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The Brevity Series – Big Picture Stuff

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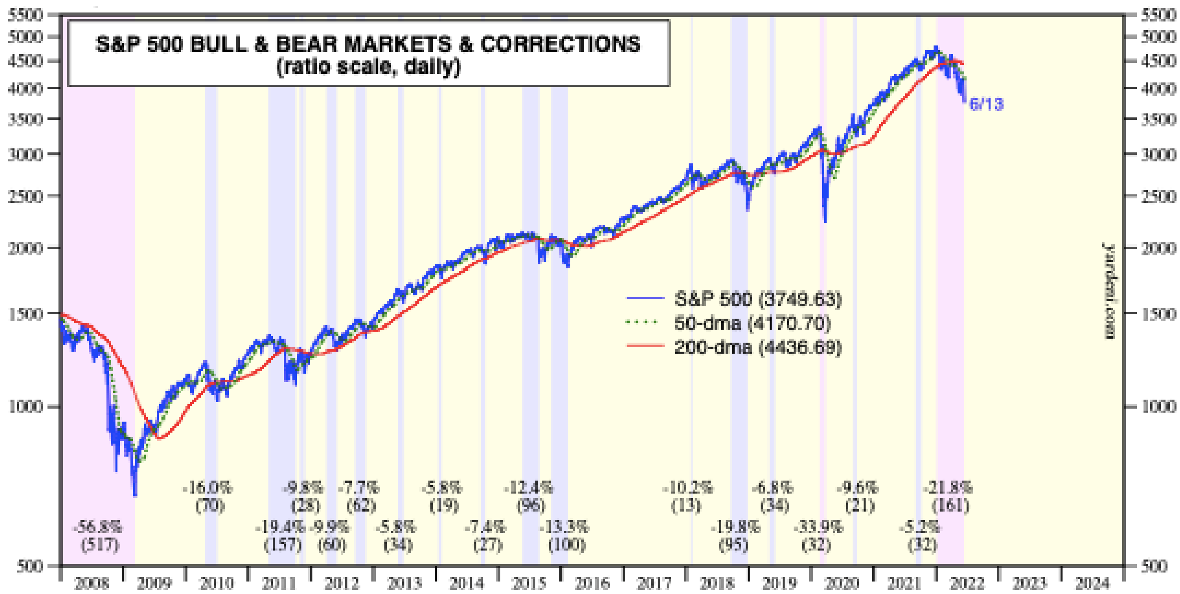
After twice failing to hold intraday lows in Bear Market territory during late May, stock markets bounced 7% through last Wednesday. Although we have limited confidence in technical analysis, a *double bottom* was formed and many market technicians were viewing this as a likely market bottom. We did too. Last Friday's CPI report showed that inflation was running much hotter than anticipated. This meant the Federal Reserve would almost certainly tighten (raise rates) monetary policy at a faster rate than previously expected. Investors responded by selling both stocks and bonds. Stocks closed yesterday in Bear Market territory for the first time since 2020. Yields have risen 30 basis points since last week.

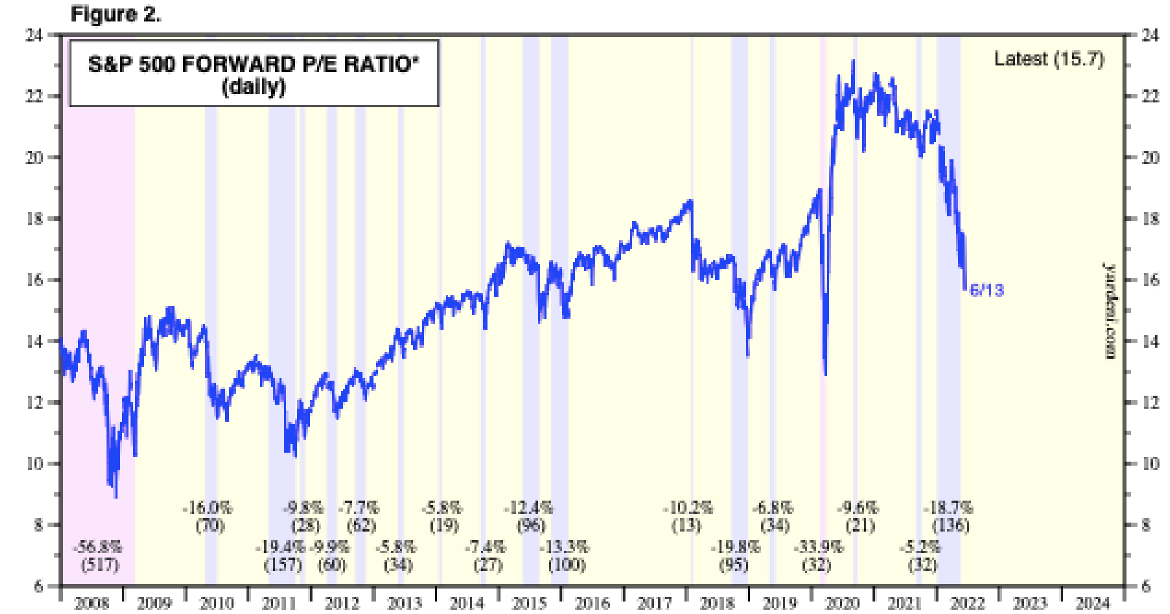
Stocks are less than 6 months removed from their all-time highs. We often cite the importance of time horizons in investing. That said, we have never hidden behind them. Stocks and bonds are down materially since the start of the year, as are investor portfolios. Although longer-term portfolio returns remain consistent with, actually above, longer-term expectations, experiencing short-term losses is unnerving. In addition to more frequent market commentaries via email, we've also been speaking and emailing with many of you individually. Discussing your various questions, concerns, and observations regarding markets and portfolios is a mutually beneficial exercise. Hopefully, you better understand our thoughts and reasoning following these discussions. We certainly benefit from listening to you. Here are a few common themes you've expressed to us;

Should we - why aren't we, holding more cash? - Ideally, we would be in cash when markets moved lower and fully invested when markets move higher. After stock market sell-offs, Perma-Bears assure us the sell-off was predictable and the reasoning for the sell-off was obvious. Stock valuations were too high, interest rates were too low, inflation was clearly problematic, etc. We've always countered that the biggest detriment to wealth accumulation is holding cash. Although we will increase our cash allocation when we view markets as overvalued, we will never move entirely into cash. It's far too dangerous. Even after this recent sell-off, the S&P 500 is up more than 450% since its 2009 lows. Most of these gains came during periods when many considered stocks to be *overvalued.*



Note: Corrections are declines of 10% or more, but less than 20%, while minor ones are 5%-10% (all in blue shades). Bear markets are declines of 20% or more (in red shades). Number of calendar days in parentheses.
Source: Standard & Poor's.

Figure 2.



We have and continue to tactically shift portfolio allocations to take advantage of market disequilibrium. These shifts have, and we expect will continue to, add value verse simply holding a static allocation for the long-term. Our starting point for the long-term allocation percentages in our Core Portfolios is long-term risk premiums. That's a fancy phrase for how much volatility an investor has to endure for each percentage of return they are rewarded with. It is also the reason we will never overly allocate stock allocations to cash. Although stocks are less predictable over the short-term, they have consistently provided investors with the best option for building long-term wealth. We've often referenced that we use historical measures of volatility and return to forecast future volatility and return. Please forgive us as we somewhat overload you with 50 years of data, charts, and statistics from our portfolio optimizer.

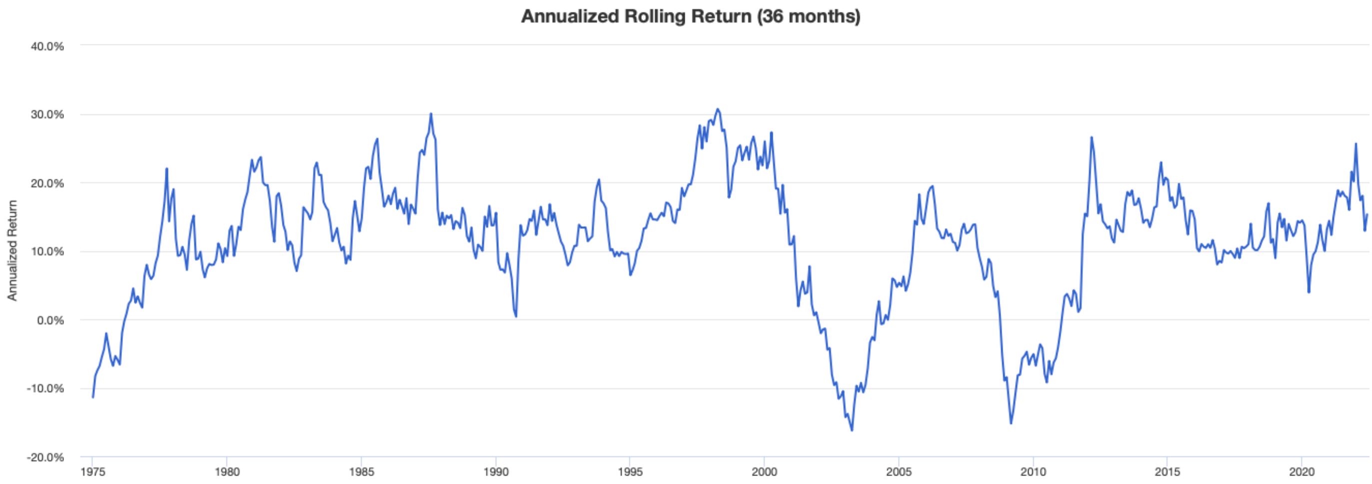
We will start with a look at the entire U.S. Stock market. An investor that invested $10,000 50 years ago in the U.S. Stock Market would have more than $1.5mm today. They would have averaged 10.49% annual returns and had to endure 15.61% volatility. (We will put that volatility number into perspective shortly). Their best and worst years were similar, +/- 37%.

Portfolio	Initial Balance	Final Balance	CAGR	Stdev	Best Year	Worst Year	Max. Drawdown
US Stock Market	$10,000	$1,531,389	10.49%	15.61%	37.82%	-37.04%	-50.89%

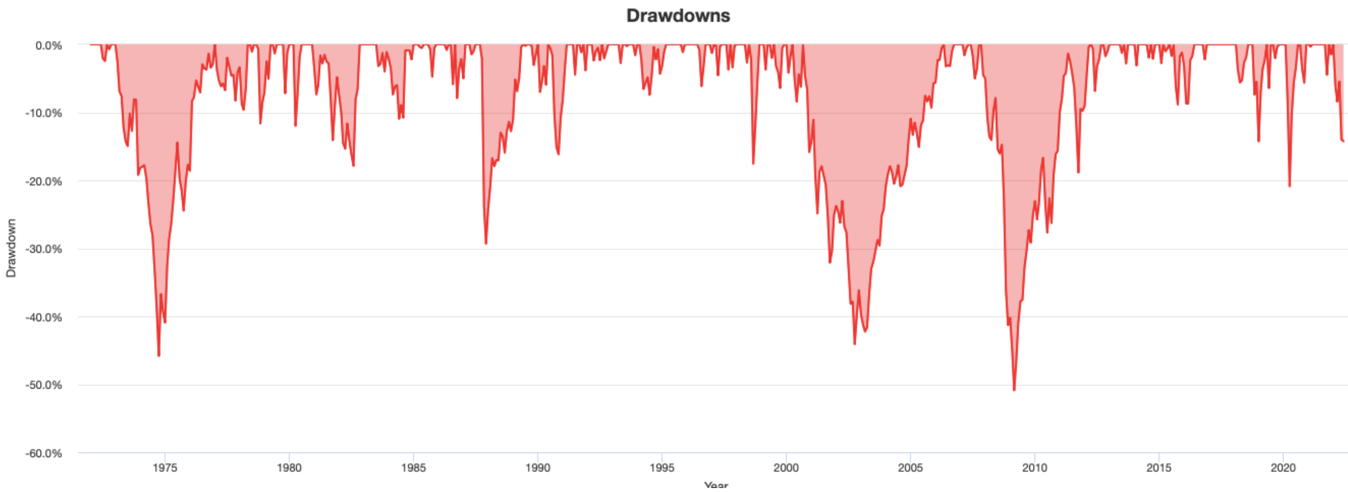
For all of us more "seasoned" folks, 50 years from now is not of the utmost importance. Here is a look at shorter time periods. Volatility is similar in all periods, so we will just focus on returns.

Roll Period	Average	High	Low
1 year	12.11%	66.73%	-43.18%
3 years	11.31%	30.70%	-16.27%
5 years	11.31%	27.25%	-6.23%
7 years	11.27%	21.23%	-3.02%
10 years	11.23%	18.89%	-2.57%
15 years	10.96%	18.21%	4.25%

Average returns for each time period are similar. That's expected since we are measuring the same data. (The reason average returns consistently move lower as the length of time period increases is due to the mathematics of compounding annualized returns). What's important in this table are "high" and "low". Stock investors have lost as much as 43.18% over one-year periods, but have never lost money over a 15-year period. The risk of losing money in stocks greatly decreases as time horizons increase. That's why investors with longer-term investment horizons hold more stocks than investors with shorter-term investment horizons. Below are charts showing 3-year and 5-year rolling returns for stocks. Although investors have lost money over these 3-year and 5-year periods, it is relatively rare.



The following is our favorite way to think about investors and stock risk. The first chart shows market drawdown periods for U.S. Stocks. This is followed by tables showing well-known stress periods and the top 10 drawdown periods.



Drawdowns for Historical Market Stress Periods

Stress Period	Start	End	US Stock Market
Oil Crisis	Oct 1973	Mar 1974	-12.61%
Black Monday Period	Sep 1987	Nov 1987	-29.34%
Asian Crisis	Jul 1997	Jan 1998	-3.72%
Russian Debt Default	Jul 1998	Oct 1998	-17.57%
Dotcom Crash	Mar 2000	Oct 2002	-44.11%
Subprime Crisis	Nov 2007	Mar 2009	-50.89%
COVID-19 Start	Jan 2020	Mar 2020	-20.89%

Drawdowns for US Stock Market

Rank	Start	End	Length	Recovery By	Recovery Time	Underwater Period	Drawdown
1	Nov 2007	Feb 2009	1 year 4 months	Mar 2012	3 years 1 month	4 years 5 months	-50.89%
2	Jan 1973	Sep 1974	1 year 9 months	Dec 1976	2 years 3 months	4 years	-45.86%
3	Sep 2000	Sep 2002	2 years 1 month	Apr 2006	3 years 7 months	5 years 8 months	-44.11%
4	Sep 1987	Nov 1987	3 months	May 1989	1 year 6 months	1 year 9 months	-29.34%
5	Jan 2020	Mar 2020	3 months	Jul 2020	4 months	7 months	-20.89%
6	Dec 1980	Jul 1982	1 year 8 months	Oct 1982	3 months	1 year 11 months	-17.85%
7	Jul 1998	Aug 1998	2 months	Nov 1998	3 months	5 months	-17.57%
8	Jun 1990	Oct 1990	5 months	Feb 1991	4 months	9 months	-16.20%
9	Oct 2018	Dec 2018	3 months	Apr 2019	4 months	7 months	-14.28%
10	Jan 2022	May 2022	5 months				-14.24%

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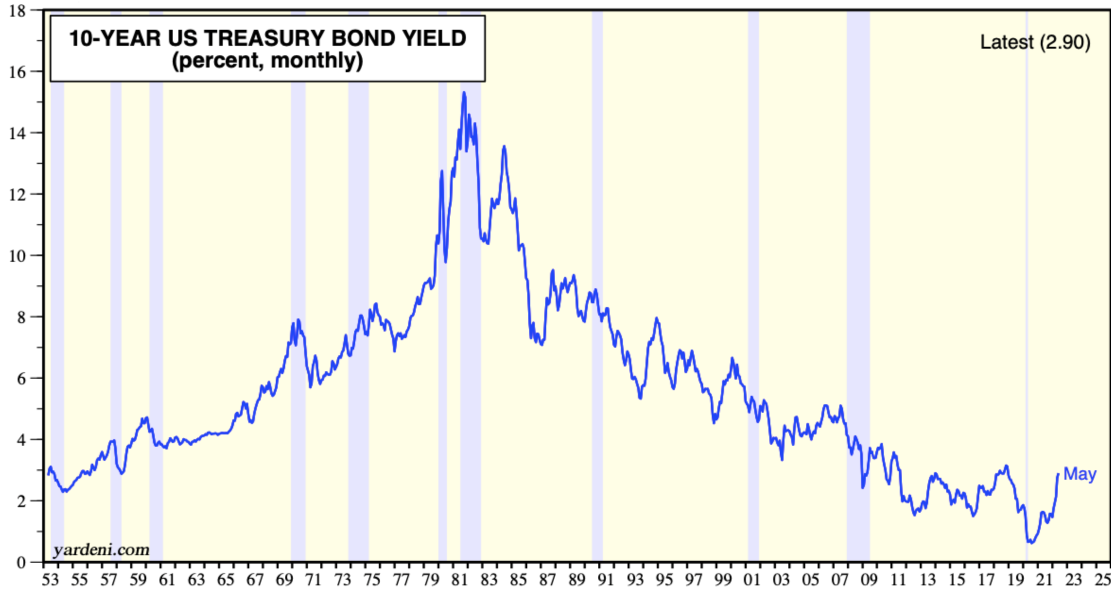
"Start" indicates the first month of the sell-off (long-term data is in months, not days). That would be January 3rd for this current sell-off. "End" indicates the market low, which currently we don't yet know. "Length" is the time period from the market peak to the market trough. "Recovery Time" is the period from a market trough to a new all-time high, and "Underwater Period" is the time from the original market peak until a new all-time high.

We just dumped a lot of charts and numbers on you. The big takeaway we hope you take out of all this is that it's necessary to endure these drawdown periods in order to continuously achieve our longer-term goals. We are constantly observing and analyzing current market conditions. Oddly enough, assuming we can continue to add value through tactical allocations, these uncomfortable disequilibrium periods should continue enhancing longer-term returns for investors.

Thanks for not buying cryptos - We bought a little Bitcoin and it's getting killed. We will keep this one short and sweet. Sometimes what you don't do is more important than what you do. We've had lots of inquiries about Bitcoin and cryptos over the last few years. It usually was along the lines of my neighbor, my friend, or my barista is making a bunch of money in cryptos. Should we buy some? It's always tempting to jump in when you see outsized returns. We spent considerable time researching cryptocurrency and concluded, "We fear most of us are simply too old, dumb, or a combination of both to "get it". We say that sincerely. We are your embarrassing uncle trying to dance with the young kids at the wedding. We want to believe we are still young and hip, but deep down we know we don't belong on this dance floor.

Bitcoin is down -70% and other popular cryptos are down more than -90%. We might still be too old to understand cryptos, but perhaps not too dumb.

It's obvious interest rates were too low - it's a fair observation, sort of. Similar to the Perma-Bears declaring stocks have been overvalued for the last 10 years, Bond-Bears have been warning about rising rates since the 90s.



We've always been sympathetic to the Bond-Bears reasoning. By any traditional measure of valuation, bond yields should be significantly higher. The issue is the Federal Reserve is buying bonds (quantitative easing) and keeping long-term rates artificially low. Fighting the Fed is never a good idea. So although holding cash instead of bonds has been the right choice so far this year, it's been very harmful over the last 40 years. In particular over the last decade as cash rates have hovered around zero. Cash doesn't lose money, but it also doesn't make much either.

Name	CAGR	Stdev	Best Year	Worst Year	Max Drawdown
Cash	0.48%	0.21%	2.13%	0.03%	0.00%
10-year Treasury	2.38%	6.46%	16.24%	-9.78%	-14.98%

Our expectation that the worst of this latest volatility storm was behind us proved to be wrong. The Fed is meeting today and tomorrow, with a press conference following tomorrow's meeting. We will be watching closely and communicate following the Fed's statement.

The MMFS Team

Jon C Mommaerts, CFP®: Jon is a Principal of Mommaerts Mahaney Financial Services, Inc. He has over 30 years of experience working with professionals and those about to retire. He is a member of the Financial Planning Association, as well as a member of the Preferred Financial Advisors.

J. Matthew Tuccini, CFP®: Matt has over 17 years of experience working in the financial services industry with vast experience in retirement planning, tax strategies, and financial planning.

Robert Kea, CFA: Bob has over 30 years of experience in portfolio management. He was a founding member and Co-Head on Putnam's Asset Allocation Group, which managed $12Bn in both retail and institutional assets.

Jason Rolling, Financial Advisor: Jason has been in the financial services industry for the past 15 years. His financial experience includes retail banking, consumer & commercial lending, bank management at the local, regional and SVP level, wealth management, and financial planning.

FPA FINANCIAL PLANNING ASSOCIATION PROUD MEMBER

Mommaerts Mahaney Financial Services, Inc. provides advisory services through ERTS Wealth Advisors, LLC, a registered investment advisor.
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