BURNS INSIGHTS

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Reasons for Positivity

Every time we sit down to write the quarterly newsletter, we try to start by asking the question, "What needs to be said right now?" Our team really wrestled with that question this quarter. There is no doubt that this year is very challenging in the stock markets, and on top of that we are facing possibly the worst bond market since the 1800s, the worst inflation in 40 years, and sharply rising interest rates. This is clearly an awful situation, and portfolios worldwide reflect that. So when we sat down to ask this question, we kept coming back to this: Our friends need to hear reasons for optimism. Negativity is easy; positivity is hard.

John Templeton (1912-2008), a financial icon, is one of our investment and stock market role models. Over the years, we have shared aspects of his rules of investing several times. He was an eternal optimist and believed in the American capitalist system. Our citizens have the freedom to create and then to be rewarded when their ideas turn into profits. We believe this too, and this is one of the reasons why we believe a healthy allocation to the U.S. stock market will continue to be a driver of growth potential in portfolios for the long term.

Here are our chosen reasons for optimism in today's market:

1) **Valuations are closer to normal, especially in small caps.**
Valuations are how we refer to how cheap or how expensive stocks are. Think about "Shark Tank" and the way the "sharks" negotiate to get a better price for the stake in the business. 12-18 months ago, we were talking about how stocks were expensive from a valuation perspective. Price-to-earnings ratios and other valuation metrics were significantly higher than their historical means. Now we are in a healthier place.

Most areas of the market still are not cheap, but small cap valuations are close to where they were in March 2020, early 2009, and after the dot-com bubble burst. These were historically good opportunities to buy small cap stocks.

Now this doesn't mean the market is poised for a quick rebound. Our message since the initial market decline remains: Not all corrections or bear markets recover as quickly as they did in 2020, 2018, or 2011. However, more rational valuations are a sign of a healthier market. We would much prefer these valuations versus the ones we had late last year.

2) **Retail investors are panicking, which is a bullish indicator!**
One of Mr. Templeton's sayings was "the stock market tends to bottom at the point of maximum pessimism." The way investors collectively feel about our portfolios is what we call a "lagging" indicator, which means these feelings seem to reflect what ***has*** happened and not what ***will*** happen.

The American Academy of Individual Investors (AAII) has been running a survey each month of retail investors since the 1980s. Their data suggests that extreme market pessimism tends to be a "leading" indicator of good things to come. This means times of great strife and negativity are often followed by positive stock market performance. In the AAII's data, the six-month and 12-month periods after an extremely negative survey tend to overwhelmingly outperform the periods after extreme positivity.

Last year, we had this type of extreme positivity in which we witnessed an abundance of risk-seeking behavior. Conservative investors were asking us about crypto-currencies and Reddit stocks. That, to us, was a negative sign for the market despite how happy people were about their portfolio performance. Now, we see the opposite. Clients are much more risk-averse, and the AAII survey has revealed some of the highest amounts of pessimism since the early 1990s. This is more indicative of being nearer to bottom than a top, which is good news.

3) **Economics, while mixed, still has some positive indicators.**
Beware of the "R-word"! Talk of recession is out there, and it will be hard to escape over the next couple years. Yes, there may be a recession, but let's note that not all recessions are created equal. When investors in 2022 hear the word recession, they are transported back to 2008 and "the Great Recession." Let us remember that this was the worst economic event since the 1930s, and let's keep perspective of how likely something that disruptive is to happen now.

Compared to the lead up to the great recession, consumers are in a better position, and their spending makes up the majority of gross domestic product (GDP). Consumers have far less debt as a percentage of GDP. We have a lower unemployment rate, and wages are rising. Mortgage payments are low and often fixed for many families for the next 20+ years. The FICO scores of those in debt are higher today than 2006-2008. This should all keep the consumer spending their money.

Corporations are no slouch either, as S&P 500 earnings are still very near their peak despite rising costs of labor and goods. There are also safety measures that have been enacted by the government to lessen the risk that a financial crisis like 2008 happens again. Yes, there will be a recession; there will always be one eventually. However, there are certainly a few reasons to believe that ***if*** there is a recession next year, it would not be as destructive as the "Great Recession."

We know that this has been a difficult year for investors, and we do not want to dismiss the pain and stress you are feeling. We know you are going to have emotions in extreme times, but let us help make the logical decisions moving forward. We can review your asset allocation from a holistic perspective, including your cash in your bank and your investments elsewhere to ensure they're all working together toward your financial goals. Positivity has historically paid off in the American stock market eventually, but with logical decisions and sound investment structures, we can help stack the odds in your favor.

Past performance is not guarantee of future results. The Standard & Poor's 500 Index is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market. Indices are unmanaged and are not available for direct Investment.

Noah's Corner

Cybersecurity Reminder!

Doesn't it seem like we have written about this before? It's because we have! We wrote about it last year. Cybersecurity is ***that*** important! Every year, millions of people become victims and millions of dollars are stolen.

Most of you are probably thinking "yeah, but that'll never happen to me." Don't be so sure. We know several mentally confident people that have lost thousands to scams and hacks. I liken it to how teenagers of every generation believe they are invincible. Adults of every generation believe their mental facilities are infallible, yet millions are scammed every single year. How can you protect yourself?

1) **Stay educated**. The best site to get educated is https://consumer.ftc.gov and https://consumer.ftc.gov/features/scam-alerts. I encourage all of you to spend some time on this site. Read articles about phishing scams, about scammers pretending to be loved ones, and about how some of them try to access your computer. You can also sign up for consumer alerts, and they will e-mail you when a new scam starts becoming prevalent.
2) **Implement multifactor authentication on all e-mail and financial accounts.** Multifactor authentication is when you try to log into your account and they e-mail or text you a code that you have to input before accessing that account. This helps ensure that the person that is logging into your account is actually you. Does it add an extra step to logging in? Yes, but it definitely reduces your risk. It is absolutely worth the extra step.
3) **Update passwords periodically and generate more secure passwords**. The longer the password the better, and updating them is important too. I try to update all my important passwords annually, and my passwords are 20+ characters long (probably overkill, but nonetheless illustrative). The length helps against brute force hacks from highly powerful computer networks, and updating them helps protect against when companies themselves are hacked.
4) **Call legit numbers**. If the IRS, Visa, or even Stifel calls you, then call back using officially listed numbers like the ones on our website or on the back of your card. One of the most frequent scams is when they impersonate a trusted authority and ask for a call back at a fake number. They receive your callback, extract your information, and then access your information and accounts.
5) **Stay vigilant and stay humble**. This really can happen to anybody, and it can be highly destructive to your finances and mental health. If anything looks fishy (or phishy), please reach out to us directly here at our local office. Leverage connections with us and your loved ones to help verify who is reaching out to you.

The last one may be the most important. Scammers and their techniques evolve and often stay ahead of the authorities. I can't stress enough that their methods are insidious and effective. They will mimic Geek Squad, Visa, the IRS, and even your grandchildren. Sadly, they can also take the form of a new friend that has a sudden liquidity need.

This should be a team effort. Clients, again, please reach out if something seems off. Loved ones, help your elders understand the risks and be available if they ask for help. Our team will continue to be your financial advocates and, where possible, act as a barrier between your assets and malefactors. Your trust in us is deeply felt and greatly appreciated.

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