October 17, 2022

I'm not sure of the exact wording, but there is an old adage which in essence says just because things are bad, it doesn't mean they can't get worse! The past few months have certainly lived up to that saying. I was clearly fooled by the market's little head fake back in late July. I'm not a big technician, but the S&P 500 was above its 65-day moving-average and approaching its 200-day moving-average, which are supposed to be positive technical indicators.

Clearly, we all know that investment returns are not a smooth upward line with a few small bumps along the way. In our minds, we envision something like Disney's Mr. Toad's Wild Ride when we think about stock market volatility. However, what we've experienced the past few years, may be Mr. Toad's Wild Ride, BUT not the Disney version, it the Hurricane Ian powered version. The question is whether the storm is over or are we in the eye of the hurricane. Volatility will continue to be part of our investment experience; the only variable is the speed and magnitude.

Looking at the last ten years of my model portfolios performance, both the worst one year and three-year return periods ended last month. But, the best one year ended just six months before the beginning of the worst period, while the worst three years started about three months before the best one ended. One of the lessons from this would be the challenge in 'timing' the market and the need to understand your investment timeline.

The very rapid and sharp increase for interest rates was a surprise to me. I clearly was not expecting interest rates to move this far, let alone this quickly. But things rarely move to some equilibrium point smoothly, and for a wide variety of reasons inflation has also done the same thing.

So, what of the future? Uncertainty is the keyword – maybe the only word. The list of concerns is quite long and include the following:

- US Election
- Inflation
- Globalization
- Recession
- Energy
- Polarization
- Geo-Political
  - Russia – Ukraine
  - N. Korea – S. Korea
  - China – Taiwan
  - Middle East
  - East Africa
- Worldwide Migration
- Climate Change
- UK – Economy
- Etc., Etc.
- Plus, whatever

Bottomline, this is similar, but not identical, to most time periods. Things will likely sort themselves out and with some bumps and wobbles, we'll be fine. You might look back at my last commentary for some specific ideas to consider if they fit your situation.

Still, the nagging question is whether something is really 'different' now. The answer has generally always been no. Timing the market is always hard!

However, the rapid increase in interest rates may be something to think about and whether they are likely to go much higher. The institutional bond guys would suggest probably not, which leans against making any changes in your fixed income asset choices. But money market fund rates as well as certificates of deposit have become more appealing in the last few months.

Finally, I think the general expectation has been for long term investment returns to be in the plus or minus 7% area. I think this is still a reasonable long-term expectation, but it won't be all sunshine and blue skies, there will be rain and some storm clouds.

Here's hoping for more sunny days!

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