June 17, 2022

Hello Everyone,

I hope all of you are doing well!
As investors, it is important for us to look back in history to see and understand the stock market behavior patterns.
As Mark Twain said, "History may not always repeat itself, but it sure does rhyme".

The more we understand and learn market behavior the better we can cope with the bad times like we are in now.

"Risk comes from not knowing what you are doing," – Warren Buffett

In this email you will be seeing numerous pearls of wisdom from the greatest investor in history – Warren Buffett.
We should learn from the very best.

Historical Recap of the Major U.S. Market Indexes/Indices:

Philadelphia Stock Exchange: Represented 24 colonial companies. America's first stock exchange, founded in 1790 and is still operating today.

"The first actively traded U.S. stocks, floated in 1791, were issued by two banks: the Bank of New York and the Bank of the United States." — Dr. Jeremy J. Siegel, Stocks for the Long Run

New York Stock Exchange: Represented the same 24 colonial companies. Founded in 1792 and is still operating today.
Dow Jones Industrial Average: Represents 30 of America's largest publicly traded corporations. Created by Charles Dow in 1896.
S&P 500: Represents 500 of America's largest publicly traded corporations. Its current format was created in 1957.
NASDAQ: Represents more than 2,500 publicly traded corporations. Founded in 1971.

The Fear & Greed of Stock Market Sentiment:

Bear Market: when one or more of the indices values drop 20% or more from its most recent high. Since 1932, bear markets have occurred, on average, every 3.6 years, according to S&P Dow Jones Indices. Almost all stocks endure a bear market. Overselling of stocks, including the good ones, results in; "They are throwing the babies out with the bath water", due to fearful panic selling.
Market in Correction: when one or more of the indices values drop 10% or more their most recent highs marks. Corrections happen once every year or two. Not all stocks may take part in a market correction.
Bull Market: markets continuously trend up, making newer all-time highs. The market is roughly up 3 out of 4 years - 75% of the time. Greed buying occurs when investors are feeling, "irrational exuberance". A famous phrase used by Alan Greenspan in December, 1996 from concerns that the markets were overvalued during one of the greatest bull markets in history. Most stocks participate in bull markets.

Current Market Condition:

"For 240 years, it's been a terrible mistake to bet against America, and now is no time to start." - Warren Buffett

1. We are currently in a bear market. The last bear market was in February - March 2020 during the Covid 19 outbreak. The S&P 500 dropped 34% during those 5 weeks. By August 2020, the S&P was back to its old highs.

2. Bear markets are as normal as bull markets, and they are always very painful. Based on historical data, the *average length of a bear market* is 289 days (9 ½ months). Bull markets, on the other hand, last an average 991 days (33 months). *https://www.seekingalpha.com (Ned Davis research).

NASDAQ has entered its 7th month (beginning in November) in this current bear market. The S&P is now in its 5th month, (beginning in January).

3. Bear Markets happen due to either rising interest rates, slowing economic conditions, lower corporate earnings, extreme investor pessimism, or black swan events such as a sudden shock to the economy, (1973 -1974 OPEC oil embargo, 9/11 terrorist attacks, a financial crisis such as the one that occurred during 2008-2009, or Covid 19 in 2020).

The economy has been strong this year while inflation has been setting 40-year highs with the annual rate running at 8.6%.

The Federal Reserve is the central bank for the U.S. that oversees banking institutions, money supply and overall monetary policies for our financial system. Many investors have become concerned that the Federal Reserve, has fallen behind in fighting inflation by not raising interest rates and trimming their enormous Treasury and mortgage-backed securities holdings sooner. **Based on the negative market action, investors are now anticipating at least a mild recession.**

4. But then again, a bear market doesn't necessarily indicate that an economic recession is imminent. There have been 26 bear markets since 1929, but only 15 recessions during that time.* National Bureau of Economic Research, 9/20.

5**. There have also been 27 bull markets during the same time period. Which means, after every bear market, the market eventually recovers all of its losses and goes on to make new all-time highs. There has never been a time in the 230 year history of the U.S. stock market that a bull market did not follow a bear market.**
As an example, here is a snapshot of the most recent bear markets and recessions going back to the OPEC oil embargo where the price of gasoline literally doubled within the first month of the embargo:

- 1973 – 1974: S&P 500 loses 37 percent
- 1975 – 1976**: Index gains 70 percent**

- 1981: S&P loses only 5 percent despite deep, Fed-induced recession
- 1982 - 1983: **Index gains 48 percent**

- 1990: S&P loses only 3 percent despite Gulf War I oil shock
- 1991 – 1992: **Index gains 40 percent**

- 2000 – 2002: S&P loses 37 percent
- 2003 – 2004: **Index gains 42 percent**

- 2008: S&P loses 37 percent
- 2009 – 2010: **Index gains 45 percent**
- * https://datatrekresearch.com

6. Equity bear markets have one hidden positive: they always lower US inflation. Such was the case in 1973 – 1974, 2000 – 2002 and 2008. * https://datatrekresearch.com

Investor Sentiment

1. With a 50-year investment horizon, ***including during your retirement years*, you can expect to live through about 14 bear markets, give or take.** It is very difficult to watch your portfolio go down with the market. It is important to remember that downturns have always been a temporary part of being a long-term investor and they offer good buying opportunities.

"The years ahead will occasionally deliver major market declines — even panics — that will affect virtually all stocks. No one can tell you when these traumas will occur." Warren Buffett

It is *time* in the market, not *timing* the market.

Some investors and financial advisors (poker brokers) try to time the market by going "all in or all out"; trying to sell out at the top and buy in at the bottom. No one can accurately and consistently forecast the market. There is no magical crystal ball and I actually keep one on my desk to remind me.

"The only value of stock forecasters is to make fortune-tellers look good." Warren Buffett

30.9% of the investors who panic sell never return to reinvest in risky assets; however, of those who do, more than 58.5% reenter the market within half a year.

* https://dspace.mit.edu/[Freakout_JFDS_2022.pdf (mit.edu)]

Our Strategy

1. We are never all in or all out with the markets. We do not day trade nor do we buy and hold. We buy and *manage* our client's investments. We allow the markets and individual investments to dictate to us which direction to go when managing our clients' investments. We use fundamental analysis and technical analysis of the markets and stocks to determine this.

Beginning in January of this year and with the NASDAQ already having been slowly going down since November 2021, all the indexes were becoming very weak and volatile. The broad-based selling was occurring with heavy volume. This behavior indicated that the stock market was becoming more susceptible to a correction (-10% or greater loss), sooner rather than later. Using our technical analysis tools, we began to trim our client's holdings in capturing profits and cutting losses using stop losses at various support levels of the individual investments. We have continued to cut losses and take profits all the way up to this week with the partial sale of XLE (Energy) which resulted in gains.

2. As a result of these trades, we have raised a significant amount of cash in our clients' accounts. With the bear market underway, fundamental valuations have improved overall for stocks. With the S&P 500 around 3,600, the index now trades at just 16 times its estimated profits for this year 2022. That is toward the low end of its valuation range over the past decade.

We will utilize the cash once the market stabilizes, investing in various selected individual stocks that have met our analytical criteria. The stocks on our buy list have become very attractive with their low valuations and solid fundamentals. And now, they are on sale.

As stated before we do not know when or where the bear market will bottom. **But it will. And when it does, a new bull market will begin to emerge and you want to be *already* in the market when that happens.**

We urge you to keep a long-term perspective with your investments and rely on market facts and turn off all the gloomer and doomer naysayers as well as the conspiracy theorists.

We will finish with one last quote from **Warren Buffett: *"What we learn from history is that people don't learn from history."***

Please contact us any with questions or concerns you may with your accounts and with the markets.

Best,
Phil and Justin

- **Important risks:** Investing involves risk, including the possible loss of principal. • Diversification does not ensure a profit or protect against a loss in declining market. This material is provided for educational purposes only.