NW Straits
Financial Services, LLC

Summer 2022 Newsletter

TOP 5 SONGS ABOUT MONEY

According to me! and in no particular order…there are about 40 more that I could easily add to this list!

1. “Money” Pink Floyd
2. “Take the money and run” Steve Miller Band
3. "Everything Counts" Depeche Mode
4. “If I had a million dollars” Barenaked Ladies
5. “The Money Song” Monty Python

What songs would you pick?

MARKETPLACE…the state of the markets

Everybody wants to know whether they have enough money to sustain them for life and reach their financial goals. While achieving these financial goals is extremely important, everybody typically wants the ride to be smooth all of the time. Sorry, won’t happen.

> *“Bear markets are defined by when the stock market drops by more than 20% from its peak.”*

On Monday, June 13th the S&P 500 stock market index dropped 4% putting it below its peak in January by 20% which put us officially into what’s called a “bear” market. Bear markets are defined by when the stock market drops by more than 20% from its peak. (Conversely a “bull” market is not as well defined, it’s more of a longer term general upward trend sustained over months.)

You have lived through at least one bear market. Whether it was the short-but-sharp pandemic-related bear market of 2020 or the lengthy, deep bear market associated with the 2007-2009 Great Recession. You have probably lived through more. Notwithstanding these experiences, a new market decline always creates a sense of panic and causes you to worry that this downturn will be much worse than “before”.

Overall the stock and bond markets have performed poorly in 2022, with broad indices seeing double-digit declines and many individual stocks experiencing drops well beyond 50%. With the stock market entering bear territory, it’s easy to worry whether further losses might be ahead.

Portfolio	Initial Balance	Final Balance	Return
S&P500	$10,000	$8,008	-19.92%
Intermediate-Term Bond Market	$10,000	$8,832	-11.68%

MARKETPLACE continued…

Unfortunately there is no such thing as a definitive answer to what happens next. The fact that a bear market has begun does not indicate where the market will head next. For example, there have been several short and shallow bear markets (most recently in 2018 and 2020) in which the bear market lasted 5 months or less from peak to trough, with a maximum decline of 36% (in 1987). Other bear markets (e.g., 2000-2002 and 2007-2009) have included drawdowns lasting more than a year with over 50% losses. Still other bear markets see slow, but protracted declines (e.g., the 28% decline between 1980 and 1982). And of course, the worst bear market remains the 1929-1932 decline during the Great Depression, which saw the S&P 500 fall 86% over the course of 33 months.

And while no indicator can provide a definitive answer on whether the current bear market will end soon or stretch into the future, a shorter and shallower bear market is more likely if the economy avoids going into recession: the 10 bear markets since 1929 that did not coincide with a recession averaged 12 months in duration and a 29% decline, while those that accompanied recessions saw an average decline of 42% over 16 months.

Another way to put the current market downturn into perspective is to compare it to the frequency and magnitude of previous declines. For example, the U.S. stock market typically declines by at least 10% every other year, 30% every 4-5 years, and more than 50% once a generation.

In addition, and importantly, you should consider the run-up to the most recent decline. The S&P 500 returned 31% in 2019, 18% in 2020, and 29% in 2021. The recent decline has only eaten away at a portion of those gains. Yes, it could eat away even more. While this might be cold comfort in the midst of a drawdown, it shows that regular, and often significant, downturns are to be expected.

What to do?… Concentrate on the three feet in front of you. What do I mean by that? Now is the time to focus on what you can control. Is your job recession proof? You can always benefit from bulking up your emergency fund. Double down on looking at and scrutinizing your expenses. Stop watching the financial news! Continue with your automatic investments and pledge to yourself that you will only look at your long-term investment accounts on a monthly basis or perhaps only annually!

Penrose Island, BC at sunrise

PERSONAL FINANCE…thoughts from a personal financial life

My wife Kristy and I don't have a landline telephone. Remember those? We haven't had one during our entire 16-year-ish relationship. Most people these days don't have them. It's tough to say for sure how prevalent they still are. Often they are found as part of an overall package involving internet or some other bundled service. Regardless, let's look at how much money this has saved us over those 16-ish years.

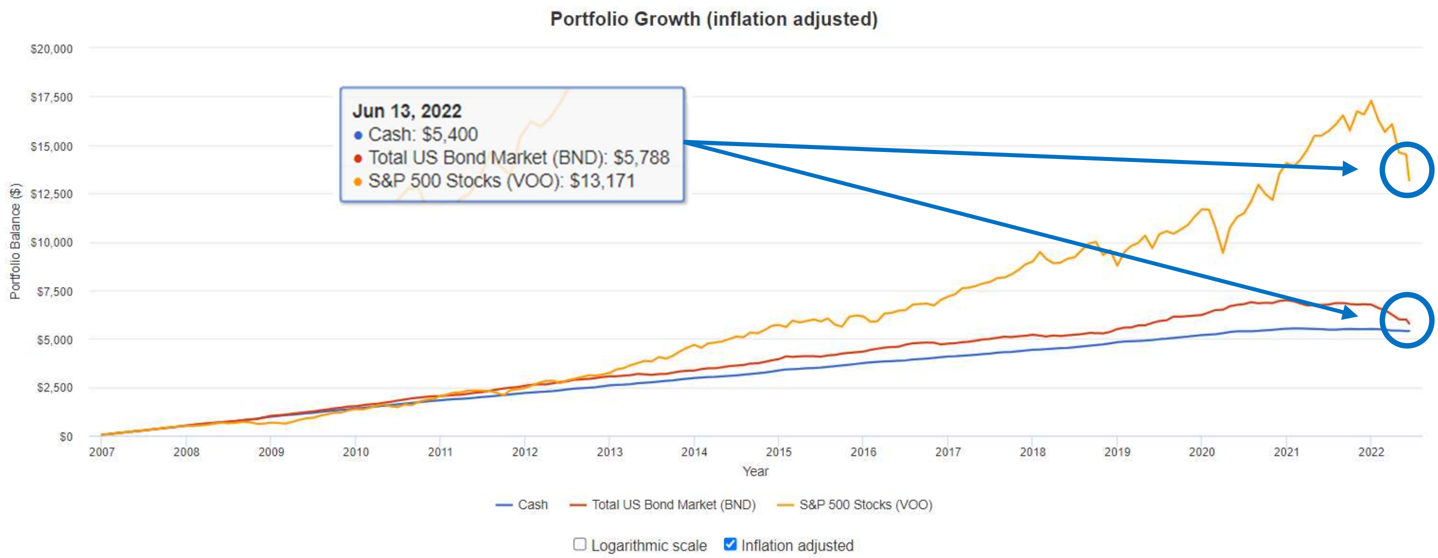
When I attempted to research what a typical landline cost per month was over the past few years the number that kept coming up was $42 per month. But there was nothing backing it up! So for our purposes we'll just call it $40 per month, but there is zero science behind it nor is there a concrete way to determine its accuracy.

So what does saving $40 a month for 16 years looks like? From Jan-07 to Jun-22 that's a total of 186 months at $40 a month which gives us $7,440 saved. But we're missing a few things…

Inflation for starters, and what impact that has. We should also look at what we would have if we invested the $40 every month in a couple of different investment options.

So for the below graph, we are looking at the returns of investing in three portfolio options and inflation is taken into account.

Portfolio 1 – hold it as cash
Portfolio 2 – invest in a bond index fund (ticker BND)
Portfolio 3 – invest it in an S&P 500 equity index fund (ticker VOO)



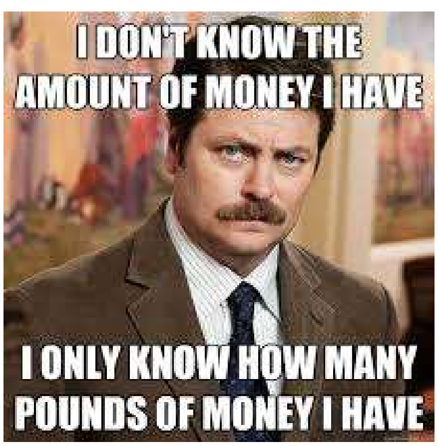
At the end of those 186 months we have $5,400 if we just stuffed it under the mattress (**Portfolio 1**). Or $5,788 if we invested it in the bond market (**Portfolio 2**). Or $13,171 if we had invested it in the stock market (**Portfolio 3**). But wait…186 months @ $40 a month is $7,440! That's the detrimental power of inflation for you!

Okay great, what's the point? First and foremost if you find any way to save even just $40 every month make a conscious decision to explicitly set it aside somewhere so that you don't just consume it. You are always better off setting aside money and putting it to work somehow, not just letting it go to your everyday "expenses" account.

Saving small amounts over time can add up to significant dollars…

What to do?… If you find yourself with a way to save $40 a month by cutting something out of your life here is a way to put on the turbo booster! Bump up your employee sponsored retirement plan or IRA contributions by $40. You get the double whammy of long-term time horizons and some possible added tax benefits.

Meme of the quarter:



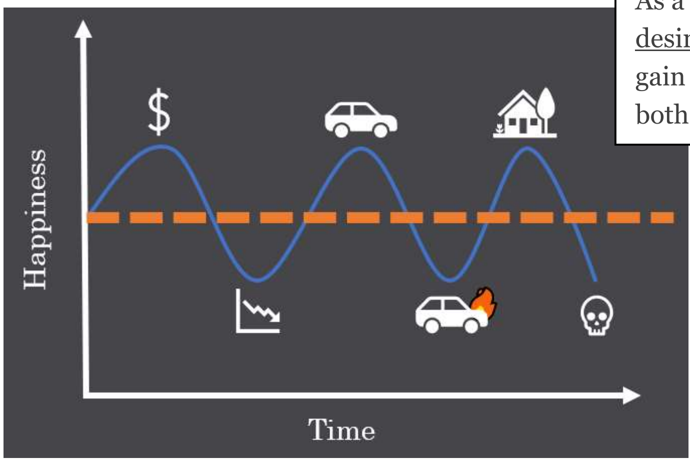
Food for Thought

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

Hedonic Adaptation

What is it? It's a theory of a tendency to quickly return to a stable baseline of happiness, despite major positive or negative events, or life changes.

From a personal finance perspective the theory suggests that ever increasing wealth does not increase your level of happiness. We can impact our short-term to medium-term level of happiness but not for the long run…



As a person makes more money, expectations and desires rise in tandem, which results in no permanent gain in happiness. You return to your baseline, after both good and bad things happen in your life.

I'll use my wife and I as an example again. Over six years ago, our level of happiness was not increasing in step with our level of wealth. But we were in a position to call the regular 9-to-5 quits. Meaning, neither of us needed to work for an income to support our lifestyle. (An aside: that does not mean we don't work! It only means there is no income requirement for what we choose to do. I choose to be a financial planner!)

Okay great, since we can call the shots, shouldn't our happiness levels be through the roof? They're not. My personal happiness level is probably right around where I was when I was working for a regular paycheck. Which I enjoyed doing, it just wasn't a path I wanted to stay on.

Maybe my level of happiness is incrementally a little bit higher since stepping away from the 9-to-5, but I believe that is due to a reduction of overall stress. And maybe it's a bit higher because we don't feel as much societal pressure to have the "things" associated with trying to keep up with co-workers?

Looking back, I have always felt that I return to a relative baseline level of happiness whether something good or bad has happened in my life. You can think of other examples of hedonic adaptation around things you purchase as well. That new car? For a few weeks or even months you might get a happiness bump, but after a year or less, it just becomes another car. Can you think of some personal examples?

Contact us with questions or comments.

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