When Stocks Go Down it can be Good News - And Here's Why…

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It isn't fun when stocks go down and the market has a year like this one, but here is why it can be good news for the investor. When stocks depreciate, you can now buy more of what you bought yesterday because you are now buying "on sale". When you go to Costco (my favorite store to no surprise to most of you) and you buy something cheaper than you bought it before, you think it's terrific or you might be thinking "I wish I had waited to buy". But with stocks, people think the stock knows more than they do when the stock declines in price. They think the stock is telling them something when it goes down, but what the stock is really telling you is that now you can buy more of it for your money. People often view a stock going down as a referendum on themselves, which is simply untrue. They think if it gets back to even or what I paid for it I'll get out of it.

The reality is the stock doesn't care what you paid for it, and it doesn't care that you own it for that matter. You and I are not important to the stock. We always have a propensity to remember what we paid for a stock, and all we want is for the stock to get back to where we bought it, but there is nothing about the price action of the stock that tells you whether you should keep owning it or not. As advisors, what tells us whether you should hold onto a stock is what we expect the company to do moving forward versus the price at which the stock is selling for today relative to the other opportunities of businesses we like. The reality is simple: <u>Objectivity is the key to owning stock</u>.

<u>Is Inflation going to Break this fall?</u>

There remains a lot of uncertainty in the air, especially now that we are in "Red September" which is typically the worst month of the year. Having said that September has come in like a lamb and not a lion so far. If we do not retrace the lows of June 16th in September, we likely have hit the trough of this cycle. As we entered September last week, the market had fallen over the past six trading days; albeit, we had a nice reprieve again today where the DOW added 377.19 points and the S&P 500 added another 61.18 points as well. The market has had a lot of data to digest this year and it has been a challenging year, but I see better days as the year end approaches.

The disinflationary thesis I present is difficult to understand. The inflation we are experiencing in real time is something we have not witnessed in decades. For the market to improve, investor sentiment, the market and the Fed must be convinced inflation is breaking. The market and the Fed want cover before they will believe the inflation story is resolved, and the Fed will ease up from their current posture of tight credit. The price of gasoline has fallen like a rock since June - oil stands today at $86.23 per barrel today relative to the high point where we were three months ago when oil peaked at $121.51 on June 9th. That oil spike coincided with the market lows for the year as well. As I predicted, oil has taken a tumble and is on its way back to the range of $60 to $70 per barrel where

we were one year ago. If that materializes by year end, that bodes well for the market. If oil continues its precipitous decline, we may see gas prices drop below $3.00 per gallon by year end. That would bode well for inflation and for the all-important Christmas shopping season, and it would give the Fed cover to ease up on interest rate increases. I think many are underestimating how the drop in gasoline may ultimately affect the markets and the Fed moving forward. As always, time will tell…

Housing market inflation has been stickier, but real estate prices are beginning to recede when you look at data points from Redfin and Zillow. Other good news is that 42% of the CPI basket of goods and services have been deflating from their peak. Altogether, this is good news moving forward. It will take time to see prices decline across the board, but it's beginning to happen. The signals which keep me optimistic are that oil, gas and most commodities are declining. The CPI reports over the next couple of months will be critical for the market moving forward. This is looking like the 1982 recession which we moved out of in the last few months of that year.

Are we headed into Recession Next Year?

The data is mixed, but why the discrepancy? It depends on what data points you look at: Gross Domestic Product or Jobs? U.S. GDP declined by 0.9% year-on-year in the second quarter and by 1.6% in the first quarter of '22, meeting the traditional definition of a recession. The slump in growth was driven by falling inventories, investment, and government spending. Inflation-adjusted personal income and saving rates fell in the first half of the year. In the U.S. a recession is officially declared by the National Bureau of Economic Research, and they will make that judgment next year. What makes this period different from every six-month period of negative GDP since 1947 has been persistent strength in the jobs market. The closely-watched nonfarm payrolls data for August showed nonfarm payrolls increased by 315,000 which was a solid rise, yet it was the lowest monthly gain since April '21.

Jobs-versus-GDP will be the recession debate moving forward. The Fed has moved from an overly accommodative monetary policy during Covid as they added to the money supply to boost the economy to a restrictive policy involving interest rate hikes to tackle inflation (which hit 8.5% in July). When making the call on whether we are in a recession or not - the National Bureau of Economic Research will look at real income for households, real spending, industrial production, the labor market, and unemployment. These variables are not presently providing clear recession signals today which I find positive. Companies are struggling to hire, particularly in the service sectors like hotels and restaurants. However, consumers are flush with cash and are spending savings which they accumulated during the pandemic. We have witnessed an unprecedented period of shocks this year from Covid to energy prices to political deglobalization which makes forecasts difficult. However, we remain optimistic about the United States and U.S. equities moving forward once we get beyond September. A little good news on inflation could go a long way toward improving a rough first half of this year. Please feel free to call us at any time and have a great weekend and as always - Go Bucks!!