

Not Another Market Update



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February 15, 2023 /
Noon ET

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DATA THROUGH JANUARY 2023

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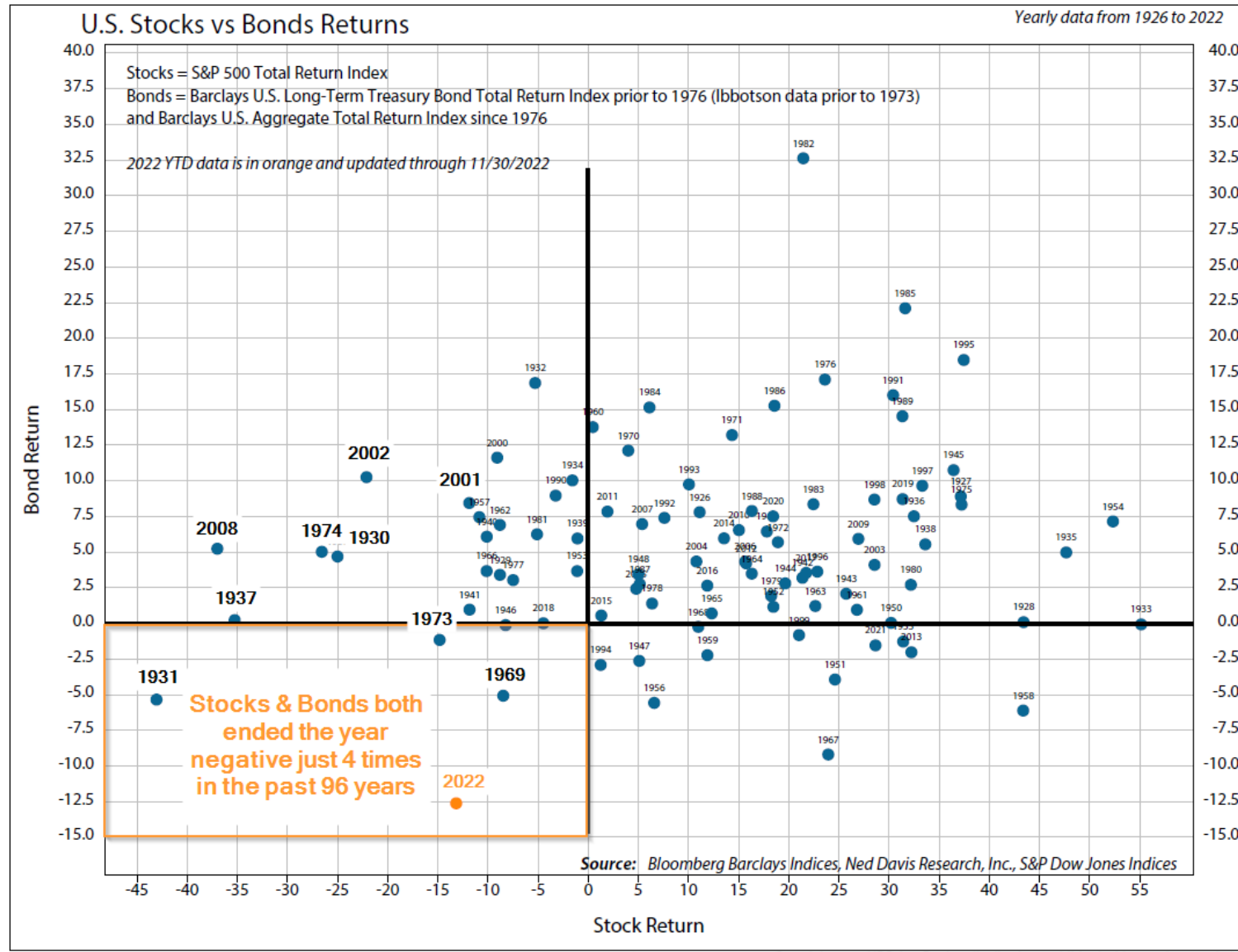
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A Historically Bad Year



There have only been 3 years (1931, 1969, & 1973) before 2022 where both stocks and bonds lost value.

During past stock bear markets, bonds tended to provide positive returns (1930, 1937, 1974, 2000, 2001, 2002, & 2008)

SOURCE: Ned Davis Research

SEM's models all remained within their risk parameters!

BA3



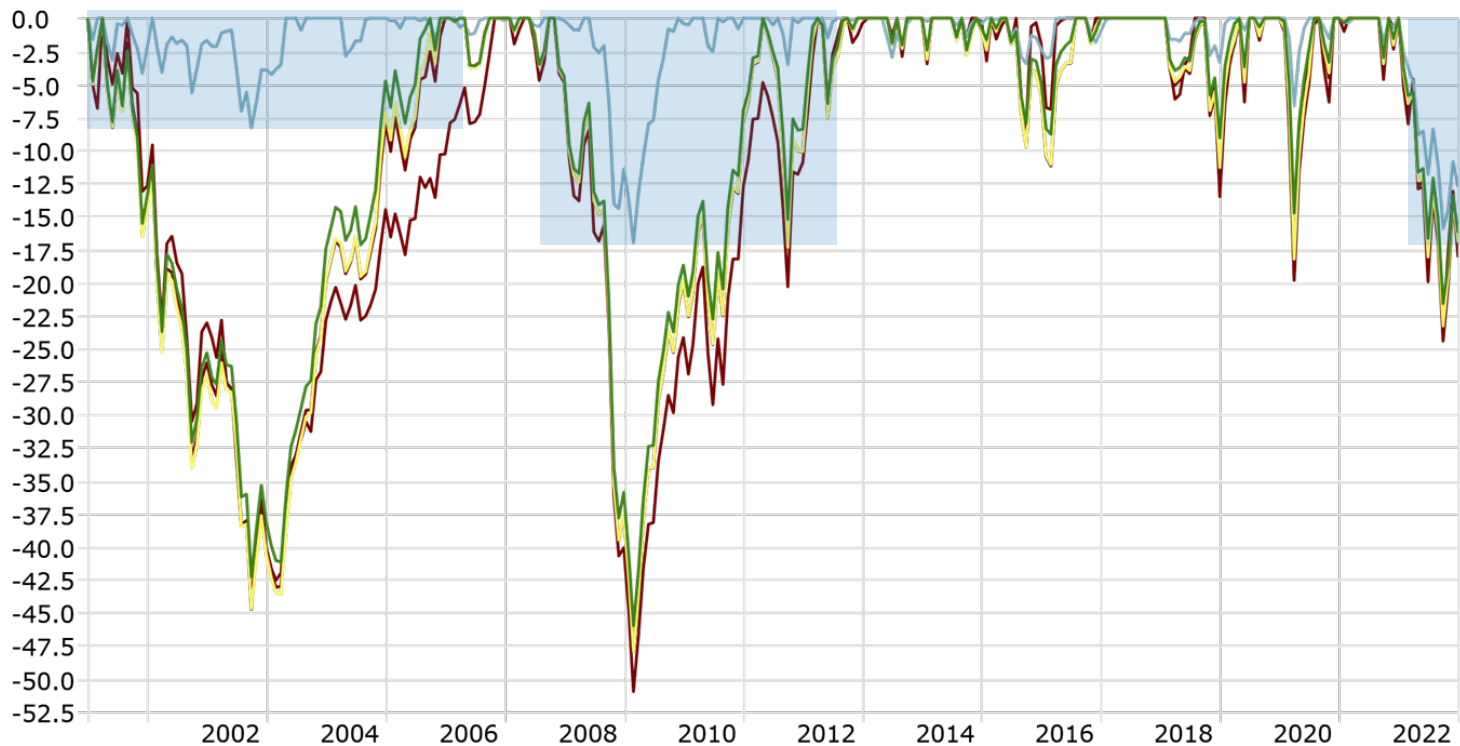
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Not all bear markets are the same



Historical Drawdowns (% Change from Previous High Level)

Time Period: Since Common Inception (1/1/2000) to 12/31/2022



—Target Retirement Income —Target Retirement 2030 —Target Retirement 2040
—Target Retirement 2050 —S&P 500

Returns are for the Vanguard series of Target Date funds from inception (June 2006) to present. Prior to inception, results are for the underlying Vanguard holdings based on the asset allocation targets of the specific fund. The S&P 500 Index is an unmanaged index of the 500 largest US based stocks. Investors cannot invest directly in the index and may incur additional fees trying to replicate leading to lower performance. Past performance is not a guarantee of future results.

Source: Morningstar Direct

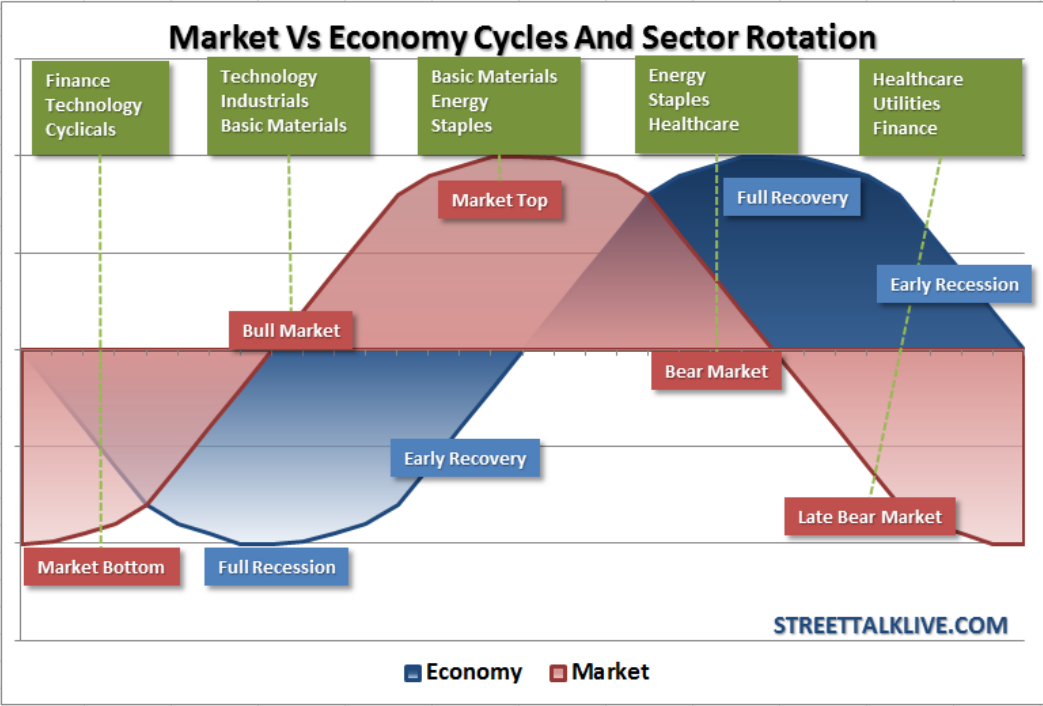
Date	Loss %	Months of Losses	Month to Recover	Total Time
2000-2002	51%	25 (2.1 yrs)	49 (4.1 yrs)	74 (6.2 yrs)
2007-2009	55%	16 (1.3 yrs)	37 (3.1 yrs)	53 (4.4 yrs)
2020	35%	3 (0.3 yrs)	4 (0.3 yrs)	7 (0.6 yrs)
2022- ????	24% (so far)	??9?? (0.7 yrs)	????	????

Based on monthly performance of the S&P 500;
Past performance is not a guarantee of future results



Economic Environment is Shifting

Leading Economic Indicator:	36 Month Trend:	GDP Indication:
Hours Worked		↑↑
Jobs		↑↑
Consumer Spending		↑
Capacity Utilization		↔
Consumer Confidence		↓↓
Money Supply		↓
Stock Prices		↓
Consumer Goods Orders		↓↓
Building Permits		↓↓
Service Business Activity		↓



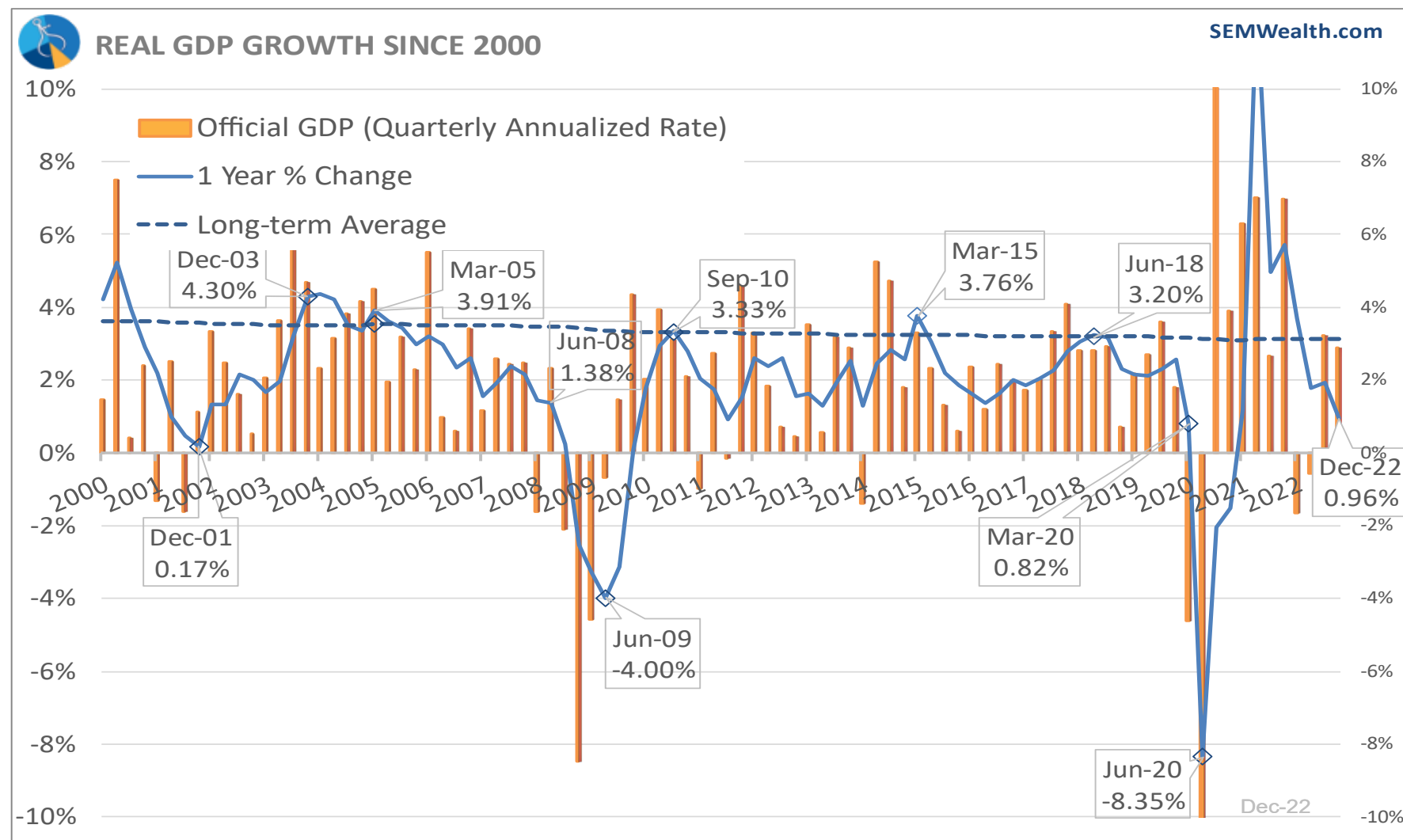
2022 Q2

Grinding to a halt

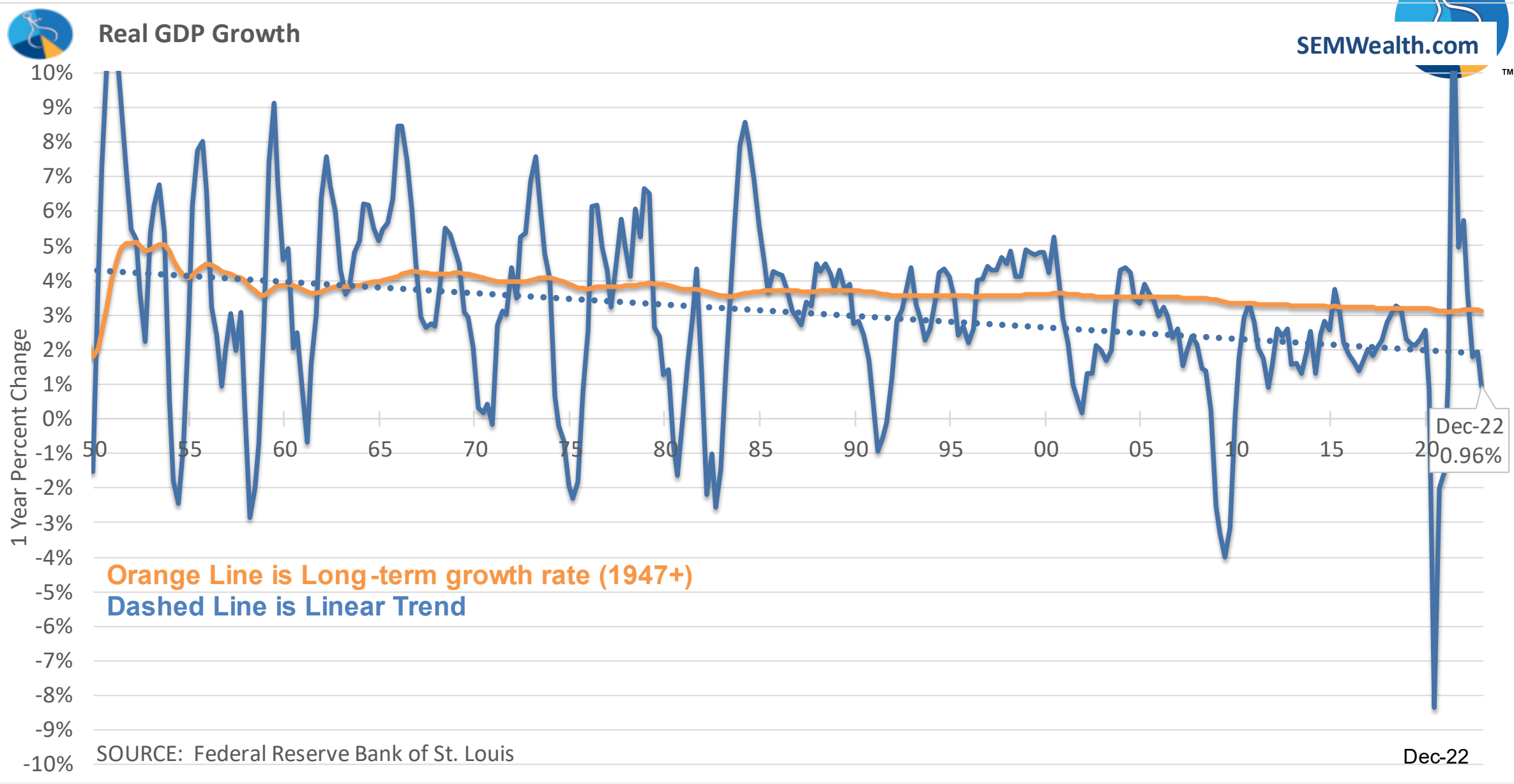


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- Official GDP numbers can be misleading
- Focus should be on 1 year rates of change
- We have had few periods this century above the long-term average
- This points to **STRUCTURAL** issues with the economy.

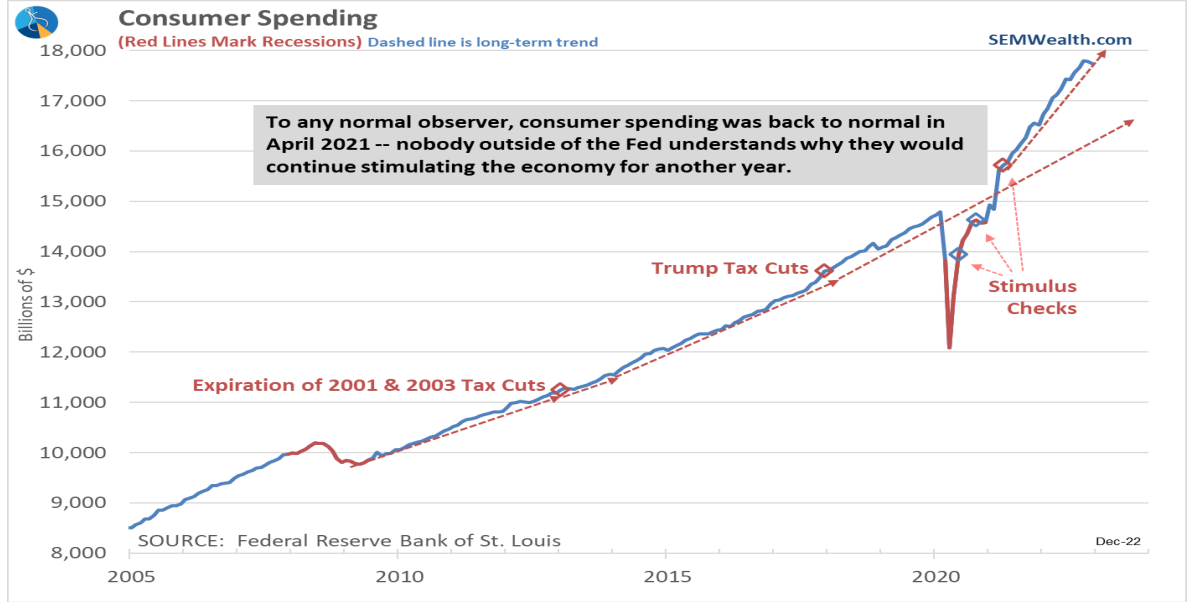
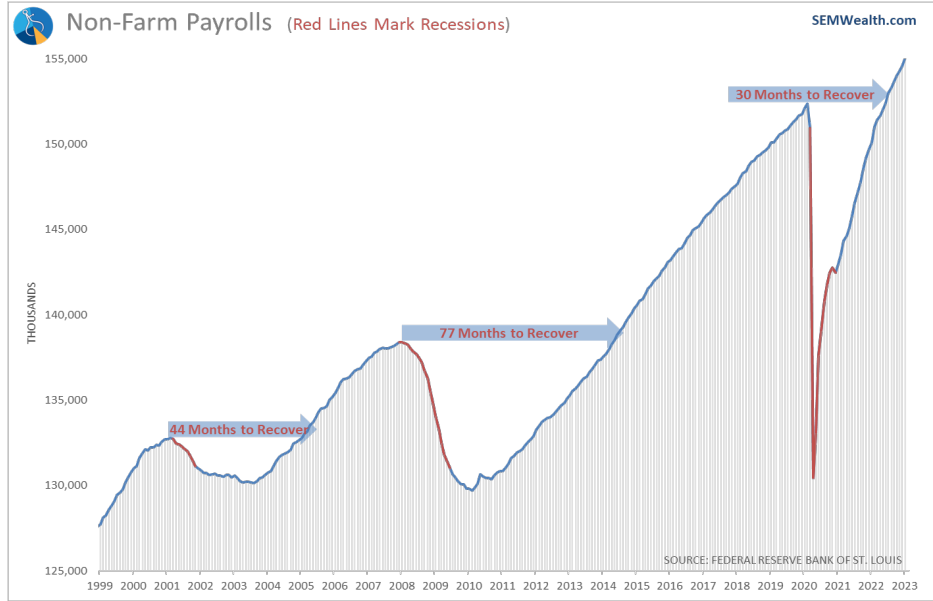
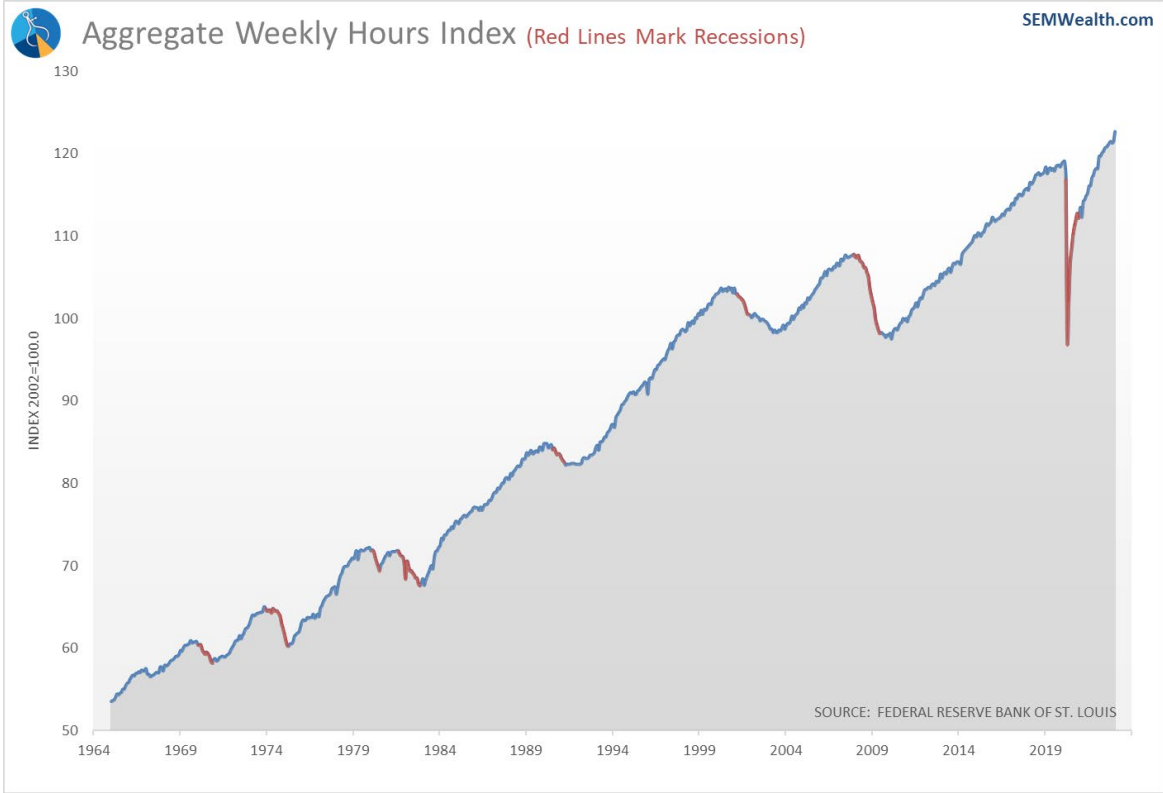


The long-term trend continues to weaken



Leading Indicators: The Good

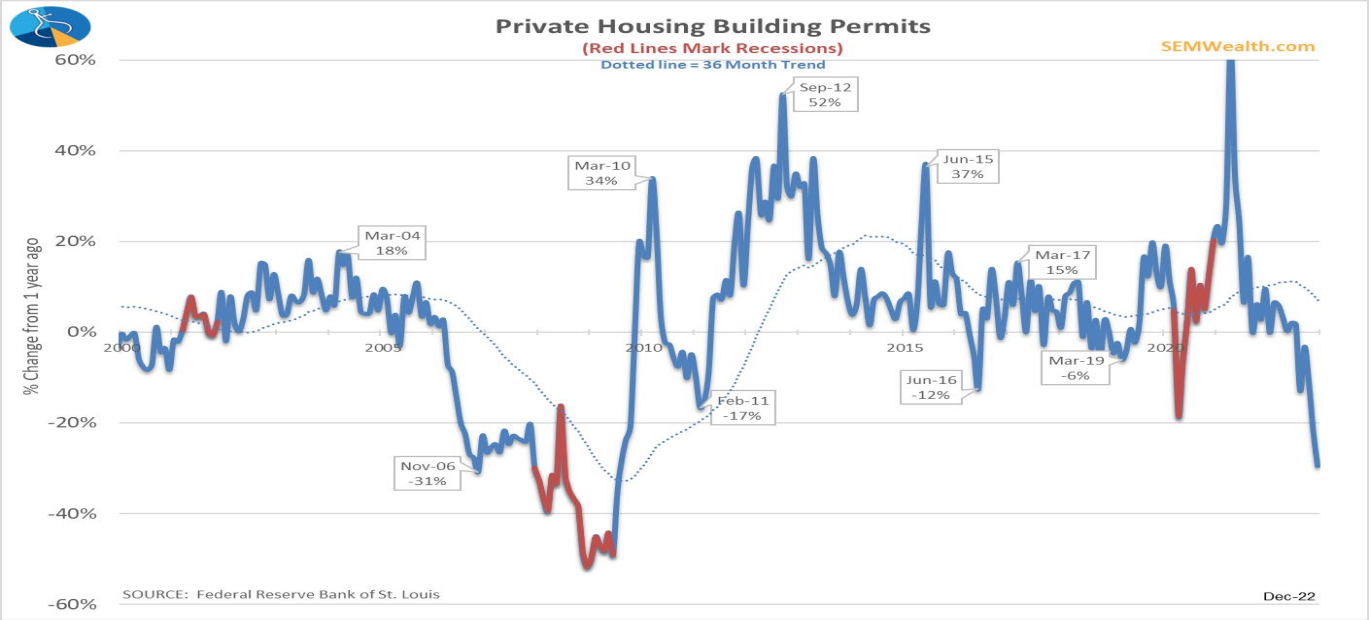
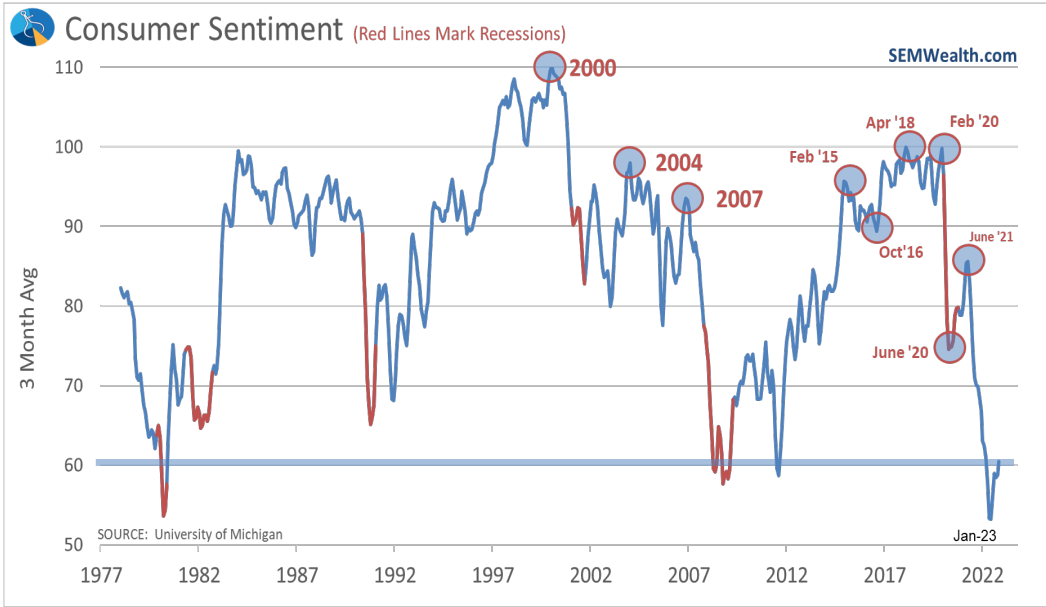
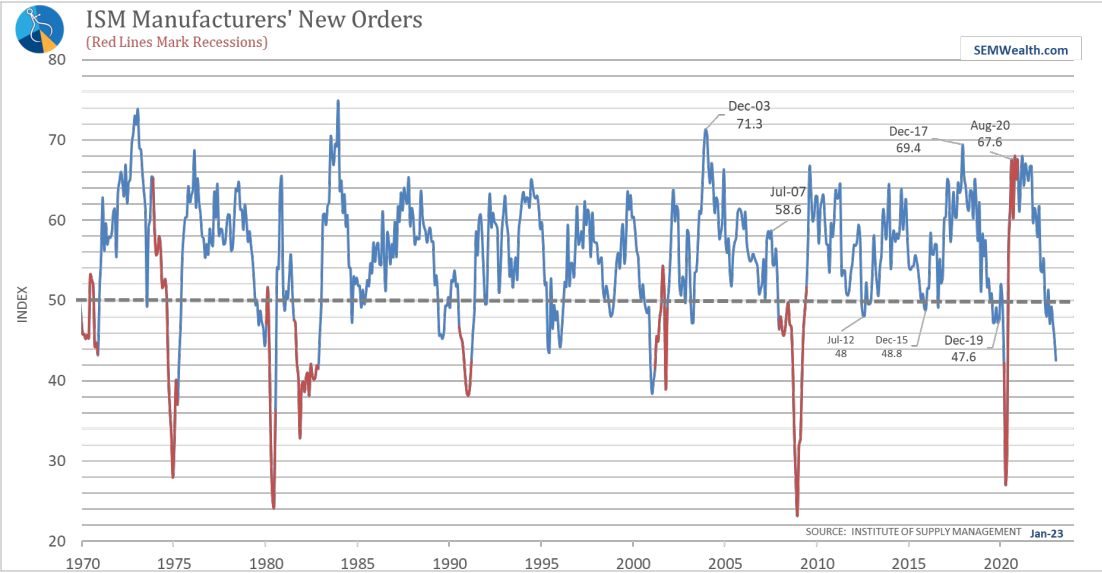
Leading Economic Indicator:	36 Month Trend:	GDP Indication:
Hours Worked		
Jobs		
Consumer Spending		



To any normal observer, consumer spending was back to normal in April 2021 -- nobody outside of the Fed understands why they would continue stimulating the economy for another year.



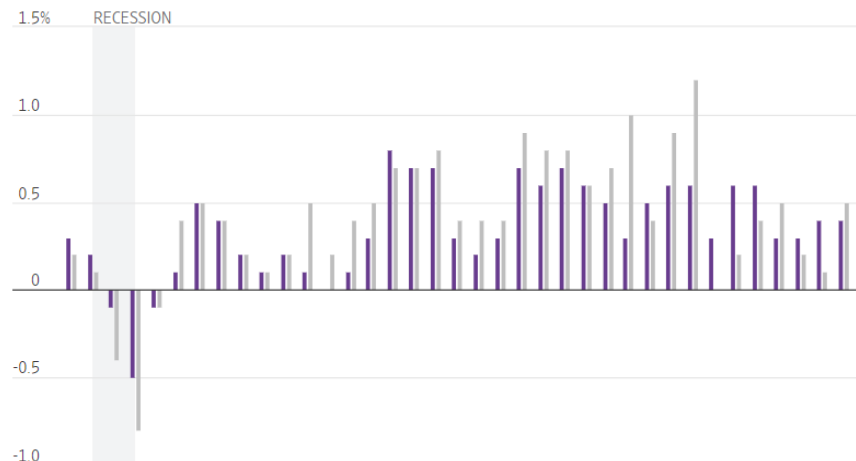
Leading Indicators: The Bad



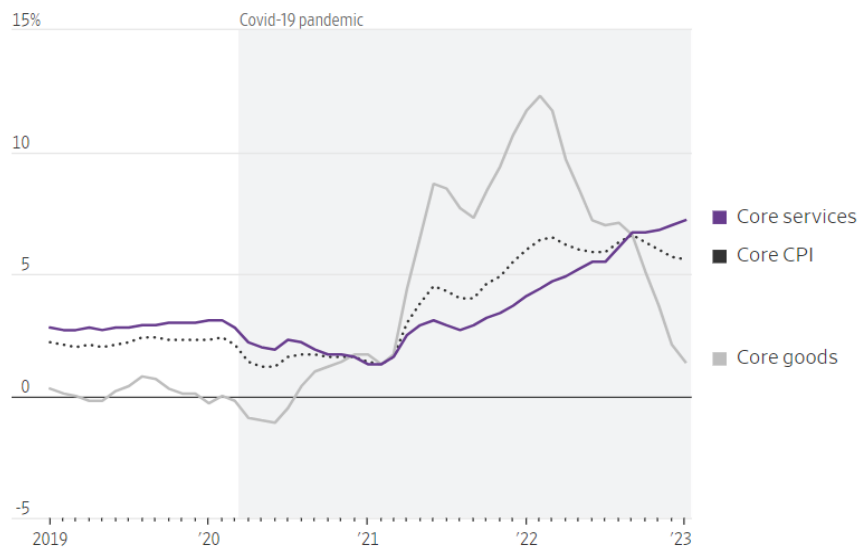
Fed, Inflation, & Interest Rates

Consumer-price index, change from a month earlier

Core Overall



Core services and goods prices, change from a year earlier

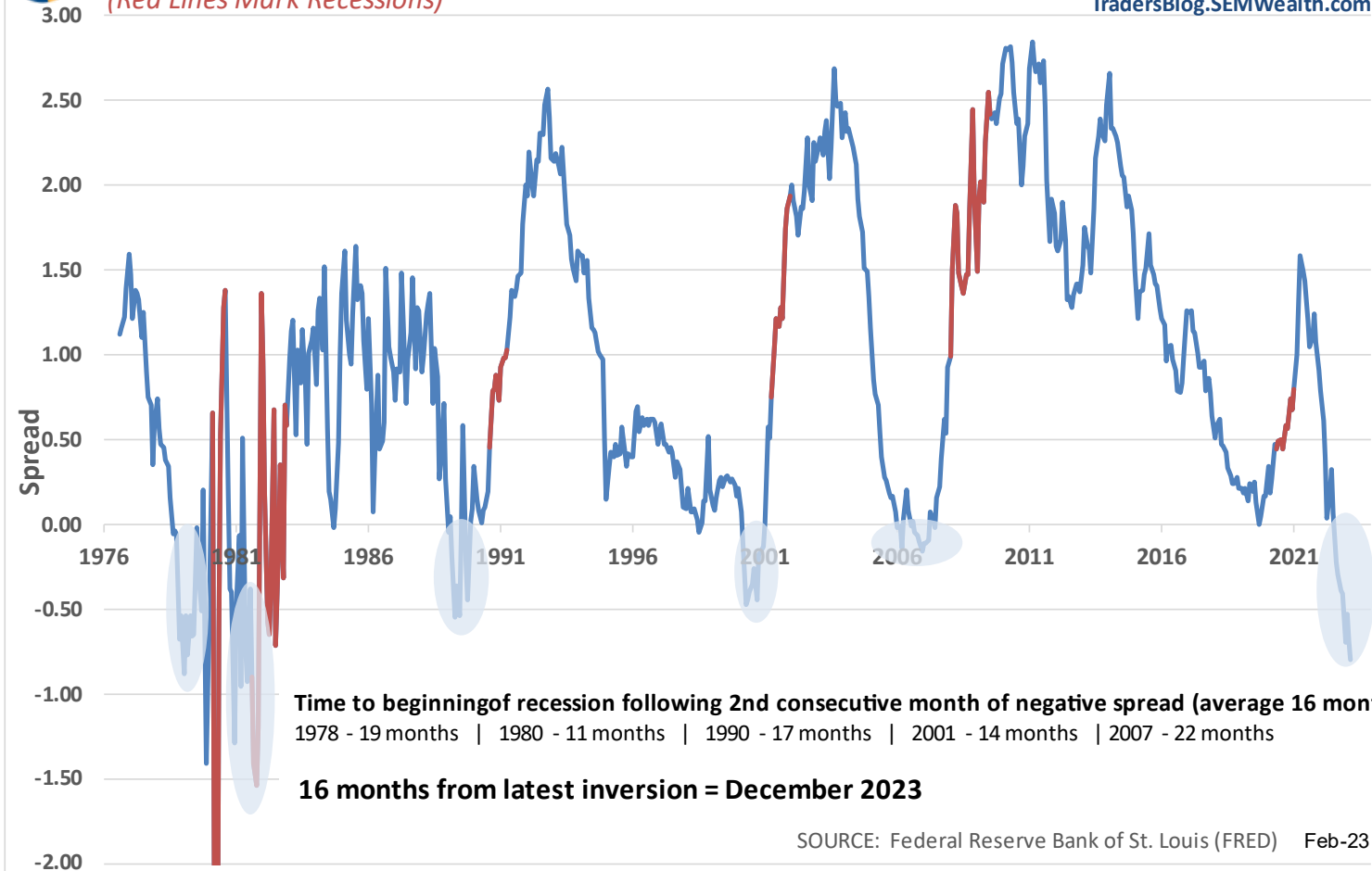


Note: Core CPI refers to consumer-price index less food and energy. Core services refers to services less energy services. Core goods excludes food and energy items.
Source: Labor Department



Yield Spread (10 Yr. vs 2 Yr.)
(Red Lines Mark Recessions)

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SOURCE: Federal Reserve Bank of St. Louis (FRED) Feb-23



Hope, Fear, Repeat

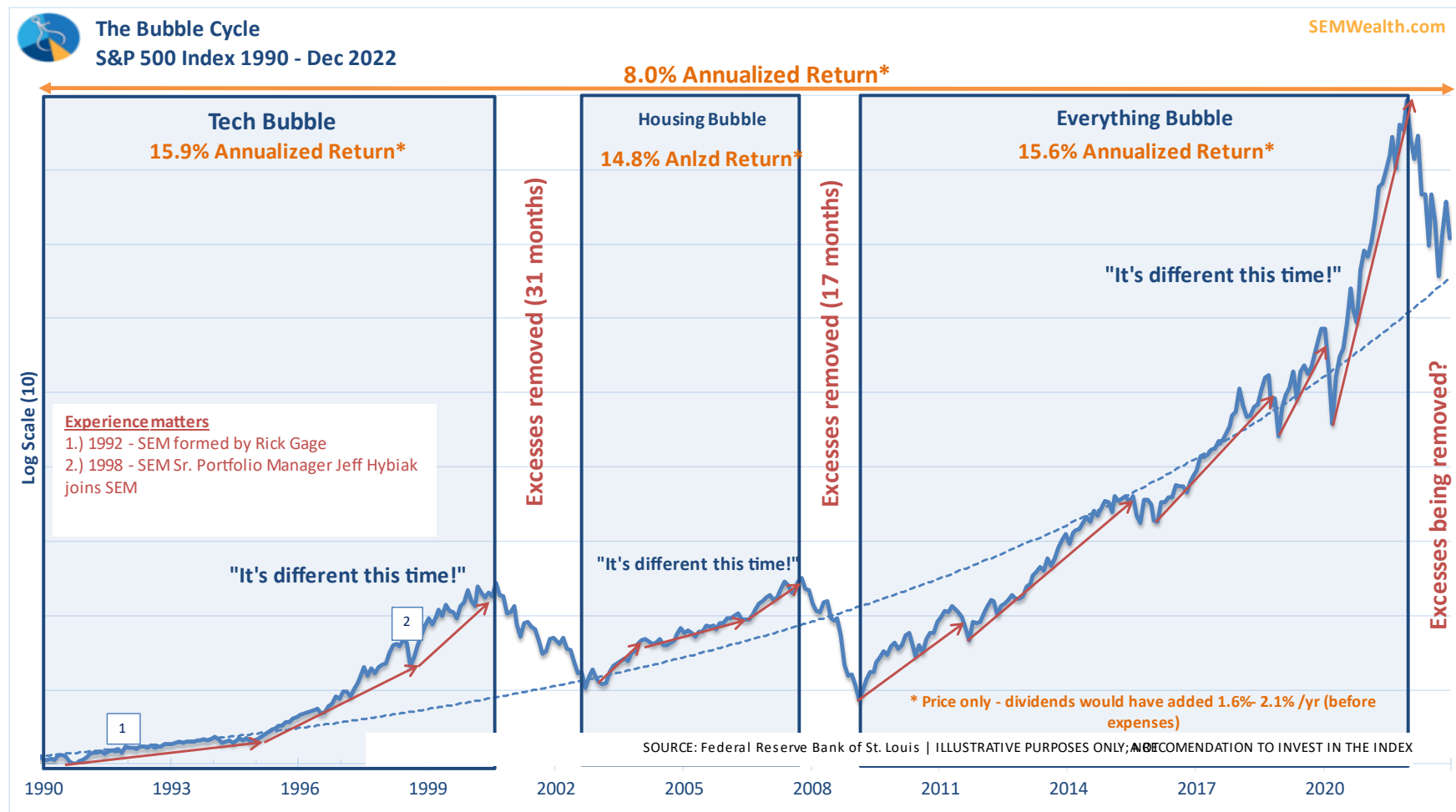


Long-Term Outlook



Investors often look at the past bear markets and with hindsight believe they could have avoided it. This leads to overconfidence in their ability to recognize the next looming bear market. In addition, the longer the market moves higher the more likely conservative investors are going to abandon their lower risk investments and move into riskier assets.

Stocks are a “mean-reverting” asset, meaning after prolonged periods above the long-term average, they will go through a sharp correction.

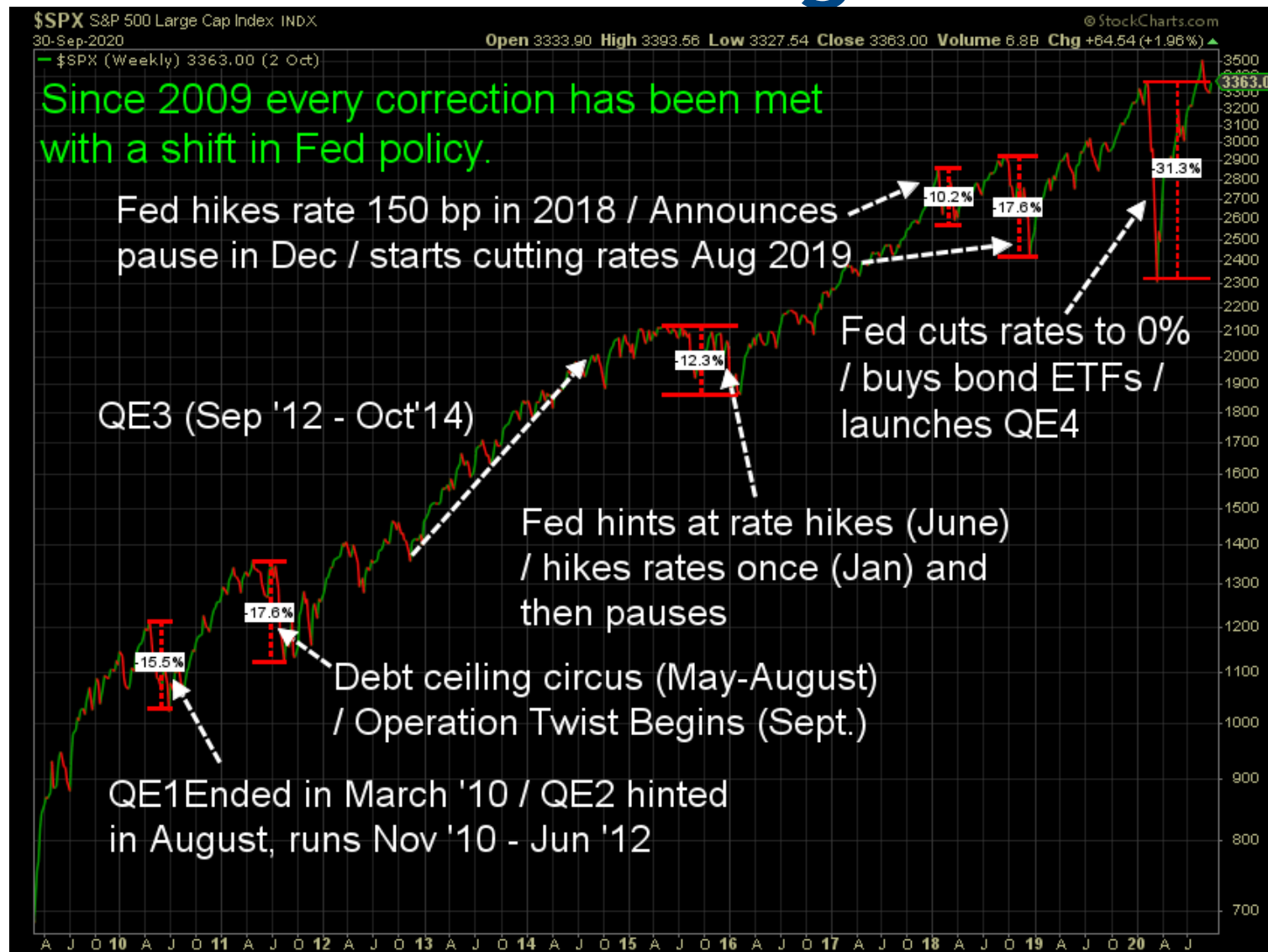


We're used to the Fed saving stocks



“The Fed Put”

- -15.4%
- -17.5%
- -12.2%
- -10.3%
- -17.5%
- -31.3%

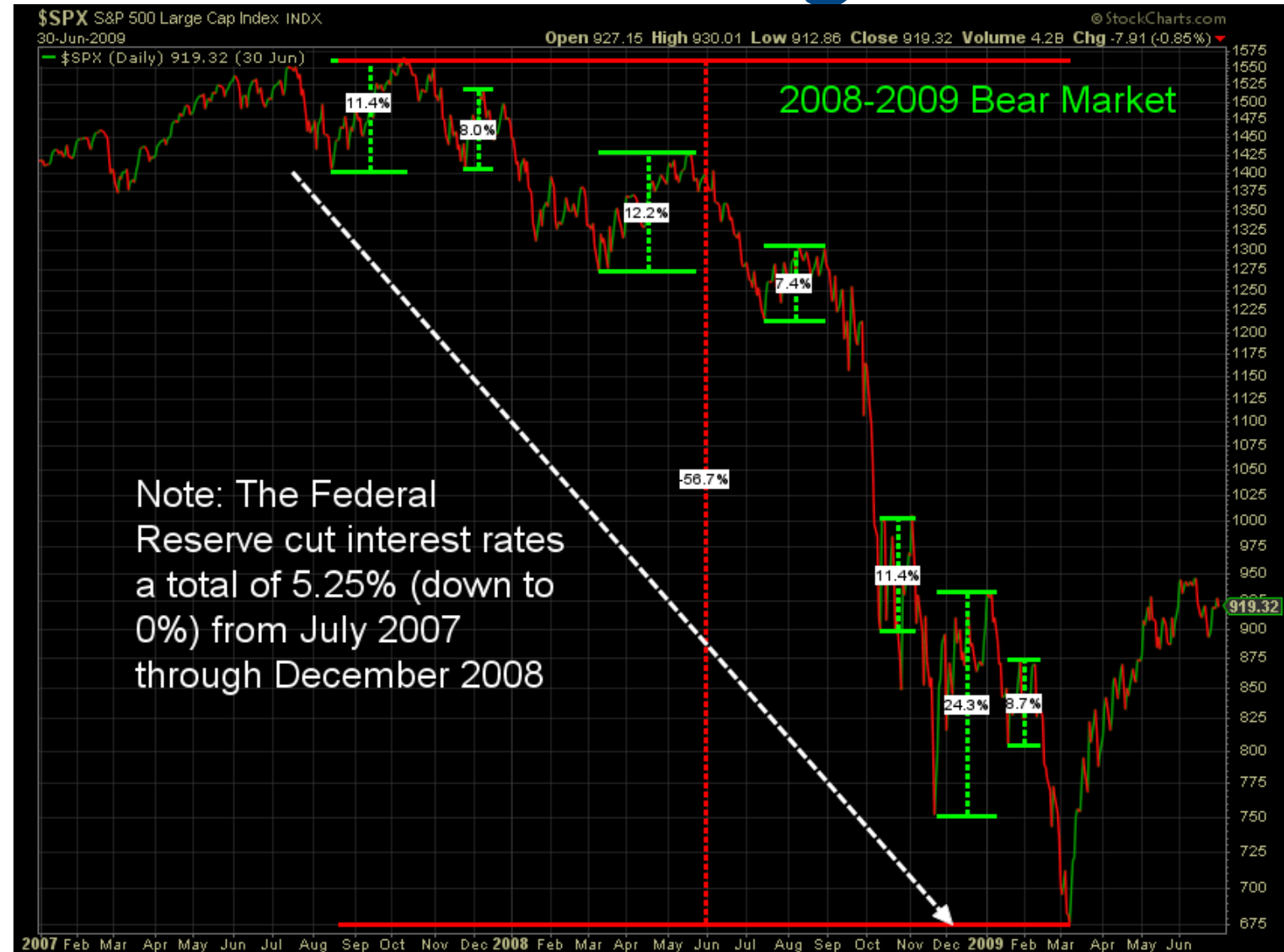


Bear Markets Include Strong Rallies



“The worst is over”

- 11.4%
- 8.0%
- 12.2%
- 7.4%
- 11.4%
- 24.3%
- 8.7%



Bear Markets Include Strong Rallies

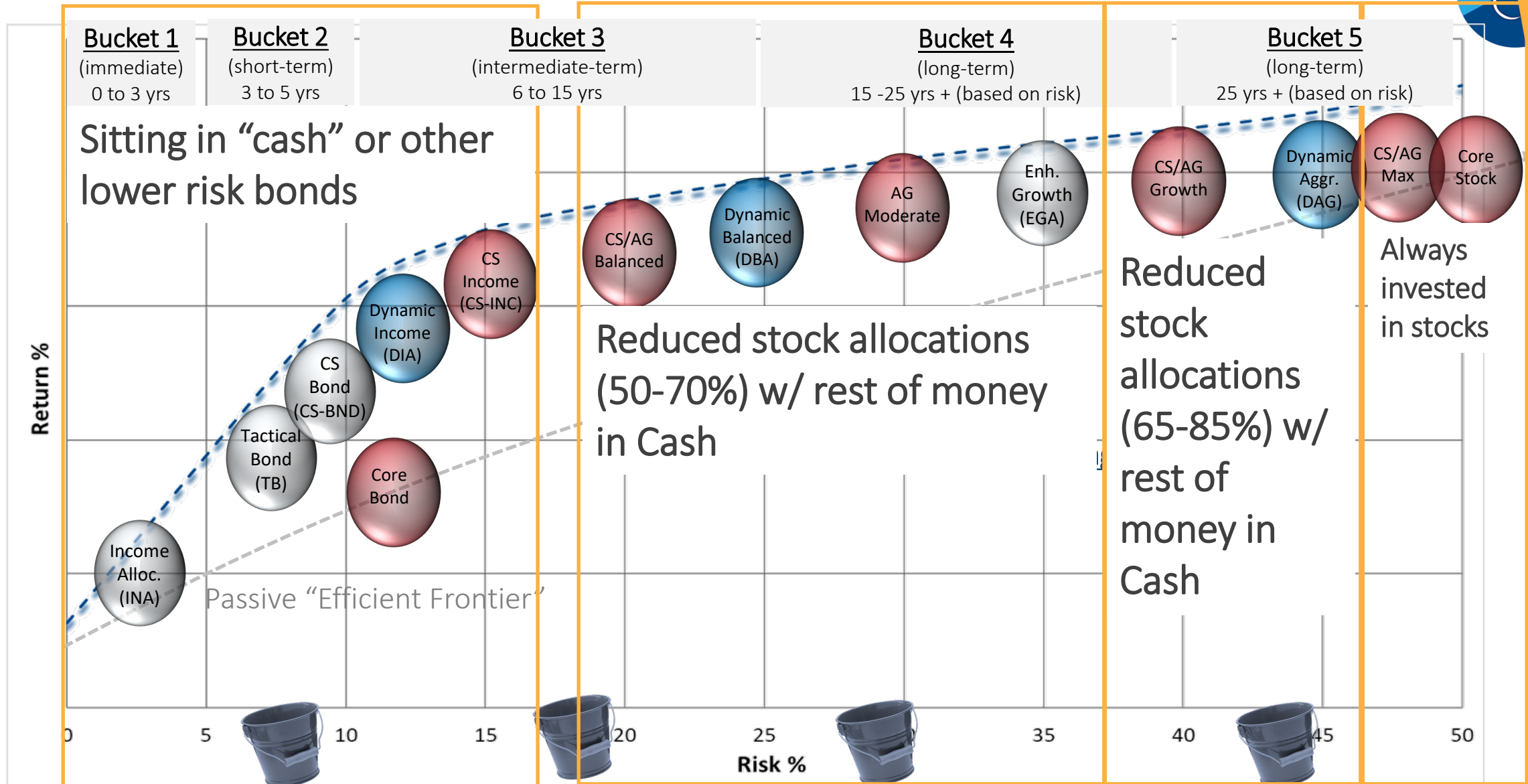


“The worst is over”

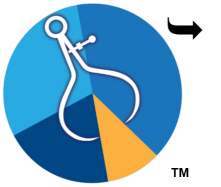
- 12.2%
- 7.7%
- 19.2%
- 21.6%
- 21.0%



Process in motion – Feb 2023 allocations



A Behavioral Portfolio Approach



**STEP
5**

Use smaller portions of portfolio for concentrated or riskier investments.

**STEP
4**

Select investments that align with specific objectives and risk levels for that layer.

**STEP
3**

Divide assets into specific layers and set specific goals and objectives for each layer.

**STEP
2**

Develop cash flow strategy taking into consideration cash and other low risk investments. This reduces short-term risk and the likelihood of making short-term, emotional decisions.

**STEP
1**

Construct complete financial plan with specific goals and objectives.

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QUESTIONS?



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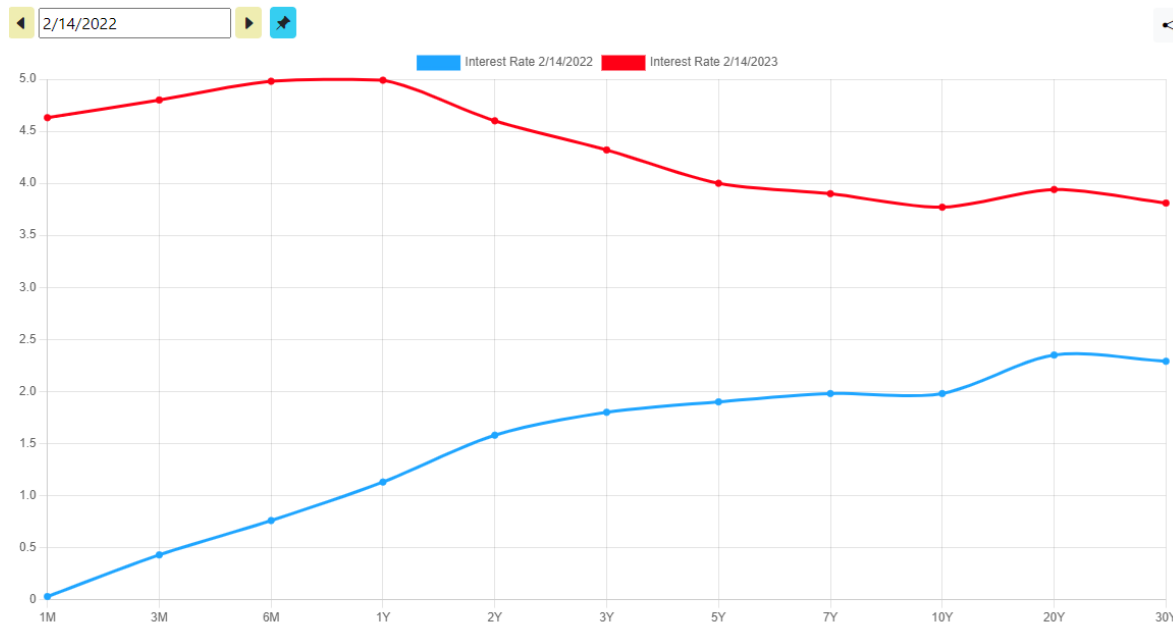
Questions from the Audience

1. Mary O.: Bonds vs. CDs for Investments?

2. Sandra H.: Are bonds a good investment?

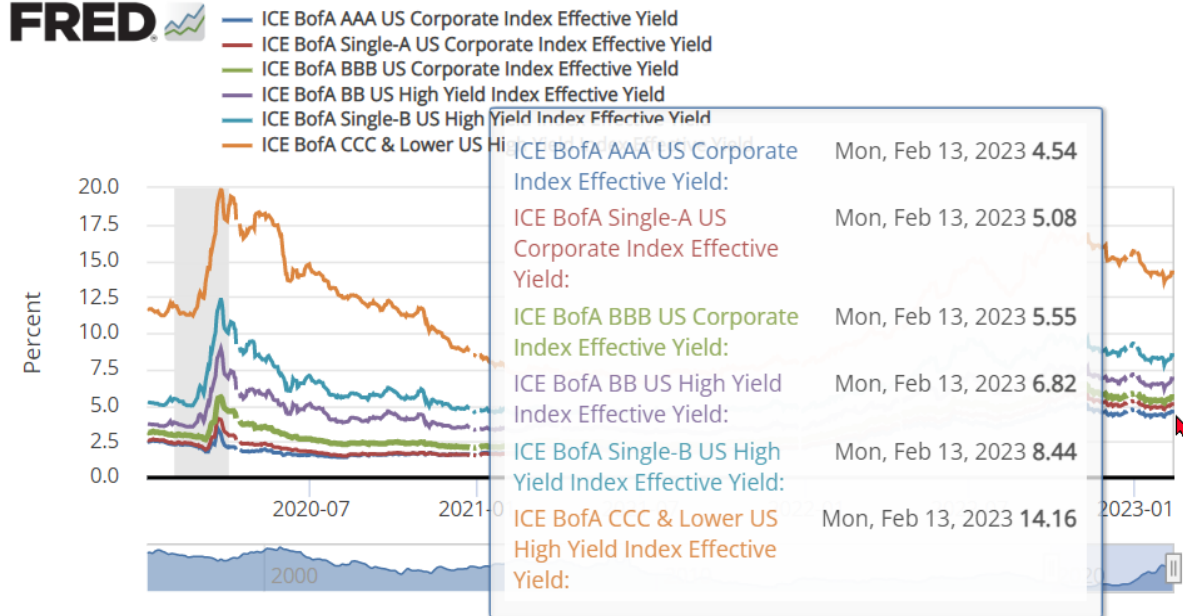
US Treasuries Yield Curve

An app for exploring historical interest rates

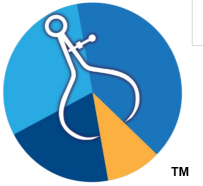


Corporate Bond Yields

FRED



Source: Ice Data Indices, LLC



Questions from the Audience

3. David B.: When can we expect positive gains in our accounts?
4. Edward H.: Are my SEM investments likely to recover the 8 months of losses?

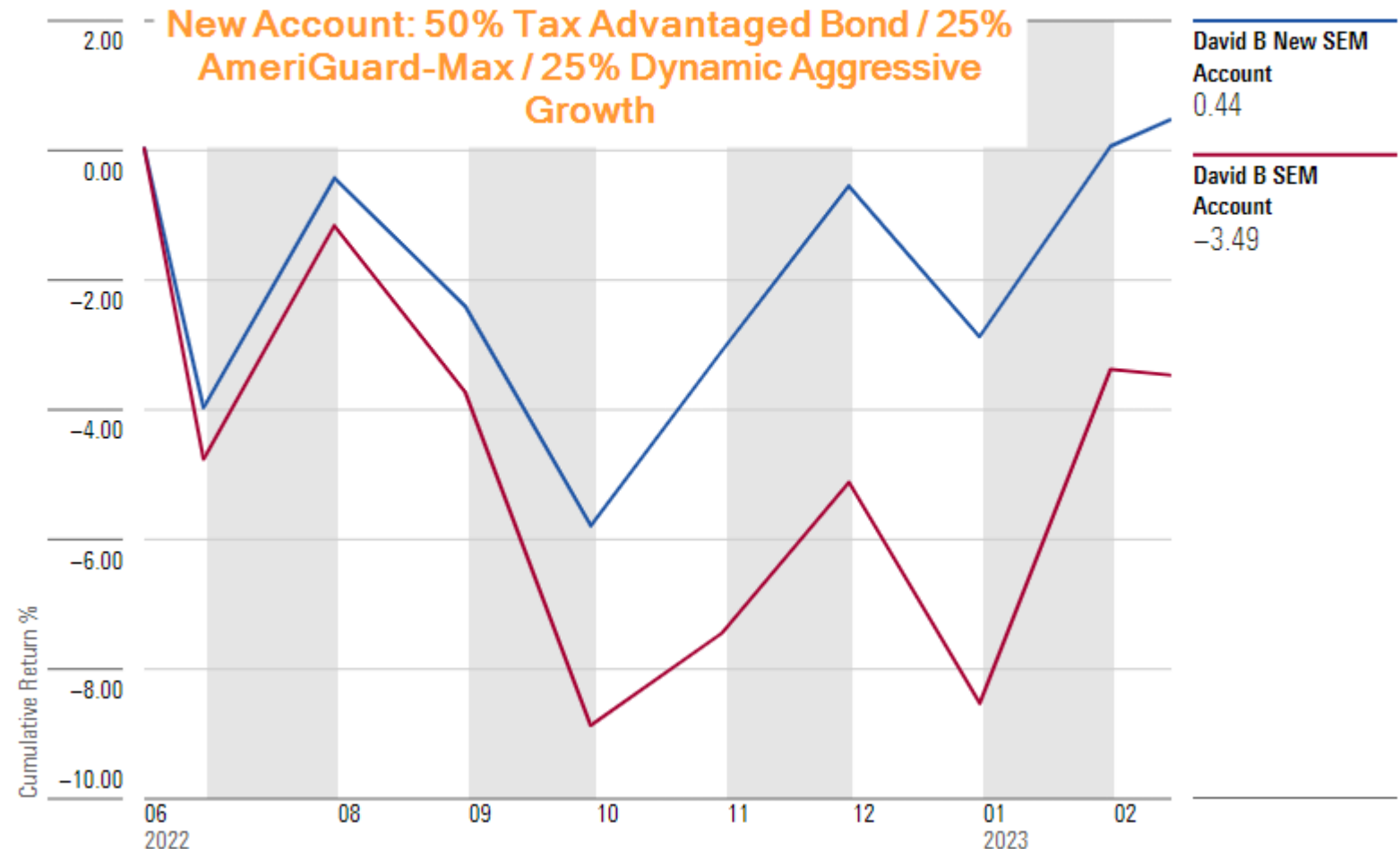


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Start Date Since Inception (06/16/2022) ▾ End Date Last Market Close (02/14/2023) ▾ Currency US Dollar ▾
Events ⓘ 0 Selected ▾ View Chart ▾ 4 More Settings ▾

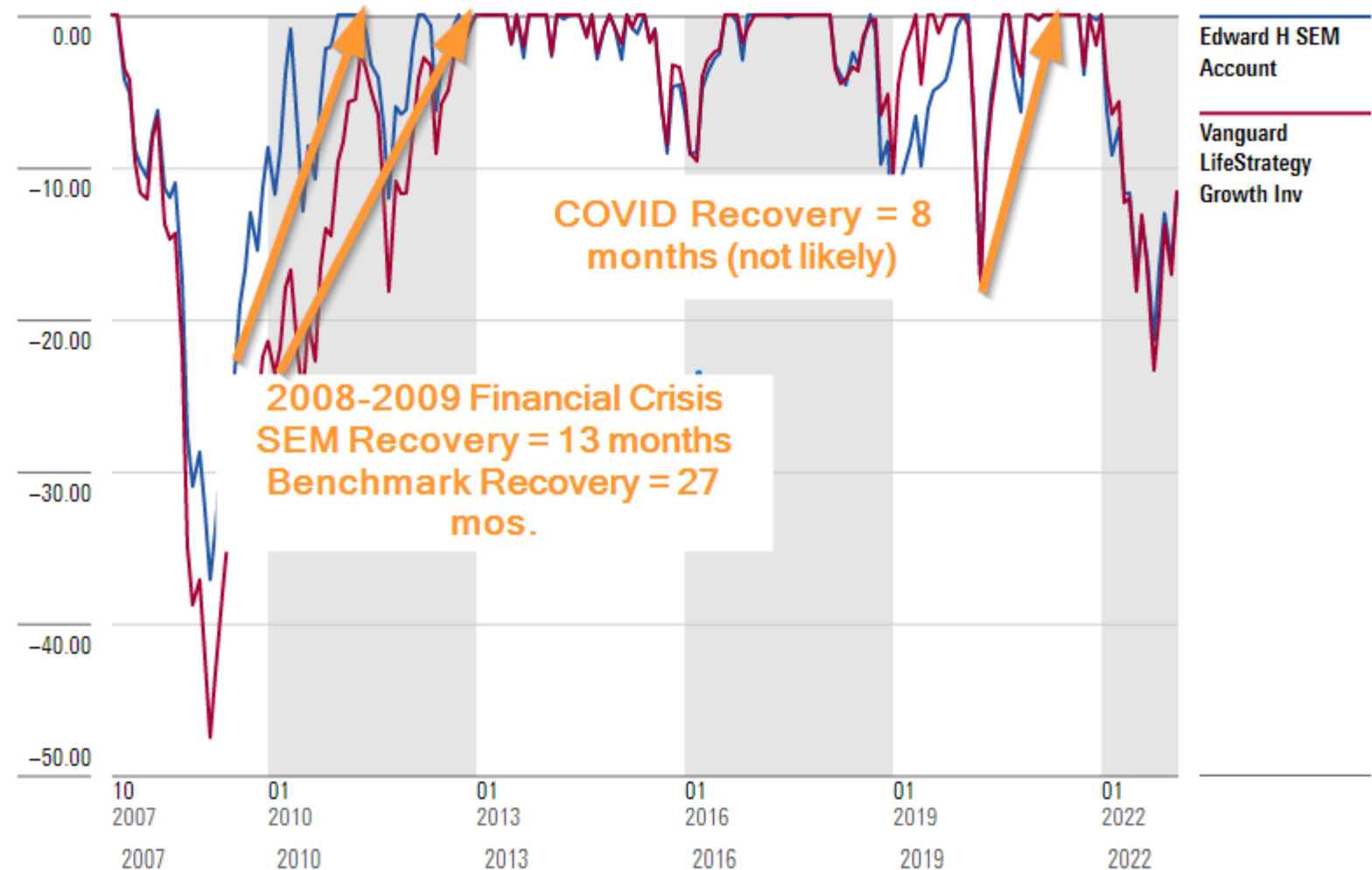


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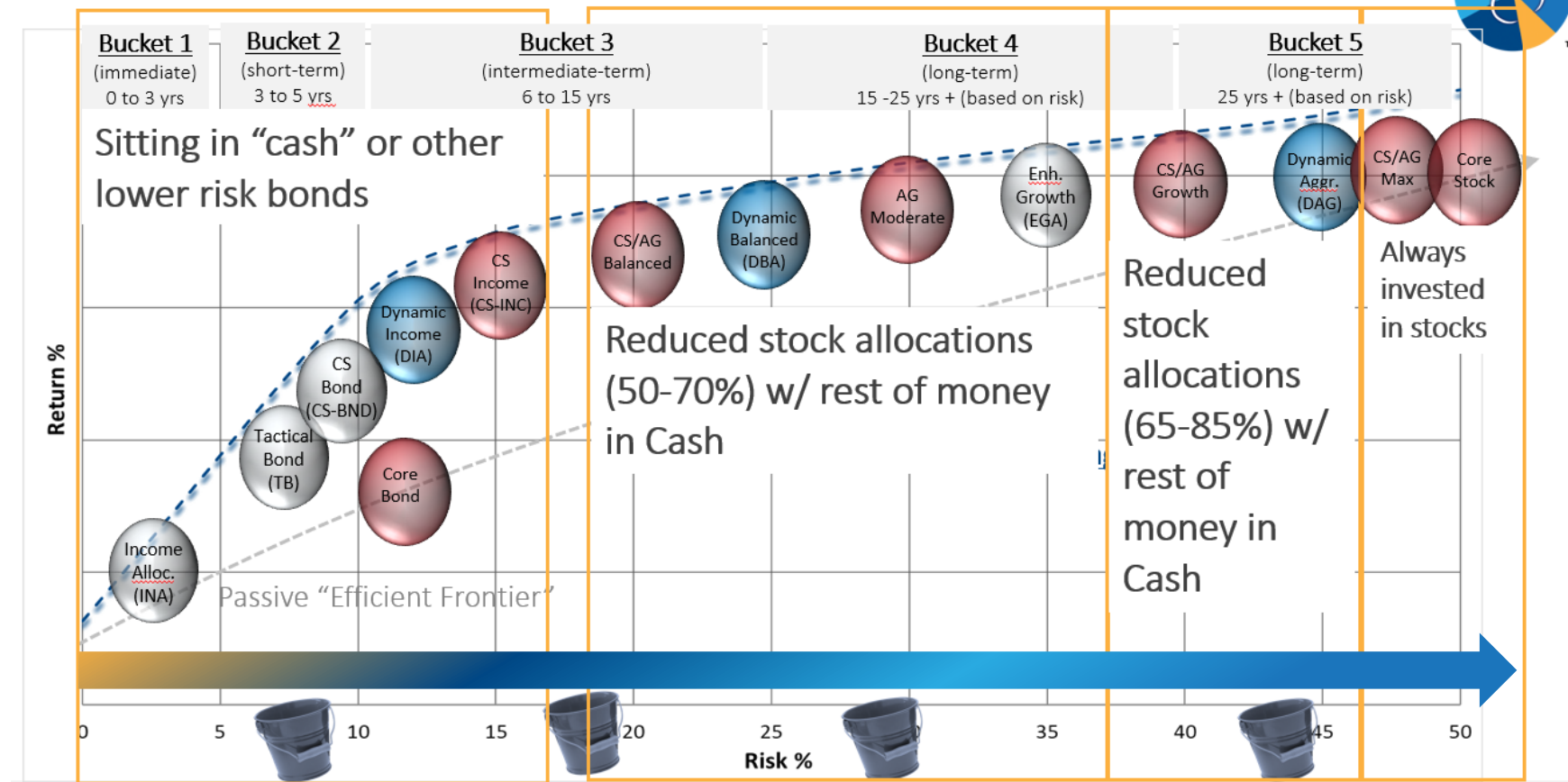


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Questions from the Audience

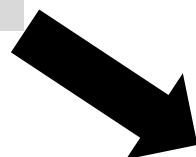
5. John S.: I think inflation is more of a supply/production problem rather than a too many jobs problem. What do you think?
6. Greg G.: What, if anything can Congress do to reduce inflation....in layman's terms.

Inflation caused by too much money



27

Congress
\$5T Stimulus



US Borrows
\$5T

—

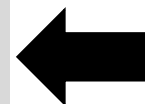
Wall Street
Buys \$5T

= \$0

in circulation



Fed Reserve
QE \$5T



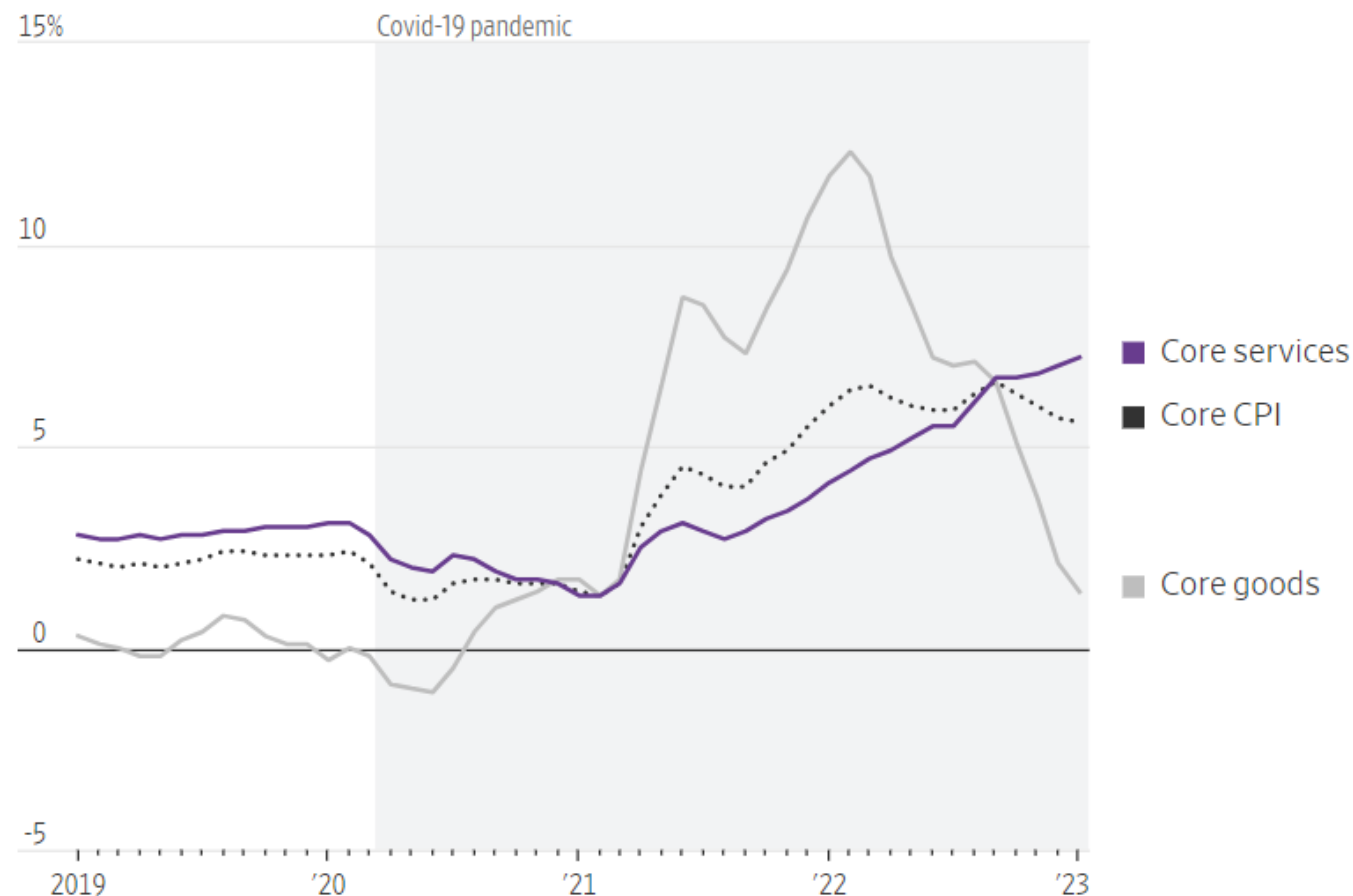
Wall Street
Receives \$5T

\$10T =
in circulation



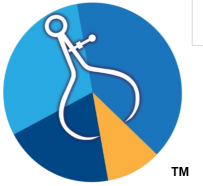
Services Inflation is the 2023 Problem

Core services and goods prices, change from a year earlier



Note: Core CPI refers to consumer-price index less food and energy. Core services refers to services less energy services. Core goods excludes food and energy items.

Source: Labor Department



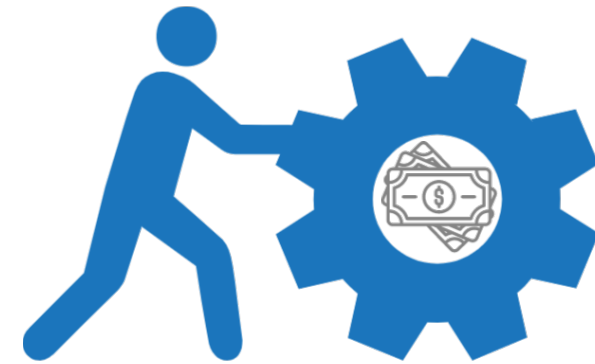
What can Congress do to help inflation?

Potential GDP Equation

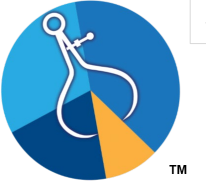


How many people are working?

+



How much are they producing?



What can Congress do to help inflation?

GDP Equation



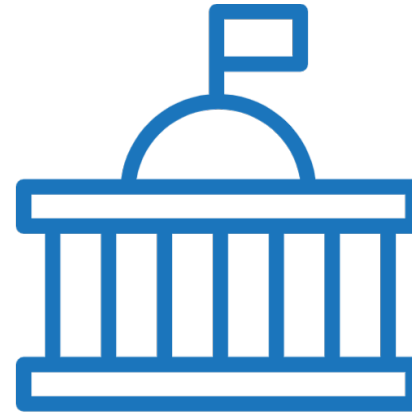
Consumer

+



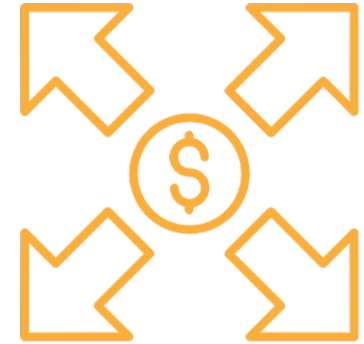
Investment

+



Government

+



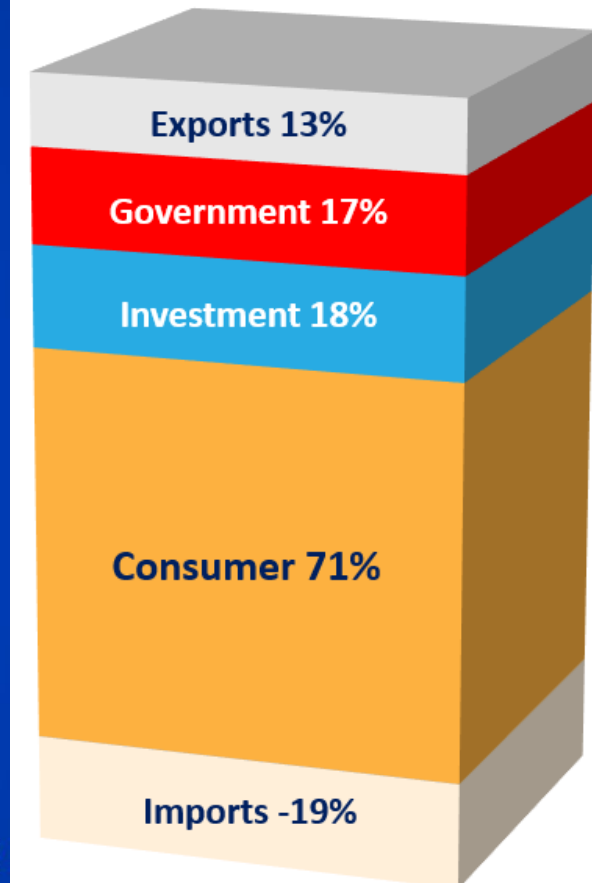
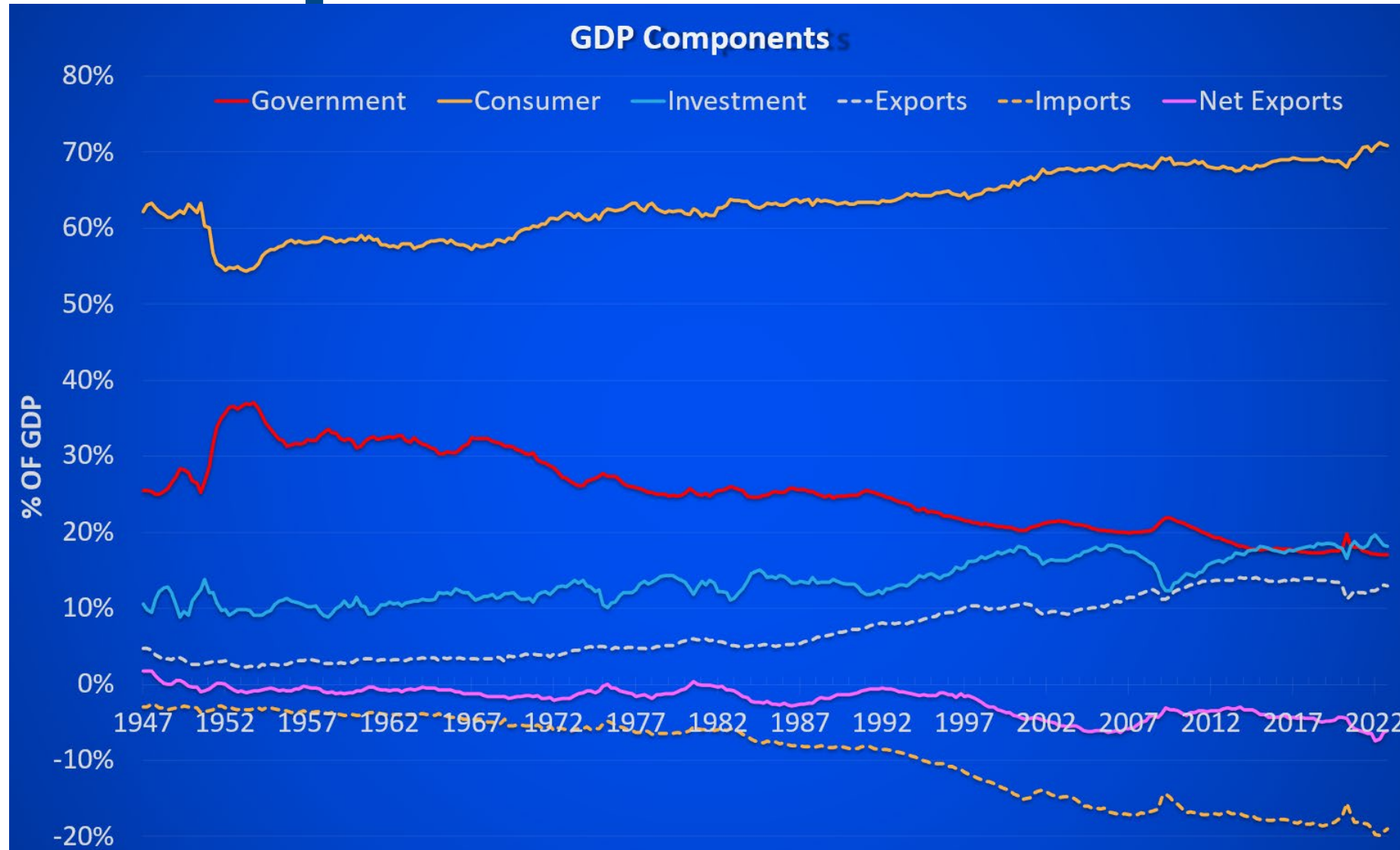
Net Exports

What can Congress do to help inflation?

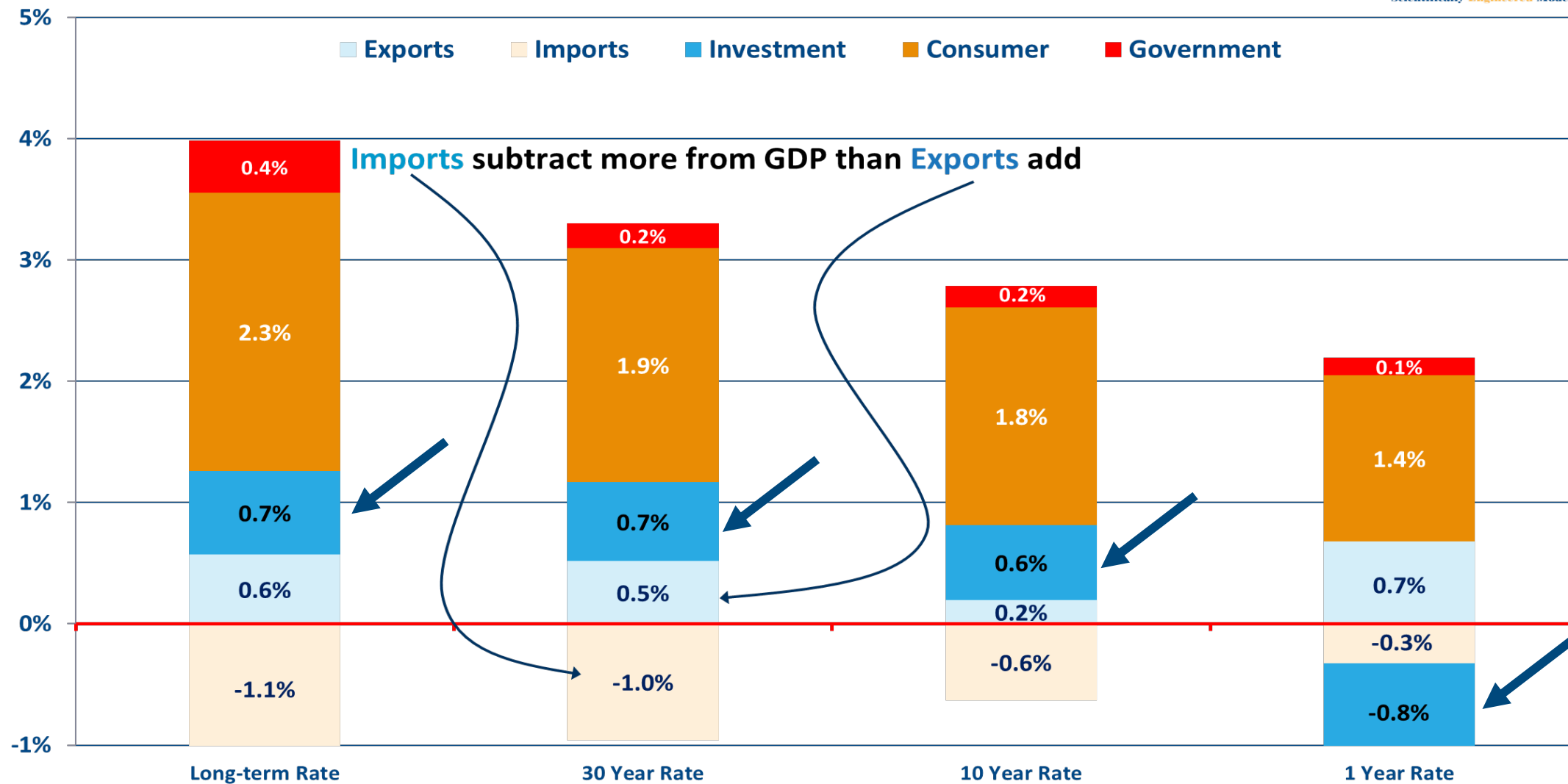
GDP Components



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Growth Rate Contribution of Each GDP Component



SOURCE: Federal Reserve Bank of St. Louis; Data through Dec-22

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