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RZHadvisors

2022 - A YEAR OF CONSTANT TURMOIL

Observations

Last year was exhausting for investors. Even with 32 years in the business, and a passion for navigating the capital markets, I too was looking forward to putting 2022 in the rearview mirror. Last year brought unrelieved chaos as the hits just kept coming. The central drama of the year was the Federal Reserve's belated but very aggressive efforts to bring inflation under control by aggressively raising interest rates. Other factors such as supply chain bottlenecks, the Russian/Ukraine war, China's COVID lockdowns, the midterm elections, an energy crisis in Europe, and a historically strong dollar all created turmoil and kept volatility high.

For an illustration of the most 2022 market-moving headlines CLICK HERE.

For a complete review of 2022 global capital markets CLICK HERE.

After rising almost 700% in the nearly 13 years between the trough of the Global Financial Crisis (March 9, 2009) and January 3, 2022, the U.S. equity market sold off sharply - declining 27% by mid-October.[1] Bond prices also swooned in response to sharply higher interest rates, producing the single worst year in history for bond returns. 2022 was the worst year ever for US stocks and bonds collectively **as illustrated HERE**. The best news may be that, hopefully, the worst is behind us and historically the worst years are often followed by some of the best, especially after midterm elections and in the third year of a presidential cycle – **as illustrated HERE**.

Perspective

Even after taking a bruising last year and enduring the unprecedented challenges of the pandemic since early 2020, the S&P 500 managed to close out 2022 higher than it was at the end of 2019 (generating a total return of 24% over three years). Not[1] bad for three years during which our entire economic, financial, social-political, and geopolitical world was turned upside down. This is especially impressive when you consider that over the same period, bonds lost 8%, real estate fell 2% and cash yielded almost 0%2.[2]

This tends to validate our core investment strategy, which - simply stated - has been to stand fast, tune out the noise and continue to work on your long-term plan. This continues to be my recommendation as our financial controls make it possible to avoid selling at depressed prices and avoid emotional trading. Selling when asset prices are depressed severely impairs the process of compounding. The stock market's long-term annualized return of 10% was created by the blending of good years and bad. After many good years, we just had a bad one, as has happened numerous times before.

After a particularly trying year, let's pause to quickly review our general investing principles:

We are long-term, goal-focused, plan-driven investors whose portfolios are equity-oriented for growth to sustain an inflation-adjusted standard of living, usually over decades and often to preserve assets for loved ones. We believe that lifetime investment success comes from acting continuously on a plan. Likewise, we believe substandard returns come from reacting to current events and not following a thoughtfully crafted plan – specific to your personal goals. The unforeseen and indeed unforeseeable economic, market, political and geopolitical chaos of the last three years demonstrates conclusively that the economy can never be consistently forecast, nor the stock market consistently timed. Therefore, we believe the most reliable way to capture the full return of equities is to ride out their frequent but historically always temporary declines. Our philosophy of keeping investment costs low, being tax efficient, rebalancing, and focusing on prudent cash flow management are all vital to long-term success. These will continue to be the bedrock convictions that inform our investment policy as we pursue your family's most important financial objectives.

Moving Forward:

Looking ahead, we will likely face many of the same risks and uncertainties of 2022. The burning question of the hour seems to be whether and to what extent the Fed, in its inflation-fighting zeal, might tip the economy into recession at some point - if it hasn't already done so. Over the coming year, the way this plays out may determine the near-term trend of equity prices. Wall Street is quite divided on this, and, in my opinion, this most-anticipated recession in history may already be well-priced into the markets. (Brendan McEwan has penned a piece on this which we will deliver to you shortly.) The market will also be watching how the war in Ukraine plays out, how higher interest rates will affect consumer spending and company earnings, and the result of China's shift away from its Zero-Covid policy. My position continues to be that these outcomes are simply unknowable and that one cannot make rational investment policy out of an unknowable. This strengthens our conviction to maintain our planning-driven investment process focused on achieving defined outcomes versus trying to tap dance around short-term erraticism.

That said, I continue to believe strongly that whatever it takes to put out the inflationary fire will be well worth it. Inflation is a destructive force that destroys wealth and economic progress. Temporarily delaying the next bull market to limit the damage is in everyone's best interest. Just look at Paul Volcker's actions in the early 80s which led to one of the greatest bull markets of all time.

The consensus among Wall Street strategists is that the first half of 2023 will bring continued volatility as the markets analyze the progression/resolution of the aforementioned global issues and the possible onset of a recession. However, most experts see the markets turning higher in the second half of the year as these issues hopefully abate and the markets price in better times ahead.

Don't be surprised however if the markets turn higher well in advance of things settling down. This is normally how market recoveries start as the stock market is famous for generating a strong rally well before a recession is over and before Fed policymakers end their tightening cycle.

The Bottom line

All of us at RZH look forward to seeing you as we conduct annual reviews over the next few months – even though the reports will not be as cheery as the past few years. Most importantly, please know that we hear you and understand how anxiety-producing this past year(s) has been. You are not alone if you are worried about your finances, the world, and what 2023 might bring. If you are a client of RZH you know that we have prepared for the good and the bad, as well as stress-tested your plan. Our mission remains unchanged: to help you live an extraordinary life by maximizing your wealth. We work tirelessly to provide impactful counsel and planning such that market fluctuations are irrelevant to your financial security. We are always available to discuss any concerns you have.

As I always say - but can never say enough - thank you for being our clients. It is a genuine privilege to serve you.

Best wishes for a fabulous New Year!

Carl

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1. Source: Yahoo Finance
2. Source: Morningstar

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