SAM NEWS

2nd Quarter 2022 Report
July 2022

Wrestling The Bear

Russia, Rates, Potential Recession

It has been a rough first half of the year for diversified investors. Both stocks and bonds have suffered double-digit year-to-date losses. The bears generally believe that high inflation is here to stay, the supply chain will not come unsnarled until at least next year and the Federal Reserve's aggressive rate hikes will push us into a recession. The bulls, on the other hand, believe that inflation is temporary (and may already have peaked), the supply chain is coming unsnarled (with a few exceptions like autos and semiconductors) and we're on the cusp of continued post-pandemic growth rather than a severe economic contraction. We tend to believe that the bulls have a better handle on what lies ahead and that the economic data will improve going forward. That doesn't mean that stock prices will not remain volatile or won't go down further in the short term. Or... that the market won't suddenly turn around and start heading north again. Bull markets begin well before there is an uptick in fundamentals or sentiment. Please read our "SAM Outlook" and "SAM Strategy" on the next page.

2nd Quarter 2022 INVESTMENT REPORT

U.S. stocks, as measured by the S&P 500 declined 16.1% during the second quarter ending in bear market territory- down 20% year-to-date. The tech heavy Nasdaq Composite fared worse down 22.4% marking its worst quarter since 2008. Small U.S. company stocks as represented by the Russell 2000 were also down 17.2%, while the DOW 30 declined 10.8% for the quarter. International stocks as measured by the MSCI EAFE Index lost 15.4%. The benchmark Bloomberg Aggregate Bond Index declined more than 10% year-to-date, marking one of its worst performances ever. Bitcoin lost 58% of its value during the quarter ending below $19,000 and is down around 70% from the all-time high.

INVESTMENT INDICES

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

	2nd Quarter	YTD	2021
Dow 30	**-10.8%**	**-14.4%**	**20.9%**
S&P 500	**-16.1%**	**-20.0%**	**28.7%**
Nasdaq Composite	**-22.4%**	**-29.5%**	**21.4%**
Russell 2000	**-17.2%**	**-23.4%**	**14.8%**
MSCI EAFE (Int'l stocks)	**-15.4%**	**-21.0%**	**8.8%**
Bloomberg U.S. Aggregate (Bonds)	**-4.7%**	**-10.3%**	**-1.5%**

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.

SAM Outlook and Strategy on the following pages.

Annual Review Appointments

We are continually setting in-person, telephone and Zoom online client review appointments. If we have not gotten together this year and you would like to set an appointment, please call our office toll-free at 877-658-5193 and we will schedule with you right away.

Upcoming Stock Market Holidays

Independence Day, July 4th
Labor Day, September 5th

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SAM OUTLOOK

I am going to begin this quarter's outlook with two separate quotes from the famous economist Paul Samuelson who died back in 2009. First, "Investing should be more like watching paint dry or watching grass grow." Second, "You shouldn't spend much time on your investments. That will just tempt you to pull up your plants and see how the roots are doing, and that's very bad for the roots. It's also very bad for your sleep."

Investing has not felt like watching paint dry or grass grow so far in 2022. Recession or not, it may not feel that way for a while. But we have lived through many of these uncertain periods over the last century. And for what it's worth, I remind those who fear a repeat of the 1970s, that a $100,000 investment at the beginning of 1973 in the US equity market was only worth $59,000 by the end of 1974. It was worth $936,000 by the end of 1994 and today would be worth $13.8 million. That's some tall grass, despite there being plenty of days over that period when it looked like the grass was dying. We continue to encourage our clients to think long-term and to not make any emotional decisions regarding their accounts during this time.

We continue to closely monitor the incoming fundamental economic data. The economic data has become more mixed since our last newsletter but is still generally positive overall. The Federal Reserve continued its rate hiking plan during the quarter to combat inflation more aggressively. U.S. economic growth will slow as a result of higher interest rates as consumers pull back on purchasing goods and services. It is more likely now that gross domestic product (GDP) growth will come in negative for the first half of 2022. The standard definition of a recession is two consecutive quarters of negative GDP growth, and we could experience a mild recession. Despite the U.S. economy's contraction in the first half of the year, economists and the Federal Reserve are still projecting positive growth overall for 2022.

SAM STRATEGY

We have remained fully invested across all of our investment strategies and are continuing to invest client Schwab deposits as they are received. We have been bombarded by a string of bad news since the beginning of the year when stocks reached all-time highs- supply chain issues, continuing COVID cases, lockdowns in China, war in Ukraine, inflation, rising interest rates, etc. At this time, our take is that any good news on any of these fronts could rapidly turn the stock market around and that 2022 could still be a positive year for stocks. We have to be invested to participate in the market turnaround when, not if, that occurs.

Investors have endured one of the worst starts to the year since 1970. Stocks officially entered a bear market during the quarter and the S&P 500 ended the quarter down 20%. Markets don't always decline in recessions. The average decline for the S&P 500 during the past nine recessions is 1.5% while the median decline is 3.4%. The S&P 500 index was positive during four of the past nine recessions, including the recessions of the early 1980s in which Paul Volcker and the U.S. Federal Reserve were breaking inflation through sharply rising interest rates. A broader analysis of the past nine recessions reveals that the average return from the cycle's peak to the end of the recession is -15.3%. For reference, the S&P 500 Index is already down 21% from the January 4, 2022 peak. If we have just a mild recession, then stocks may have already overshot to the downside and may be truly undervalued. This makes a substantial second half turnaround in stocks possible based on our analysis.

Staying The Course

Part of doing the right thing is having the proper perspective. If you invested to meet long-term goals, don't let short-term events derail your plans. How will you feel about this sell-off two years from now... five years from now... 10 years from now? Will you wish you had stuck with your plans or abandoned them? Will it look smart to have bought stocks that are cheap or to have sold stocks that are cheap? The questions answer themselves.

It's also important not to torment yourself with the day-to-day swings in the market. Over the last few years, you may have enjoyed logging on to your brokerage account a few times a day to check your account value as it was going up. It feels really good to make money, to see your net worth grow. But what is the point of making yourself miserable by looking at a falling account value in a down market? You should avoid that temptation.

It's impossible not to feel emotional about the stock market from time to time. But feeling emotional is one thing. Acting on it is another. Fear, anxiety and regret do not generally lead to good investment decisions. To the extent that you look at how much stocks have dropped, view them with an opportunity mindset. In particular, don't dwell on what your account is worth in a bear market relative to what it was worth at its peak. After all, it would never have reached that level if you didn't own equities. And peaks are never visible except in hindsight.

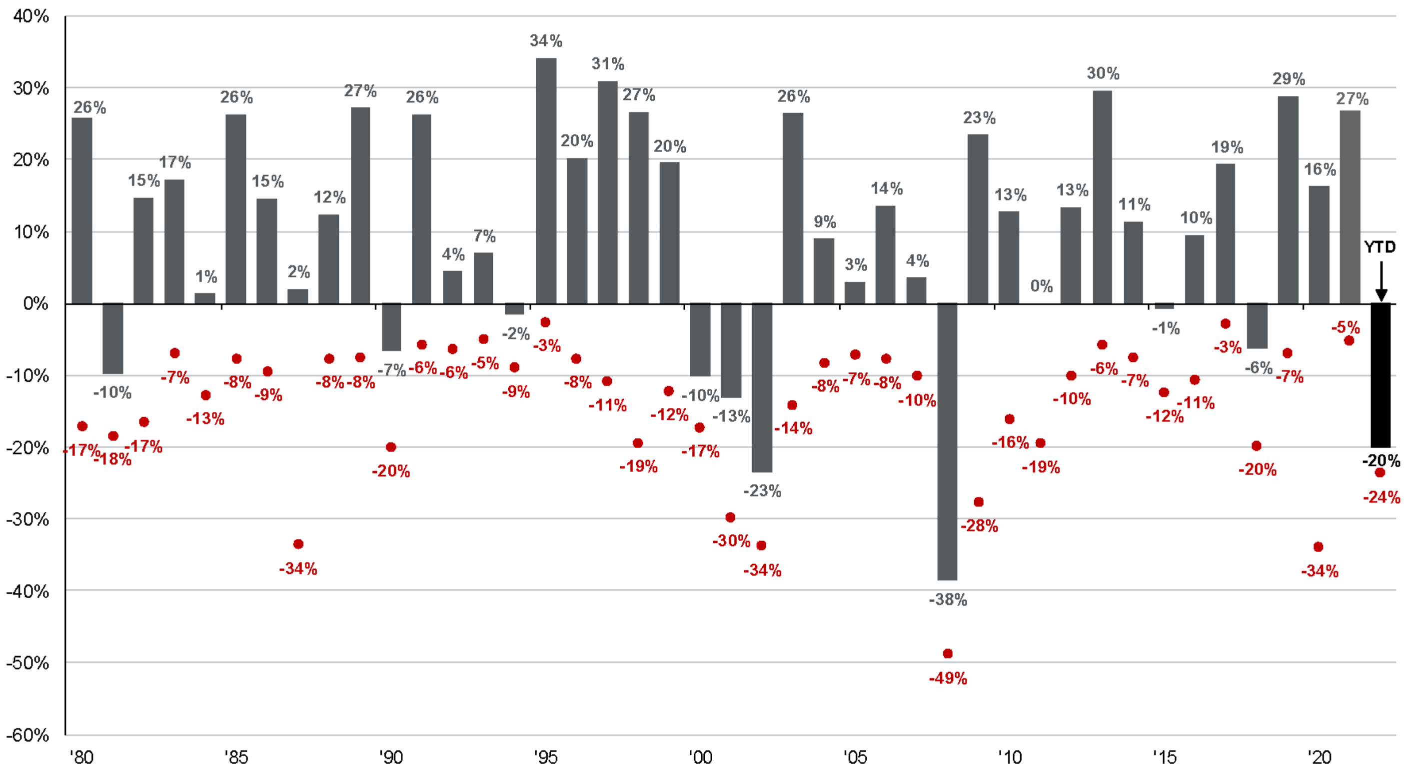
If you stay invested - and continue to act wisely - your account will exceed the old peak in the next bull market. Realize, too, that every market decline of the last 200 years was a buying opportunity. But only for those who acted on it. As Warren Buffett often points out, it hasn't paid to bet against American business for the past 246 years- there's no good reason to start now! Our best advice would be to add new money to your accounts now while the market is down to take advantage of this opportunity.

Please review the two graphics, on this page and the following page. The intra-year declines chart shows how far the S&P 500 declined each year (in red) and where the stock market ended up (gray bars). As you can see from this graphic, we have a decline in the stock market every year and according to this data that goes back to 1980, the average intra-year decline is 14%. The goal of this graphic is to show that market declines are normal and that the stock market ends positively over 75% of the time. 2020 was an extreme example, but the S&P 500 was down as much as 34%, but ended **UP** 16%.

Annual returns and intra-year declines

S&P intra-year declines vs. calendar year returns

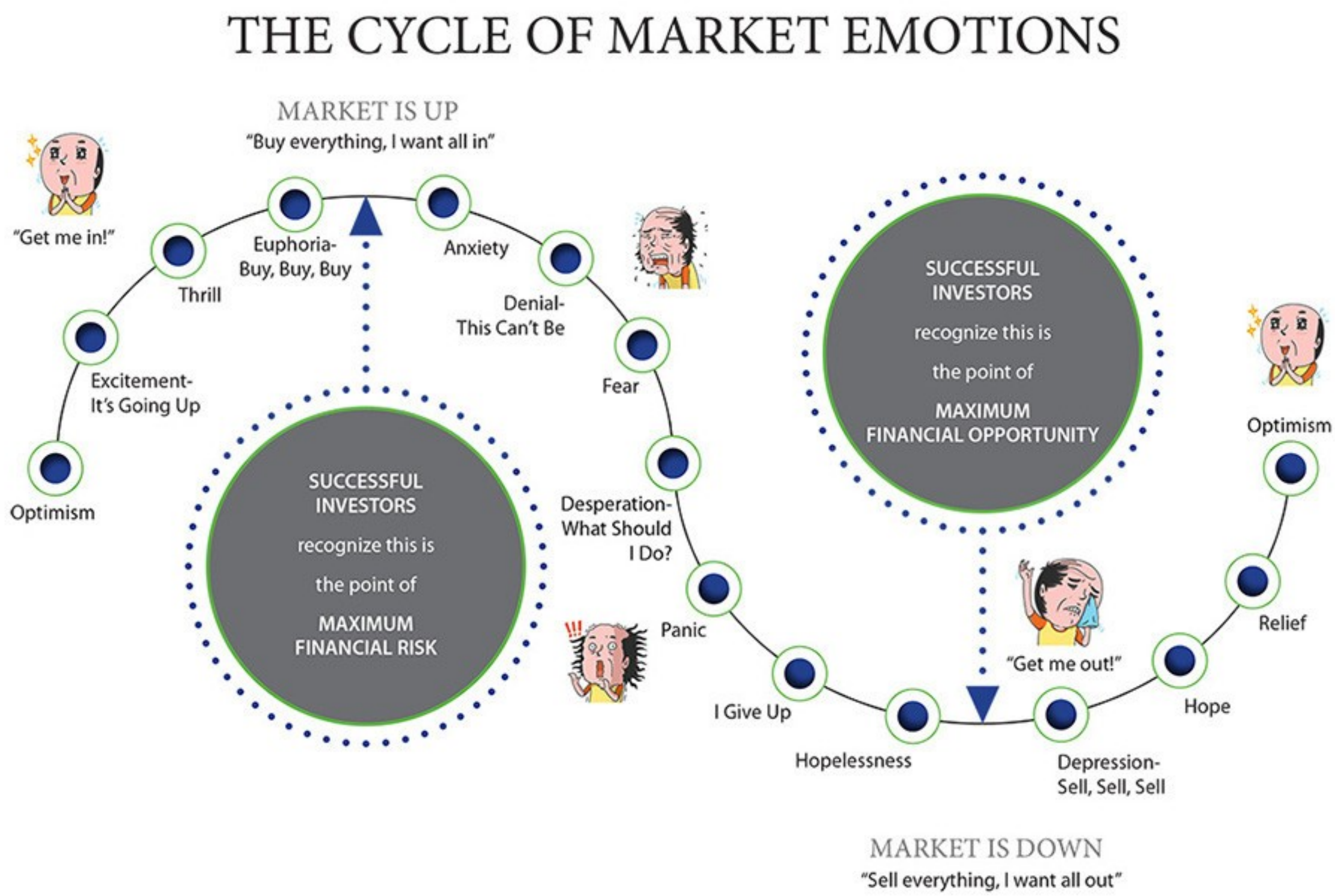
Despite average intra-year drops of 14.0%, annual returns were positive in 32 of 42 years



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2021, over which time period the average annual return was 9.4%.
Guide to the Markets – U.S. Data are as of June 28, 2022.

J.P.Morgan
ASSET MANAGEMENT

Many of our clients have already seen the cycle of market emotions chart. We are clearly in the hopelessness/depression area of the chart. This is the point where it feels the worst- when stocks are lower and volatility is high. Please note that this area is labeled "point of maximum financial opportunity." This is the time to stick with your long-term goals or add new funds to your accounts if you have the ability.



We sincerely appreciate your continued trust and confidence during these challenging times. If you know of someone who may benefit from our service, please pass along our contact information. As always, there is no cost for an initial consultation.