Comprehensive Investment Management, LLC
Fee Only Personal Financial Planning
Summer 2022

A Review of the Financial Markets at June 30, 2022

The quarterly reports don't look good. In fact, not good at all. But a major swing in the pricing of investments is not at all unusual. You don't want to read too much into it. Suppose you have jewelry for which you paid $5,000. A few years later, it was appraised for $7,500 and sometime after that for $10,000. Today somebody offered you $8,000 for it. Why would you sell the jewelry for $8,000? Similarly prices quoted for stocks and bonds on any given day is a figure two parties have agreed to. Keep in mind for every transaction there is a seller and a buyer, so there is an obvious difference of opinion about value.

Microsoft, Alphabet, Meta Platforms (Facebook), Apple, Schwab, McDonald's, JP Morgan, Pfizer, Proctor & Gamble and United Health group make up 26% of the stocks in Vanguard's Wellington Fund. Microsoft and Alphabet alone represent 10%. Year to date 2022 the stock prices of those companies are down an average of 17%. If you own Wellington, you own those companies. Do you think they have lost their ability to be profitable for many more years to come? If you worked for one of them, would you think you better start looking for another job? Since the broad market is down, where would you go?

Recent market and economic activity is newsworthy. However most of it can be dismissed as "noise" and not indicative of a trend. Investment performance over longer periods, while not predictive, is significantly more meaningful.

The Wellington Fund holds shares of seventy one companies and over twelve hundred bonds. Those assets currently have an annual yield of 2.4% in interest and dividends. So investors are paid more than a bank savings account while the market works through its current volatility.

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Average Annual Returns of CIM Select Mutual Funds

At June 30, 2022	QTR	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
Large Cap Stocks	-12.8	-16.1	-11.6	9.0	10.1	13.3	10.4
Mid Cap Stocks	-16.5	-22.9	-20.7	6.7	8.3	13.1	9.4
Small Cap Stocks	-18.2	-26.5	-24.9	3.5	7.2	11.4	8.8
Healthcare Stocks	-9.9	-17.6	-14.8	10.1	11.2	15.8	14.1
Foreign Stocks	-14.7	-26.5	-31.4	3.5	4.8	7.2	4.9
Short Term Bonds	-1.5	-5.1	-5.8	.1	1.0	1.3	2.3
Intermediate Bonds	-5.4	-10.6	-9.9	.1	1.5	1.8	3.7
High-Yield Bonds	-8.6	-12.5	-11.3	-.1	1.8	4.0	5.0
Wellesley Fund 65/35 bonds/stocks	-6.7	-10.0	-7.1	3.7	4.8	6.0	6.2
Wellington Fund 35/65 bonds/stocks	-10.4	-16.1	-9.2	6.3	7.2	8.8	7.1

On a deposit of $100,000, over 15 years, Wellesley's balance would grow to $344,460, Wellington $411,985.

WHAT'S AHEAD FOR THE NEXT SIX MONTHS

The Wall Street Journal asked seven Wall Street Strategist to share their outlooks on the second half of 2022. Here is a heavily edited version of their answers.

Rick Rieder, chief investment officer of global fixed income and head of the global allocation team, BlackRock Inc. The other side of downturns like this are almost always significant bounce backs. I have a strong view that the Federal Reserve will back off sooner rather than later trying to control inflation because of the number of jobs that will have to be sacrificed in a recession.

David Kelly, chief global strategist and head of the global market insights strategy team, J.P. Morgan Asset Management. We're going to see a bounce. The threat of recession has grown, and the economy is certainly going to slow down. But inflation will come down, prompting the Fed to slow down as well. Unless there's a shock, stocks and bonds can rally.

Mark Spitznagel, founder and chief investment officer, Universal Investments. The worst case scenario is if the Fed tanks the economy into a recession. There's too much deadwood; we're sitting in a tinderbox. Investors should think strategically about their portfolios and avoid relying on forecasts.

Jason Draho, head of asset allocation Americas, UBS Global Wealth Management. My highest conviction bet is that markets will remain volatile throughout the summer. Markets have been very sensitive to every economic data point that gets released. The risks are skewed toward the downside.

Liz Ann Sonders, chief investment strategist, Charles Schwab Corp. The bear market has everything to do with the Fed. The ship was pointed toward massive stimulus, and now the ship is toward tighter financial conditions. It's the classic end of a cycle. I think not only a recession is likely, I think we may already be in one. I don't think the Fed's tightening has been reflected yet in corporate profits. In the second half of the year, that may represent the next source of indigestion for stocks.

David Kostin, chief U.S. equity strategist, Goldman Sachs Group Inc. Our base case at Goldman Sachs is there's a 50/50 chance whether we enter a recession or not. Portfolio managers need to be prepared for a recession, and set up a balanced portfolio postured for either scenario.

Mike Wilson, chief U.S. equity strategist and chief investment officer of Morgan Stanley. We won't see downward earnings revisions fully priced in until the fourth quarter. Until we do, equities won't rebound. Bonds are primed to outperform stocks in the second half of the year. The probability of a recession is rising, but even our bear case is for a mild recession.

And Then There's the Bigger Picture

The key to making money in stocks is to not let yourself be scared out of them. Far more money has been lost by investors trying to anticipate corrections than was lost in corrections themselves.

Peter Lynch former mutual fund manager, philanthropist

Over an extended period of time the stock market is a great allocator of resources. But in the short term it is a neurotic hysterical daily barometer of wide swings of over reaction and under reaction.

Mark Shields, political advisor, columnist

The only purpose served by economic forecasting is to make astrology look good.

John Kenneth Galbraith
economist, diplomat

Nobody knows nothing. It's just guessing. If you have trouble imagining a 20% drop in the stock market, then you shouldn't be in stocks.*

Jack Bogle, founder Vanguard

* We can assume Mr. Bogle pointed out at other times that a stock allocation does not need to be all or nothing. A lower allocation may be suitable for someone who's risk tolerance is lower than "normal".

ROTH COVERSIONS

Whenever the markets go down, you can bet talk about ROTH conversions goes up. The fact is, in a good majority of cases converting an existing Traditional IRA to a ROTH is not a good idea. That is contrary to what you may have seen and heard on public television during a recent pledge week. They had Ed Slott on (again!) with his persistent push of the idea that paying income taxes now is better than paying them later. To which the average taxpayer could respond with: “Say again?”

Even Jill On Money (KYW) is on the bandwagon with *Too Old To Convert? Think Again.* It presents the three standard questions: When will you need the money you converted? If it’s less than five years you won’t get sufficient benefit and you may have income tax issues. Is your current tax rate, including the conversion income lower than it will be when you draw the funds from the ROTH? Don’t be surprised you don’t know the answer to that. And finally, do you have the money to pay that conversion tax from accounts other than the ROTH you agreed you won’t need for five years?

Jill ends by reminding you to not forget “the big picture” which according to her is how best to plan to leave money to heirs. You will pay the conversion tax but your beneficiaries get the ROTH completely tax free. Her bottom line: Pay taxes so your beneficiaries don’t have to. “Say Again?”

Contributing to ROTH’s is a good idea except for those in the highest of tax brackets, who aren’t eligible anyway because of income limits. Converting to a ROTH is a much more complicated story. Contact your local CIM rep if you want to learn more and/or run some numbers.

YOUR AGE AND INVESTMENT ALLOCATION - SEQUENCE OF RETURN RISK

It is commonly accepted that older investors need to worry more than the younger investors when there is a downturn in the market, because the older investor has less time for the portfolio to recover. That brings into question whether they should even consider themselves a long term investor and if the principals of investing for the long term even applies to them.

Regular readers of this newsletter know that they should have at least five years of planned withdrawals in low risk liquid investments. Meeting that criteria alone makes them a long term investors. Even during the Great Depression the DOW was not down five years in a row. A second criteria is limiting withdrawals to a safe rate. If you meet the five year rule, but at the end of five years you are out of money then you were not following a safe withdraw rate. If you maintain a safe withdrawal rate you are a long term investor.

And then there’s the Sequence of Return Risk. There have always been, and there will always be economic cycles. The question is when will a down cycle hit your nest egg? Will it be in the early years or later years of retirement? Counterintuitively, a recent retiree needs to be more carful in a bear market than someone who has been drawing from their portfolio for several years. The reality for the recent retiree is that even if returns average out well in the long run, it doesn’t matter if withdrawals deplete your portfolio before the “good” returns finally show up.

Historically there has been a strong and consistent relationship between a safe withdrawal rate, a balanced and diversified portfolio and the after inflation returns of stocks during the first decade of retirement. With a good first decade safe withdraw rates in the area of 5% are sustainable. A good first decade can be so positive that even a subsequent bear market can’t ruin the outcome. It’s also the case that inflation is more of an issue for a portfolio that’s to last thirty years than for one to last fifteen years. Older retirees have gotten a pretty good handle on what retirement is all about, their spending patterns and the remaining items on the bucket list.

The newly retired should understand that a few bad early years are not fatal to your retirement plan. Notably even those who retired at the start of the Great Recession, if they stayed the course, have had a good outcome. Stocks recovered their losses within three years. Certainly the retirees felt anxiety and cut back on planned spending a bit until they saw the green shoots of recovery. They were also so glad they were getting the full benefit of inflation adjusted social security payments because they waited until seventy to collect.

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The CIM investment strategy:
Control risk yet outperform the market by using well managed, no commission, low cost mutual funds. Maintain appropriate asset allocation and diversification. Minimize taxes.

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We Get Mail

Q: Bonds have let us down. Am I right? Aren't they supposed to be our ballast, our stabilizer? Shouldn't bonds go up when stocks go down?

A: Stocks have had their worst first six months of a year since 1962. The ten year Treasury bond had its worst first six months since 1789, which is when Treasury's were first issued.

For several years bonds have not been providing the return investors had come to expect. As recently as 2017 the ten year return on Vanguard's Total Bond Index fund was 4.2%. It has been in a steady decline since. Over the last twelve months the Bond Index Fund has returned a negative -10.5% and its ten year return has been dragged down to 1.4%. Year to date 2022 the bond fund's return is also -10.5% and the S&P is down twice as much.

Covid and the government's response to it have caused the poor bond performance. When Covid arrived in March 2020 stocks immediately collapsed but bonds rose. To protect the economy the Federal Reserve lowered interest rates and bought bonds at a furious rate. Stimulus checks were sent to the great majority of individuals and families whether they were directly affected by Covid or not. Loans and grants with generous terms were made available to businesses for the asking.

The result today is higher inflation, rising interest rates, and a potential recession. For bonds that is the trifecta. US Inflation Protected bonds have provisions that offset inflation and have zero credit risk. They are a bit more sensitive to interest rates.

The markets will adjust. Bonds are simply not as risky as stocks because lower returns come with lower risk. It's as basic to investing as supply and demand is to economics.