MOMMAERTS MAHANEY
FINANCIAL SERVICES, INC
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989 W Washington St., Suite # 101
Marquette, MI 49855
(906) 226-8711
www.mommaerts-mahaney.com

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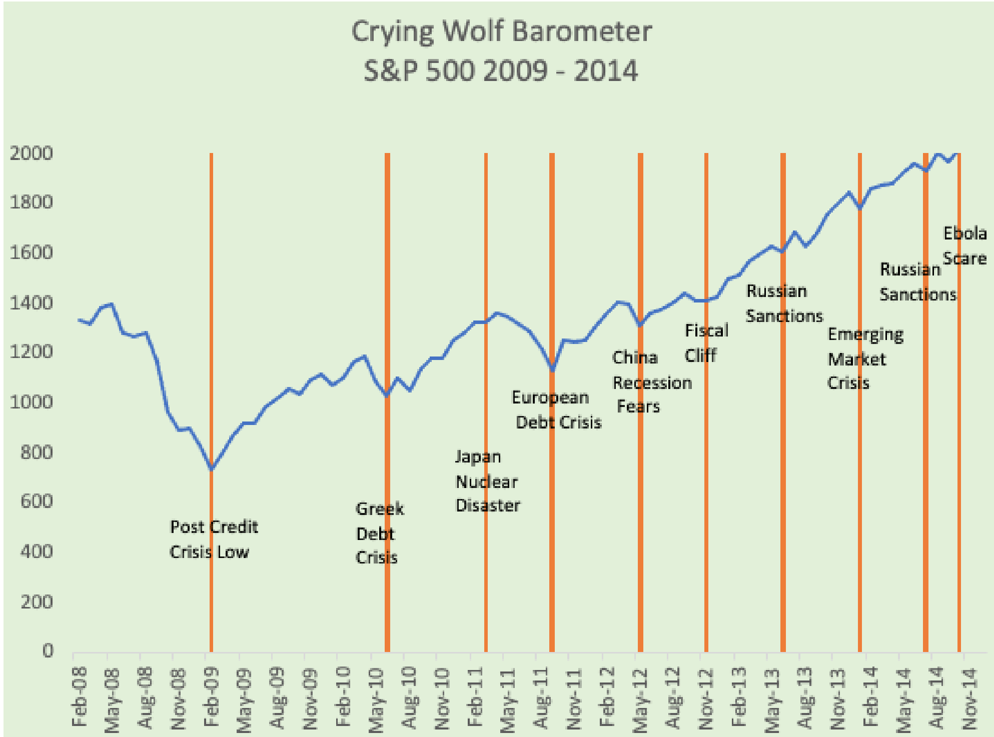
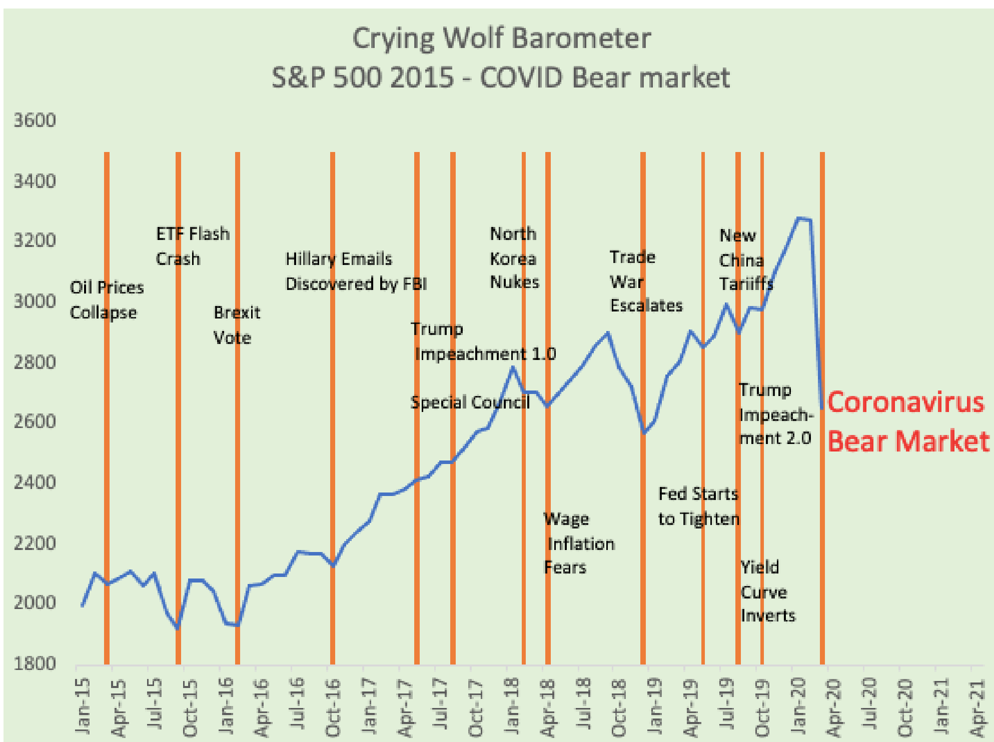
CWB UPDATE

Jon C. Mommaerts Certified Financial Planner®
Robert Kea Chartered Financial Analyst
J. Matthew Tuccini Certified Financial Planner®
Jason J. Rolling Financial Advisor

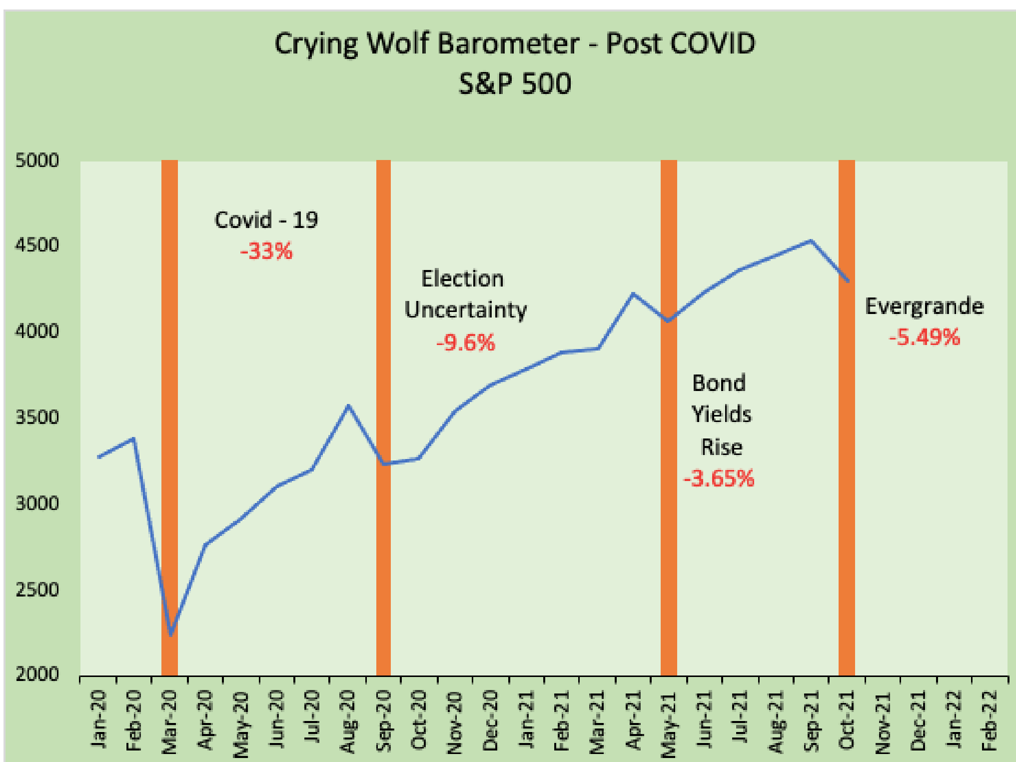
A few years ago we introduced a stock market barometer at MMFS called the “Crying Wolf Barometer.” We update this barometer from time to time as market conditions dictate. The genesis of this barometer was a discussion during our investment meeting. At the time, we were in the 8th year of a bull market that started in 2009. A common refrain during that bull market was that it had to end soon because it was the longest bull market on record. We have always resisted this reasoning. Our research showed us that bull markets die due to recessions, not of old age. Nevertheless, investors' concern over the aging bull market was often causing brief but material sell-offs. The sell-offs were quickly followed by recoveries. This created concern for our investors and we thought it was important to communicate our thoughts during these periods of stress. Until the pandemic, and subsequent recession in early 2020, these sell-offs never became a bear market (+20% sell-off). It could be argued that the pandemic sell-off wasn't a true bear market given its brevity, however, we will honor the traditional definition of a bear market. A new baby bull (El Toro Bebe) was born on the market lows of March 23rd, 2020, only 34 days after the previous bull market started declining from its all-time highs. This baby bull was conceived by means of unprecedented monetary and fiscal stimulus. Our baby bull is now 19 months old and it is once again time for us to determine if the current periods of market stress are another dip that eventually will be dismissed as a false alarm or the start of something more serious. Before restarting our barometer for the current bull market, as a refresher and reminder, let's take one last peek at the many sell-offs that did not materialize during the last bull market.



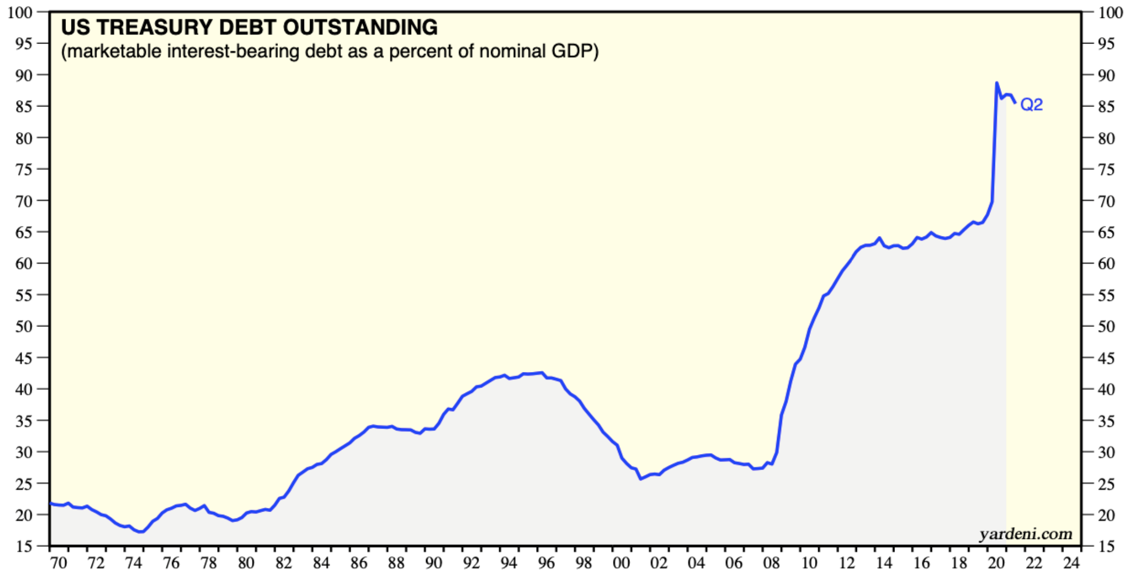


Our reason for naming this indicator the "crying wolf barometer" is that we know there will be another bear market. We also know that fear over potential bear markets has been far more detrimental to wealth accumulation than the bear markets themselves. Markets fluctuate which creates opportunities, and hazards, for investors. Our job at MMFS is to assess the current investment environment and allocate your assets in a manner that adds value. Communicating the reasoning behind our allocation is a critical component of our process. Together, this allows us to weather volatility storms and differentiate between secular bear markets and temporary pullbacks within a bull market.

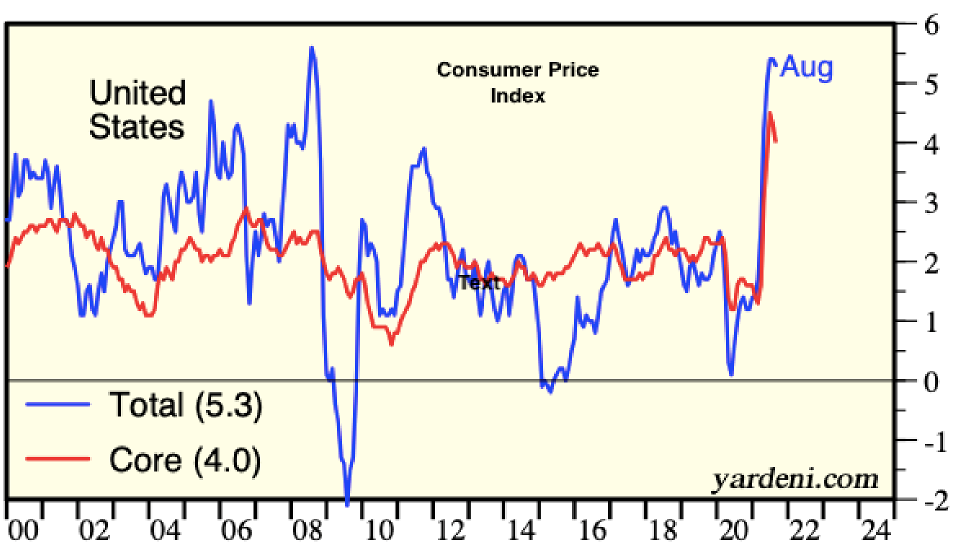
In the *Boy Who Cried Wolf* story, the shepherd created so many false alarms that the villagers ignored his warning when the actual wolf showed up. The moral of this fable, “no one believes a liar, even if they tell the truth,” leads us to our quandary as investors. We know that more often than not warnings of dire times ahead prove to be false. We are also aware that eventually, a real wolf will show up. We must stay vigilant and distinguish between the two. Although we believe the current volatility we are experiencing will come to pass, we are becoming increasingly concerned about the many storm clouds forming on the horizon.



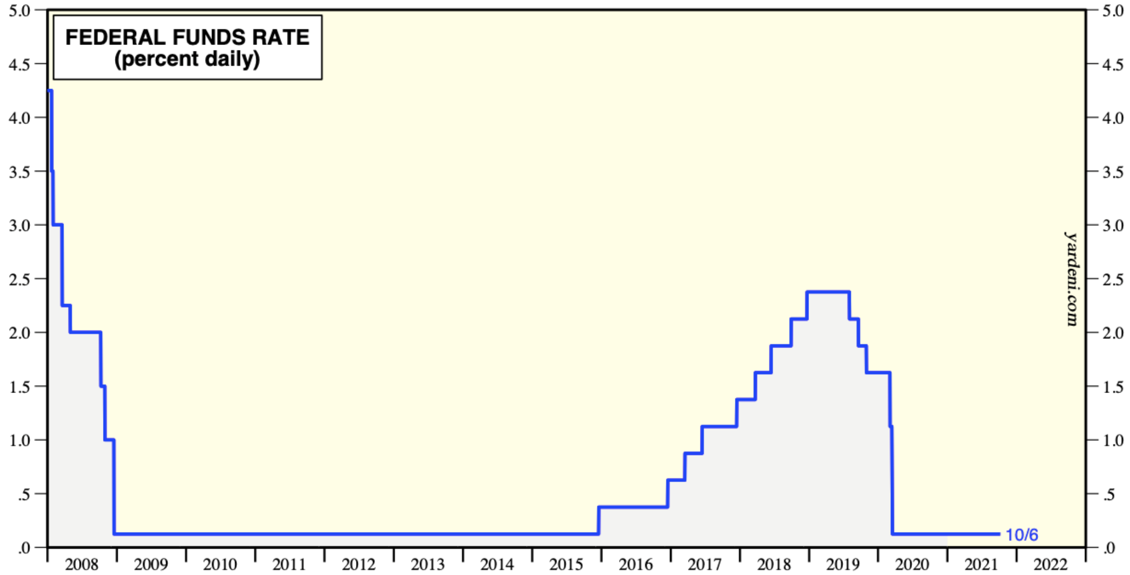
Stimulus, Debt, Inflation, Fed Policy, and Interest Rates - These concerns are all a function of each other. More specifically, they create each other. When the government spends more money than they make (tax revenue), this creates debt.



Debt is inflationary. Increasing the amount of money in the economy at a faster rate than the economy is expanding deteriorates the value of money. Therefore, the price of goods increases to reflect this reality.

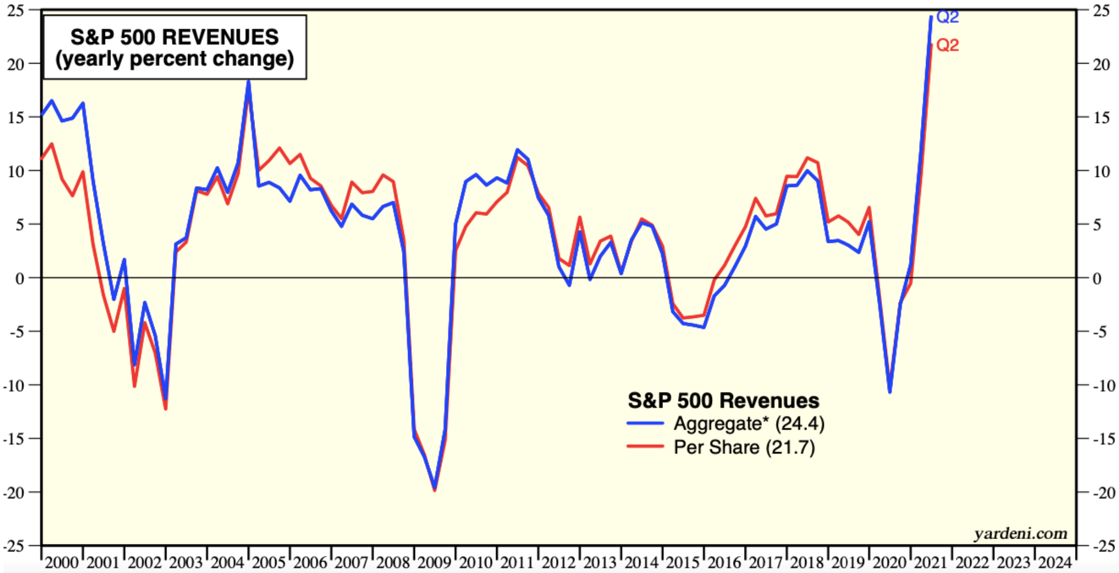


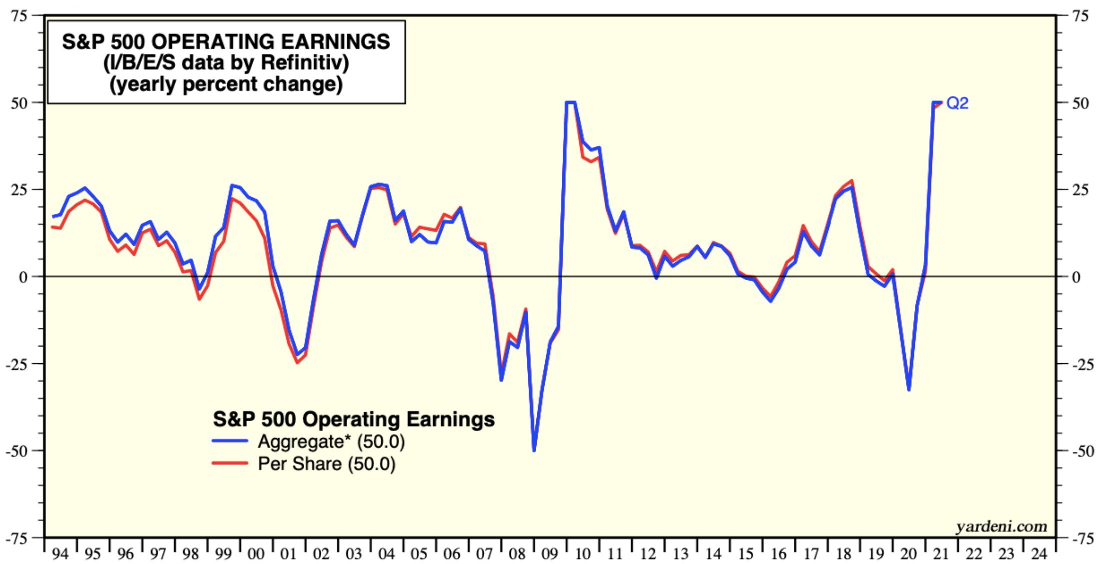
The dual mandate of the Federal Reserve is full employment and stable prices. To fulfill their stable price mandate the Fed will tighten their ultra-easy monetary policy. The primary tool they use to accomplish this goal is to increase short-term interest rates, which are currently near zero.



Increases in interest rates make the cost of debt more expensive. This creates a credit crunch on already extended public and private debt levels which in turn slows down the economy, creates a recession, and spurs a new bear market. We've expressed before that this is our expectation of how the next bear market will occur. With the exception of external shocks, i.e. pandemics, our research shows this is how bear markets usually occur. Typically, an economy starts to show effects of monetary tightening 12-18 months after the initial rise in interest rates. Importantly, the Fed has talked about but not acted on the higher inflation rates so far. They continue to see inflation as *mostly* transitory. We think the higher inflation we are currently experiencing is only partly transitory. We expect inflation will trend closer to 3% over the next several years even as supply chains catch up.

Silver Linings - All clouds have silver linings, even storm clouds. As usual, the stock market's silver linings are earnings and revenues. The S&P 500 forward revenues and earnings forecasts rose to another record high during the last week of September. Analysts are forecasting Q3 earnings (companies report Q3 earnings over the next couple of weeks) to rise 26.9%. That follows a record gain for Q2.





We expect these very high levels of volatility will continue throughout October. Our expectations are that a solid earnings season should calm things down a bit and provide the fuel for a small rally into year-end. As always, please call or email us if we didn't address a concern you may have.

Shake, rattle, and roll,

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.
989 W. Washington Street, Suite 101 Marquette, MI 49855
(906) 226-8711