

# ***Comprehensive Investment Management, LLC***

***Fee Only Personal Financial Planning***

**Special Bear Market Edition June 2022**

## **About the Recent Volatility in the Financial Markets**

The Research team at Comprehensive Investment Management recently released an update for its patented Scale of Concern App. The program uses a scale of 1 to 10 with 10 the highest.

### **2008 Financial Crisis**

**CIM Scale of Concern: 8 of 10**

Frozen markets made evident many years of wide-spread abuse, unethical and even illegal activities in the global financial industry.

### **February 2020 COVID**

**CIM Scale of Concern: 9 of 10**

Around the globe government officials advise citizens to stay home. There were high death and illness rates, hospitals were inundated, PPI shortages, and predictions of a vaccine possibly in a year or more.

### **June 2022 Bear Market**

**CIM Scale of Concern: 3 of 10**

After years of rising stock prices (even after the recent decline, the S&P has returned 12.6% over the last ten years), low inflation and low interest rates, the Federal Reserve has finally acted to normalize monetary policy. Inflation is driven in part by mid and lower income workers getting long overdue recognition and wage increases. (Note: For years low wage growth has been regarded as a serious drag on the US economy). Higher gas prices - adjusted for inflation they are not at an all time high. European nations and the US are standing up to a rogue Russia and in the long run will make a positive impact on global security. There are predictions of a moderate recession in 2023. Bonds prices are lower due to rising interest rates and inflation, so maturing bonds will be replaced by those with higher yields.

### **INVESTOR ALERT**

Any investor who has less than five years of expected withdrawals in the lower-risk portion of their portfolio (money market, short term and intermediate bonds) should review the portfolio allocation with their investment advisor.

(CIM INVESTING PRINCIPAL #101)

## **From The Independent Adviser for Vanguard Investors\* #1**

From Wednesday June 8th to Tuesday June 14<sup>th</sup> the S&P experienced a five-day slide causing the index to fall 10.2%. Since its inception 65 years ago there have been thirty-two such five-day drops.

In 1987 stocks fell five days in a row and a week later fell 20% in a single day. Four five-day drawdowns happened during the tech bubble burst (2000-2003), nine times during the Global Financial Crisis (2008-2009) and another nine times around the COVID pandemic (2020). Five day drops don't happen very often and over 70% of them are clustered around four events.

The average return one year later after those five-day drops has been around 25%. And on only two out of the thirty two occasions was the index lower one year later. The two times were 2000 at the top of the tech bubble and after 9/11. Those numbers are encouraging and can be added to the many other good reasons to stay the course.

## **From The Independent Adviser for Vanguard Investors\* #2**

No doubt you've read the headlines that the World Bank has taken a chainsaw to its forecast for global economic growth in 2022 and now thinks growth will come in around 2.9%, a far cry from its 4.1% prediction in January and 3.2% prediction in April.

Okay, we get it. With Covid still here, supply chains are still kinked and inflation front of mind, along with the potential for a recession and the Federal Reserve still scheduled to continue hiking interest rates another couple of times at least, it's no wonder the data, which of course the World Bank relies on, suggests slower growth.

However, we would caution that today's economic data has to be taken with a massive grain of salt, and maybe an aspirin or two. Why? All the data has been massively distorted by the greatest economic slowdown in modern history. What happened in 2020 distorted the data and like a pendulum that swings too far one way and then the other, it will take a while to return to normal or equilibrium. So, all estimates must be read with a bit of cynicism.

Corporate earnings is where the stock market rubber meets the road. At June 14, the first quarter's numbers are about final for the S&P 500 with something like 99% of the companies having now reported. Fully 77% of S&P companies beat analysts' earnings expectations and 73% beat revenue estimates, according to FactSet, which means either the companies in the S&P really were having a good first three months to the year or analysts couldn't wrap their heads around what was happening and simply made conservative guesses—I lean towards the latter.

## **BACK TO THE FUTURE? – NOT LIKELY**

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Most headlines these days are about inflation and the fear we may be entering a period like the 1970's. There are significant differences. That was then, this is now. Throughout the decade of the 1960's global inflation was trending up. In 1970 it reached 5.5% and then continued higher, finally culminating at 14% in 1980. That covers a period of 20 years.

In comparison to the 1970's, today's inflation has only recently risen above low pre-pandemic levels. Model forecasts and consensus suggest that global inflation may rise further, but the rate is expected to decline by year end. Although everyone hopes it is right, there is some doubt that the Federal Reserve's prediction is correct that inflation will only be running just a bit above normal (3.5%) by year end.

In contrast to the 1970's, central banks in advanced economies now have clear mandates for price stability, expressed as an explicit inflation target. They have adopted transparent operating procedures, announcing and justifying their settings for the policy rate. Over the past three decades, they have established a reasonably sound and credible track record of achieving their inflation targets while at the same time attempting to minimize unemployment.

*Always reach out to your adviser any time you have questions/concerns  
about your investments or any other financial related matters.*

### Comprehensive Investment Management, LLC

Investment Management &  
Personal Financial Planning Services  
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The CIM investment strategy:  
Control risk yet outperform the market  
by using well managed, no  
commission, low cost mutual funds.  
Maintain appropriate asset allocation and  
diversification. Minimize taxes.

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## Glossary

### BEAR MARKET

Occurs when markets experience prolonged stock price declines. It typically describes a condition during which the price of securities fall 20% or more from recent highs amid widespread pessimism and negative investor sentiment. Average length 9.6 months.

### RECESSION

The National Bureau of Economic Research officially defines a recession as a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales. Average length 11 months.

### INFLATION

The decline of purchasing power of a given currency over time. A quantitative estimate of the rate at which the decline in purchasing power occurs can be reflected in the increase of an average price level of a basket of selected goods and services in an economy over some period of time.

### STAY THE COURSE

John F. Kennedy: "The time to repair the roof is when the sun is shining." This rings true with your investments too. Typically, volatile times are not a good time to change your investment strategy. While recognizing any plan has to be flexible and subject to change, the goal is to have one going into potentially volatile times that includes an investment posture that takes into consideration your overall situation, time horizon, and risk aversion.

Short term moves in the stock market can not be predicted with any continued degree of accuracy. No bell rings to announce when a high or low is reached. Low prices are a buying opportunity as portfolios are rebalanced and dividends and gains are reinvested. Owning shares in a diversified stock mutual fund, regardless of lower share prices, represents your investment in established, well managed, profit making companies. With that said, recognize that there will always be business and economic cycles.

