StraightTalk
PROVIDED BY STRAIGHTLINE FINANCIAL OF RAYMOND JAMES
VOLUME 6 DECEMBER 2022

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Inching Ever Closer….

Many of you know that I am an occasional golfer. I use the word occasional, not because I don't enjoy golf, but because I don't often have a five-hour block of time in my schedule and therefore do not play regularly. However, each fall for the last two decades, I have been part of a group that travels from all over the East Coast to the mountains of Virginia for what can best be described as a golf Ironman. The weekend starts on Thursday with 18 holes, followed by a full 36 holes on Friday, and another 36 holes on Saturday – which is an extreme amount of mountain golf. The marathon of golf is punctuated with lots of food, drink, and stories. The dozen of us, (ten fraternity brothers, and two honorary brothers) look forward to it every year, as it is a chance to catch up on each other's lives, play a lot of golf, cook fantastic meals, and share some 80 proof beverages.

Years ago, one of us had a conflict, and another fraternity brother from Hollis, New Hampshire filled in. He came in hot for the opening night – the meal, the card games, and many drinks. It was a late night, and he ended up sleeping through breakfast, and this breakfast is not to be missed. It is a high calorie feast designed to sustain golfers for a long day out on the course – a morning buffet of eggs, pancakes, French toast, and a plethora of pork products, including legendary biscuits and gravy.

We were all standing on the first tee box awaiting our turn, when we noticed he was absent. An emissary was sent to the condo to wake him up without any time for a shower, a shave, or the buffet. With players bunched up on every tee box, fairway, and green due to morning mountain fog, we slowly made our way through the first nine holes. After almost every shot, he would emphatically exclaim in his distinctive New Hampshire accent, *"Inching evah closah to the buffet!"*

Upon reaching the clubhouse after the first nine, he was dismayed to find that the bountiful breakfast buffet had closed, and his only option was a can of Coke and some crackers until the lunch snack bar opened closer to midday. His "inching evah closah" refrain became the running joke for the remainder of the weekend, and still comes up years later.

Similarly, we are all inching ever closer to the end of Federal Reserve interest rate hikes, and what may turn out to be a recession next year. And…I submit to you neither is relevant to your long-term plan.

As I have written in this publication on more than one occasion over the last 29 years, the economy can't be forecast, the market can't be timed, the best time to invest money is when you have it, and the best time to sell investments is when you need the money. Everything else is just commentary, conjecture, or confusion.

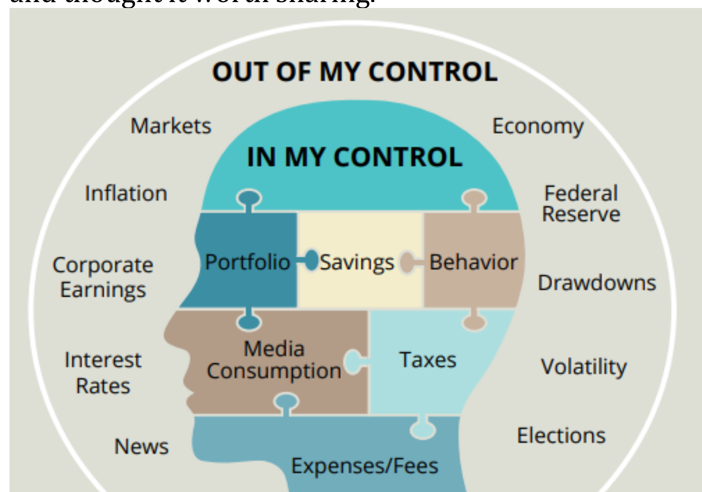
Put another way, recessions come and go, and market drawdowns come and go, but history shows the great companies endure and prosper. If that is the history of the capital markets of this country (and it is) – then shouldn't it follow that as the prices of the great companies are falling, their value is rising? And yet, the stock exchange remains the only place on earth where when there is a big sale, everyone runs screaming out of the store. Ask yourself if any of the largest, most successful companies you can think of easily are really worth 30%, 40%, or 50% less than they were a year ago? Yes, the dual effects of higher inflation and the consumer becoming more discerning about spending *may* mean that next year's earnings will need to be revised down a bit. But does any of us invest in a company for just the next year? If you own a small business, or know someone that does – does he or she just close their doors, or sell the franchise for half its value after one bad year? (And, by bad year, I don't mean losing horrific amounts of money, but rather just earning less than the year prior, which is what we are talking about for most companies in 2023….)

To me, it looks likely that investors have become emotional regarding their investments and are busy needlessly lighting their plans and portfolios on fire. In fact, it appears that the markets are being driven by a large number of people day-trading their long-term portfolios based on when the Fed will pause their rate hikes. Even if you believe (and I don't) that the Fed has magical powers to change the economic cycle, making all-in or all-out decisions with your long-term money is ludicrous. Bloomberg recently reported that at the end of the third

quarter, investors had amassed $4.6 trillion in cash, and are adding to that hoard every week. Some of this may be reserved for short-term spending purposes, but with the markets down double digits for much of this year, it is likely some of this is due to emotion-driven selling.

Of course, there is no shortage of emotional stimulus in our society today. Whether it is yet another bare-knuckle election cycle, or the polarization of what we used to call news reporting, or the hangover from too many Covid restrictions – it seems as if everything and everyone is on the verge of some type of explosion. Perhaps, this 247-year experiment of freedom, democracy, and capitalism is about to end. But I doubt it.

More likely, it's that, collectively, we all have been listening too much to the carnival barkers on television, the internet, and social media. Find a friend or neighbor on the other side of a political or social issue from yours, pour two glasses of wine, and talk to them about it over holiday season. I am betting that your faith in humanity (and America) will be restored as a result. We're just not as crazy as it appears. More to the point on investing, and the "you should do something right now" business news advice – I recently saw this ingenious infographic below and thought it worth sharing.



If we all would focus on the things that matter and tune out those that don't, we'd feel better in our financial lives, and much better in general!

Benjamin Graham, often referred to as the father of value investing, famously said "In the short run, the market is a voting machine, but in the long run, it is a weighing machine." Given the well documented short run voting we have seen in stock market prices, it makes sense to discuss the "weighing machine" part of his legendary 1934 quote. The "voting" for much of this year has consisted of several narratives: the coming recession will be severe, stock prices are still too high, you can't make money in stocks when rates are rising, and my favorite, we're headed for a lost decade in stocks. It is time for the weighing machine to be rolled out of the closet while we fact check those narratives.

First, I am not sure how anyone can forecast the depth or duration of a recession until after it has passed. If you doubt that, read the last edition of this newsletter for a discussion of how predictions fared over the last three years. As for prices – which are always and everywhere a function of earnings – according to J.P. Morgan, as of September 30, the consensus earnings forecast for the S&P 500 was $241,. That same day, the index stood at 3585. Comparing current price and earnings to the 25-year average results in the following, a P/E of 15.1 compared to 16.8. In other words, 11% below the long-term average. This would suggest that stocks may have been a bit too high last year, but they are far from that today.

Another short-term "voting" behavior has also been at play this year. Since 1948, the market has dropped ahead of recessions an average of 6.3%, according to Federated Investors. This year, the market has dropped 4x that average, down 25% before any recession. Does this mean the market cannot go lower in the short-term? No, but it may mean we have already priced in a lot of 2023 bad news. And as for the idea that one cannot earn money in stocks while we have inflation, history provides a guide. During the 1980s, inflation began at 13.5% and as Fed Chairman, Paul Volcker, ended the inflation spiral, it dropped to 3.5% by 1987. Inflation was back to 5.3% by 1990, ending that decade at 2.2%. In total, inflation averaged 4.45% for those two decades, *during which the stock market went up over 1,000%.*

We will cover the myth of the "lost decade" narrative in the next newsletter. For now, the market is down on fears of a recession next year, but remember that every single bear market in the history of the U.S. stock market has resolved to new highs eventually. History does not guarantee that the past will repeat – but in my opinion, the great companies that make up our economy have a way of successfully navigating an ever-changing environment, and should not be counted out. If we all focus on the things in our control, and tune out those out of our control, we will continue inching ever closer to our long-term goals, perhaps sooner than we think…

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