WILLINK
ASSET MANAGEMENT LLC

May 2023: Stock Market: The Way Forward

Last time out, we wrote that the stock market would soon be addressed in an upcoming commentary. There is a lot to worry about, but it has always been that way.

So why invest in the volatile stock market when CDs, treasuries, deferred annuities and money markets are in the 5% range? Because the stock market is one of the very few assets that beats inflation over nearly all relevant time periods.

As we have said before, it's probably not wise to derail a balanced portfolio, sell your stocks and give the profits to the buyer only because the headlines have got you worried.

What about the impact of a recession?

The one predicted in 2022 to happen in 2023? It's now predicted for 2024 by many observers.

It appears to be anyone's guess whether a recession will be deep and last for a year or less, or shallow and drag on for a couple of years. Just maybe it will be avoided by one means or another.

But don't confuse an economic recession with a market downturn. Sometimes they are strongly related, and sometimes less so.

	ECONOMIC RECESSION			MARKET DOWNTURN	
Year(s)	Duration	Inflation	Max Unemployment	Duration	Drop from Peak*
1929 - 1933 *Great Depression*	43 months	-26%	20%	33 months	-39%
1973 - 1975 *Oil Crisis*	16 months	14%	8%	21 months	-20%
1981 - 1982 *High Interest Rates*	16 months	7%	10%	14 months	-16%
2001 *Tech Bust*	8 months	1%	5%	13 months	-14%
2008 - 2009 *Global Financial Crisis*	18 months	2%	10%	16 months	-22%
2020 *COVID-19*	2 months	-0%	4%	2 months	-7%

Dept. of Labor, DFA Research & WAM

* Note: 50% Stocks/50% Bonds & Cash Portfolio. The climb back to the peak is not illustrated above.

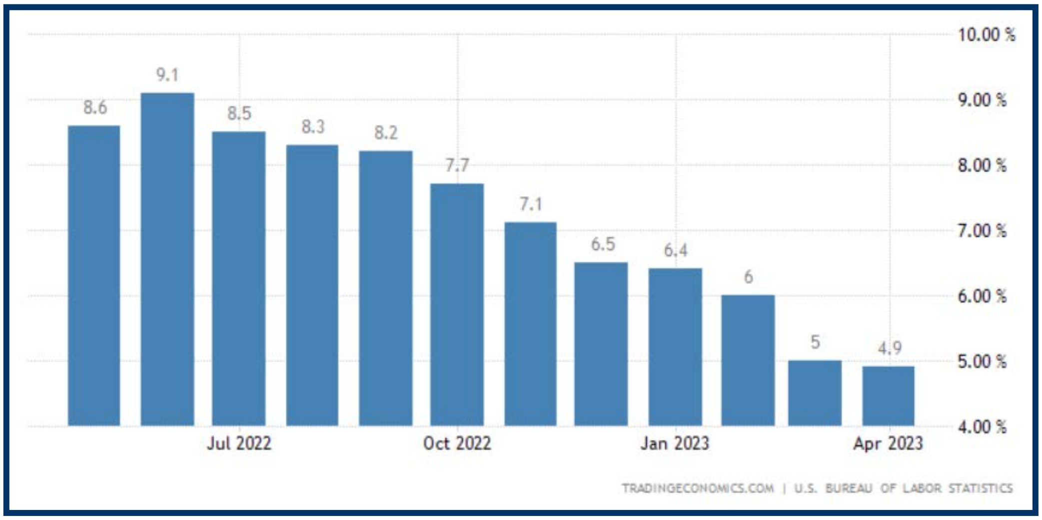
And high inflation?

The inflation that Fed Chairman Powell predicted would be “transitory”?

Looks to be finally heading down but more slowly than he initially implied *(see the chart below)*.

Stock prices may react negatively to inflation at its onset and then tend to shrug it off as the prices of goods and services adjust.

But historically, there has not been a consistent relationship between inflation and stock prices. About half the time, stock prices go up after the initial shock wears off. It helps when the inflation rate is back in the 3-4% range. The other half of the time, stock market performance is ugly to just OK.



Recent Inflation Trend

What about the debt ceiling crisis?

It’s a perennial manufactured crisis best compared to a game of chicken played by politicians.

In the past, it has always played out with both sides veering at the last minute to avoid a deadly collision.

There’s no guarantee it will work out that way. If things haven’t been resolved by the time you read this, we’ll be in touch.

So, is Willink Asset Management bullish or bearish on stocks?

Almost always bullish in the mid- to longer term of 3-7 years out. Bearish? Not very often, especially with some cash on hand, investment grade bonds, and a practiced fire drill should things go wrong at the worst possible time. These provide a good defense and help keep investors from panicking. It allows us to focus on opportunities for you. A good action plan and agreed-upon investment policy help you stay the course at times like these. Headlines of investors running for cover are often exaggerated.

Why do you often say, "it depends" when clients seek a straightforward recommendation?

Because it does.

First: It depends on you. **Your needs, your objectives, your concerns** at the time.

Second: An action plan and investment strategy **with all three in mind**. Within reason, we are pragmatic* about the investment strategy or strategies that might best serve you.

**Usually excluded from our list of strategies? Forecasting the short term, big market timing moves, frequent trading and betting too heavily on the next big thing.*

What did we miss? Please let us know.

The companies you own in the stock market portfolio we build for you will—much more likely than not—be here five years from now and their stock prices higher. For the most part, let us worry about that for you.

But while you are wondering about what's going on with the markets, might it be time to stress test your financial plan with us? If so, let's get together sooner than later.

Fred R. Fadel, CFP®   Theo Fadel, CPA, PFS

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