PETERSON FINANCIAL SERVICES

Limited Liability Company ◆ Registered Investment Advisory Firm

STICKING WITH A LONG-TERM WEALTH ACCUMULATION STRATEGY WILL YIELD POSITIVE INVESTING SUCCESS.

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- Keeping short-term events that sway markets in the proper perspective will lead to achieving our financial goals.

Third Quarter 2023

October 2, 2023

QUARTERLY MARKET RECAP

As is historically customary around this time of the year, August and September brought pullbacks in the markets. While the Federal Reserve held the Fed Funds rate at the 5.25% - 5.50% level in September, its second pause since starting tightening early last year, its forecast is spooking the markets that rate hikes are not done and high levels will persist.

Last quarter the DJIA continued its lagging overall performance, dropping 2.62%, the S&P 500 declined 3.65%, and the NASDAQ lost 4.12%. The small-cap Russell 2000 fared the worst of all, shedding 5.49%, and foreign equities retreated by 3.83%. Inflation has been steadily declining, but is still off the Fed's target level, and this summer's rise in oil prices has added complications to gaining control over it. The Barclay's Aggregate Bond Index took additional hits with a 3.39% decline. Continued strong labor markets are seen as a negative factor in the Fed's calculations, and while the unemployment rate inched up last month, it is still near historical lows. Earnings have softened, but are still relatively good, but corporations are giving more negative forward guidance, in anticipation that future sales and profits will decline as rates remain elevated. GDP has not slipped negative, so a recession doesn't appear imminent, but is an increasing possibility.

RETIREMENT PLANNING BECOMES MORE IMPORTANT THAN EVER WHEN INFLATION EATS AWAY AT FUNDS

Our recent historically-high inflation is adding to investor's anxiety about their retirement, and that is not entirely unwarranted. In fact, in our experience over more than three decades of preparing retirement analyses, underestimating the effects of inflation on a person's purchasing power throughout their life is the second greatest mistake that is made. The first one is not consistently and systematically depositing funds into their portfolios.

First, last year's bear market did significant damage to account values, and while some of that has been recovered this year, we are still not up to previous index highs. This will come in due time, and patience will be rewarded in the long term, but it is a factor to reckon with. This can be compounded by not keeping a long-term perspective. For example, according to a November 2022 Wells Fargo study, two out of three investors "doomscroll", or constantly check their investment account values, during market declines. This often leads to emotionally-driven terrible trading decisions which do even more damage to resources. In turn, this can lead to that first mistake mentioned earlier: giving up on investing and ceasing savings deferrals into retirement accounts. A large percentage of those who succumb to this never return to the equity markets, further compounding the damage. Keeping your long-term retirement savings invested is the best way to overcome inflation and build wealth for the future.

Going back to 1928, just before that era's market crash and encompassing a period of time beyond all current investors' investment experience, just staying put in a fund that tracked the S&P 500 returned 9.9% annually – even through all the most brutal bear markets. That return outpaces inflation over the same time (a period when we've had bouts of really high inflation) by over 200%.

Further, while it is counter-intuitive, we've told clients for decades that the periodic declines in the markets are required to have opportunities to buy at lower prices. The old "buy low and sell high" maxim only works if we're willing to buy low, and that only happens if there are periods when prices are low. When we're accumulating, these times are necessary.

Further, the strategy of dollar-cost-averaging is dependent on dips in prices in order for it to work. And that strategy leads to ensuring that the investor's cost per share was lower than the market's price per share during the period.

Timing the market is a notoriously impossible feat to get right over time. If an investor stops depositing funds to his or her account for some period of time, when is he or she to know when to resume? Will it be after the market books nice recovery gains? If so, prices are now high again. Timing purchasing decisions doesn't really matter that much for long-term investing.

According to the Schwab Center for Financial Research, $2,000 invested annually in the S&P 500 from 2001 to 2020 is less impacted by the timing of those deposits than the fact that they are actually done. They found that if the $2,000 was deposited on the absolutely perfect day to do so (lowest day in the market every year), the ending value would grow to $151,391. If it was invested immediately on the first trading day of each year, that figure would be $135,471. If it was metered in using dollar-cost-averaging, it would be worth $134,856. And if it was invested on the worst day of the year each year (the market's high point for that year), it would still be worth $121,171. But, and this is the important take-away, if it was put in cash and left there, the $40,000 invested would only be worth a measly $44,438 – almost no gain, and after accounting for inflation, a negative real return.

An investor who was afraid of market volatility and waited for the "right time" to put those funds to work in the markets would have 67% less than the person who just bought annually and didn't attempt to pick the right time.

There are all sorts of nostrums about what your saving rate should be. One popular thought says combining employee deferrals with employer contributions should add up to 15% of income annually. Another guideline suggests you should have a year's worth of income in savings by age 30, three times by age 40, six times by age 50 and eight times by age 60. But we've long held that these rules of thumb offer no solutions to the question of what your desired lifestyle will require in resources and what your individual circumstances will require. That question can only be answered with a comprehensive pre-retirement analysis matching your goals to your resources and determination to succeed.

But regardless of whether an analysis is performed or not, the main thing is to save a substantial amount of your income for the future, deferring at least some short-term spending gratification in the moment, and keeping that strategy up consistently, during both good market times as well as bad ones.

And as we approach the end of our working and accumulating years, review of our investment strategy and risk tolerance is in order to preserve what we've spent decades building up. To sum up, consistency in allocating a significant portion of your income into long-term investments is the necessary component to wealth building.

"I'm a great believer in luck, and I find the harder I work, the more I have of it."

- President Thomas Jefferson

ABOUT PETERSON FINANCIAL SERVICES, LLC

As an aside, we wish to remind our clients of our various services. While we specialize in portfolio management, we continue to provide financial planning and insurance services. Longtime clients may have forgotten this, and newer clients may not be aware of this. Additionally, we build our business through referrals, and much appreciate them. Please keep us in mind as you come across friends, family and colleagues who might benefit from our financial services. We appreciate your business.

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