



July 12, 2022

Whew! That wasn't much fun. I've seen many euphemisms used to describe the investment climate for the first half of this year. Not sure which, if any, I like better, but it clearly hasn't been much fun. But bottom line is: If you have two outstanding investment years, a down year, even of this magnitude, should not be unexpected. That doesn't make it feel any better though.

Obviously, there have been a lot of factors in play over the last 2-3 years to challenge the economy. But to me, it seems the important ones are related to COVID, monetary policy, and international relations. Even though it's getting better, COVID still has global supply chains and production out of synch. Most developed nations were starting to normalize their monetary policy when COVID showed up. Now they're trying to wring ten plus years of low interest rates out of the economy to get returns to savers and investors more in line and to control inflation. As far as international relations are concerned, the war between Ukraine and Russia is the most recent big flare up. But China is still a significant concern along with issues in the Mid- East and Africa, etc., etc. These all add up to economic uncertainty and market volatility.

Of course, inflation is where the rubber meets the road on these issues for virtually everyone. For my generation, inflation may still be a vivid memory, but for everyone younger it's been a non-issue for most of their lives. My Dad and Mom would talk about the Depression, but for me it seemed so far in the past as to be irrelevant. But for my kids, rampant inflation is actually more distant.

Clearly looking at your investment account is not going to leave you feeling very good. But I do need to remind you that you still hold all of the shares you had before, so you still have all of the benefits of the asset – the market is simply saying if you choose to sell now, you'll get less money.

On the other hand, if you do nothing, your fixed income holdings will still generate interest, probably more than before. Stocks will still represent your portion of a business's future performance and entitle you to any income they choose to distribute as dividends. In fact, overall dividend payouts to shareholders are expected to be up ten percent this year.



Without belaboring the point, the first half was a challenge for every asset class except energy and Ag commodities.

Rising interest rates combined with exceptionally low initial interest rates pushed bond values down hard.

Virtually every sector of the stock market was down sharply.

But nothing compares to the drubbing Bitcoin took.

So, what does the future hold? Well of course, as you already know, I have no idea.

But here are a few things to consider:

- If you are accumulating funds for retirement, college, or anything with a multi-year time horizon, this may actually be a suitable time to buy. I think Warren Buffett says something like – if you liked the price yesterday at \$100 and today its \$80, why not buy more at the new lower price. Dollar cost averaging is a wonderful strategy.
- Almost no matter where you are on the retirement age continuum, this would be a suitable time to seriously review the pluses and minuses of pursuing a 401k or Traditional IRA conversion to a Roth.
- It may be time to review your investment allocation, but I would suggest the key is to still find an allocation that you are generally comfortable with and then add a little bit on a regular basis over time. Obviously, no guarantees, but this strategy has worked successfully in the past.
- If you are in retirement, next year's required minimum withdrawal may be somewhat smaller. In at least some cases, interest and dividends may generate more of the funds for the withdrawal. This would allow you to avoid the sale of your holdings at current prices.

Finally, it appears that various commodity prices have declined over the past few weeks. So even though a recession is still likely and the challenges from inflation will be with us for a while, I think there can be reason for optimism on the horizon!

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