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BRAZIER, HINZ & ASSOCIATES
Financial Planning* For The Second Half Of Life

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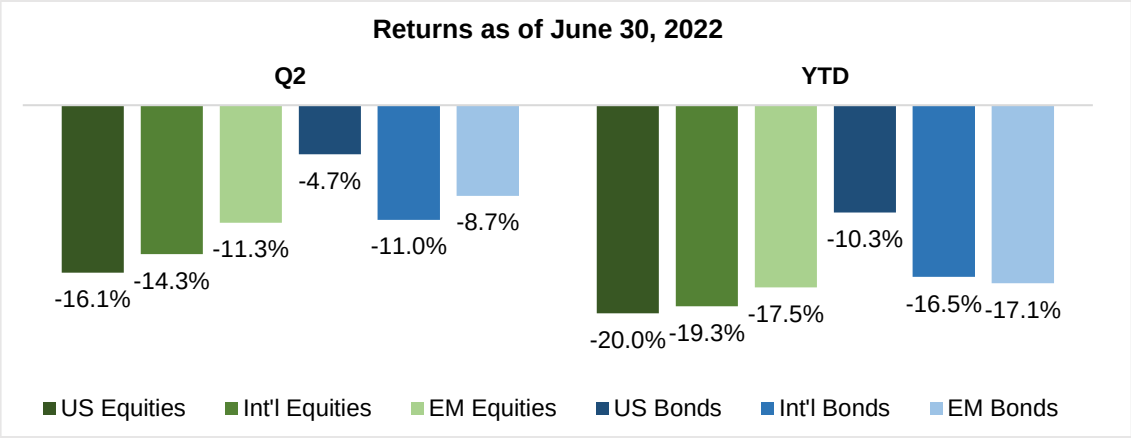
July 28, 2022

Dear Clients,

The first half of 2022 ended with global markets in negative territory; including both stock and bond markets. Even though the markets attempted to rally three times during the second quarter, they ultimately succumbed to downward pressures with the S&P 500 entering into bear market territory. A bear market being defined as a drop of 20% or more from a market high. In addition, it's been more painful due to both stock and bond markets posting



negative returns at the same time and for two consecutive quarters. This has occurred just three other times in the past 100-year history.[1] But losses also included commodities, from agriculture products to metals, ending June lower than in March.

Inflation has been at the forefront of the news since the beginning of the year with the most recent numbers being a year-over-year increase for April, May, and June of 6.3%, 8.6% and 9.1%, respectively.[2] The Federal Reserve (Fed) has made it very clear that they will sacrifice economic growth in the effort to curb inflation by raising the Federal Funds Rate. In the past these actions by the Fed have led to recessions 10 out of 11 times since 1965. Only once has the Fed been able to achieve a "soft-landing", meaning no recession by raising the Federal Funds rate. That one time being in 1995 when the Fed raised rates from 3% to 6% with no GDP (Gross Domestic Product) loss and unemployment decreasing.[3]

A recession is defined as two quarters of negative GDP. The first quarter of the year was revised to a negative 1.6% and as of June 30th, the Atlanta Fed's GDP model is forecasting a negative annualized 2.1% of GDP for the 2nd quarter. Another economic indicator is consumer spending, which accounts for 70% of the GDP number, and in May personal spending declined for the first time this year. While indicators are flashing yellow, reflecting

1. Source: Ben Carlson, CFA 2. Source: bls.gov/opub/ted/2022/consumer-prices.htm 3. Source: npr.org/2022/07/24/1112770581

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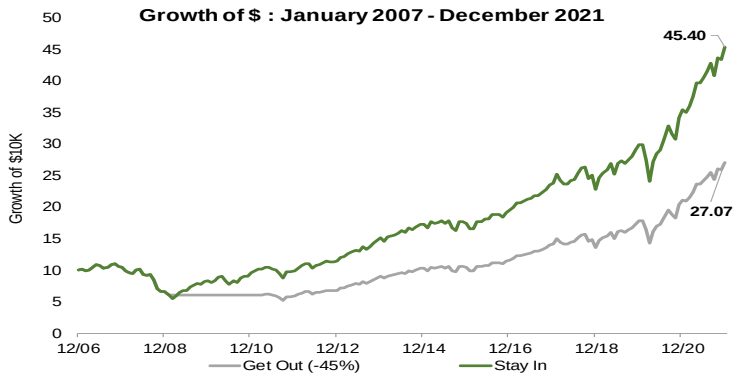
the economy is slowing down, it is not grinding to a halt. The economy is responding to tighter financial conditions and moderating after exceptionally strong growth in 2021. In the positive column is the strong labor market, a healthy consumer, and businesses with solid fundamentals. This all supports an argument that any near-term recession should be short and shallow. [4]

Looking Forward

We know that it is always easier to stay invested when markets are making new highs than when we see significant losses. But remember that as we stay invested, as dividends and interest are being reinvested, we are buying more shares while "on sale". Remember that bear markets can offer opportunities for long-term investors. In looking at the average return post-bear market between 1949-2020 we get 18.9% 1 year, 38.7% 3 year and 63.9% 5 years afterwards. [5] Remember it's the "Time" in the markets that is important and not "Timing" the market!!



Thank you for the trust you have placed in us and we will continue to work hard to navigate the challenges and opportunities on your behalf. We look forward to discussion your evolving financial goals, as well as reviewing the mixture of asset allocation approaches within your portfolio, as we seek to keep your investment plan aligned with your needs.

Sincerely,

Kadi

Kadi F. Hinz
Financial Planner*, MSFA

4. Source: capecodfive/resources 5. Source: AssetMark Disciplines to navigate volatility

On The Mark

Time in vs Timing the Markets

February 18, 2022

The stock market is off to a rocky start this year. Higher volatility can be a source of uncertainty for even the most seasoned investors. In this issue we hope to provide some historical perspective on the anatomy of the markets and the impact of moving out of markets during periods of turbulence.

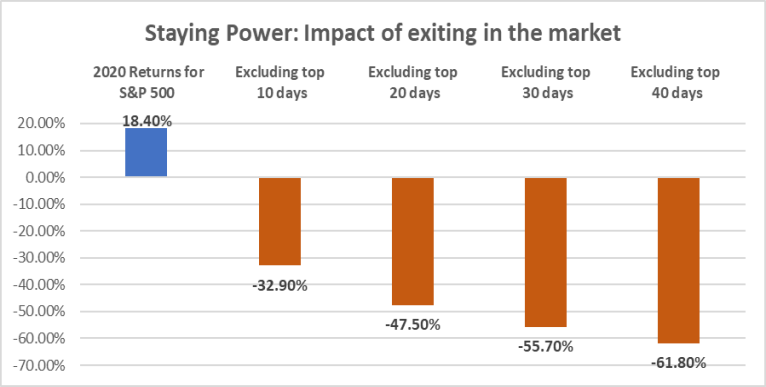
Volatility is a Feature and Not a Bug in the Market

History tells us that market volatility is a feature of how the market functions and not a bug. Research by Ned Davis on the anatomy of the stock market (Dow Jones Index) highlights the frequency of market declines since 1900[1]. This research found that on average, every year the market suffers three 5% corrections, one 10% correction, and a decline of 20% every three years or more. Market history also suggests that most dips (declines of 5%) in the Dow Jones Industrial Average don't turn into anything serious.

Time in vs Market Timing

Since market pullbacks are frequent, avoiding just a few of them could potentially add to investment results. However, attempts to avoid pullbacks more often lead to missing out on significant advances. A reason is that market volatility is often clustered with the big moves in the market, both up and down, occurring within days of each other.

As an example, an investor who remained fully invested in the S&P 500 Index during 2020 saw a total return of 18.4%. On the other hand, if an investor sold when the market dropped, not only would they have possibly avoided some of the losses, but they could have also potentially missed the trading days with the greatest gains. Research shows that simply missing the top 10 trading days in 2020 would have led not only to giving up the gains, but an investor would have experienced a loss of 32.9%[2].



Source: Schwab Center for Financial Research

This phenomenon is not isolated to 2020. Over the last fifteen years, a time period which includes the great financial recession, as well as the COVID-driven recession, an investor who remained invested in S&P 500 index would have generated an annualized return of 10.66%[3]. However, simply missing the top 10 days would cut returns by 50% to 5.05% annualized returns. The results become more dramatic when simply missing the top 30 days leads to annualized losses of -1.18%.

A Key to Long-Term Investing Success

Understandably, the market's normal ups and downs can be stressful. While it's natural to have a reaction to market volatility, it's also important to understand the potential impact of that reaction as well. One of the most common mistakes investors make is to sell their stocks when markets are down, creating realized losses from paper losses, and then being left on the sidelines when markets rebound. The key to long-term investment success is the decision to be invested and to stay invested.

[1] Ned Davis Research: The Anatomy of the Stock Market (DJIA) declines from 1900. Data: 1/02/1900-2/14/2022
[2] Charles Schwab: Is there a perfect time to invest? Bah! Humbug! Results are based on daily total returns from 2020, from the first trading day of January 2020 to the last trading day of December 2020.
[3] Putnam Investments: Time, not timing, is the best way to capitalize on stock market gains. 12/31/06-12/31/21

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