

January 1st 2023 Commentary

Last year at this time an acquaintance (Mark) and I were discussing current events when he mentioned he had sold all the stocks in his brokerage account. He thought the short-term trend was negative as rising interest rates and geopolitical turmoil would have a detrimental effect on the global economy.

Mark was confident in his ability to call a market “top” but less so when forecasting the “bottom”. He planned to re-enter the market at 3 stages below the 2021 year-end closing value of the S&P 500 Index, 4766: (NY Times December 31st 2022).

20% lower

27% lower

35% lower

His strategy looked prudent when on May 20th, (Barrons January 1st 2023) the first threshold was reached. But from there the market rose for a few weeks, reversed course, then up again, then down again. Market returns are not normally distributed and there is no pattern to their movements. As of year-end 2022 Mark’s 2nd threshold had not been pierced, his cash sits idly, and he spends far more energy worrying about the direction of the market than is healthy.

Stocks and bonds struggled throughout 2022. The S&P 500 fell 19.4% for the year, while the Dow Jones industrial Average dropped 8.8%. The NASDAQ Composite declined 33.1%, hurt by a steep slide in technology issues. All three indices recorded their worst years since 2008. Bonds had a terrible year as well. (Wall St. Journal December 31st 2022)

The outlook is not favorable for 2023, as Fed Chairman Jerome Powell has made it clear he does not view the fight against inflation as anywhere near finished, despite predictions for an economic slowdown.

Maybe Mark’s 2nd and 3rd thresholds will be reached and his plan will prove to be a success when the market recovers. Perhaps they won’t, and he will be left chasing the market and buying on the upswing or in the worst case, not re-entering at all.

When it comes to the stock market, nothing is certain, nothing guaranteed. It is natural in intervals of crisis to feel the urge to take action, but an investor is better served by discarding tactics and strategies and instead relying on principles such as patience and perseverance. Time is the investor's best friend, and the location of an entry point will matter little to those with a truly long-term horizon.

Registered representative offering securities through American Portfolios Financial Services

Member: FINRA and SIPC

Investment advisory products are offered through American Portfolios Advisors, an SEC Registered Investment Advisor