SAM NEWS

3rd Quarter Report
October 2022

Bear Market Of 2022 Continues

Broad Stock Market Down Three Consecutive Quarters

After starting the second half of the year in bear market territory, the S&P 500 rallied this summer in July and early August, providing a welcome reprieve to weary U.S. equity investors. However, with the rally now evaporated and the S&P 500 touching new 2022 lows, investors have been left wondering if the continued direction is up or down. 2022 has not been easy for investors. The stock market had its worst first half in over five decades and bonds are on track for their worst year ever. Inflation is continuing to run higher than the Federal Reserve prefers, the supply chain is still snarled, lockdowns persist in more than 70 Chinese cities, war is ongoing in Ukraine, issues in Washington, D.C., and elsewhere are never-ending... The Fed let inflation run too hot for too long and is now left playing catch-up. Jerome Powell and company are hiking rates far more aggressively than normal - .75% at a time at each of the last three meetings. All of these developments are weighing on the markets and investor psychology. There is now a higher probability that the Fed's aggressive actions to combat inflation could push the economy into a recession in early 2023. For our most recent thoughts, please read our SAM Outlook and SAM Strategy, below.

3rd QUARTER 2022 INVESTMENT REPORT

U.S. stocks, as measured by the broad S&P 500 declined 4.9% during the quarter marking the first three consecutive quarterly losses since the 2008-2009 financial crisis. The tech heavy Nasdaq Composite declined 4.1% and small company stocks as represented by the Russell 2000 were down 2.2%. The Dow 30 reached bear market territory late in the quarter ending down 6.2% for the quarter, -19.7% so far in 2022. International stocks as measured by the MSCI EAFE Index declined 10%. The Bloomberg Capital Aggregate Bond Index added to year-to-date losses declining 4.8% for the quarter and ending down an unprecedented 14.6% so far in 2022. The price of gold has collapsed by around 18% since March to $1,672 an ounce. The price of Bitcoin is down 58% year-to-date and 71% from the 2021 highs. Neither gold nor Bitcoin have protected investors from rising inflation or volatility.

INVESTMENT INDICES

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

	3rd Quarter	YTD	2021	2020
Dow 30	**-6.2%**	**-19.7%**	**20.9%**	**9.7%**
S&P 500	**-4.9%**	**-23.9%**	**28.7%**	**18.4%**
Nasdaq	**-4.1%**	**-32.4%**	**21.4%**	**43.6%**
Russell 2000	**-2.2%**	**-25.1%**	**14.8%**	**20.0%**
MSCI EAFE (International Stocks)	**-10.0%**	**-28.9%**	**8.8%**	**5.4%**
Bloomberg Aggregate (Bonds)	**-4.8%**	**-14.6%**	**-1.5%**	**7.5%**

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 & SAM Strategy on the following page

TIME FOR TAX PLANNING

It's Less Than 90 Days To Year-End! Time to start thinking about…

Tax planning: Schedule an appointment with your CPA or tax preparer.

IRA and retirement plan contributions: Be sure to fund by the IRS deadlines.

Upcoming Stock Market Holidays

Thanksgiving Day, November 24th
SAM Closed Friday, November 25th
Christmas (observed), December 26th
New Year's (observed), January 2nd

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SAM OUTLOOK

The Federal Reserve on September 21st delivered its third straight 75-basis point interest rate hike in its campaign to drive borrowing costs high enough to bring down 40-year high inflation. The goal: to get businesses and households to pull back on spending and reduce demand for goods, services, and labor, thereby easing upward pressure on prices. The process of slowing the economy won't be smooth. Regular Americans have felt the sting of inflation for months, and the Fed's effort to lower it so far have already made it harder or less affordable for many consumers to buy things that are financed like homes and vehicles. Other shoes have yet to drop, though, such as an increase in unemployment or even a recession. Fed Chair Jerome Powell has said in recent speeches that the rapid and forceful action the central bank is taking will have "unfortunate costs" and “some pain” including a rise in the unemployment rate, currently at a historically low 3.7%. Fed policymakers expect unemployment to rise to 4.4% by the end of next year based on their most recent projections.

The interest rate increases are already having an impact and inflation is cooling- consider the following: Container freight rates are down over 44% in the past six months. Lumber prices are down over 70% from the peak in March. Oil prices have declined to pre-Ukraine invasion levels. Gasoline futures are signaling that the national average of prices at the pump are expected to fall below $4.00/gallon. Home prices are leveling off or declining nationwide. Select retailers are now reporting inventory overhangs. The bond market’s expectations for inflation in the next year fell from 6.3% in March to close to 3% during the quarter.

By now most investors would agree that how inflation plays out in the U.S. will dictate the direction of global financial markets. Disinflation will lead to higher stock and bond prices and a better economy, but if inflation turns out to be sticky and stubbornly high, both stocks and bonds could suffer more, along with the economy. Of course, the market can easily break to new lows, but our conviction is that stocks will be higher in six months than they are today as inflation abates.

Our future outlook remains positive- especially from the current oversold stock market levels. The stock market reached all-time highs in early January and we have been faced with steady bad news over the last nine months. We believe that with *any* good news (a decline in inflation, a Federal Reserve rate pause, stable corporate earnings, improvement in the war in Ukraine, supply chain easing, China cities reopening, etc.) we could get a large turnaround in the stock market. Historically, when the volatility is this high and it “feels” this terrible we are close to reaching a market bottom.

SAM STRATEGY

Bear markets, of course, are defined as a stock market drop of 20% or more. Bull markets, in turn, entail a market rise of 20% or more. History shows that every bull market is followed by a bear market- just as every bear market is followed by a bull market. Bull and bear markets are as normal as the changing of the seasons. But they are far more unpredictable and that's why so many investors find them terrifying.

Start at any date over the last 100 years… U.S. stocks were higher in one year 74% of the time, higher in five years 86% of the time, higher in 10 years 94% of the time and higher in 20 years 100% of the time. In a bear market like the one we are in now, it’s okay to feel anxious, afraid, or regretful. It’s another thing entirely to *act* on those emotions and run to cash, promising yourself that you’ll get back in later, when things look better. When things look better, stocks will be higher- probably substantially higher than when you sold.

It’s always tough to be an investor when the going gets tough, but it helps to take both a long-term and historical perspective. The market we're in right now is a good reminder that stocks don't always go up. There’s volatility, and that volatility cuts both ways. But as a diversified investor, you shouldn't necessarily be thinking about the next several months or even the next year. You should be thinking about the next three, five or 10 years. That perspective can help in markets like these. We have spoken to many concerned clients over the last few months and have recommended that they stay the course during this challenging time.

Our investment strategy has remained consistent and is tried and true in bull and bear markets. We have made small, strategic changes to our portfolios throughout the year- especially during the dips which have helped our performance. Our accounts are well positioned to take advantage of a rebound in the stock market when, not if, it turns around. As interest rates rise, bonds are beginning to look more appealing- especially in our balanced and conservative portfolios. After a decade of minimizing our bond exposure, we may begin slowly increasing our allocation to bonds going forward. As always, we welcome your calls and emails if you have specific questions or concerns and we are always glad to meet in person to review your accounts and discuss our strategy in greater detail.

What Should You Do Now?

1. **Remain calm and think long-term.** The stock market has recovered from every decline in history- no exceptions. It has never been "different this time." To keep the recent decline in perspective, the S&P 500 fell to 2,237 on 3/23/2020 at the COVID-19 lows. Today, the S&P 500 is well above 3,500. If you still have our 2nd quarter newsletter, it may be good to re-visit the cycle of market emotions graphic on page four.
2. **Consider adding new funds to your investment accounts now.** Adding new funds to any investment account while the market is down (dollar cost averaging, or simply "buying low") has historically produced higher than average rates of return over the following 12-18 months. You can add funds to your non-retirement brokerage account or fully fund your retirement account now for the 2022 tax year. If you need instructions on how to make deposits into your Schwab account, just call our office.
3. **Look forward, not back.** Too many investors obsess over how much their portfolios are down from the peak while seldom recalling that they never would have reached that peak if they didn't own stocks or invest in the first place. Remember that the stock market reached all-time highs in early January of this year and the year-to-date declines are being measured from the highest point ever notched for stocks.
4. **Maintain a long-term time horizon.** We don't recommend that you invest any money that you may need in the short term in the stock market. If you keep an emergency fund of 6-12 months of living expenses outside of Schwab (which we highly recommend), you will not be forced to sell your stock portfolio at unfavorable prices- even if stocks go lower in the near term. Consider investing the portion of your savings that you know you will not need for the next year or two. As Warren Buffet said in 2008 "Whether we're talking about socks or stocks, I like buying quality merchandise when it is marked down." Many high-quality stocks are on sale now!
5. **Have an asset allocation.** Our portfolios are always highly diversified among stocks and bonds. Most of our clients have a substantial portion of their net worth in real estate and have other sources of monthly income. Keep in mind that your investment portfolio is just one portion of your overall net worth and asset allocation.
6. **Over the long term, we know the odds are in our favor.** Look at the long-term chart of the S&P 500 below. Ask a class of fifth-graders to point out where the best buying opportunities were. After about five seconds of analysis, they will point to each of the bear markets.

Gifting Appreciated Securities

Although stock prices have declined, you may still want to consider donating appreciated securities from your non-IRA brokerage accounts to charity. There are major advantages in donating appreciated securities instead of cash. When you donate an appreciated security, you don't have to pay capital gains tax on the gain, and generally you get a tax deduction for the full value of the security on the day it is donated. Giving appreciated securities instead of cash can save you hundreds or even thousands of dollars versus a cash gift. Contact our office or see your tax preparer to find out if you should take advantage of this unique way of giving.

RMD's (Required Minimum Distributions) for IRA's:

Charles Schwab will notify clients who have required minimum distribution requirements in 2022 of their Required Minimum Distribution (RMD) from all types of IRA accounts. The RMD must be taken this year in order to avoid severe penalties. If you have any taxable account with us, we can arrange to have the RMD amount directly transferred from your IRA to your after tax account- no hassle! We will be reaching out this month, or just call our office at 658-5193, toll-free 1-877-658-5193.

"The idea that a bell rings to signal when to get into or out of the stock market is simply not credible. After nearly fifty years in this business, I don't know anybody who has done it successfully and consistently. I don't even know anybody who knows anybody who has."

Jack Bogle- founder of Vanguard