



January 12, 2023

Well, that was Fun - Not! It's good to be reminded that all investing revolves around risk, but was that really necessary?

However, we've not had a significant annual correction since the Great Recession in 2008. We've had some poor years, but clearly nothing like 2022. One of the things to keep in mind is just how good the previous three years were. I put together this simplistic chart to help remind myself of this very brief history.

| ETF | Ticker | Annual Market Return Percent | | | | | NAV Mean Return | |
|-----------------------|--------|------------------------------|-------|-------|-------|--------|-----------------|-------|
| | | 2018 | 2019 | 2020 | 2021 | 2022 | 3 Yr | 5 Yr |
| Dividend Appreciation | VIG | -2.08 | 29.62 | 15.40 | 23.76 | -9.81 | 8.80 | 10.35 |
| S&P 500 | VOO | -4.50 | 31.35 | 18.29 | 28.78 | -18.19 | 7.61 | 9.38 |
| Total Stock Market | VTI | -5.21 | 30.87 | 21.03 | 25.67 | -19.51 | 6.97 | 8.72 |
| Invesco QQQ | QQQ | -0.12 | 38.96 | 48.62 | 27.42 | -32.58 | 8.48 | 12.14 |
| iShares IGC Bd | LQD | -3.79 | 17.37 | 10.97 | -1.84 | -17.93 | -3.56 | 0.22 |
| Total Bond Market | BND | -0.11 | 8.84 | 7.71 | -1.86 | -13.11 | -2.74 | -0.01 |

FYI - this chart should come with a couple of pages of disclosure - I will send on request.

Reversion to the mean is a phrase sometimes used to explain a year like 2022, which may have some validity. [Interestingly, it's rarely used to explain a very good year!] However, the question really is; what time period to use to determine the mean, and then there's the always nagging question; is this time different.

I think the last couple of decades, or so, have been quite favorable for investors - particularly equity investors. Clearly, if you had started your investment program five years ago, you might be quite stressed now. But even if you had invested in the pretty "aggressive" QQQ's you would be further ahead than if you had taken a more conservative posture. The caveat is that you would have to be sure to hang on even during some rough times.

Inflation, interest rates, Geo-politics, climatic events, etc., are among the many reasons for 2022's challenges. They are all interrelated and have created quite a tangled web. In some respects, they are like the chicken and egg question, which did come first?



For example, the Fed is increasing interest rates to combat inflation, but higher interest rates increase production costs, which raise prices and therefore increase inflation. Good business prospects increase demand for employees, which in turn then can demand higher wages, the new employees may decrease overall productivity, which then reduces profitability. If you expand the view a little further, you get to Russia's invasion of Ukraine. This stimulates inflation from the reduced supply of Ukrainian grain and a curtailment of Russian oil and gas. But it benefits other areas of the economy due to increased demand, at a higher, more profitable, price points. Not to mention, China's challenges with COVID that is still messing with supply chains without regard to interest rates. Then add in some longer term trends like China's declining population, weather/climate extremes, etc., and it's no wonder the market's took a break last year.

As usual it turns out it is complicated! Eggs are the current hot inflation item. In the long run this will be worked out, but in the short run, nothing is going to instantly increase the number of egg laying hens.

So, what is one to do going forward? The first thing is to remember that some years are always better, and some are always worse, than others. It is the markets job to react and adjust to these changes, which then provides some signals to the overall economy about changes that may be needed.

At this point, I usually fall back on the Coffee House Investor's guidance. Basically, control what you can and don't worry about the rest. In other words, decide to save, control cost, find an investment allocation you're comfortable with, and then go about your life.

This bumpy ride may not be over, but it will end - just like a cold and gloomy winter day will eventually give way to a warmer, sunnier day.

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