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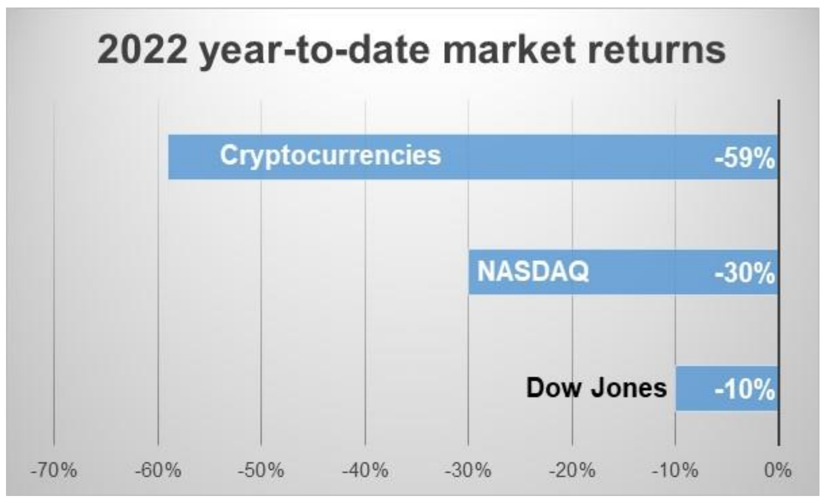
October 2022 Crescent Commentary

"Only when the tide goes out do you discover who's been swimming naked." – Warren Buffett(1)

The following chart paints a picture. It's a picture our Group first sketched in our August 2021 Commentary, which we headlined with "what happens when the music stops playing?"



Source: Yahoo Finance. Data as of 10/31/22

History has painted similar pictures before. One was painted over the 1972 to 1982 time period. Another was painted over the 1999 to 2009 time period. Many investors weren't aware of those pictures, or forgot them during several exuberant years leading up to 2022.(2)(3)

During October, while popular and speculative investments continued to sag, the Dow Jones Industrial Average had its best month since 1976, increasing 14%. A dynamic that we haven't seen in over twenty years is starting to play out. We described this dynamic in our November 2021 Commentary. For the ten years 1999 to 2009, the U.S. witnessed the collapse of a technology stock bubble, and then a home price bubble. Over that ten-year period, U.S. stocks as a whole declined 9%. Yet individual sectors generated gains over that period, with Consumer Staples increasing 66%, Health Care increasing 30%, and Industrials increasing 8%.(3)(4)

The main point we want to make to you with the current financial turmoil is that you're going to be okay. Leading up to this year, we avoided the popular and speculative investments that have now crashed 30% to

60% in value. It was not always easy – there was constant pressure to join the party. While others swam naked, you swam with belt and suspenders securely fastened. For our clients, this year's correction is no worse than the average annual stock market correction of 14%. To be clear, we aren't making a short-term prediction. We are stating a long-term expectation that's rooted in data. Sure, financial assets could fall further before the recovery takes hold. But we expect you to continue to be shielded from the brunt of the financial storm, just as you have so far this year. For you, this correction is temporary. Unfortunately, that may not be true for a lot of other investors.[5]

There's a natural tendency on the part of investors to want to become aggressive during the good times. The problem with this approach is that you often end up paying terribly inflated prices for assets that everyone else is chasing after. As financial advisors, we have to help you resist this tendency. That's what we did for the past several years.

During hard times, there's an equally powerful but opposite tendency on the part of investors – when markets falter, many investors want to become defensive and sell assets after they've fallen. This tends to lead investors to "buy high and sell low", which is the opposite of the timeless investment wisdom, "buy low and sell high". This is an urge that we must currently help investors resist. Bear markets of the current size only happen once every seven years on average. Make no mistake: this is a buying opportunity. Yes, markets could fall further before the recovery takes hold. But holding out for the last percent decline risks losing out on the recovery. Warren Buffett often tells the story of his financial crisis investments. He bought stakes in several financial institutions in the fall of 2008. Some commentators criticized Buffett as markets fell further into the spring of 2009. Yet over the next several years, Buffett made billions. How much did the commentators make?[6]

As we mentioned earlier, the Dow Jones index just had its best month since 1976. This reinforces the importance of remaining invested when times are tough. We will continue to work with you to help you make the right decisions to emerge from the current bear market in a position of strength.

"Let me be clear on one point: I can't predict the short-term movements of the stock market. I haven't the faintest idea as to whether stocks will be higher or lower a month or a year from now. What is likely, however, is that the market will move higher, perhaps substantially so, well before either sentiment or the economy turns up. So if you wait for the robins, spring will be over." – Warren Buffett, October 2008[7]

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Sources:

(1) Forbes
(2) Roger Thomas
(3) Richard Bernstein Advisors
(4) CNBC
(5) JP Morgan
(6) Invesco
(7) New York Times