VALUES FIRST PLANNING

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Please share this newsletter with friends and family. Thank you for allowing me to partner with you in pursuing your financial goals. You can learn more about our approach to investing at my website. -John

More than Money

November 2022

LPL Weekly Market Commentary

(Click for article)

Change of Seasons

When the news tells us that "the market is up" or the "the market went down," what do they mean? We know there are lots of different markets – commodities, real estate, and the stock market(s). Even the stock markets are divided in numerous ways. But why?

We sort stocks into different buckets (better known as asset classes) because different types of companies react differently to the business cycle. There has been no shortage of headlines about whether we are going into or are already in a recession. Recession, also called contraction is one of the four big points of the business cycle and is typically followed by the trough and then a fresh expansion. If you want to learn more about the Business Cycle, click here.

Knowing how different types of companies typically perform during these stages can be very helpful in managing portfolios. In fact, the reason stocks are sorted the way they often are – growth, value, large, and small – is due to how these different groups typically respond to changes in the business cycle.

This is not new information. But the market has been rooted in a growth cycle for so long that many advisors and managers have never really seen a real Fed-driven contraction. Remember,

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Change of Seasons

2008 was almost 15 years ago. Since then, we have been in expansion (growth) mode, except for the quick drop during the pandemic. So, before you fall asleep, why is this important?

For the last 8 years, growth stocks have significantly outperformed value stocks almost every year. And of all the growth stocks, technology companies have done the best. That record run ended in January of this year. Last November we started rebalancing our model portfolios away from growth towards value-oriented investments. These positions pay higher dividends and have provided more stability to portfolios. Historically this outperformance can continue for some time.

The underperformance of value stocks has created some interesting challenges. Over the last several years we have seen signs that many mutual fund managers have added more growth-oriented investments to their "mostly" value funds. They likely did this to improve performance over their peer group. This "style drift" added risk to the markets as both value funds and the indexes themselves (yes, even the S&P500) became overrun with growth and tech holdings.

The recent shift from growth to value may last a while. But that doesn't mean that all growth stocks are dead. After all, some of the growth sector is still very strong – it is just not their season to outperform. We will continue to evaluate where your investments will be treated better in this market and will do our best to make moves to reduce volatility and protect your long-term plan.

If you would like to know more about how portfolio rebalancing is affecting your accounts – let us help.

Balance of Power?

When one person in a relationship earns more money than the other, it can feel like an imbalance of power. But the truth is, each partner contributes more than money to the relationship. Click **here** to listen.

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