June 15, 2022

Start the Car... Again

Admittedly, this has been one of the more unusual market declines I have experienced… and believe me, I have extensive experience. With a decade as a do-it-yourself investor and over 27 years in the industry after that (and with bear markets occurring on average every five years) I'm no stranger to the experiences and emotions that go along with seeing my personal assets and my clients' assets suffer a temporary decline.

Every time it's different. Every time it's the same.

This decline has been the result of a unique string of coinciding events: COVID, a mad man waging war on Ukraine, supply chain issues as a result of a number of other coinciding events, inflation leading to higher interest rates that have created recession worries, and now monkey pox.

Every time there's a decline in the markets, there are fears that economies will suffer. And they usually do — at least temporarily. And every time there is a capitulation phase. In hindsight, one can often point to the exact date this happens. Total capitulation is when the last of the fearful sellers gives up on the stock market and sells, often resulting in a one-day violent decline where markets bottom and finally start their recovery.

Sometimes that recovery is exceedingly rapid (consider the March 2020 decline and subsequent recovery) and sometimes it takes a year or two. Once in a blue moon it takes even longer, but markets have always recovered.

Companies are created to make money and grow. Some fail, but we've seen time and time again that once a company is well established, failure is rare. Their revenues and profits may decline in poor economic times, but generally they figure it out. They take steps to increase their customer base and increase their margins, ultimately ending up leaner and stronger, resulting in the company being worth more. Being an owner/shareholder is how you benefit from the growth of those companies.

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This decline has been one of a thousand cuts.

Rather than a single event causing a bubble to burst, I'm more inclined to liken this financial environment to a balloon that is slowly deflating. Quite frankly, I thought we had hit the capitulation phase a few weeks ago. Clearly, I was wrong as this past week saw further deflation of the balloon.

Are we at the bottom now? While I can't say with absolute certainty that we are at the bottom, I can say with confidence that if we're not there yet, we are at least somewhere near the bottom.

Blue Light Special on aisle DJIA

I don't say this very often. In fact, it's so rare that I'm a bit shocked to find myself writing a letter like this twice in the same decade. The last time I wrote about the markets being a great buying opportunity was on March 16, 2020, with a follow-up a couple of weeks later on April 2. Back then I wrote:

> *While it's always possible they could go down further, I believe **we are at or near the bottom and equities are on such a deal that investors should load up as much as they possibly can. This is a "START THE CAR" kind of sale.***

I'm happy to share that the investors who took my advice then and added to their holdings were handsomely rewarded. Since then, the Dow has increased by about 50% — and that's after accounting for the recent drops.

	Dow Jones Industrial Average
March 16, 2020	$20,188
April 2, 2020	$21,413
June 14, 2022	$30,364
Total Gain	**50.41%**
Average Annual Return	**19.99%**

We are being given another rare opportunity to buy stocks while they're on sale. Take a leaf from IKEA's book —**don't miss out** and "Start the car!"

Could we still see another drop of 20%? Anything is possible, but in my opinion, that is highly unlikely. In fact, in my opinion the odds of our portfolios being higher a year from now are astronomically high. And I'm not alone in that belief.

Dr. Jeremy Siegel, one of my favorite authors and market prognosticators, was recently quoted on CNBC as saying, "If you have cash, begin to deploy it" and that investors "won't be sorry" a year from now if they do.

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Earlier this year, Warren Buffett started deploying some of his company's enormous cash pile (I think the pile got as high as $147 billion at its peak), making multi-billion-dollar investments in a handful of companies — some private, some public. We won't know until regulatory filings are made, but it's a good bet that he is continuing to buy at these lower prices. Warren is known for saying "Be fearful when others are greedy and greedy when others are fearful."

J.P. Morgan once said, "Bear markets are when companies are returned to their rightful owners." I agree with him. This is the time to be a rightful owner.

<u>So, what should you do?</u>

Frankly, probably nothing, but:

1. If you have cash, deploy it. Yes, investments may decline further, but as I said above (and backed up by my buddy Jeremy Siegel), a year from now you are very likely going to be very happy you made the decision. Investments are on sale. Call or email us now if you have cash available to invest.
2. This second option comes with a HUGE warning. You could review your comfort with risk and kick around the idea of moving up the risk ladder by a rung or two. Be extremely careful with this though. It is only something you should do if you can BOTH:
    a. afford the risk, AND
    b. sleep at night with the risk.

Keep in mind, as I mentioned earlier, there is a definite possibility of markets falling further. Talk to us if you want to consider either option, and we'll let you know if it's a good idea for you.

We look forward to hearing from you.

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