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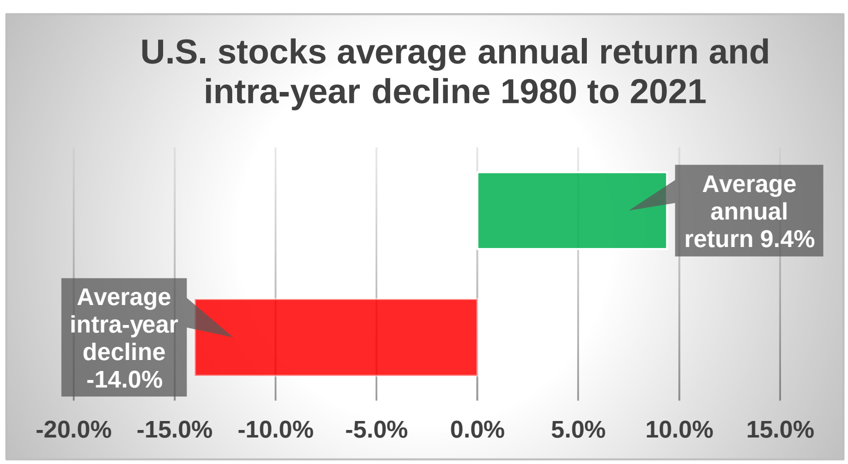
July 2022 Crescent Commentary

In last month's Commentary, we gave you the dismal numbers for investment returns during the first six months of this year. Although speculative and popular investments did the worst, rising interest rates spared no asset classes and even bonds declined double digits[1].

This month, we have better news for you: in July, U.S. stocks experienced their best month since November 2020. Of course, that's great news, but it's also in the past. What almost everyone wants to know is, where do we go from here? We have no doubts about the ability of our investments to deliver the results you depend upon for your financial goals. However, we also have no doubts that progress will not be a straight line. Never has been, never will be. The past two years alone show this: 2020 gave us the worst stock market crash in twelve years, followed by a massive recovery to new high levels for stocks, followed by this year's 24% decline. Looking over a long time period, since 1980 U.S. stocks have experienced an intra-year decline every single year, with an average intra-year decline of -14.0%. Despite that, the average annual return from stocks over that time period is 9.4%. So the average intra-year decline from stocks has actually exceeded the average annual return in magnitude. During times of exuberance like we experienced last year, investors often forget that the average stock market decline during the middle of a year actually exceeds the full positive return for the year:[2][3]



Source: JP Morgan

As this chart shows, volatility is the norm for stocks over short time periods such as a year. And nobody has any idea what stocks will do next after July's positive movement. Stocks could rise, they could fall further, or they could remain around current levels. But what we do know from July's recovery is that recoveries happen suddenly and when most investors don't expect it. This reinforces the importance of remaining invested when times are tough.

In past Commentaries, we've shown the harm your financial plan can suffer if you try to sit out the hard times and move back into your investments when times are better or there's more clarity:

Source: Franklin Templeton

As this graph shows, if you missed just 10 key days in financial markets over the past 20 years, it nearly cut your annual return in half. That's just 10 days out of a total of about 5,000 trading days. Did July 2022 contain one of the ten best days of 2020 to 2040? Or 2010 to 2030? Only time will tell. But we do know that July 2022 was the best month since November 2020, nearly two years. So it could certainly register as one of the top ten months in a twenty year period.(4)

As wealth advisors, our job is to hit the brakes when everyone else hits the gas, and hit the gas when everyone else hits the brakes. Last year, there's no question that certain segments of investment markets floored the gas pedal. At that time we urged caution. Now that certain speculative and popular segments of investment markets have hit the brakes, our job is to make sure that you continue to press the gas pedal in a controlled manner, to keep your financial plan on track and moving forward. As we said earlier, success will not be a straight line. There will be more potholes and bumps in the road. But we will work with you to get past them and stay on track with your financial plan.

Finally, please join me in congratulating Carsten Frederiksen. Forbes named Carsten a 2022 Top Next-Gen Wealth Advisor. Our team is excited to receive recognition for the quality work we do for our clients.

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Sources:

(1) Yahoo Finance
(2) The Financial Times
(3) JP Morgan
(4) Franklin Templeton