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Fourth Quarter 2021

The Beat(s) Go On

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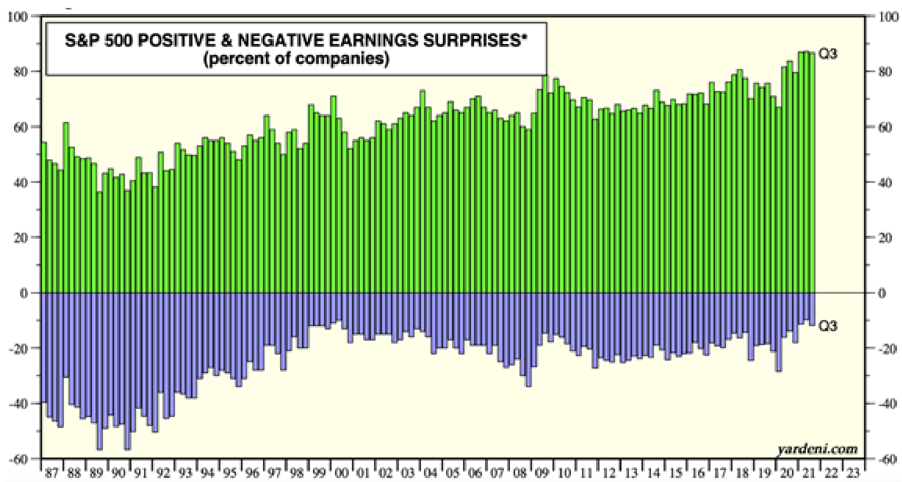
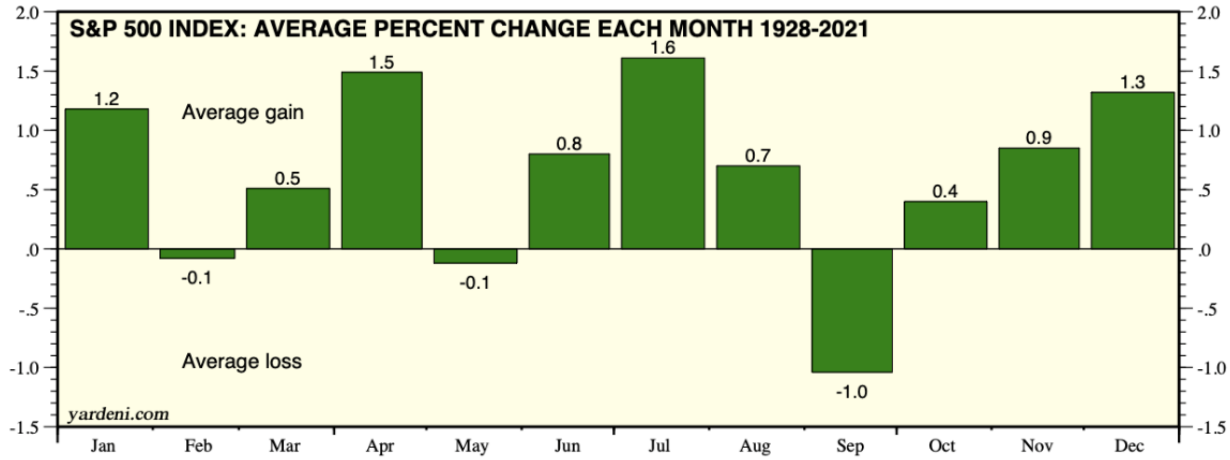
Sonny and Cher achieved fame and fortune as American pop icons in the 60s' and early 70s'. They had numerous musical hits and eventually their own T.V. show. In 1967 they released the song, *The Beat Goes On.* It was not their biggest hit, but it is known as the song most likely to give you an earworm. An earworm is that annoying inability to get a catchy tune out of your head. It's not clear what causes some songs to have this effect but we suspect this song's syncopated bass line is the culprit. As Q3 earnings season rolls along we can't stop humming; "*The Beat(s)Go On".* We apologize if we've just transferred our earworm to you, but not really.

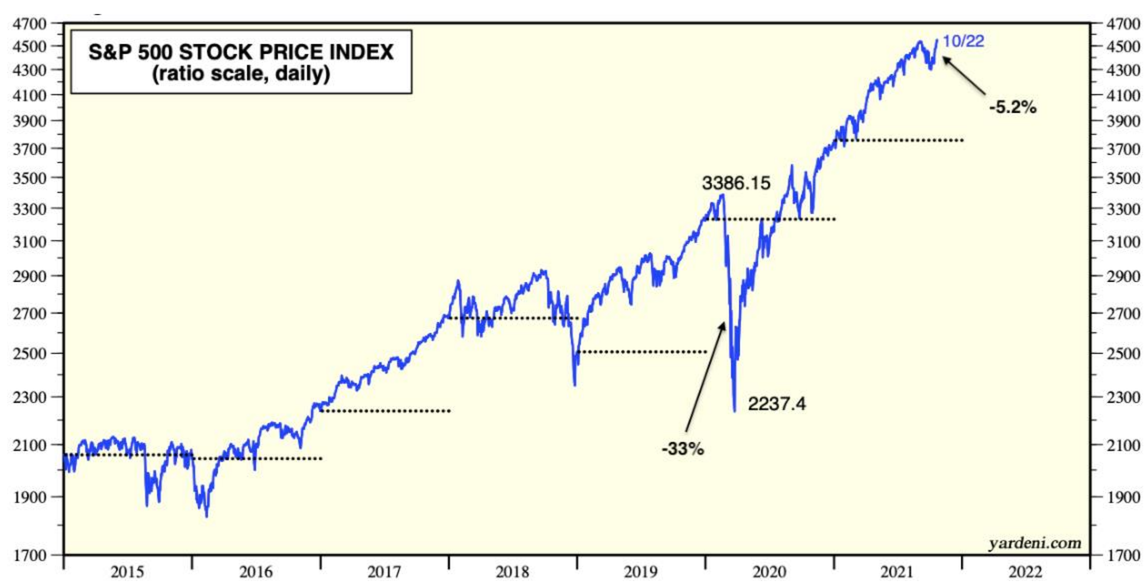
So far about half of the S&P 500 companies have reported. 84% have beaten their expectations. Only 12% have disappointed. We've frequently pointed out the strange phenomenon of analysts lowering their earnings forecasts ahead of earnings season, only to have corporations then report better than expected earnings compared to the new lower forecasts. More often than not, this fuels another leg up in the stock market. Once again, history is repeating itself.



The S&P 500 made all-time highs on September 2nd of this year. Our commentaries reflected our concern that stocks were getting a little ahead of themselves and the increased likelihood of a pullback. Sure enough, September lived up to its reputation as on average, the worst month for stocks.



The S&P fell 5.2% before bottoming at the start of Q3 the earnings season. Although this pullback may seem unimpressive after the shocking 33% stock market drop at the onset of COVID-19, pullbacks greater than 5% are infrequent and should be recognized as more than just a bump in the road. Better-than-expected earnings have always been the most effective therapeutic for an ailing stock market. Stock markets are taking their prescribed medication and feeling much better, they are once again hovering around all-time highs.



When musical artists achieve notoriety within the pop culture context, they are often dismissed as superficial, or worse yet, manufactured by corporate suits. Many times, that insult is accurate. Unfortunately, some very dedicated and talented artists also get stuck with that tag. Sonny Bono would fall into that category. He was one of the great songwriters of his generation. Sonny's backdrop when writing this iconic song was the chaotic late 60s'. Vietnam was raging and social unrest was everywhere. The genius of this song lies not only in the somber lyrics observing how humans eventually normalize tragedy and change;

And men still keep on marching off to war
Electrically they keep a baseball score
And the beat goes on, the beat goes on

but uniquely in the melody. The beat of the song is set to an emotionless metronome. The exacting order of the half-time beat perfectly contrasts the lyrics recounting the chaos of the 60s'. Whether it's Vietnam, September 11th, or a pandemic, eventually the abnormal is normalized and everyday routines resume. Despite the constant bombardment of troubling headlines that make stocks bounce up and down, the stock market eventually returns to its everyday routine, pricing itself relative to earnings.

We often emphasize the importance of eliminating emotion and personal opinion when investing. Headlines can be unnerving. We'd argue they are intended to be. Asset prices jump up and down in the short-term, long-term they reflect fair value. The fair value of an asset is determined by measuring the historical relationship between economic data and an asset's price. Despite inflation worries, supply bottlenecks, labor shortages, etc., the earnings beats go on. There are still plenty of prognosticators warning about the next market crash, many have been for quite some time. It's difficult for us to reconcile why a secular bear market is imminent if corporations keep posting not only better than expected revenue and earnings, but also record revenue and earnings.

We know the most important investment decision we are going to make in the not-too-distant future is when to lower the stock exposure in your portfolios. We also know from numerous investor studies that far more wealth creation has been foregone by not exposing an investor's assets to risk than has ever been lost by prudently assessing the risk environment, then properly aligning an investor’s portfolio with their risk profile. We continue to be uncomfortably fully invested. We continue to be vigilant of the next bear market. We also continuously adjust your portfolios and optimize your returns relative to the risk environment. Our frameworks are showing us there are still more returns to be had, but those returns will be modest and come with significantly more market fluctuations. We will continue to communicate our investment outlook on a regular basis. We ask that you reach out to us whenever your investment concerns aren't fully addressed in our commentaries.

Keep it groovy,

The Mommaerts Mahaney 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.

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