Holyk Doran Wealth Management Group

Market Update – January 2022

Warren Buffet once said that more money is lost preparing for a bear market than in the bear market.

Today it seems that we investors live in a world where volatility can flare up at any time. Just days after a great 2021, suddenly all the bad news that's been out there matters and stocks are taking a hit on potentially higher interest rates, a slowdown in corporate profit growth, the standoff over Ukraine, oil over $80 per barrel and inflation fears. The S&P 500 is now down 11% year-to-date, however, **that's actually par for the course: since 1920, the S&P has recorded a 5% pullback three times a year on average and a 10% correction once every year and a half.**

It always feels different every time – and the uncertainty comes from a different place, which often has no frame of reference – so when there is a big selloff, being nervous about the stock market's nosedive is normal – but fleeing to cash until you think the worst is past is most often a bad idea. For example, recall that in March 2020 when the Dow experienced its worst one-day point drop ever, shedding nearly 1,200 points and stocks fell an agonizing 30% in just three weeks. That was ghastly in the face of pandemic uncertainty but that decline set the stage for a rally and the market ended up nearly 20% by year end.

Although it's impossible to predict what stocks will do next, research shows that missing out on the best-performing days of the market — regardless of when the bad days are — can wreak havoc on your long-term returns. For example, in a 20-year period from 1999 to 2018, if one stayed fully invested in the S&P500, your annual return would've been 5.6%. If you missed the best 60 days over those 20 years, your annual return would've been -7.4%.

The easiest way to miss those gains is by fleeing the market after you're spooked by a downturn. We can liken it to when a card game ends; the deck gets shuffled, and the next game begins.

The federal reserve board meets this week and is expected to signal its intention to raise rates in March. The good news is that US equities have historically performed well during cycles of rate increases as a growing economy tends to support corporate profit growth.

Tightening Without Turmoil

How the S&P 500 performs in Fed rate-hike cycles

Source: Trust Advisory Services, Bloomberg.

Average annualized return

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Our investment thesis isn't built around panic and daily movement. We continue to monitor weightings in your portfolios and have a watch list on current investments that might provide opportunities.

You know where to find us if you have any questions.

The Holyk Doran Team.

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