THE CLIENT LETTER
FREE

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"Seasonality of Markets"

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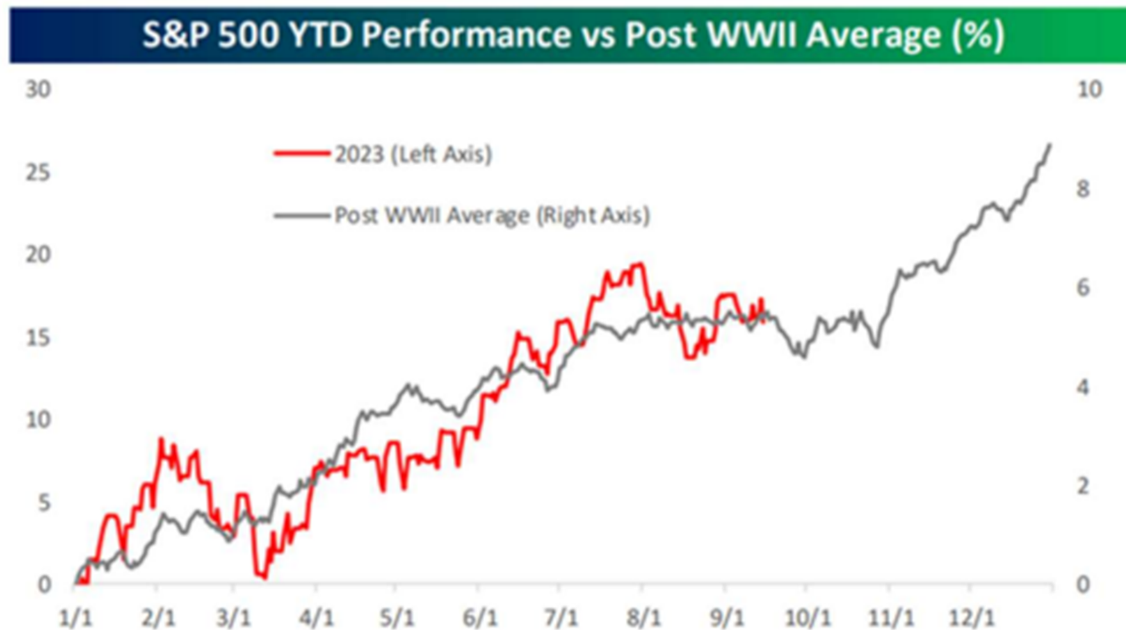
Anyone living in middle Tennessee knows that Claritin and Flonase are standard issue if you're going to survive this area. Being born and raised here, I have learned to survive on the airflow of one nostril quite nicely. To all our friends moving here from other parts, be aware, our seasonal allergies are legendary.

We are also experiencing what is commonly known as *seasonal market weakness*. Historically, August-October has been one of the weaker periods in financial markets. The corollary to this, however, is that many bear market bottoms are formed during this time and a year and market rally, while not guaranteed, is not unusual.

Consider the chart below from well-known research firm, Bespoke Investment Group. The gray line represents the average stock market performance over the past 75 years combined into a single chart. The red line shows this year's market performance. I would call this somewhat of an eerie correlation.



Again, past performance is no guarantee of the future but Bespoke had this to say:

"We've shown the above chart multiple times this year, but as long as it works, we'll continue to point it out. The performance of the S&P 500 this year (red line, left axis) has followed the script of the typical annual pattern (gray line, right axis) nearly word for word. That has especially been the case over the last few weeks, and if this continues, we can expect to see additional weakness in the coming weeks. Not optimal in the short-term, but there's always trade-offs in life, and we think most bulls would be happy to put up with a few down weeks to get the typical fourth quarter rally!"

So, let's take a step back and look at what has taken place.

Interest rates have risen from 0 to 5.5% in barely over a year. That is an historic amount of sand in the gearbox of the economy. Throw in government shutdowns, the war in Ukraine, record government borrowing, labor strikes, the Titans lack of offense (OK, that may one is just me being bitter). But all of this adds up to significant bearish sentiment – which ironically is what happens near market bottoms, not tops.

But why would anyone want to own stocks if they can get 5% in liquid money market or treasury bills? Here's the answer: I remember managing portfolios during the periods of 1992-2000 as well as 2002-2007. During each of these time periods, money market and bond yields were in a similar range. Yet stocks still generated attractive returns during these periods as did blended portfolios. Again, I am not predicting or guaranteeing any future results, simply stating that past historical periods have had similar interest rate environments and portfolio performance was still attractive.

But what happens if the Fed overshoots and induces a recession?

I think that is highly likely. Any recession just seems to have been pushed out farther than many originally thought. But remember, the stock market has effectively gone nowhere in about a year and a half, suggesting perhaps some of that possible recession may already be priced in.

Could there be downside if the economy stalls? Of course. But after 18 months of worry and market gyrations, I would think any future downside may be manageable and relatively short term. Why? Because I believe this Federal Reserve stands ready to pivot and reverse course if/when they need to. And historically, whenever the Fed starts to cut interest rates, forward looking returns can be quite favorable. ***This is because markets do not react to absolutes such as whether the economy is good or bad. Instead, they react to whether the economy is getting better, or getting worse.*** That is an important distinction, because if you are not already invested when things are bleak, you may not get the initial part of the recovery as it can happen quickly, and while things are still kind of lousy. Just ask anyone who sold their investments during the pandemic. Markets started recovering even during the depths of Covid before things actually started getting better. If you wait until things are ***better***, you will pay a dear price for it.

Bond Market Update.

Bonds, an asset class generally used for safety and income, have provided little help during this environment. This is largely because higher interest rates make current bonds with lower interest rates, less attractive and thus, their principal value trades at lower levels.

But the opposite holds true as well. When interest rates stabilize, and/or fall, bond returns have generally been favorable. Many experts believe that will be the case at some point and we tend to agree. We expect bonds to provide not only better income now (because of higher yields) but a diversified hedge against the possibility of recession. Simply put, we think, stocks and bonds may revert to their more normal correlation (or lack thereof) going forward.

Cole's Corner

The word "recession" has been floating around for quite a while now. Some experts say the Fed will pull off a "soft landing," while some are calling for a mild recession next year. Who knows what will ultimately happen, but the data points to slowing job growth, depleted savings and a lagged impact of higher borrowing costs. Brick highlighted how fast interest rates have risen. This environment presents us with a pretty high cost of capital to invest in just about anything. The 10-year Treasury yield has risen to 4.79% as of this writing, but we don't expect these upward trends to continue and stay high for too long. Interest rates may start to come down over the next 12 months. In the face of all this confusion, how does one invest? The answer is **Dollar Cost Averaging**. Whether young or old, this strategy can help mitigate bad market timing during periods of uncertainty or when emotional reluctance is high. Dollar cost averaging involves making regular investments over time, rather than investing a large amount at a single price point. Doing so allows you to buy more shares when prices are low and fewer shares when prices are high. Think automatic

payroll contributions to your 401K or employer retirement plan. While not the only viable strategy out there, it is a time-tested approach designed to help mitigate the emotional biases or fears of investing during market drawdowns. I want to end with this quote from Warren Buffett **“The stock market is designed to transfer money from the active (impatient) to the patient.”** That’s great advice for all of us living in an instant gratification culture during uncertain times.

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,

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Best-In-State Wealth Advisors (2019, 2021, 2022)
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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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