# WINTER 2022

At the end of the third quarter of 2021, the stock market, as measured by the S&P 500, was dealing with the surge of the Delta variant and a recent 5% decline in September. We had not yet heard of Omicron and, had we known of its pending arrival, we might have been very wary about the near-term prospects for stocks. Perhaps ignorance is indeed bliss, as Omicron came in the 4th quarter and the S&P 500 advanced 11.0% over the final three months of 2021 to end the year with a total return of 28.7%.

The S&P 500 was propelled, in part, during the 4th quarter, by its largest component, Apple, which recovered from an unusual stretch of under-performance over the first three quarters of the year to post gains of 25.7% in the final quarter for a total annual gain of 34.6%. Other technology giants such as Microsoft, Alphabet and Metaverse (Facebook) also had strong 4th quarter and full year performances.

More value-oriented stocks lagged in the 4th quarter. J.P. Morgan Chase, for example, declined 2.7% in the 4th quarter but still finished the year up 27.7%. As of September 30, 2021, J.P. Morgan was up 31.5% year to date versus a gain at the time of only 7.1% for Apple, as value stocks seemed to have finally won the day versus growth stocks. That victory may have been premature as many growth stocks staged a furious rally in the 4th quarter of 2021 to overtake many value stocks. Nevertheless, as measured by the annual performance of the iShares 1000 Growth ETF versus the iShares 1000 Value ETF it was a good year for both with the Growth ETF up 27.5% and the Value ETF up 24.9%.

While the final performance numbers for the market are impressive, investors are very much aware that 2021 was not all a smooth ride for stocks. The S&P 500 experienced price drops of about 4% in February/March, 5% in September and 4% in November/December on its way to a strong year.

This volatility and the record high levels of the major stock indices have led many to call for a meaningful correction. Some highly regarded investment experts such as Jeremy Grantham, Stanley Druckenmiller, Jeffrey Gundlach and others have warned of trouble to come and the "epic" nature of the current "bubble" in equity prices, housing, crypto currency, meme stocks and many other assets. In addition to the speculative fever, many experts point to inflation and the prospect of rising interest rates as possible catalysts for a significant decline in stocks over the next year or so.

We have a great deal of respect for the opinions of investment legends such as Jeremy Grantham, Stanley Druckenmiller and Jeffrey Gundlach and we share many of their concerns. The challenge comes in how investors should react to such warnings. The positions of these experts are far more nuanced than the headlines might suggest, and while worrisome, they are generally not advocating abandoning stocks entirely. As a more practical way of looking at things, the recent comments of another legendary investor, Leon Cooperman, might be more useful. On CNBC[1] last fall he talked about his view of the stock market and declared himself…"a fully invested bear…". This seems to resonate more with us as long-term investors and would seem to follow the strategies of another investment legend, Warren Buffett.

It is especially important at times like these however, to carefully review one's holdings and asset allocations, including cash for liquidity purposes, to ensure that when trouble does come for the stock market, the impact is manageable. The stock market has not lacked for drama over the last few years, and we are certainly in store for more in the years to come. Yet, despite all the turmoil of the last few decades, stocks have been remarkably resilient. Since 1980, stocks have had positive annual returns 85% of the time for an average annual gain of 13%[2].

Having been in the investment business throughout this stretch we recall the drama of the crash of 1987, the bubble popping of 2000, the Great Recession of 2007-2008 and the pandemic of 2020 and many other daunting crises. These periods of turmoil were indeed difficult for investors but eventually, sound long-term strategies prevailed. We may not enjoy double digit average annual returns over

[1] CNBC 09/09/2021
[2] Argus Research Market Digest 12/31/2021

the next few years, and we may see rough times, but we believe investors should maintain a meaningful exposure to stocks within the specific guidelines of their overall investment strategy.

We wish you all the best for a happy and healthy 2022.

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