

January Commentary

January 4, 2023

A Year to Forget

The past year was a the worst year for the financial markets since 2008. Stocks, as measured by the broad S&P index, declined 19%. Even investors with balanced portfolios saw their accounts drop precipitously as bonds had their worst year ever. Other than sitting in cash, there was nowhere to hide in 2022. Rarely do all classes of investments decline at the same time.

With inflation running at the highest rate in 40 years, the Fed has been forced to raise interest rates which burst the bubble for both stock prices as well as real estate. A year ago, the interest rate on short term CD's or government securities was near zero. Today the yield is 4.7%. Mortgage rates also jumped from 3% a year ago for 30-year fixed mortgages to 6.5% today. For the first time in many years, investors can earn a decent rate on fixed income investments.

The stock market was overvalued a year ago as it rose steadily throughout the pandemic in 2020 and 2021. In hindsight this didn't really make sense and the market was ripe for a correction. The large cap high flying technology stocks that rose the most were the stocks that declined the most.

There is no way to predict what markets will do in 2023. It appears that the Fed is not finished raising interest, and many "experts" are predicting a recession in 2023. There is no way to know what the market will do in 2023 but our guess is that by the time we read in the news that we are officially in a recession, the market will have already bottomed and started to rise.

Stocks have only declined two years in a row 4 times since 1928 and historically stocks rise about 75% of the time. The best course of action is to stick with a your long-term plan and try to tune out the day to day news. It's the mistakes that people make in the downturns that hurt people the most.

We wish all of you a happy, healthy and prosperous new year.

Best regards,

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