THE CLIENT LETTER
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Pinnacle Asset Management
a division of Pinnacle Bank
Brick W. Sturgeon, Jr.

7651 Highway 70 South
Nashville TN 37221

Raymond James Financial Services, Inc
Brick W. Sturgeon, Jr. – Financial Advisor

Phone: (615) 743-8301
Email: brick.sturgeon@raymondjames.com

The Nature of Bear Markets

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The fact is no one is entirely certain how the moniker of bull and bear markets came about. Some speculate, it is the nature in which each of them attacks their prey. Bulls spear in an upward motion, while bears swat downward. Another theory is that bearskin traders would sometimes sell their skins before they were actually procured. The traders would then hope that bearskin prices would fall so they could fulfill their orders at a cheaper price later.

In any event, bull markets are generally defined as an extended rise in stock prices, sometimes using 20% as the benchmark - while bear markets are just the opposite, an extended drop in stock prices. This is what we have experienced over the past two years in my opinion. And folks, it's not just the stock market only. Perhaps the biggest bear market has been in bonds. With both asset classes declining together, it has created a frustrating environment with precious few places to hide.

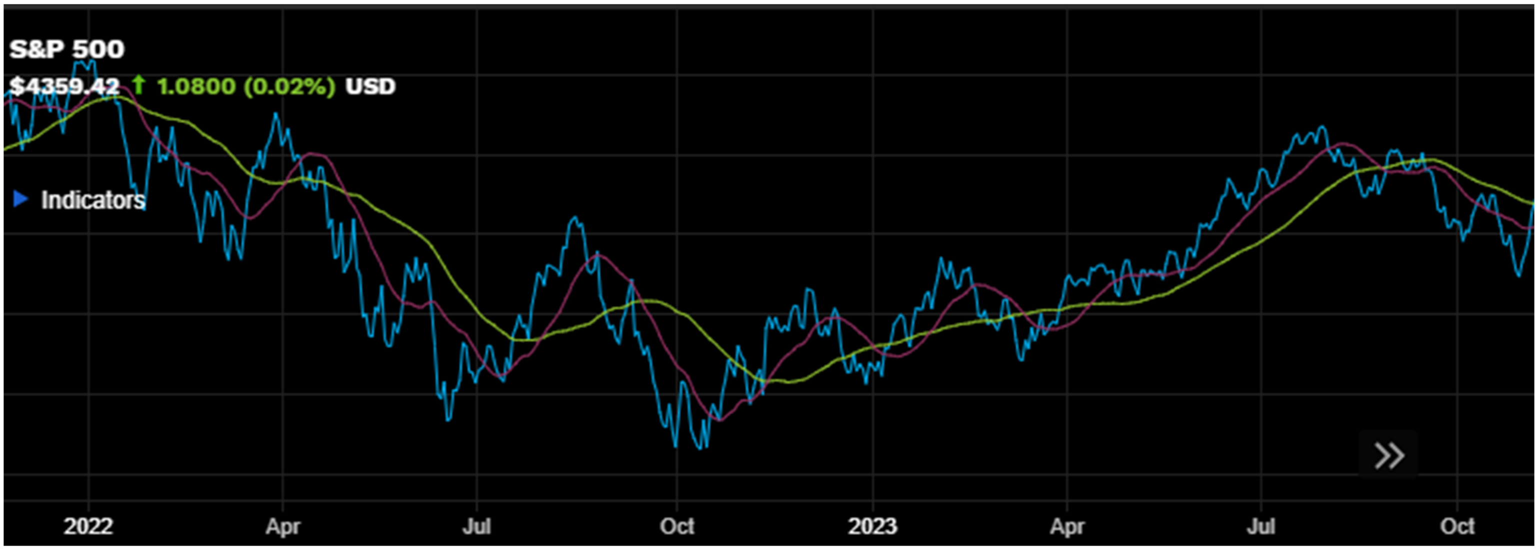
However, it's important to understand the nature of bear markets in order to make proper and objective decisions going forward. During market declines, we often hear from clients: "*If my account value keeps going down each month, it will eventually go to zero*!" First, that's not how bear markets work. Stock prices, as well as any asset price, is based on what someone is willing to buy and sell it for at any one point in time. With the rapid rise in interest rates over the past two years, it changes what people are willing to pay for a stock, a bond, and even a house.

Without boring you to death, interest rates represent the price of money, and when this price goes up, investors may be less willing to purchase riskier assets as they can get a more attractive rates on their idle cash. In turn, borrowers are less willing to borrow to make purchases as the payments are now higher. Thus, higher interest rates have a slowing effect on the economy and a reductive effect on asset prices…. but not forever.

You see, once asset prices adjust to new rates and find equilibrium, they may start to perform more appropriately going forward. This is why we are more optimistic about forward-looking returns - we are starting from a lower base. And while the adjustment period is uncomfortable (the last two years), it is after all just that…***an adjustment period***, not an indefinite drop in all asset values. After all, the market doesn't go to zero. Bear markets after all, are a normal part of long term investing and can even serve a purpose by preventing overvaluation while providing perhaps more attractive entry points for new investment.

Bear markets also come in different shapes and sizes. They can be quick and precipitous like the stock market crash in October 1987, or the start of the pandemic. In each case, stock prices fell 20-30% very quickly, but did not stay there long and the recovery began relatively soon afterwards.

Perhaps the more frustrating type of bear market is one that drags out over many months and possibly several years like 2000-2002 (trust me, that market felt like Chinese water torture). This bear market feels similar as it basically began in January, 2022 (see chart below). It's important to note that the actual declines in value of this bear market have actually been less than many others, but it's long and grinding nature (coupled with the historically unusual decline in bonds) has made it frustrating for sure. And one of the hallmarks of a market like that is to wear down investors until they lose patience***. Ironically, that capitulation often marks the bottom of the bear market cycle, possibly causing an investor to miss out on the eventual recovery for which they have so patiently waited***. I've seen it happen numerous times. There is no way to know for sure when something like this might happen but in the words of Warren Buffett: *"The stock market does a great job of transferring money from the active to the patient"*



(source: Factset)

But with low-risk investments yielding around 5%, it is easy to understand that allure. However, I went back and looked at the historical returns of a balanced allocation of 60% stocks, 40% bonds during other periods in history in which interest rates were similar to now. The fact is, a balanced mix performed quite well during much of the 1990's as well as the mid 2000's even while cash paid attractive interest rates. Of course, past performance is no guarantee of the future, and a 60-40 balanced portfolio is a mere example and not indicative of any one investors result. But there is plenty of historical precedent to suggest we now may be in a more normal interest rate environment - and thus our optimism for recovery from current levels. In fact, as I wrote in the last letter, I would not be surprised to see some type of year end "*Santa Claus*" rally as investors who are sitting on piles of cash start to put that money to work. Tom Lee, investment strategist for **Fundstrat Research**, recently had this to say:

"As soon as investors pile into 5% treasuries and look at each other like geniuses, they will watch the stock market go up 20%, happens every time".

Not sure if he's right and that is, of course, one analyst's opinion, but participating in an eventual market recovery is like buying life insurance - you can't wait until you have a terminal illness to purchase it, you have to be in before it happens.

Lastly, we want to thank everyone who attended our annual client dinner at beautiful Old Natchez Country Club. Dr. Art Laffer gave an entertaining speech, and the food and fellowship made for a great evening. We always enjoy seeing clients and friends in a relaxed and enjoyable atmosphere.

Historical Tidbit

Edie's birthday is November 26th. On the day she was born (1963 – don't worry, she gave me permission to print this!) the stock market reopened after shutting down due to President Kennedy's assassination. The Dow Jones industrial average had its biggest one-day gain ever that day of 4.5%. The Dow closed at 743.52.

This historical fact was provided by her father, Robert Reeves, whom I have always admired for his historical perspectives over an illustrious 55 year career as a stockbroker here in Nashville.

As always, we thank you for your business, your friendship and the trust you place in us. Feel free to share this letter with anyone you feel may benefit – we appreciate the many referrals we have received over the years and encourage the introduction to others. Edie, Cole and I are happy to answer any questions you may have. Until then, wishing you health and happiness.

Regards,

Brick Sturgeon, Jr.
Financial Advisor, RJFS
Pinnacle Asset Management
A Division of Pinnacle Financial Partners
7651 Highway 70 South
Nashville, TN 37221
615-743-8301
615-646-4538 Fax

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Bond prices and yields are subject to change based upon market conditions and availability. If bonds are sold prior to maturity, you may receive more or less than your initial investment. Holding bonds to term allows redemption at par value. There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices generally rise.

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Top 100 Bank Advisors (2019)
To compile the list, multiple variables were combined into one composite score. The six categories used are: (1) assets under management; (2) trailing-12 month production; (3) percentage increase in AUM from the previous year; (4) percentage increase in T-12 production; (5) amount of fee business; and (6) the ratio of   production-per-AUM. (Note: 2018 AUM was defined as the amount an advisor had as of Aug. 31, 2018. Likewise, for T-12 production, the 12-month period ending Aug. 31, 2018, was used.) The nominees were ranked by each of the six categories and then six different scores were calculated based on where they ranked. Those six scores were used to compile the final list. The ranking may not be representative of any one client's experience, is not an endorsement, and is not indicative of an advisor's future performance. Neither Raymond James nor any of its Financial Advisors pay a fee in exchange for this award/rating. BIC is not affiliated with Raymond James.

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