Quarterly Newsletter

Roth FINANCIAL PARTNERS

Q4 January 2022

Welcome to 2022: Uncertainty Prevails

By: Peter Roth
Financial Advisor

I believe there is one constant and universal certainty that will always be with us and will always prevail, and that is uncertainty. And we have a boatload of it right now. A virus that has infected and impacted the entire globe, two years running. Political discord, hatred, and viewpoints that are challenging the very foundation of our democracy. Mid-term elections this fall to fuel an already dysfunctional political gridlock. A fundamental change in how and where we work leading, at least for the time being, to the "Great Resignation." Proposed government spending that boggles the mind. Supply chain interruptions, chip shortages, exploding housing costs, and anticipated potentially uncomfortable inflation for the first time in a long time. Probable rising interest rates to fend off said inflation. And, finally, let us toss in a couple of potential military conflicts: China/Taiwan and Russia/Ukraine. In short, there is an awful lot going on right now.

700 Rockmead Dr., Suite 158
Kingwood, TX 77339
Phone: 281-973-8816
Fax: 281-973-8716
www.rothfinancialpartners.com

Amid all this chaos, the U.S. equity (stock) markets closed at an all-time high on January 3rd. On the surface, this makes no sense at all. Are investors totally delusional or is there something else going on? Below, I put forth four premises on which I rely when this “cognitive dissonance” (or seemingly inconsistent thoughts) seems to take over.

Premise #1: The equity markets reflect what investors collectively believe corporate earnings are going to look like two to three quarters (six to nine months) down the road, if not even longer. In other words, today’s news is old news and that suggests the markets should be viewed as a leading indicator on where the economy could head in six to nine months. In the timeline of investing, this is a relatively short-term indicator.

Premise #2: Try as we might, our emotions will normally dictate our response and behavior. We are a fickle (and emotional) lot and can change our minds on what to worry about at the drop of a pin. During the course of just one trading day, the markets can gyrate wildly depending on the news or even on nothing at all (this does not stop headline-writers from making guesses as to the catalysts.) Essentially, we were born to worry and react to that worry. We lose sight of our long-term goal, extrapolate, magnify the short-term concern, and dismiss all rational thought. We then forget and dismiss our reasoning and objective for why we own what we own.

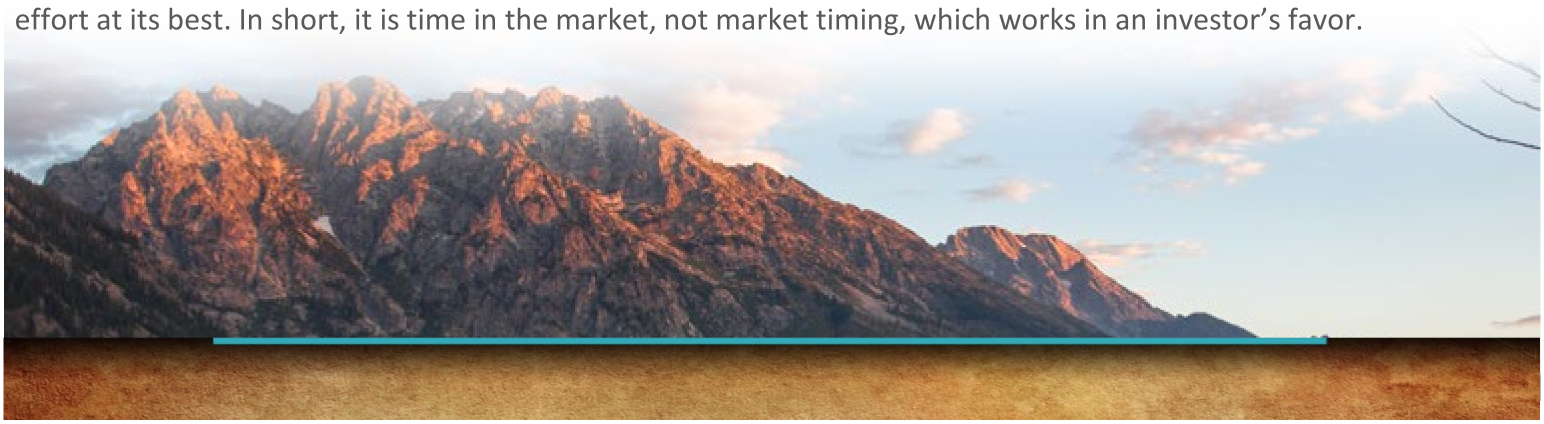
Premise #3: You own stocks not for what they are worth today, but what they will be worth, in a minimum, in the next three to five-plus years. Not months, not weeks, not days. Take a step back for a minute and think this through with me. The reason we own stocks (equity interest in a business) is that, historically and on average, the growth of the business through several market cycles (i.e., long-term) has dramatically outperformed both bonds and cash. They are the component of your portfolio intended to protect you from inflation. Inflation does not just happen overnight and neither do stock returns. Let me repeat: stocks are not short-term investments.

Premise #4: Stock ownership essentially "pays" you more for accepting and carrying short-term uncertainty. The reason stocks provide the potential for greater rates of return is they are subject to bouts of extreme short-term volatility. Human beings do not like uncertainty, particularly when it comes to impacting their financial well-being. Unexpected uncertainty (think "breaking news" on your television) causes immediate panic/concern. There would be no logical reason to take the volatility risk if you did not have the potential to obtain a higher rate of return. The greater the uncertainty, the greater the potential return.

Crisis equals Opportunity

In the Chinese language, the word "crisis" is composed of two characters, one representing danger and the other opportunity. In the world of investing, danger would be associated with a short-term need of capital, and the erosion of that capital at exactly the wrong time. Opportunity would be associated with a long-term time horizon and the ability to buy an asset today at a discounted (on sale) price. Because we view stocks as long-term positions in our client portfolios, we do not react to or worry about short-term events, and we view downside volatility as opportunity. That does not mean we do not pay attention to valuations, economic cycles, trends, etc. It does say we view most bouts of volatility as normal psychology in investing. It is normal for the equity markets to temporarily correct anywhere from 5% to 15% on a routine basis. That is the uncertainty that provides the opportunity for greater rates of returns in stocks.

I will cite one more study that I have used for the past thirty-five years, courtesy of JPMorgan. If you examine rolling 20-year (roughly 5,000 trading days) rates of return for the S&P 500 (i.e., 2000 – 2020, 1999 – 2019, 1998 – 2018, etc.) for the past thirty years, you will find that, on average, if you missed the best ten up-trading days, your compounded return was reduced by roughly 40%-60%. If you missed the best twenty up-trading days, the return was reduced by about 60%-90%. That is ten-to-twenty days out of 5,000. It also turns out that six of the best ten days occurred within two weeks of the ten worst days. It suggests to me that market timing, as a rule, is a futile effort at its best. In short, it is time in the market, not market timing, which works in an investor's favor.



This past month has been a perfect example of market volatility, emotional angst, and concern. As I write this, The S&P 500 is down approximately 9% year-to-date, concerns of Federal Reserve interest rate hikes have spiked in the last two weeks, and the Russia-Ukraine tension continues to boil. Without a long-term perspective, it is easy to get caught up in the short-term concerns over any one of these events and forget that, while these events may be unique, the are (and always have been) and ongoing part of human history. In short, this is normal. Not fun, but normal.

If you have not visited our website in a while, there is a page titled, "Our Philosophy" that spells out our beliefs. These are the core principles that drive every one of our investment relationships. It all comes down to your objectives, beliefs, time horizon, and your ability to control your emotions (having a defined investment plan). As disturbing and unsettling as domestic and world affairs currently appear, we continue to believe in what we do and how we do it. Making progress and staying the course during times of turbulence, in any aspect of life, can be testing and challenging. It is during those times, however, that real growth occurs. You probably will not recognize or realize it at the time (short-term), but invariably the results will make themselves known later (long-term). Investing is no different.

In Honor of Cindy

The last several months have been an emotional roller coaster for all of us at the office. As you know, last October, we unexpectedly lost a core part of our family and team, Cindy Guynes. She was truly family to all of us and represented the very best of who we are. As time has passed, we have continued to wrestle with her absence – we miss her smile, her presence, her kind heart, and of course her sense of humor. In many ways, it still does not feel real to us and probably won't for a long time.

I have never been sure of the old saying, "time heals all wounds," particularly deep ones like these, however the passing of time does give us the ability to pause and have perspective. Cindy had an *enormous* impact on all our lives here, and we know she likely had an impact in your life as well. She kept us grounded, imparted wisdom in our lives (whether we asked for it or not), and made us laugh. She enjoyed life, she enjoyed her family, and she enjoyed helping others. When we talk about her, which happens daily, we cannot help but smile because that is the type of person Cindy was – she made you smile. What a wonderful way to be remembered.

As time passes, we choose to carry the joy that she carried each day. We choose to laugh and look the bright side of life, even when we encounter tough obstacles. And we choose to carry on the legacy that she left behind – be a blessing to someone and have a meaningful impact in the lives of others. That is who Cindy was and that is who we choose to be. Though she may not be here in person, she is still very much a part of our office, our family, and our lives. We love her, we miss her, and we find comfort in the assurance that we will see her again one day.

Cheers to you, Cindy. We love you.

Around The Office Updates

Looking Into Q1

Preparing for Tax Season

Round one of 2021 tax documents (i.e. 1099) will be sent by February 15th. If necessary, rounds two and three will be February 28th and March 15th respectively.

While the past few months have been tough, there has also been a lot to celebrate. In October, Jimmy and Sandi celebrated Kaylee’s 4th birthday (which might as well have been a national holiday). Currently, they are preparing to celebrate Maggie’s 2nd birthday at the end of January. These girls are hysterical and have already learned how to team up on mom and dad. Scary!

Meanwhile, Eric and Ellie are not only celebrating Abe’s 2nd birthday at the beginning of February, but they are also preparing for the imminent arrival of their second son, Jonah! Our office is officially on baby watch, and we are all extremely excited for them.

Stephanie and Jerry had a wonderful Christmas with their family. Their grandchildren, Eli (7) and Georgia (5), are an absolute joy to be around and have been instrumental in keeping all of them laughing through a particularly tough season.

Pete and Carla have continued to enjoy spending time with their grandkids while soaking in the cooler weather. Their 2-year-old lab, Charlie, who *thinks* she is a small lap dog, has loved spending time outdoors… and yes, she is still swimming in the pool despite the colder temperatures!

From all of us at Roth Financial Partners, please know how much we appreciate the relationships we have with you. We do not take our days for granted nor do we take the responsibility of what we do lightly. As we move into 2022, please know that we are truly thankful for your trust, your confidence, and your friendship.

Many Blessings!