%
S&P 500	-4.6%	26.9%	18.4%	31.5%
Nasdaq Composite	-9.1%	21.4%	43.6%	35.2%
Russell 2000	-7.5%	14.8%	20.0%	25.5%
MSCI EAFE (Int'l stocks)	-6.6%	-8.8%	5.4%	18.4%
Barclays Aggregate (Bonds)	-5.9%	-1.5%	7.5%	8.7%

These are not the rates of return for SAM accounts, but are shown as a historical benchmark for various asset classes. SAM does not guarantee account performance. Accounts may lose value. Information taken from sources believed to be reliable, but its accuracy cannot be guaranteed.

"The market is the most efficient mechanism anywhere in the world for transferring wealth from impatient people to patient people."
- Warren Buffet

SAM Outlook and Strategy on the following page.

Last Chance to Fund Retirement Plans For Tax Year 2021

In general, most retirement plans must be funded by April 18th to be considered for the 2021 tax year. This applies to traditional IRAs, ROTH IRAs, SEP IRAs, SIMPLE IRAs, and most formal retirement plans. If you have not funded your retirement account for 2021 and are still planning on contributing, you should do this as soon as possible. If you have specific questions about how to make your contribution, please contact our office toll-free at 877-658-5193 and we will be glad to assist you.

ANNUAL ADV OFFER

We recently filed our annual updating amendments to our U.S. Securities & Exchange ADV Part I, ADV Part II, and Customer Relationship Summary (CRS). The only material changes were to update our regulatory assets under management and to improve the language throughout our disclosures. Our annual U.S. SEC filings can always be accessed online at https://adviserinfo.sec.gov/firm/summary/108685 .

Upcoming Holidays

Good Friday, April 15th
Memorial Day, May 30th
Juneteenth National Independence Day
June 20th (observed)
Independence Day, July 4th

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SAM OUTLOOK

The broad U.S. stock market set <u>all-time</u> highs on January 3rd and then declined 10% even prior to Russia's actual invasion of Ukraine. The major worries prior to the war were rising inflation, the Federal Reserve raising interest rates, the supply chain crunch, and the Great Resignation's potential impact on our economy. Once the war officially began on 2/24, volatility increased dramatically and the broad stock market declined even further. The invasion has resulted in global condemnation and sanctions against Russia, which have exacerbated the spike in commodity prices - adding even more to existing inflationary pressures.

There are structural bear markets, cyclical bear markets and event-driven bear markets. Event-driven bear markets are triggered by an exogenous shock, like the 1973 oil crisis, the COVID-19 pandemic, or a war - like Russia invading Ukraine. These typically don't lead to domestic recessions. A recession is more likely in Europe than in the U.S., as nations in that region are highly dependent on Russian energy, while the U.S. is largely energy independent (we generally export as much oil as we import).

We will be monitoring the impact of the war on the U.S. and global economies closely. There are many unknowns at this point: How much disruption will there be in the oil and natural gas market? How much of an impact will an increase in oil prices have on global growth and corporate profits? Will the exclusion of Russian banks from SWIFT (The Society for Worldwide Interbank Financial Telecommunication) create problems in global funding markets? Will the U.S. experience a period of stagflation (low growth and high inflation)? We don't know the answers to these questions yet, but doubt that it is "different this time" when compared to previous major world events and disruptions. By the end of the quarter, stocks had already erased their post-Ukraine invasion losses and finished solidly positive for the month of March.

SAM STRATEGY

As you may have noticed in the last quarter of 2021, we performed an annual re-balance of all our managed portfolios. We sold our core Chinese holdings in November and further reduced our China-related holdings in December. We also slightly reduced our exposure to growth and technology and rotated more into value-oriented and higher dividend paying stocks. These portfolio changes have helped our 2022 performance- the broad Chinese market is down 15% year-to-date and U.S. technology and growth stocks have also declined substantially more than the broad S&P 500 or DOW 30.

During the deepest part of the recent decline, we combed through all of the available cash in client accounts and got those funds invested. While it is not easy sometimes, our job is to buy when stocks are on sale. As Warren Buffet famously said and as we have quoted in previous newsletters, "Be fearful when others are greedy and be greedy when others are fearful." This is how Buffet and many other highly successful long-term investors have made their fortunes. When given the opportunity during market corrections, we are able to emulate this approach. <u>Any new funds that clients are able to add to their Schwab accounts during this decline will be buying more shares while stocks are on sale. We would encourage clients who are participating in retirement plans at work to maintain or increase their salary deferrals during this time.</u>

This is the first 10% plus decline in the stock market since the economic shutdown due to COVID in early 2020- in almost two years! This fact, coupled with the war and inflation headlines has taken some of our clients by surprise. U.S. stocks are still reasonably valued on many metrics and the U.S. economy remains strong. Most of the leading economic indicators that we track (earnings, unemployment, interest rates, manufacturing, etc.) are still solidly positive. In a television interview on March 10th, Janet Yellen told the reporter that she did not believe that the U.S. would end up in a recession due to the continued strength of our economy.

The U.S. equity market and international markets will be at the mercy of Russia/Ukraine headlines in the near-term with volatility likely remaining elevated. This is a time for discipline, diversification across and within asset classes, and periodic rebalancing. We will be monitoring the headlines and economic indicators and will make portfolio changes accordingly. Overall, we remain optimistic about the U.S. economy and stock returns for the remainder of 2022.

Annual Review Appointments

Due to the lingering COVID pandemic and now more time in the office due to elevated market volatility, we are scheduling appointments a little later in the year. If we have not met, and you would like to set an appointment, please call our office toll-free at 877-658-5193 and we will meet with you right away. We can schedule a telephone review, Zoom review, or an in-person meeting at your home or our office.

<u>Interesting Fact</u>

At the end of February, the American Association of Individual Investors (AAII) Investor Sentiment Survey showed that over 50% of investors were bearish. When bearish sentiment on the AAII survey has topped 50%, it's been a clear indicator of one of the best buying opportunities. It's a contrarian indicator, particularly at extremes. Historically, when optimism is low, the median gain of the S&P over the next 26 weeks is 7.1%. And over the next year, the index posts a median gain of 17.9%.

We sincerely appreciate your business. Our team strives to provide excellent customer service to all our valued customers. Sending new clients our way is the best possible compliment we can receive. If you know of someone who may benefit from our service, please do not keep us a secret.