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WEALTH ADVISORS

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The R-Word: Details

by Mike Booker, CFP®, ChFC®, CFS®

At this moment, I don't really care if we are in a certified recession or not. I just want whatever this is to be over…soon! I have discussed recessions in a previous article, but this quarter I thought I would provide some details and additional context. Inflation is persistent and the Fed has been raising rates and will most likely continue. Higher interest rates slow economic activity down. Slow things down enough and the economy retrenches into a recession. Stocks suffer during most recessions. This suffering is what I want to address in more detail. It's intimidating, but there are some positives.

Looking at all the recessions since 1980, I found the following:

- Since 2000, the S&P 500 has fallen an average of 18.58% over an entire recession event.
- Since 2000, the S&P 500 has fallen an average of 38.61% from its highest level during a recession.
- Since 2000, the S&P 500 has taken an average of 647 trading days to get back to pre-recession levels.
- The S&P 500 has always recovered to pre-recession levels after every recession.
- Sometimes the S&P 500 has positive returns during a recession

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The COVID-19 Recession (February-April 2022):
During this recession, the S&P fell 33.92% from its highest point during the recession. It took 126 trading days to recover to pre-recession levels.

The Great Recession (December 2007-June 2009):
During this recession, the S&P fell 55.47% from its highest point during the recession. It took 895 trading days to recover to pre-recession levels.

The 2000s Recession (March-November 2001):
During this recession, the S&P fell 26.43% from its highest point during the recession. It took 920 trading days to recover to pre-recession levels.

The 1990s Recession (July 1990-March 1991):
During this recession, the S&P fell 21.57% from its highest point during the recession, though it gained 4.36% over the course of this recession.

The 1981-1982 Recession (July 1981-November 1982):
During this recession, the S&P fell 28.39% from its highest point during the recession, but it gained 6.76% over the course of this recession.

The 1980 Recession (January-July 1980):
During this recession, the S&P fell 19.83% from its highest point during the recession, though it gained 15.04% over the course of this recession.

Conclusion:
It is an incredibly trying time to be a stock market investor. If we are in a recession currently, the performance of the S&P, thus far, is typical of what one might expect during a recessionary period.
Recession or not, we are in a bear market, and we can expect the volatility associated with it to continue for some time. I believe that both the stock and bond markets have already factored in the specter of future interest rate hikes by the Fed and things aren't likely to improve until they signal that their rate hike schedule is coming to an end.

Most of us have gone through a recession (or many) and it's a healthy approach to remind ourselves that all recessions are an integral element of a normal business cycle. Some are worse than others, but all of us, every time, made it through to the other side and benefitted greatly from our fortitude and commitment to a long-term investment strategy.
Ben Carlson, prolific financial writer and investor asserts, "Focus on the next 5 years. The best time to be investing in the brightest, high-quality proven businesses is when the investing climate seems the darkest".

It is also the best time to stay the course.
(Source: Factset/2022)

Student Loan Update

by Dane Spencer

Student loans have consistently made the headlines this year with big announcements, so we figured we'd sum it up here. There are more details to come, but here's what we know so far:

Under the Biden-Harris Administration's Student Debt Relief Plan, the U.S. Department of Education has stated that up to $10,000 of federal student loans will be forgiven for individuals with an adjusted gross income below $125,000 ($250,000 if filling jointly or head of household), and up to $20,000 in federal student loan forgiveness for those who received Pell Grants. The year in which this income limit is based upon has not been confirmed, but the words "pandemic relief" lead us to believe it will be based on 2020 or 2021 adjusted gross income.

It's important to note that only federal student loans will have the opportunity to be forgiven. Many of those who chose to refinance their federal loans using private lenders to take an advantage of the historically low interest rate market have lost forgiveness eligibility.

In most cases when debt is forgiven it comes with an often-overlooked expense (increased tax liability), however with this loan forgiveness plan it is not the case. Usually, if a debt is not going to be paid back the IRS tends to treat it as ordinary income. If your federal student loans are forgiven between the years 2021-2025, the amount forgiven won't add to your federal taxable income as a result of the American Rescue Plan act that came into law in March of 2021.

For those who don't qualify or have remaining student loan balances, the end of the Student Loan Payment Pause is nearing. In March of 2020, federal student loan payments were suspended as part of the relief plan due to the pandemic. Since then, the suspension deadline has been kicked down the road several times but has landed with the final extension ending December 31, 2022.

According to the U.S. Department of Education nearly 8 million people are expected to automatically qualify for The Student Debt Relief Plan's loan forgiveness, based on income data the department already has on file. For those without automatic qualification, there will be an application that is scheduled to be available sometime in October. The application isn't due until December 2023, but for borrower's loans to be forgiven before payments resume in January 2023, the U.S. Department of Education encourages borrowers to submit their application by November 15th, 2022.

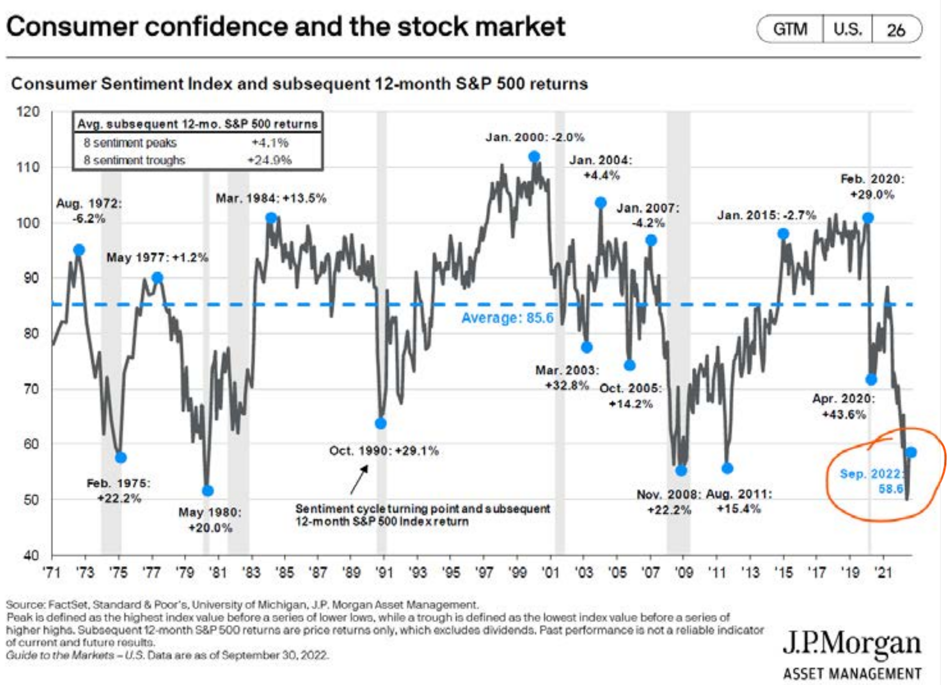
As we get closer to the end of the year, we expect the U.S. Department of Education to continue providing more information. If you'd like to stay up to date, they offer an email update subscription on their website or feel free to reach out to us for more information.

Consumer Confidence Plummets, and That's Usually Good

by Mike Minter, CFP®, CFS®

For many Americans, 2022 has been very disappointing on many levels, with the Omicron variant prolonging the pandemic, sharply rising inflation and interest rates, a cratering stock market, and the shock of Russia's invasion of Ukraine. These factors, combined with a still very partisan political environment, have driven consumer sentiment down to its lowest level on record.

As counterintuitive as it sounds, when consumer confidence plummets it is usually a good sign for investors and the stock market.



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When investors feel gloomy and worried about the economic outlook, the natural human tendency is to sell risk assets in general and stocks in particular. History shows that this will likely work against you. The chart above shows consumer sentiment over the past 50 years with 8 distinct peaks and troughs, and how much the S&P 500 gained or lost in the 12 months following. On average, **buying at a confidence peak returned 4.1% while buying at a trough returned 24.9%.**

Of course, this is not to suggest that U.S. stocks will return 25% in the year ahead, as many other factors will determine that outcome. However, it does suggest that when planning for the rest of 2022 and beyond, we need to focus on fundamentals and valuations rather than how we "feel" about the world.

Stocks Have Been Hammered

Up until the market rally this past Monday and Tuesday, the S&P 500 was down around -25% year-to-date. And to add insult to injury, bonds have not been the ballast they've been historically in down markets – although they are down much less than stocks.

Luckily, stocks don't drop more than 25% very often. And again, we can look to history for some guidance going forward.

When the S&P 500 is Down 25% or Worse Since 1950

Peak	Trough	% Decline	+1 Year	+3 Years	+5 Years	+10 Years
12/12/1961	6/26/1962	-28.0%	31.2%	69.2%	94.8%	171.1%
11/29/1968	5/26/1970	-36.1%	32.2%	44.3%	27.9%	97.5%
1/11/1973	10/3/1974	-48.2%	1.4%	23.8%	42.0%	188.4%
11/28/1980	8/12/1982	-27.1%	43.9%	81.2%	238.6%	403.9%
8/25/1987	12/4/1987	-33.5%	14.7%	34.1%	96.8%	387.1%
3/24/2000	10/9/2002	-49.1%	0.2%	1.9%	21.5%	38.3%
10/9/2007	3/9/2009	-56.8%	-6.9%	3.7%	61.2%	209.6%
2/19/2020	3/23/2020	-33.9%	56.4%	???	???	???
1/3/2022	9/30/2022	-25.2%	???	???	???	???
Averages		-37.6%	21.6%	36.9%	83.3%	213.7%

Data: Ycharts

source: https://www.hamiltonlane.com/Insight/Weekly-Research-Briefing/Dont-You-See-It/?utm_source=wrb&utm_medium=e&utm_campaign=100422#two

As the chart above illustrates, after losses of this magnitude stocks have generally performed very well in subsequent years. It makes sense – stocks are now at more attractive valuations and this increases their expected rates of return in the future.

Stock Valuations Are Attractive

U.S. equities slumped into a bear market in the first half of 2022, recovered much of their losses by mid-summer and slid again as investors worried about inflation, aggressive Fed tightening, and the threat of recession.

By most measures, **stocks are now trading at much more attractive valuations.**

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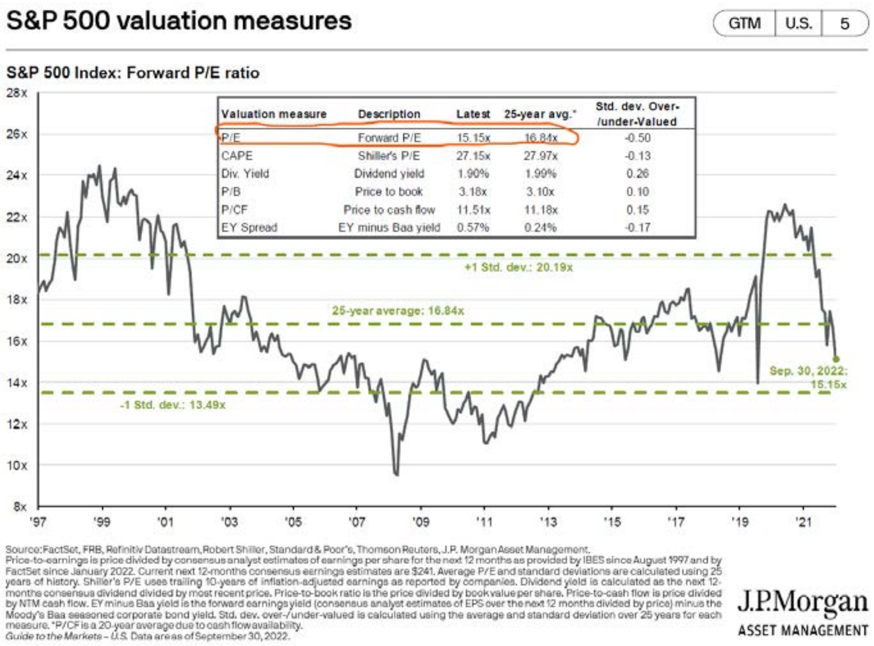

The S&P 500 forward P/E (price to earnings) ratio is now below its 25-year average, setting us up for better performance in the long run.

Taking a Step Back

I know very well that all these charts, graphs, and data points don't mean a damn thing (or lessen the pain) when you open an account statement and see severe losses in your portfolio. I get it.

Years like 2022 will test any investor's fortitude and can cause us to lose sight of why we're investing in the first place. And this includes professional money managers.

We always try to bring a historical perspective into our stock market discussions because it matters. Without a good understanding of historical market performance, volatility, bull/bear cycles, recessions, etc., it makes it harder to hang on during times of extreme distress.

Just look at what we've been through in recent memory.

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I started my investments career in 1999, just in time for the Tech Bubble Peak and subsequent crash. As always, the market recovered and enjoyed years of solid returns up until the Great Financial Crisis of 08-09 when everything fell off a cliff in the worst downturn since the Great Depression.

However, since the Financial Crisis began in 2008 (almost 15 years) stocks have returned 633%. And this includes the COVID-19 pandemic that hit in 2020 and the dumpster fire that is 2022.

And our founder and president, Mike Booker, has experienced decades more than I have in the market. And through it all, we would both agree that investing in the stock market is the best financial move we could have ever made.

Yes, every five years or so the market throws some serious pain our way. And it's still worth going through to achieve your financial goals in the long-term.

The market has already experienced serious pain this year, and stocks are on sale. That doesn't happen very often. Could the market go down even further from here – of course. And nobody knows with certainty when or how the recovery will occur. But I do know with certainty that it will occur.

When people are sitting on cash they often ask, "Is this a good time to put money to work in the stock market?" Sure, there is always the risk that you put money in the market and it goes down another 20%. But at this point, as long-term investors, the greatest risk is not that stocks drop even further. The greatest risk is that you're out the market (trying to time the perfect entry or re-entry) during the next 500% advance upward.

There is no announcement from the stock market when it bottoms out. It will turn swiftly and sharply, and you won't know what hit you. Before you know it, and usually too late, you're in the midst of another great bull market run.

Source: Clearnomics, J.P. Morgan Asset Management, Hamilton Lane

Join us for a Concert Event

Already Gone (Eagles Tribute Band)
Concert Event at The Heights Theater
10/26/2022 - Doors Open at 6:30pm!
Contact stephanie@finsyn.com

Congrats Grant Ball!

Grant and his wife Katie welcomed baby Carter on 8/17!