NW Straits
Financial Services, LLC

Fall 2022 Newsletter

Marketplace

…the state of the markets

We are getting past a pandemic, dealing with inflation, questioning if there will be a recession, there is still a war in Ukraine, and a pile of domestic political issues here in the US remain. It can be a bit much if you pay too much attention.

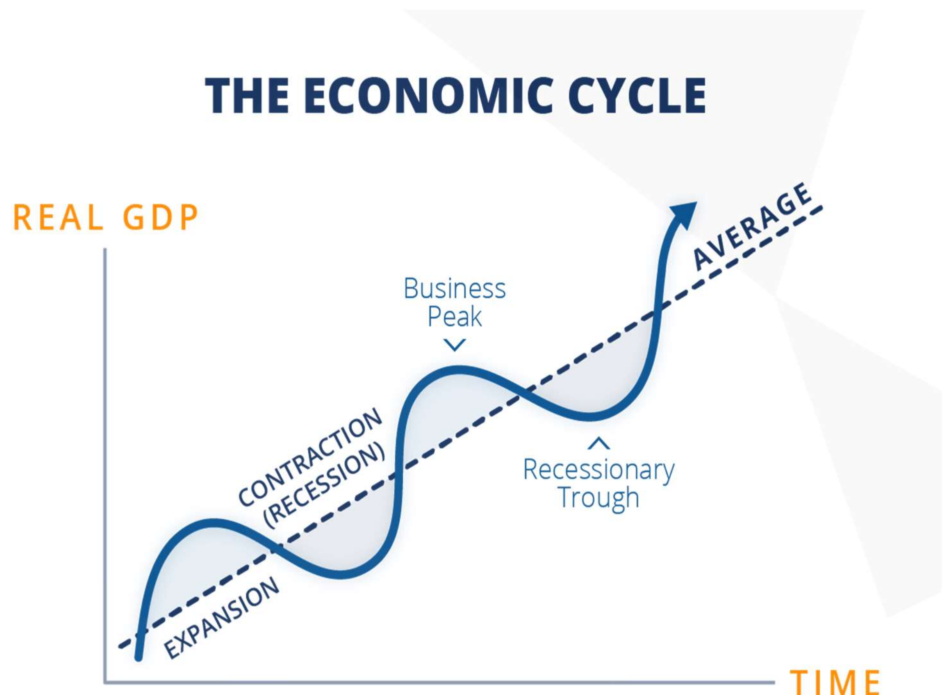
"We don't notice the 'cycle' when the economy is growing and stocks are going up."

The economy and stocks are always in a cycle. We don't notice the 'cycle' too much when things are "good," the economy is growing and stocks are going up. But when the economic cycles turn negative, everyone wonders what shoe will drop next.

We are in one of those moments now. Having a general understanding of how economic cycles work is important to the health of your finances. When we lead with logic and a little bit of knowledge, instead of emotion, it helps us make better decisions.

First, it's important to understand that no two cycles are alike. There have always been unique causes for each cycle over time. Wars, inflation, terrorist attacks, housing bubbles, and a pandemic to name a few. These are hard to predict for everyone. Which is one reason, among many, why trying to time your investments for cycles is impossible.

While each cycle is unique in timing, severity, and depth, they do all tend to follow the same pattern. The economy can expand for several years at a time. As it does, consumer and business confidence go up. That can lead to excessive speculation and over-reliance on debt.



At the peak of the cycle, there's usually a trigger that causes a contraction. Many times it's the Federal Reserve raising interest rates to prevent the economy and inflation from overheating. Suddenly the cost of speculating rises (i.e. interest rates go up). Asset prices and business activity that was supported by low interest rates declines, and it continues until there's a trough.

Marketplace continued…

It's critical to remember that after these stages, an upturn ALWAYS follows. Let me say that again: Upturns always follow Downturns. Too often, when we are in a downturn, people get tricked into believing that things will never recover. They will. No matter how bad things have gotten, the U.S. has always rebounded.

The greatest investment opportunities are all born in downturns. Investors who avoided selling at the bottom of previous downturns in 2003, 2009, and 2020 were rewarded with significant rebounds in the market.

These rebounds often start at moments when they make the least sense. "Things are so bad right now, how can the market be rallying!?" The reason markets (i.e. stocks and bonds) bottom out before the economy does is because markets are forward-looking. It is not what is happening today that matters. It is what the market thinks is going to happen in 6-12 months.

What to do?…

First, we remind ourselves that our target asset allocation strategy is a "through the cycle" strategy. Meaning, you'll have some years with investment returns above normal, and some below normal. Averaged out over long time horizons (5+ years) – which most people have, even if they're retired – investors will get close to "normal" returns.

Second, we have a rebalancing process to keep your portfolios in-line with your target investment allocation. Large moves in stocks and bonds can move an investment mix too far away from the target. Rebalancing brings you back to target. It's an enforced "buy low, sell high" strategy.

Lastly, we remind ourselves that we keep your fees low, both for your financial plan, ongoing advice, and investment products used for your asset allocation. Which puts you ahead of a lot of your peers based on cost alone.

While markets haven't looked good at all this year, I'm confident that the seeds are being sown for the next up-cycle in the market.

Meme of the quarter:

Memes used by NW Straits are found online in the public domain

Food for Thought

the psychology of money, investing and how we deal with money in everyday life…

The Endowment Effect

What is it? It's our tendency to hang on to items or things that we've either bought, or received. We "endow" them with a sense of ownership or possession. This sense of ownership brings inertia into play. Once you get used to having something, you might not want to let it go. One way the effect impacts us is when we look at subscriptions. Any sort of subscription: a magazine, Disney+, Netflix, Amazon Prime, AAA, etc.

How does this impact us in our daily money lives? A hypothetical example: "Wow! I can get 12, monthly, magazines of **Curling Unlimited** for the low cover price of only $1.99…" *(nothing against the sport of curling!)* Marketers know that once you have been lured into a subscription, you get used to having something and you want to hang on to it (mostly subconsciously).

By canceling a subscription you have to expend effort and at the same time you are imposing a loss on yourself. You are fighting against the endowment effect. So most people don't pay a lot of attention to how much money they have going towards subscriptions whether physical items or digital. Marketers know this. That's why subscription services are more common these days. Microsoft Office anyone?

What to do? Track your money. Add up the subscriptions. What's your total? Do the monthly expenses align with your values? If not, cut them, bank the difference, build up emergency funds, put money towards a goal you care about…

A hypothetical example: We have tracked our expenses for a few months and identified some things that could go away.

Magazine subscription	$2 / month	
Disney+	$8 / month	
Xfinity/Comcast	$70 / month	← You realized you have FUBO as well, which makes Comcast redundant.
Total savings:	$80 / month	

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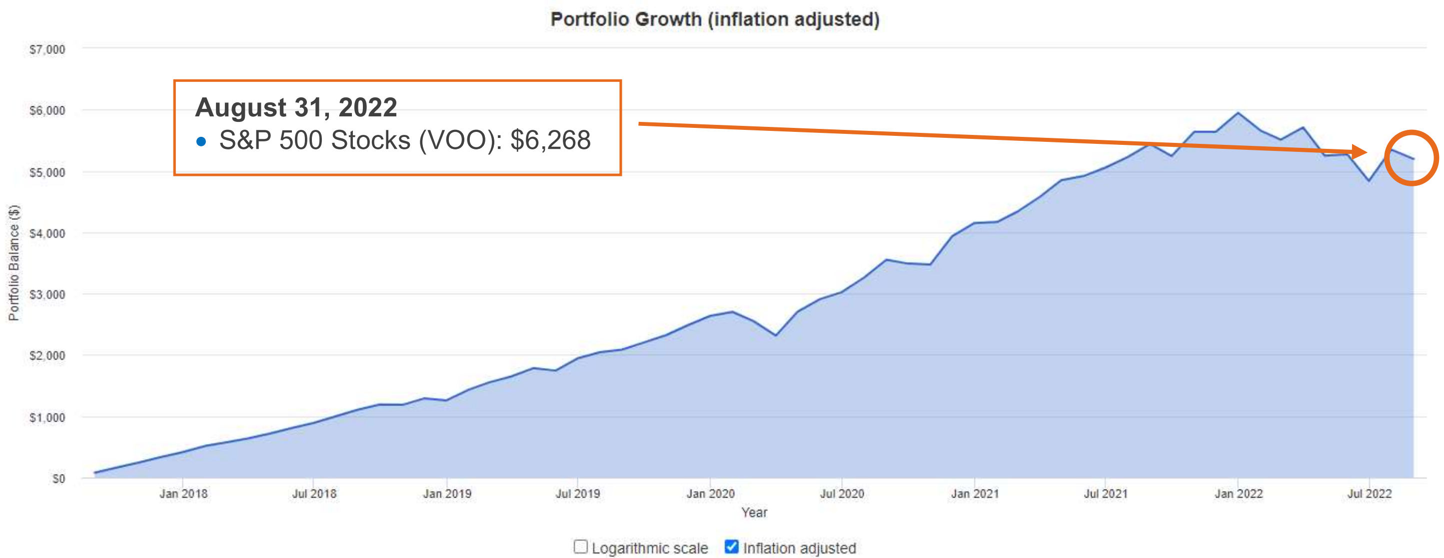
So what does it look like if we had invested that $80 savings a month, every month, over the past 5 years (8/31/17 to 8/31/22) in the S&P 500 broad stock market index via an exchange traded fund (ticker VOO)?



At the end of our hypothetical five-year period we would have $6,268. Even if we just stuck it in a savings account at the end of 60 months, we would have $4,800. Not a bad outcome and certainly a good incentive to see how the Endowment Effect may impact your personal financial life to your detriment.

Contact us with questions or comments.

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