Pittenger & Anderson, Inc.
REGISTERED INVESTMENT ADVISOR

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"I'll take 2022 investment questions for $1,000, Alex!"

By Trey Pittenger

On June 16th, 2022, the S&P 500 was -24% from its previous high which occurred only seven months prior. Most of the downside pain was fueled by uncertainty around rising inflation, the Ukraine war and the resulting rise of interest rates and recession fears. Uncertainty is when you don't know the probability of an outcome and can be a primary fuel to market volatility. Uncertainty is most prevalent in areas of our lives we are not familiar with, where there is a void of information. To cure the uncertainty in our financial lives we need to fill this void by asking questions and learning.

If you haven't heard this from us before, hear it now: it is up to you to get as much work and insight out of us as you can. No question is a bad question. In that spirit, here are some that clients have asked us over the past seven months, along with our answers:

How can the equity markets possibly go up if we are in a recession?
Equity markets are forward looking. When someone invests a dollar into a stock, they (should) know that for the potential of high returns they will need to let that dollar stay invested for years. Thus, when deciding to invest in these companies, investors are looking out to what the macroeconomic climate will be some number of years from now. They assess where we are going, not where we are or where we've been. Conversely, cash or fixed income investors are buying current interest rates, a knowable return if held to maturity.

Should we get out of the market and wait until an all-clear signal comes?
Unfortunately, 'they' don't ring a bell at short term market bottoms and tops. When a bear market turns into a bull market, it will usually rip higher faster than you can put money to work. Our philosophy at P&A is to set an appropriate asset allocation for our clients, invest in durable companies with a competitive advantage, systematically review accounts every three months, and if the allocation strays too far from target consider rebalancing (unless money comes in/out of the account in the interim). Internally, we are meeting frequently to assess the companies/funds in accounts and if the facts change, we will change our minds. This philosophy and related process sounds simplistic, but it is quite rigorous.

I have some money to invest but would like to wait until things settle down a bit. What are your thoughts?
With the answers to questions #1 and #2 in mind, we feel the better approach is to define 1) how much money you need in cash/savings for an emergency fund (typically 3-6 months of expenses max) and 2) money needed in the next 6 months for large purchases. Monies in excess should be invested.
From there we can embark upon a dollar-cost-averaging process. Let's say you have $90 to invest (with a few more 0's in many cases). We can take a strategy of putting $30 to work right away, putting $30 into a 3-month treasury (currently 2.662%) and $30 into a 6-month treasury (currently 3.081%). That way you earn some interest while waiting to invest for the longer term. Most importantly, when the Treasuries come due, we can quickly invest those monies into your diversified stock and bond portfolio. This gives you several different entry points into the market (dollar-cost averaging), and you only need to make ONE decision: to send $90 into your account. We handle the rest.

Are there any silver linings to a bear market?!?!
As of this writing, we may be out of one. We may not. But yes, is the answer. We have written about loss trading before, but for clients with after tax accounts we have been very proactive in realizing losses

through the early part of 2022. This will benefit you come tax time in April and likely beyond for many years. Read more here (What is loss trading?)

Tax rates must go up to pay for all this stimulus, what can I do about that?

Technically, they don't have to go up. But they might. If you are a strong believer that taxes will be higher in the future there are some strategies to consider which could pull your taxes forward: Roth IRA conversions, realizing long term capital gains now, realigning your savings to favor after-tax investments vs. pre-tax, or dividend growth-oriented investing.

Based on your unique situation, any, or none of these may be applicable to you. Reach out to your P&A Lead Advisor if you would like to discuss further.

Conclusion

We can't rid all the uncertainty from your financial life, but we can reduce the range of those uncertainties through conversation or a financial plan. This helps fill the information void. Thanks for being our client!

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