

Monday, October 10, 2022

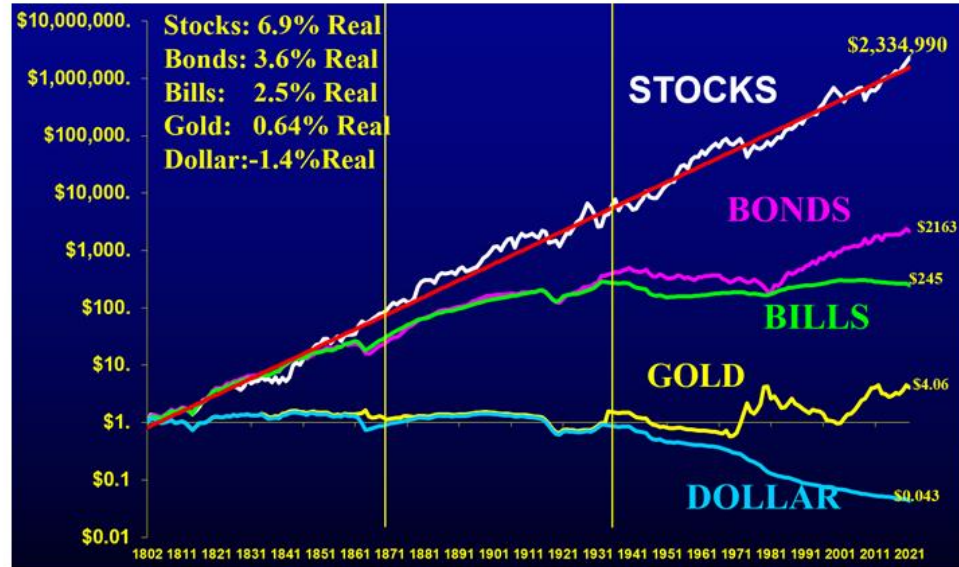
Good morning:

Like everyone else, we were happy to see October start last week after the worst September in the stock market in twenty years. It began with a bang as the S&P 500 posted its biggest 2-day gain since April 2020. Unfortunately, a strong September jobs report later in the week, normally a *good* thing, threw cold water on the rally and the hopes that the Fed would soon start to ease their rate hikes. By Friday, the Dow led with a gain of 2.03%, while the NASDAQ added a mere 0.75% on the week.

For most of the last decade, many traders and investors prescribed to the “buy the dip” philosophy with typically beneficial results. Since the start of this year, however, we are seeing a “sell the rally” tactic start to be employed more often. The fear and uncertainty across so many areas of the market and the economy has prompted some to abandon the long-term return potential of equities and use the strong rallies that occur when markets become highly oversold to trade out of equities in hopes of buying them back at lower prices when markets resume their descent.

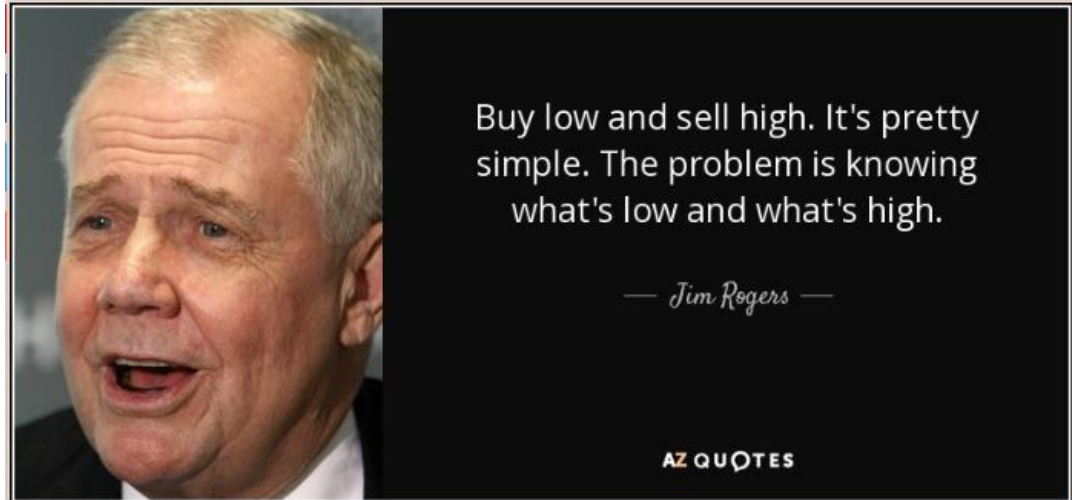
History would suggest that not only is this type of market timing extremely difficult to execute successfully with any regularity, but also that it may prove unnecessary as the asset class of equities has significantly outperformed all others *without* jumping in and out (see chart below).

### Total Real Return Indexes January 1802 – December 2021



Source: Siegel, Jeremy, *Stocks for the Long Run* (2014), With Updates to 2021. Past Performance is not indicative of future results. **Stocks:** The total returns after inflation on the broadest index of stocks available at the time. (Stocks-real-total return Index: 1802–2022). **Bonds:** The total returns on an index on U.S. government bonds after inflation. (Bonds-real-total return Index: 1802–2022). **Bills:** Total returns on U.S. Treasury Bills after inflation. (Bills-real-accumulative Index: 1802–2022). **Gold:** The value of \$1 of gold bullion after inflation. (Gold-real-price Index: 1802–2022). **Dollar:** The purchasing power of one U.S. dollar. (Money: 1802–2022). Index performance assumes reinvestment of dividends, but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares.

The requirement of successful market timing as we have all heard is, “Buy low and sell high.” Most investors did not choose to sell out of the market at the start of this year as it would have triggered huge capital gains in taxable accounts and the improving economy was still awakening from the pandemic. Now that stock valuations have contracted sharply in response to higher interest rates and in anticipation of a likely recession, equity benchmarks seem much closer to an ultimate bottom than poised for another large decline. However, without some additional evidence that inflation has peaked and some resulting clarity on the Fed’s upcoming response, markets may remain range-bound as they go through this bottoming process.



Since we know the economy is cyclical, the question is not *if* the market rebounds and a new bull market begins, but *when*. Remaining patient and focused on long-term goals and investment objectives is occasionally difficult, but a necessary long-term discipline. As the 4<sup>th</sup> quarter unfolds, we expect continued news-driven markets with heightened volatility (in both directions), but are optimistic for an equity market recovery to higher levels than we are seeing today.

Have a great week!

Mark and Jeff

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The Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal.

S&P 500 Index is an unmanaged, market value-weighted index of 500 stocks generally representative of the broad stock market. An investment cannot be made directly in a market index.

The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market.

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Market return and statistical data obtained from: [https://am.jpmorgan.com/blob-gim/1383452890099/83456/weekly\\_market\\_recap.pdf?segment=AMERICAS\\_US\\_ADV&locale=en\\_US](https://am.jpmorgan.com/blob-gim/1383452890099/83456/weekly_market_recap.pdf?segment=AMERICAS_US_ADV&locale=en_US)  
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