April 2022

Here are selected year to date return numbers through the end of March.

Stock Indexes

	(As of 03/31/22)*
Dow Jones Industrials	-4.60%
S&P 500 Index	-4.90%
NASDAQ Composite	-9.10%

	(As of 03/31/22)*
Russell 1000 Growth Index	-9.04%
Russell 1000 Value Index	-0.74%

	(As of 03/31/22)*
Russell 2000 Index	-7.53%
Russell 2000 Growth Index	-12.63%
Russell 2000 Value Index	-2.40%

Bond Index	(As of 03/31/22)*
Bloomberg U.S. Aggregate Bond Index	-5.93%

(Source: The Wall Street Journal & Russell Investments websites)

*Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

FINANCIAL AND INVESTMENT PLANNING

The first quarter was difficult for both global stocks and U.S. bonds.
The pattern continued in April.

	1st Quarter 2022	Year to date 4/21/22
S&P 500 (price)	-4.95%	-7.82%
MSCI World ex-U.S. (price)	-5.49%	-7.74%
Bloomberg U.S. Aggregate Bond	-5.93%	-9.31%

Source: Raymond James

As you can see, bonds have underperformed stocks. Federal Reserve statements and anticipated policy moves raising interest rates have been a real headwind for bonds. The yield curve has flattened, and two year Treasury note yields are quite close to those available from 10 year Treasuries.

While investment grade bonds have historically had a low correlation to equities, there is no escaping the impact on bond prices when yields rise.

The Federal Reserve has a dilemma. It has a two part mandate: full employment and stable prices. U.S. employment has rebounded to pre-pandemic levels. That’s the very good news. Unfortunately, as you have no doubt noticed when you fill up your gas tank, we do not have stable prices. This sharp and swift rise in inflation is the reason the Fed will be raising interest rates.

As you would expect, there is a robust debate about the direction and duration of inflation. Obviously, no one knows the answer to this two part conundrum.

And while inflation is headline news, I doubt most people have a historical understanding of the phenomenon.

I recently read some very interesting information regarding inflation.

Inflation has been around almost as long as money itself. In the disastrous third century, inflation wracked the Roman Empire as emperors, unable to pay the bills, increasingly debased the coinage. The once proud silver denarius became a copper coin only thinly plated in silver. Roman merchants demanded more and more denarii in exchange for goods as the coin’s intrinsic value declined.

Only when the emperor Diocletian, who ruled from 284 to 305 A.D. and was one of the great men of late antiquity, reformed the taxation and coinage systems, did a degree of economic stability return to the Roman world.

In the sixteenth century, as the gold and silver pouring into Spain from the New World caused a rapid rise in the European money supply relative to the production of goods and services, prices rose about 400 percent over the course of the century.

There was no inflation in the American colonies for the simple reason that the money supply was only a hodgepodge of foreign coins (most commonly the Spanish dollar), tobacco warehouse certificates, beaver and deer skins, wampum, and paper money printed by the colonial governments. Much trade was conducted on a barter basis.

But when the American Revolution began, both the new state governments and the Continental Congress had to find ways to finance it. Having limited ability to borrow to lay taxes, they quickly began printing money.

As "fiat money" – money that is money only because the government says it is money – always does, the so called "continentals" depreciated rapidly in value, becoming essentially worthless by the end of the Revolution. The phrase "not worth a continental" became part of the American lexicon for more than a century.

Between 1775 and 1779, the Continental Congress issued no less than $225 million in continentals, a huge sum relative to the size of the American economy. Prices doubled in 1776 and doubled again in both 1777 and 1778. By 1781 prices were up 80-fold relative to the continental.

- **High, Low –** For the 9 years from 1973-1981, inflation (using the "Consumer Price Index") averaged +9.2% per year. For the 9 years from 2012 to 2020, inflation averaged +1.6% per year (**source: Bureau of Labor Statistics)**
- **Big Change –** Inflation, using the "Consumer Price Index" as the measurement, was up +8.5% for the 1-year ending 3/31/2022. That's more inflation than the United States experienced over the 4 years of 2017 – 2020 when the CPI advanced +7.9% over the entire 4 years (**source: Department of Labor**).

The Federal Reserve policy will try to be "threading the needle." That is to say, raise interest rates enough to cool the inflationary fires, while not raising them so high as to throw the U.S. economy into a recession.

Is it any wonder the financial markets are weak and unsettled?

So, what should an investor do? Since we cannot predict the future, making investment decisions based on the headlines and guesses on future inflation and recession is not a winning strategy.

Make sure your asset allocation, the mix of asset classes in your portfolio, reflect your investment and financial planning goals and objectives. Only make changes if your allocation is inconsistent with those goals and objectives.

If you have been an investor for years, then you remember the global financial crisis, the regional collapse in home values, and even the so called dot com bubble bursting.

People who stayed true to their plan prospered. People who panicked did not.

Thank you for taking the time to read the newsletter and for listening in to Money Talk.

Warm regards,

Carl

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- **Past performance is not indicative of future results.**
- The Dow Jones Industrials is an index of 30 stocks that is considered representative of the overall market.
- The S&P 500 is an unmanaged index of 500 widely held stocks that's generally considered representative of the U.S. stock market.
- The NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system.
- The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
- The Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.
- The Russell 2000 Index is an unmanaged index of small cap securities which generally involve greater risks.
- The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equities.
- The Russell 2000 Value Index measures the performance of the small-cap value segment of the U.S. equities.
- The Barclays Capital U.S. Aggregate Index is an unmanaged market value weighted performance benchmark for investment-grade fixed rate debt issues, including government, corporate, asset backed, mortgage backed securities with a maturity of at least 1 year.
- All investing involves some degree of risk, investors may incur a profit or loss regardless of the strategy or strategies employed. Investments mentioned may not be suitable for all investors.