Insight Newsletter

SECOND QUARTER 2022

Litman Gregory

WEALTH MANAGEMENT

What's Inside

Investment Commentary

Market Recap

It's been a rough first half of the year, with equity markets down more than 20% by the end of June (although the equity markets had a strong July) and "low-risk" bond markets registering low double-digit losses. Over the past few months, the economic backdrop has worsened with sustained high inflation and slowing growth, as the Federal Reserve and other global central banks aggressively tighten monetary policy. Exogenous shocks — the Russian war on Ukraine and China's zero-COVID lockdowns — continue to further disrupt the global economy and financial markets.

The S&P 500 dropped 16.1% for the second quarter and was down 20% at June 30, after being down as much as 24% through mid-June. For non-U.S. stocks, the sharp appreciation of the U.S. dollar pushed less-severe losses in local currency terms into the same zip code as domestic stocks for U.S. dollar-based investors. Developed international markets (MSCI EAFE Index) down 14.5% for the quarter and 19.6% YTD. Emerging Market (MSCI Emerging Markets Index) stocks held up a bit better, dropping 11.4% for the quarter, and down 17.6% YTD.

Core investment-grade bonds were pummeled again in the second quarter, with the benchmark Bloomberg U.S. Aggregate Bond Index (the "Agg") dropping 4.7%. This puts the "safe-haven" Agg down an incredible 10.3% for the year to date — its worst first-half ever. In other segments of the fixed-income markets, the U.S. high-yield bond index fell 9.9% and floating rate loans dropped 4.5% for the quarter.

As we have long been pointing out, core bonds are not low-risk or defensive assets in an inflationary (rising interest rate) environment. Taken together with the equity bear market, this is by far the worst first-half performance for a traditional "60/40" balanced portfolio (60% S&P 500 Index/40% Aggregate Bond Index) in modern history, down 16.1%. The previous worst first half was 1962, down 12%.

Investment Outlook and Portfolio Positioning

In response to disappointing May inflation data, the Fed turned even more hawkish, hiking the federal funds rate a larger-than-expected 75 basis points. Tighter financial conditions in turn depress consumer and business spending, reducing aggregate demand in the economy. Lower demand (lower GDP growth) should reduce overall price pressures and hence inflation. That's the Fed's playbook and toolkit.

The ideal outcome would be the elusive "soft landing," in which inflation is subdued without causing a recession. But the simple economic cause-and-effect influenced by the Fed's toolkit assumes the supply side of the economy remains steady. However, this has not been the case due to (1) the Russia/Ukraine war's impact on energy and agricultural commodities, and (2) COVID-related supply chain disruptions. We expect (hope) these shocks will recede with time. But the Fed can't do anything about them. BCA's U.S. investment strategist, Doug Peta put it well: "Soft landings are extremely elusive. It is fiendishly difficult to fine-tune a complex multi-faceted economy with central bankers' blunt tools."

Balancing these and many other data points, we expect continued and potentially sharp deceleration in economic growth driven by rapidly tightening monetary policy in response to sustained high inflation. A recession is a reasonable conservative assumption but not a certainty.

Our best guess at this point is that if the U.S. economy does fall into a recession, it is likely to be a more "normal" type of cyclical recession rather than like the 2008-09 financial crisis, the 2000-2002 dotcom bubble bust, or the 2020 COVID recession.

Given the sharp stock and bond market declines we've already experienced this year, this leads us to a relatively positive medium-term (five-year) outlook for financial markets and asset class returns. And if U.S. stocks drop further this year – for example, due to increasing recession fears – we would add incrementally more to our portfolio allocations if return expectations become sufficiently more attractive

Meanwhile, our tactical views and positioning on international and emerging market ('EM') stocks have not changed. Our base case five-year expected returns for EM and developed international stocks are in the low double digits, supported by low starting valuations and cyclically depressed earnings. This offers a margin of safety for investors, as a lot of bad news and negative sentiment is already priced into these markets – more so than for the S&P 500 in our view. Things don't have to be great to generate strong returns from here; they just need to get better from currently depressed levels (and we don't expect a pandemic and war to be permanent).

In terms of our fixed-income positioning in our balanced portfolios, we have maintained our significant underweight to traditional core bonds, reflecting our concerns about rising interest-rates and very low starting yields.

Though our fixed-income exposure, which in aggregate has less sensitivity to rising interest rates, has had better relative performance as rates have shot higher, they have not been immune to the recent broad fixed-income price declines. They also carry more credit risk than the Agg. As such, in our more conservative portfolios we still retain meaningful core bond exposure for their traditional role as recession/dis-inflation protection.

A key part of our fixed-income diversification has been our allocation to "Alternatives., which we define broadly as strategies that have different risk and return drivers than traditional stock and bond investments." We believe well-managed alternative strategies with reasonable fees can add beneficial diversification and improve risk-adjusted returns as part of traditional stock/bond balanced portfolios. Given the current macro risks and market backdrop, we think Alternatives are especially valuable.

Portfolio diversification into these "non-traditional" asset classes can be particularly valuable in an inflationary environment as we've seen this year. Trend-following managed futures strategies again led the way posting double-digit positive returns. It's also worth noting, active managed futures funds (generally) have outperformed both global stocks (MSCI ACWI) and bonds (the Agg) by wide margins over the past three and five years.

Closing Thoughts

We aren't in the business of making short-term predictions, but nonetheless believe it is prudent to be prepared for more downside for the stock market over the next several months or quarters. Declines thus far have been driven by valuations coming down even as earnings have risen slightly. But we expect to see earnings impacted at some point and this could drive further shorter-term market declines. If so, we are prepared to add incrementally to U.S. stocks at lower prices and higher expected returns.

On the other hand, if the economy avoids recession (for now) and the markets rebound, we are well-positioned to benefit with our full allocation to equities and large allocation to actively managed credit-oriented fixed income relative to core bonds.

Our balanced portfolios remain positioned with (1) a small overweight to global equities; (2) a large position in flexible, actively managed, credit-oriented fixed-income funds; (3) core positions in alternative strategies; and (4) a large underweight to core bonds (relative to a traditional 60/40 stock/bond benchmark).

While tilting towards our highest-conviction tactical views, our portfolios remain strategically balanced and well-diversified across multiple global asset classes, investment strategies, equity styles and risk-factor exposures.

As always, we thank you for your trust and welcome any questions you may have.

—Litman Gregory Investment Team (7/5/22)

Living in a Higher Inflation World

The return of high inflation is now a dominant theme in the financial media, and for good reason: it upends a decades-long regime in which mutually reinforcing low inflation and low interest rates drove up valuations on riskier assets like stocks, while the cost of most goods and services remained relatively affordable.

The sharp and so far, sustained spike in inflation that began to surface in 2021 has had significant impact on the global economy. In response, the Federal Reserve Bank (the Fed) and central banks globally have raised interest rates sharply (to slow consumer and business spending) as goods and services became more expensive, causing both stocks and bonds to fall sharply. The chance of a recession in the near term is significant, and over the longer term we face the very likely prospect of living with higher inflation than what we've grown used to.

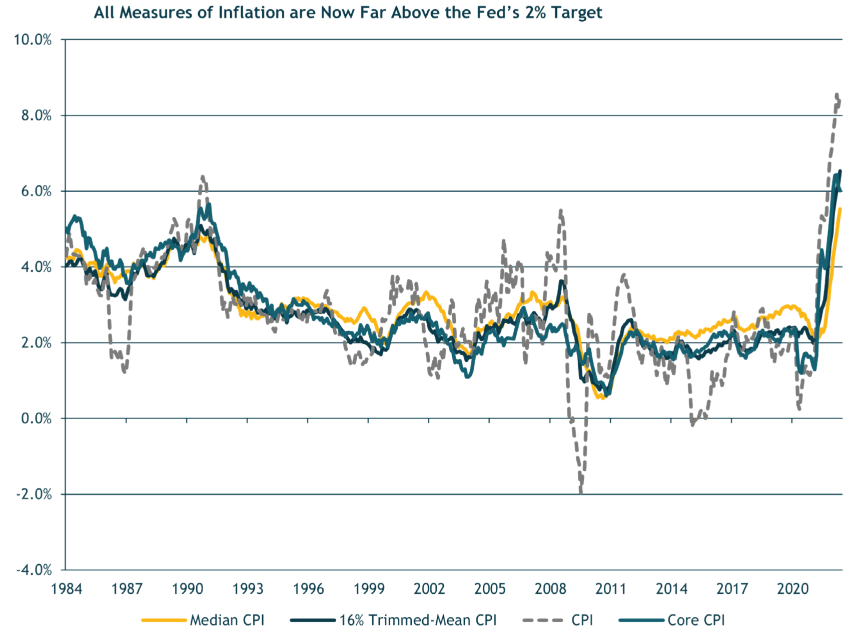
Given the reality that at least some of the recent inflation is not likely to prove transitory, as many had hoped early on, we have put together a more expansive piece on inflation that addresses the macroeconomics around the causes, outlook and investment impact of higher inflation and then digs into the microeconomics in terms of its impact on individual financial lives including around saving, investing and achieving financial goals.

How the Inflation Fire Was Lit and What the Fed Is Doing to Put it Out

The initial drivers of higher inflation were global supply chain disruptions caused by the pandemic. There were also challenges in the labor market as a shortage of willing workers drove wages higher. A big concern now is the prospect of a wage-price spiral in which higher prices and higher wages are mutually reinforcing; this can be difficult to extinguish once lit, as we saw in the latter 1970s.

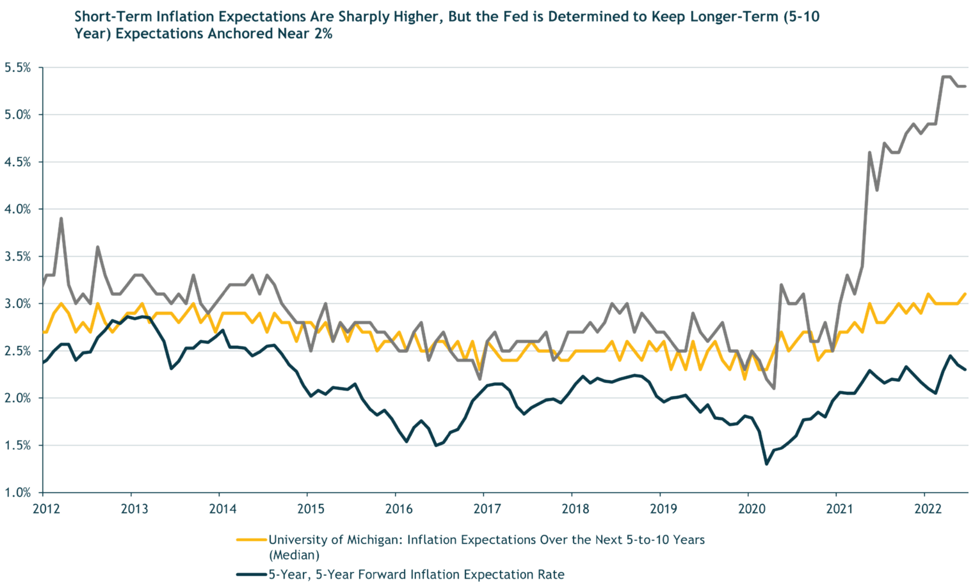
Most investors (ourselves included) expected that as the pandemic receded, supply chains and the labor market would normalize over time and bring inflation back toward benign levels. But when Russia invaded Ukraine, it was another global shock that drove energy and food prices higher (not to mention fear and uncertainty).

As inflation climbed to alarming levels the Fed has committed to act as aggressively as necessary to bring it back under control – a process that is now underway. Their basic toolkit involves raising rates to suppress economic activity, with the resulting lower demand leading to lower prices. However, the problem is that this simple cause and effect assumes the supply side of the economy remains steady. This is not the case due to the pandemic-driven supply chain disruptions and the Russia/Ukraine war's impact on energy and agricultural commodities. We all hope and expect that over time these shocks will dissipate, but the Fed can't do anything about them, which makes it more difficult to engineer a slowdown of appropriate (but not excessive) magnitude, often referred to as a "soft landing."



Source: Federal Reserve Bank of Cleveland and U.S. Bureau of Labor Statistics. Data as of 6/27/2022.

At its June 15 Federal Open Market Committee (FOMC) meeting, the Fed hiked the federal funds rate a larger-than-expected 0.75%, to a range of 1.50%-1.75%. The Fed committee members also sharply raised their median forecast for the year-end fed funds rate to 3.4% (from a 1.9% forecast at their March meeting). At the July 27 FOMC meeting, the Fed again raised rates by 0.75%, to a range of 2.25%-2.50%. The market currently expects another 100bps (1.00%) of rate hikes over the remaining three FOMC meetings this year. This would put the federal funds rate into a restrictive zone for the economy, i.e., well above the Fed's 2.5% estimate of the "neutral" long-run fed funds rate.



Source: Federal Reserve Bank of St. Louis and University of Michigan. Data as of 6/27/2022.

The FOMC members also sharply downgraded their median forecasts for U.S. real GDP growth to a below-trend 1.7% for both 2022 and 2023, reflecting their hope for a soft landing but not recession. An economic growth slowdown in the U.S. (and abroad) is already underway and we think the chance of a recession over the next 6-12 months is now meaningful, though the magnitude is up for debate.

Fed Chair Jerome Powell has said the Fed wants to see "a series of declining monthly readings for inflation" as "clear and convincing evidence that inflation is coming down" before "we can consider moving at a slower pace." He also again emphasized the Fed's focus on longer-term (5-to-10 year) inflation expectations, saying "We're absolutely determined to keep them anchored at 2%."

How Inflation Affects the Investment Landscape

Recessions are part of the normal economic cycle, and our investment success doesn't depend on predicting them – thankfully. Whether the Fed manages a soft landing or blows out a tire doesn't make that much difference over the longer term; nor does the date at which the economy bottoms and begins the next upswing. We already know that during cyclical downturns investors in riskier (but higher-returning) assets, like stocks, anticipate a slowdown in corporate earnings and cause prices to drop in advance– as we've seen this year – resulting in higher return expectations looking forward as the next cycle begins.

In the case of bonds, 2022 to date has been the worst stretch in many decades as rising rates have pushed bond prices lower. We can expect continued declines, though likely less severe than we've seen, until the Fed eases off the brakes, but once it does the same higher rates that drove bond prices lower also shortens their recovery period.

Inflation, the catalyst for all these short-term investment fireworks, will eventually respond to the Fed's efforts (and any improvement in the supply side factors beyond the Fed's control) and already we are seeing signs of possible moderation in inflation reports. The key for longer term planning is to consider where we are left when all this dust settles, and the best clue is the Fed's long-term target of 2%.

Getting back toward that target level of inflation will take some time and could cause some pain. Our belief is that we are likely to see inflation settle a bit north of that – perhaps in the 3% range – given the magnitude of the spike so far and that some of the drivers may remain outside their control. Inflation of 3% is historically average, but it's also well above what we've seen for more than a decade and warrants revisiting and updating some of core investing and financial planning strategies, which we'll cover next.

How Inflation Informs Our Investment Views

Given the strong tie to interest rates, the impact of inflation on bonds is more significant and direct. We have long been unhappy with the ultra-low yields for high-quality "core" bonds as represented by the Bloomberg U.S. Aggregate Bond Index. The problems, as we've written often in our commentaries, are less downside protection (since rates have less room to fall, and prices less room to rise), poor expected returns (given very low yields), and vulnerability to rising rates (which drives bond prices lower).

As a result, we've long held large allocations away from core bonds, in favor of flexible fixed-income strategies with higher yields and less sensitivity to interest rates, and alternative strategies with low correlation to core bonds. We have also moved more into private alternatives, such as direct real estate, (funded in the portfolio through a reduction in both stocks and bonds). This is an area we expect to perform well in an inflationary environment as rents and leases can adjust upward with inflation.

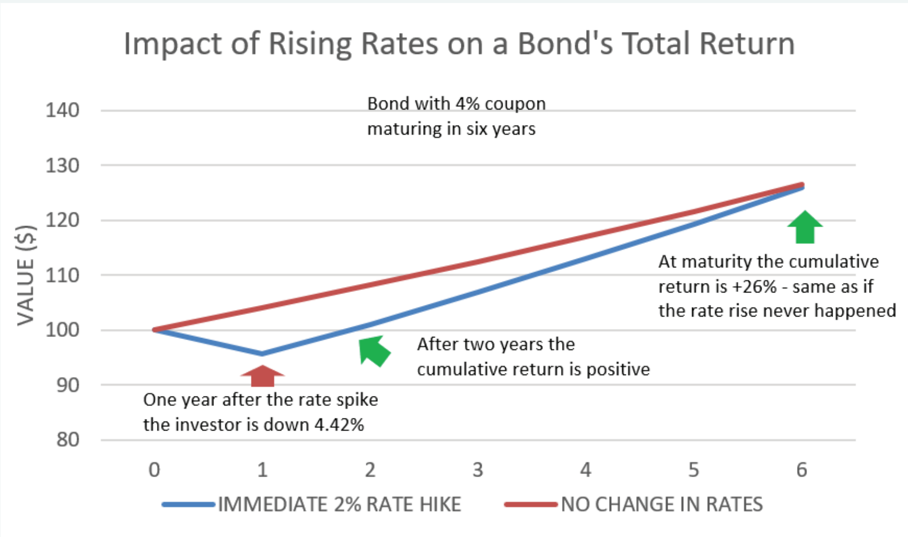
Overall, our allocation away from core bonds diversifies our fixed-income position while offering better long-term returns in our view, while still providing the downside protection we want for portfolios that include stocks.

WHY OWN ANY CORE BONDS?

One might ask why we want to own any core bonds, and the answer is that core bonds (a mix of high-quality, intermediate-term government and corporate bonds) do perform well and provide valuable diversification in the event of a major global shock that leads to a "flight to safety." As the last few years have reminded us, we can never rule out unforeseeable shocks and so we continue to own core bonds, even while our actual allocation has been below the target for some time.

Understanding Bond Math During Downturns

Many investors have not experienced significant losses in the bond portion of their portfolios in their investment lifetimes. While seeing declines in what was intended to be the "safe" portion of your portfolio can be jarring, it is helpful to understand bond market math and consider the psychology versus reality of bond price declines.



A key point is that unless the corporation or government that issued the bond defaults, a bond with a par value of $100 and an interest rate of 3% will definitely return $100 at maturity, and definitely earn 3% interest along the way, even if the value of the bond price temporarily declines because rates went up. (Yes, credit/default risk matters but it's a separate part of the equation and not really the driver of concern for everyday investors when rising rates push bond prices down.)

What should you make of that? One way to think about why existing bond prices go down when prevailing rates go up is that the "missing" interest of the previously issued lower-coupon 3% bond versus a new issue yielding 4% is "front-loaded" into the price of the 3% bond (meaning the price of the 3% bond drops to make up for the "missing" interest). An investor holding the 3% bond to maturity won't actually experience a loss, they will just get less yield along the way and that lower yield is what reduces the current value of the bond.

In the case of bond mutual funds, where lots of bonds are bought and sold along the way, the same thing effectively happens even if there are a lot more moving parts as individual issues are bought and sold within the portfolio. In effect, higher bond yields provide opportunities to invest in higher-yielding bonds, setting a fund up from higher future returns.

So when rates rise and bond prices fall, the long-term return isn't as good as it would have been, but it's probably not as bad in the shorter term as you think it is when reading a statement.

Another step we took that acknowledges the likelihood of a higher inflation environment over the next decade is the reconfiguration of the "strategic" allocations that serve as our default starting point for building and managing client models. While we made these modifications before the recent surge in inflation, they nonetheless include several dedicated allocations that we expect(ed) to perform better in a higher-inflation world. These include allocations to Treasury Inflation Protected Securities (TIPS), which increase in value as inflation increases, and a Short-Term Corporate Bond index ETF, which by virtue of its shorter maturity and duration is less impacted by rising interest rates that accompany inflation. Additionally, we added a dedicated allocation to Managed Futures, which we believed would benefit from a sustained inflationary trend (which has been the case) but that can also do well in other environments as long as there are trends up or down in global equity, interest rate, commodity, and currency markets.

Turning to stocks, inflation is more an indirect influence on our equity allocations in that the rising interest rates it has triggered have in turn led to significant market declines across the globe that may or may not create tactical opportunities as relative valuations shift between U.S. and foreign stocks. We are always on the lookout for tactical opportunities, but our focus in this article is on the longer-term impact of a higher-inflation regime. So our question becomes whether modestly (but not hugely) higher long-term inflation is likely to impact stocks over the long term in ways not yet recognized (and priced in) by the market. And the short answer: We think not.

It is true that higher inflation and coincident higher interest rates affect companies differently, both in terms of revenues/earnings and in terms of how investors value their stock. Generally speaking, higher rates favor stodgier value stocks over high flying growth stocks because the valuation of growing companies is driven by future earnings. When those earnings are discounted back to present value at a higher interest rate, the present value is lower. Companies more reliant on increasingly costly raw materials may suffer relative to those that are not. Companies carrying higher debt loads are more apt to be hurt by higher borrowing costs.

At the overall asset class level, stocks can be considered a hedge against inflation in that corporate revenues and earnings are expected to grow with inflation. That's not the same as real growth but as a baseline it's better than the erosion of value that inflation can wreak elsewhere – such as with negative real yields on savings instruments.

The conclusion is that we want to continue to own stocks and the long-term target allocations in our portfolios are not changed by our expectation for modestly higher inflation over the next decade versus the last. At a tactical level within our equity allocations, we acknowledge the differing impact of inflation on different equity asset classes and industries, but we don't currently (and think it's unlikely that we will) see opportunities driven by higher inflation that the market does not, nor do we see a compelling "strategic" case for making long-term shifts within our equity allocations based on the expectation of sustained higher inflation.

How Inflation Impacts Financial Planning

Given the level of concern around the trajectory of inflation, there is value in considering how it impacts all areas of one's financial life and planning. Since it's over the long-term that inflation is more impactful, for these scenarios we consider the impact of entering a 3% inflation world, after having recently experienced many years of sub-2% inflation.

Higher yields are good for savers but real return is what matters

Savings and Emergency Funds

The positive news for savers is that their safe, liquid savings dollars can be expected to earn better yields. The caveat is that what matters is "real return," meaning the net return after subtracting inflation. When inflation is eroding the value of those dollars by more than even the goosed up yields they are now earning, then you are losing ground. The risk of inflation increasing by more than risk-free yields is compounded by the ultra-low yields going into this period. Almost every risk-free savings type instrument was earning close to zero before inflation began to surge. But inflation doesn't suffer from inertia and anchoring – it rises as quickly as the underlying economics demand – while savings rates can be slower to respond. Therefore, it becomes especially important to be vigilant in obtaining highly competitive savings rates and moving your money accordingly if warranted

Home Purchases and Mortgage Decisions

Higher mortgage rates reduce affordability in the near term

While we're not going to try to forecast home prices, we know that higher rates reduce affordability. How this plays out in different segments and different regions of the housing market can vary widely. Generally, the initial impact of higher rates is to pull home prices down while over the longer term the impact of inflation pushes them higher. Meanwhile, we think it's a reasonable expectation that the surge in inflation we've seen to date won't persist for the long term. As we've said, we expect longer-term inflation more like 3% versus the high single digits reached recently.

The question for a nearer-term buyer who will be using a mortgage is the degree to which the housing market in their area will cool, thereby improving affordability, versus the degree to which increasing mortgage rates will reduce the level of house they can buy with the same dollars. We can frame the issue but trying to give specific advice is a disservice given all the variables (including current cost of housing, savings rates toward the down payment, etc.).

The question for a long-term borrower is whether their mortgage interest rate is reasonable compared to their expected return on the assets (that they would otherwise use toward the home purchase). Only months ago a 30-year fixed mortgage could potentially come with less than a 3% interest rate, but today that loan will likely be quoted with over 5% interest. Working through scenarios with a mortgage broker and your advisor is important, as the comparison of interest charged to potential return has narrowed and become more nuanced. Further, it's important to understand up front whether lenders might quote a lower rate for a mortgage at the initial purchase, vs. a later request for a cash out refinance loan. Knowing your current and future options, and what flexibility you can build in, will help make a better decision today.

Funding College Expenses

In planning ahead for college costs, the broad inflation number doesn't matter as much as tuition inflation, and this has far exceeded the traditional CPI numbers. Other costs of school may be more connected to CPI such as food, travel, housing, etc. All of these costs need to be considered in the projections for the cost of sending a student to college, and in turn the savings plan for this goal.

Living Expenses in Retirement

A common tendency in planning for living expenses in retirement is to ignore the impact of inflation and underestimate the damage it can do to supporting your future lifestyle. For example, the spending value of $1,000 after ten years at a 2% inflation rate is $817, and only $665 at a 4% inflation rate. Higher inflation demands consideration of seeking higher investment returns and/or saving at a higher rate in order to fund the same lifestyle in the future. It's pernicious but manageable. One positive is that the higher interest rates that accompany higher inflation allow for higher returns, with more of the work done from the bond side of the portfolio versus higher risk stocks which have seen valuations driven up by low rates.

Planning projections should assess how various areas of spending are impacting by individual components of inflation

With an appreciation for the damage inflation can do, financial planning projections should include an assessment of the potential impact of rising costs on the different areas of a person's spending, and how those areas are impacted by the components of inflation, such as housing, food, energy, etc. The ability to fine tune assumptions to individual circumstances gives a clearer picture of where things stand and if any adjustments need to be made.

Closing thoughts

The amount of time we spend considering and discussing the impact of higher inflation should not be misinterpreted as reflecting the magnitude of impact or level of concern warranted.

Our outlook and expectations remain that inflation will normalize at a level higher than the years preceding this spike but return to a rate more in line with long term inflation: something in the range of 3%. The risk of stagflation – in which we experience higher inflation along with slow growth – is real but not likely to persist over longer time frames, as unpredictable and uncontrollable shocks like COVID19 and the Ukraine war subside we expect those contributors to inflation to subside as well.

We have consistently used inflation assumptions in our work with clients that are in line with long-term historical averages, and so they have been higher than actual inflation for many years preceding the recent spike. This means smaller and less disruptive changes to assumptions and actions will be needed now to take into account the changed world we find ourselves in.

That said, it is nonetheless true that things have changed. As always, our goal with every client is to work together to take into account both external changes like inflation and investment returns along with any individual changes to their own circumstances. The goal is to create clarity on where a client stands in terms of reaching their goals, and to make needed adjustments early so that time is their ally.

As always, we encourage you to reach out to your advisor and talk through these issues to address any questions you may have. We appreciate the trust you place in us to guide decisions that help you reach your financial goals.

Actions to Take in Uncertain Times

During a volatile market environment like we find ourselves in today, or the steep market pullback at the onset of the pandemic in 2020, we know many investors feel a powerful drive to take some kind of action in response. Most commonly when markets are down sharply the action desired is to sell stocks as a way to reduce risk. While taking action creates a sense of control that can make people feel better in the moment, most often in these situations it's exactly the wrong thing to do at that time. Our Chief Investment Officer, Jeremy DeGroot said it well in an investment commentary:

As a long-term investor, trying to time market tops and bottoms is a fool's errand. The evidence is overwhelming that most investors diminish their long-term returns trying to do so. They are more likely to chase the market up and down, and get whipsawed, buying high and selling low.

As we wrote back in 2020, market timing, while tempting, involves getting two nearly impossible decisions right: when to sell and when to get back in. Below is some updated information about the impact of making reactionary investment decisions.

Missing the Best Days

This table shows the 15 best days for the S&P 500. Surprisingly, all of them occurred within bear markets; not bull markets as you might expect. That is, the big upturns in the stock market can happen during times when it's hardest to remain invested or tempting to get out of the market and wait for better days. Looking at these dates, you'll find the who's who of dark times for the stock market: the 2008 financial crisis, the dot-com crash, the Black Monday crash of 1987, and the pandemic-driven market decline in 2020.

By trying to miss the worst days, investors are very likely to miss the best days. In studies of behavioral finance, "recency bias" suggests that someone's most recent experience has the greatest influence on their decisions. As such, investors tend to sell after a meaningful market selloff and buy after a market rally.

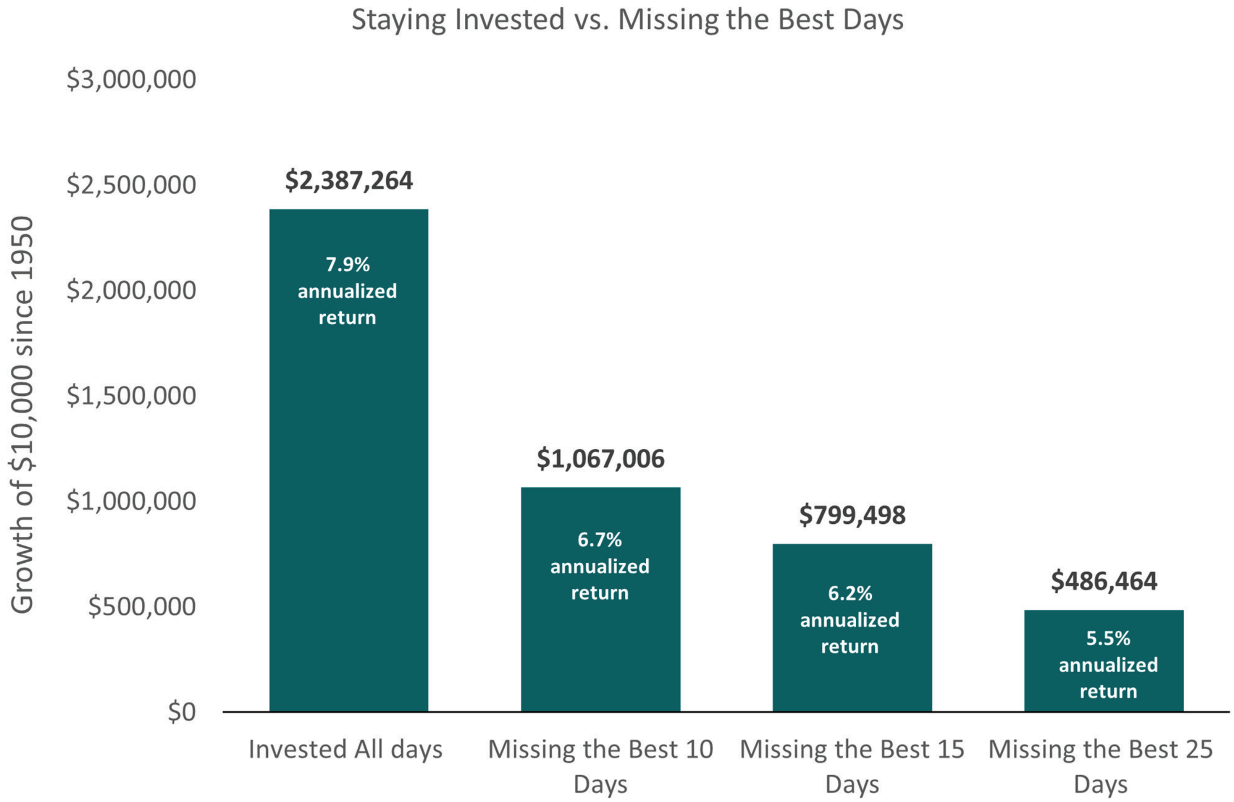
Missing just the 10 best days (out of more than 17,500 trading days since 1950) has a huge long-term effect on a portfolio. For example, an investor who invested $10,000 in the S&P 500 in 1950 would have gained 7.9% annualized and finished with a portfolio value of more than $2.38 million (as of 5/10/2022) if they had remained fully invested (not including dividends). The final portfolio value for an investor that missed the 10 best days is well below half that amount at roughly $1.07 million.

Now it is unlikely an investor will only miss the best days if they sell in an attempt to time the market. They might also be able to miss some of the historically bad days. However, the cautionary tale of attempting

15 Best Days Since 1950

Day	S&P 500 % Gain
10/13/2008	11.6%
10/28/2008	10.8%
3/24/2020	9.4%
3/13/2020	9.3%
10/21/1987	9.1%
3/23/2009	7.1%
4/6/2020	7.0%
11/13/2008	6.9%
11/24/2008	6.5%
3/10/2009	6.4%
11/21/2008	6.3%
3/26/2020	6.2%
3/17/2020	6.0%
7/24/2002	5.7%
9/30/2008	5.4%

Source: Morningstar Direct. Note: Returns shown are price returns; dividends not included. Data as of 05/10/2022.



Source: Morningstar Direct: Price returns, excludes dividends. Data as of 5/10/2022.

to time the market is the same: There can be a huge cost to pay if the market swings to the upside while you're on the sidelines. It would take exceptional timing skills to get in and out of the market perfectly, particularly since it needs to be done in short order given the market's best and worst days tend to cluster close to one another. Staying the course is the best plan of action during periods of severe market stress. There is an old investing adage: "Time in the market beats timing the market."

Owning stocks on historically bad days can be unsettling but outcomes over the next year tend to be favorable. Investment industry giant BlackRock recently published a table showing one-year returns following the worst days for the S&P 500. The average one-year return after a historically bad day has been 30.3%. And there has only been one instance of a negative return.

Remain Invested, Stay Disciplined, and Seek Actionable Opportunities

This period of global unrest and economic uncertainty is still unfolding, and the drive to act can be difficult to resist. In our role as wealth advisor to our clients, we take seriously our responsibility to help guide thoughtful decision making and wise action. Today more than ever, we want to focus on what we can control and not let ourselves be distracted by things we can't. In discussions with clients, we have

15 Worst Days Since 1950

Day	S&P 500 % Loss	Return One-Year Later
10/19/1987	-20.5%	23.2%
3/16/2020	-12.0%	66.1%
3/12/2020	-9.5%	59.0%
10/15/2008	-9.0%	20.8%
12/1/2008	-8.9%	35.9%
9/29/2008	-8.8%	-4.1%
10/26/1987	-8.3%	23.6%
10/9/2008	-7.6%	17.8%
3/9/2020	-7.6%	41.1%
10/27/1997	-6.9%	21.5%
8/31/1998	-6.8%	37.9%
1/8/1988	-6.8%	15.3%
11/20/2008	-6.7%	45.0%
5/28/1962	-6.7%	26.1%
8/8/2011	-6.7%	25.3%
Average	**-8.8%**	**30.3%**

Source: Morningstar Direct. Note: Returns shown are price returns; dividends not included. Data as of 05/10/2022 found there are a number of positive steps that we can take together during this time. Below are several of the more common actions we are recommending:

- **Keep a long-term perspective.** One of the important benefits of working with us as your advisor is that we can help you manage your financial situation in a holistic way, which will enable you to stay true to your long-term investment strategy guidelines and discipline. This is true both for your existing investments as well as any new investments you plan to make over time. In that process we can help you resist the urge to sell out of equities during a downturn, only to then have to try to decide when to eventually get back in. As the charts above show, rebounds can happen quickly and the cost of missing them is significant over time. Instead, our goal is to help you stay invested at a reasonable allocation level which is the only way to ensure participating in the recovery in prices that history shows is critical to achieving long-term success. What's more, we can prudently and incrementally add to stocks when their prices become more attractive and their future expected returns are better. With this strategy we can potentially take advantage of a volatile market environment and by adding to investments at prices likely to generate far better long-term returns that what was possible before this period began. This is one of the best ways for us to support you reaching your financial goals in the years to come.

- **Confirm an appropriate "emergency fund".** One of the best strategies to help you sleep at night, even during market volatility, is to ensure the funds you need for spending in the near future are not at the mercy of short-term market movements. We work with clients to make sure they have an appropriate amount of cash or low-volatility investments set aside to fund either spending needs or just as an emergency fund—keeping this money steady when the near future is unknown. This is something we can revisit with you if it is an area of concern.

- **Revisit financial planning and/or cash flow projections.** By reviewing how your resources will support cash flow needs into the future, we can help ensure that your spending should be sustainable. And if making changes to expenses in the near term would be advantageous, that could be a positive step to take during a difficult time. Reviewing scenarios for how the future may play out can be very helpful in creating the appropriate context for making decisions today.

- **Use market declines as an opportunity to harvest tax losses.** A downturn in prices isn't what we hope for when investing. But one way to make lemonade out of those lemons is to sell securities that are down from their purchase price. By "harvesting" those realized losses they can be used to offset taxable realized gains. This tax-saving strategy can be helpful today and possibly for many years into the future, since realized capital losses can be carried forward on your tax return. As we harvest losses, the proceeds from those sales are used to purchase investments in a similar category, so your portfolio allocation and opportunity to catch an upswing stay intact.

- **Consider a Roth IRA conversion.** Roth conversions offer the opportunity to transition investments from a traditional tax-deferred IRA account to a Roth IRA, where they will benefit from tax-free growth going forward. The conversion will be taxable, but a market downturn could be a good time to make this transition with assets that have fallen in price, as their subsequent growth when the market recovers will be in the tax-free Roth IRA.

- **Take breaks from the 24/7 news cycle.** We encourage you to take time away from the news and daily updates. The constant news feed is focused on getting attention and benefits advertisers, not investors. It can be overwhelming to the viewer, and that can lead to unnecessary stress and anxiety. It's important to stay both physically and mentally healthy so you can make the best decisions for your overall benefit.

If you would like to review any of these or other actions that could benefit your situation, please do not hesitate to reach out to your Litman Gregory advisor for a more thorough and personal discussion.

—Litman Gregory Investment Team (5/12/22)

Business Updates

We Walked From Larkspur to Paris to Celebrate the Anniversary of Joining iM Global Partner

Our employees completed a collective **13.2 million steps in only 23 days** *(three weeks ahead of schedule!)* as we participated in a firm-wide walking challenge to commemorate the one-year anniversary of Litman Gregory joining iM Global Partner.

Given our focus on creating opportunities for connection across our global employee base, we wanted to celebrate our expanded footprint through a team challenge. To make this happen, we joined with Walk With You (W2Y) to organize a virtual walk from Larkspur, California all the way to Paris, France via each of our office locations around the world (8 countries and 13 offices in total): Larkspur, Palo Alto, Walnut Creek, Stockton, El Segundo, Miami, London, Luxembourg, Munich, Zurich, Milan, Madrid, and Paris.

To spur on our staff in this summer walking challenge, we undertook the route in teams, each comprising colleagues from across the firm and globe. For some, this was a chance to connect outside of work with people we know, and for others a chance to partner with colleagues from other offices and countries. Ultimately, we were all working together to reach our goal!

The eventual benefit was charitable donations made with every million steps we achieved. In addition, we were delighted to provide support for entrepreneurial businesses by partnering with the company **Walk With You**.

Our entire firm was proud of the outcome of this group challenge and enjoyed the opportunity to partner with our colleagues from different offices while raising money for charity. The teamwork that this encouraged will clearly be a benefit to our employees and many clients around the world!

Wealth Management Team Updates

We are committed to providing a quality team of experienced professionals to support our clients' financial success in the decades and generations to come. Below, we share news of the recent advancements within the Litman Gregory Wealth Management team.

Wahidah Aziz Joins Litman Gregory Wealth Management as Associate—Client Services

Wahidah joined the team in July 2022 as a Client Service Associate. Her role at Litman Gregory focuses on providing personalized service to clients and ensuring that client-related goals and milestones are delivered efficiently and effectively. Wahidah is also currently taking courses through New York University (NYU) to fulfill the educational requirements to sit for the CFP® exam. Please join us in welcoming Wahidah as the newest member of our team.

Lesley Cannan Earns Two New Designations: CPWA® and AIF®

Litman Gregory Wealth Management is pleased to announce that Lesley Cannan, CFP®, recently earned the Certified Private Wealth Advisor® (CPWA®) certification awarded by Investment & Wealth Institute, and the Accredited Investment Fiduciary® (AIF®) certification granted by fi360, formerly known as the Center for Fiduciary Studies. The CPWA® designation is an advanced professional certification for advisors who provide a range of specialized skills required to meet the needs of high-net-worth clients. The CPWA® curriculum includes coursework in sophisticated wealth management strategies in addition to completing an executive education program with Yale School of Management followed by a comprehensive examination. The AIF® designation certifies that an advisor has thorough knowledge of fiduciary standards of care and their application to the investment management process. The AIF® training focuses on knowing and complying with all legal and regulatory mandates concerning an advisor's fiduciary responsibilities and includes completing a capstone program, as well as passing a final exam. To maintain these certifications on-going experience, ethical adherence, and continuing education is required.

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