MONTAG Viewpoints

SECOND QUARTER 2022

"Dad doesn't need summer off. He plays at work all day with something called mutual funs!"

WELCOME

We've reached the mid-point of 2022, and markets continue to react to so many of the changes in our global economy. Inflation remains a concern, the FED is super-busy, and a potential recession dominates the headlines. On a sunnier note, our nation just celebrated its 246th birthday.

Here at MONTAG, another quarter end brings a long list of tasks to perform as we continue the work we do for clients – established, new and those in-between. We also have an important anniversary, our 40th, to celebrate later in the year. And if that isn't enough, MONTAG will move its offices at year-end. More on this in coming months.

With all that in mind, we hope you enjoy our latest edition of *Viewpoints*!

Inside This Issue

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MARKET OBSERVATIONS — *Chris Guinther, Senior Investment Strategist*

Let's begin by noting the turbulent 2022 second quarter's market numbers through June 30, and year to date here at mid-year, all of which were sharply negative:

	Q2 2022	2022 YTD
S&P 500	–16.1%	–20.0%
DJIA	–10.8%	–14.4%
NASDAQ	–22.3%	–29.2%

Second Quarter Summary

Our concerns about the economy and our outlook for stocks is still mostly negative and unchanged. Our forward-looking indicators have not improved the past 3 months and we don't think this is a good time to bet big one way or the other on any part of the markets. When conditions are unprecedented like now, we recommend diversifying more than usual and staying down the middle of the road. Positively, there are signs inflation may decelerate in the 2nd half of the year which could improve the outlook for interest rates, asset valuations and eventually corporate earnings.

Equity markets fell roughly 20% in the first half of the year, that's more than any 1st half in the past 40 years and generally reflects the risks to corporate profits in the next 12 months. The FED may have saved the economy from tanking when governments shut down businesses through the pandemic, but now we're faced with the damage that arises when governments interfere with free markets. Too much money out there chasing too few goods for a couple years has led to 40-year highs in inflation and it's forcing the FED to raise rates to squash spending. Investors are faced with assessing the outlook for global growth, inflation, and monetary policy and most if not all of our indicators of late are trending poorly. The root cause of the uncertainty (volatility) remains the outlook for inflation, and its resulting impact on monetary policy (liquidity) and growth. Central bank policy is frequently described as working with a lag and major central banks are still early in their hiking campaigns so we're thinking this understates its impact. Financial conditions – a broad measure including interest rates, credit spreads, equity valuations and

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exchange rates have tightened much more than average relative to the prior five rate hike cycles so risks to asset prices are high in our minds.

Unfortunately, we're expecting disappointing growth over the next year – this joins our cautious outlook on the other top 2 economies in the world, Europe and China, as the impact of tightening financial conditions takes hold globally. We have also seen the savings rate of the U.S. consumer fall to just 4.4% – the lowest level since the global financial crisis in 2008 and down from 33% at the height of the pandemic when everyone stayed home a lot. Such a drawdown in savings will likely limit growth in consumer spending over the next year, as will financial market volatility which has proven historically to put a lock on consumers' wallets. The upside to all this slowing is that it should start to reduce pressure on inflation. The problem is the markets have only seen limited evidence of this so far, as June U.S. consumer prices exceeded estimates and European inflation of 8.1% was also stubbornly high. This underpins our risk case of "Sticky Inflation", where stubbornly high inflation leads to more hawkish central bank policy and therefore another round of higher interest rates. Housing mortgage applications have already plunged so prices are being cut and the vertical supply chain that feeds into housing will surely feel the slowdown soon too. We're bracing for weak 2Q earnings reports as companies will likely forecast lower earnings for the back half of the year and into 2023. Many companies are over-inventoried, meaning liquidations are coming and the list of announced layoffs is growing.

Our base case calls for slower growth globally and with that we expect cuts to earnings expectations and stocks to struggle. We estimate much of the damage to bonds is behind us and wouldn't be surprised if interest rates have seen the highs for the year, giving us a chance to finally lock in some better yielding bonds without so much risk to loss of principal going forward. M

Chris Guinther is Senior Investment Strategist & Portfolio Manager

The drawdown in personal savings will likely limit growth in consumer spending over the next year

The information provided is for illustration purposes only. It is not, and should not be regarded as "investment advice" or as a "recommendation" regarding a course of action to be taken.

ENANTIODROMIA *(en·an·ti·o·dro·mi·a) — Ned Montag, CEO*

How Psychology Impacts Markets

The stock market's decline during the first four months of this year was the worst since 1939, and invariably, whenever the market sustains a significant spill, many investors want to know why. Current headline reasons include the War in Ukraine, Chinese COVID lockdowns and a holdover from 2021: Global Supply Chain Problems. Perhaps the most powerful reasons for investor caution are the arrival of inflation and the Federal Reserve's raising of interest rates. Wall Street hates when the Federal Reserve tightens monetary conditions; rising money-lending rates spook eager investors, who are more at ease when borrowing is getting cheap but remains controlled.

But maybe some of the explanation for the surprisingly weak 2022 market is actually a very long-established "psychological law," stemming from investor behavior itself. I am referring to "enantiodromia," a complex-sounding but in fact quite familiar experience to most people, certainly to investors. This term is thought to have been first used by the Greek philosopher Heraclitus to describe his observation that nature is always in flux: wet leads to dry, warm to cold, light to dark and so forth. The concept was amplified by psychiatrist Carl Jung. He claimed this was very much how the brain operated, with thoughts emerging iteratively to restore emotional equilibrium when powerful moods or beliefs in the conscious mind began to dominate. Jung wrote that "this characteristic phenomenon practically always occurs when an extreme, one-sided tendency dominates conscious life." In other words, if something very pleasing seems almost too good to be true, at some point the unconscious mind decides that, in fact, it might not be true. And so, confidence leads to doubt, and investors begin to withdraw some of the chips they had shoved into the center of the poker table. As more and more investors realize

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Benjamin Graham said in the short run, the market is a voting machine, requiring only money. But in the long run, the market is a weighing machine

DID YOU KNOW?

The year was 1982, and an Atlanta investment advisor named Tony Montag decided to open his own firm, "A. Montag & Associates." Which of the following was also true of 1982?

A. *The musical "Annie" opened on Broadway*

B. *A gallon of regular unleaded gas was $1.32*

C. *The Dow Jones Industrial Average was 890*

D. *Michael Jackson released the album "Thriller"*

(Answer on Page 4)

A GIFT TO YOUR FAMILY — *Larry Mendel, VP of Sales*

As we progress through life and events begin to happen, some good and some not so good, it is never too early to begin planning. These plans could be assisting with gifts, financial support, 529 Plans for education and forecasting for retirement. It is a tough thing to talk about, but now is also the time to talk about the important factors to discuss and document before someone needs to settle an estate after the loss of a loved one.

We have all felt first-hand how difficult a loss can be, but throw on top of that the many facets of settling an estate, being the executor or trustee, re-arranging the assets to move to the appropriate beneficiaries, trusts and charities and this process can quickly become overwhelming. Over the years MONTAG has written or has had outside professionals write articles with action items to help make this part of our lives organized. Even with the information laid before us, it is easy to let things slip through the cracks or we procrastinate to a later time… and then these important steps rarely get done. Once we have completed this process, on a regular basis we must revisit those documents as the best laid plans can become onerous and confusing.

So, where should we start?

First and foremost, make sure you understand all your trust and estate documents and make sure they meet your objectives. Then make sure you and your attorney have clearly articulated these thoughts to family members which will be impacted by these decisions. It is easier to interpret the document with your family and attorney while you are still in the room.

Second, ensure that your executor has the "keys to the castle" such as where to find passwords, insurance information, safe deposit boxes etc. MONTAG has a worksheet titled "Tool for Your Loved Ones" which can be used as a checklist to help with this process. This should help alleviate some of the problems down the road.

Third, make sure you have your beneficiaries designated for ALL of your accounts. When buying insurance, the agent always makes sure you have the beneficiaries listed on the policy when you buy it. They make it so easy. Assigning beneficiaries on your bank accounts, brokerage accounts, mutual funds, retirement accounts etc., are also just as easy, but many times it is left up to your own devise to make it happen. Do yourself and your family a favor and just do it. Your loved ones will appreciate this simple act of love more than you will ever know.

Your WILL directs where and how you want your assets distributed, be it in cash, creating a trust etc. It seems simple on the surface and many times can help protect your assets from creditors. Take the time to make sure your assets are handled in the manner you want them to be handled. Many times, this process can alleviate some of the estate tax burden. Already have your will created? Well done. But make sure to review your will and trust documents regularly to make sure it still portrays your current situation.

Advance Directives: Discuss this while everyone is healthy and share your thoughts with your family with respect to how you would like your end of life care to be handled. No one wants to talk about it, but it is quite the gift when you do. This will relieve stress from your family down the road, but it also relieves a lot of stress on yourself once it is handled.

A few years ago, Haley Schwartz, ESQ. and friend of our firm, wrote an article titled "Who got Mom's Pearls of Wisdom?" She discussed the "Ethical Will", which is not a legal document which directs your assets, but it shares the thoughts you might want them to know about you. This is a beautiful time to reflect about yourself and shine this reflection onto those you love and care about. "Ethical wills can be thought of as the voice of your heart, each one is as unique as the person crafting it." I have worked on it and it is a wonderful and thought-provoking exercise.

I wouldn't say this process is easy, but I do think it will bring some peace to your succession planning. Once you have addressed these items, it is time to enjoy the best of life with travel, family time and many happy life-cycle celebrations with those you have given the gift of your thoughtful planning. M

Larry Mendel is VP of Sales

> *"Once you have addressed these items, it is time to enjoy the best of life with travel, family time, and many happy life-cycle celebrations with those you have given the gift of thoughtful planning"*

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ENANTIODROMIA *continued from page 2*

that the market is no longer rising, even on good news, selling intensifies, and the rout is on. Happily, the reverse is also true, and periods of despair, called bear markets, invariably give way to periods of hope and new bull markets.

> *"We remain confident and eager to pursue new opportunities, which are always available to the patient and studious investor"*

Famed investor Benjamin Graham is famous for his observation that "in the short run, the market is a voting machine, reflecting a voter-registration test that requires only money, not intelligence or emotional stability, but in the long run, the market is a weighing machine." Put differently, in the short run, the stock market moves on the basis of "narratives," short stories investors tell themselves and each other to justify what they buy and sell in the midst of a highly uncertain world. The problem with narratives is that they can blind investors to the reality that the future and change are unpredictable.

For example, a powerful and popular narrative in the summer of 2020 was that "lockdowns will kill the economy, depress travel and therefore kill the demand for oil." Wall Street dumped the stocks of world class oil producers. Two years later, Exxon stock has tripled from its 2020 lows, Warren Buffett is buying oil stocks, and the narrative is swinging back the other way now with this view: "Russian oil, permanently sanctioned by the West, means American oil will be in perpetual demand, even at highly elevated prices." How long this new, bullish-on-oil narrative lasts remains to be seen, but it will surely not be permanent. Enantiodromia at work.

What Ben Graham meant about the market being a "weighing machine" in the long run is simply that companies will be valued in the long run by the earnings that they can achieve, not simply by bullish stories their CEOs tell crowds of securities analysts.

In that regard, investing in companies that have not yet firmly established profitability is inherently a risky undertaking. A company can have a great story but find itself unable to make money on a consistent basis; Uber and WeWork quickly come to mind. One company that eventually hit it big by eventually becoming profitable is Amazon, but it is likely very few of the earliest outside investors in Amazon were still holding the stock 10 years later.

We are uncertain of the direction of the stock market for the remainder of the year, although we are detecting signs that investors are far better prepared for bad news on earnings and the economy. So the seeds are being sown for the next move higher, although, again, we don't care to guess when or from what level. We are certain that, in the future, the market will change its mind, again and again. US investors have long become enriched by owning the stocks of companies that can weather the storms, keep compounding their sales and earnings higher, regardless of the economic climate. Famed Fidelity Magellan Fund manager Peter Lynch used to call such stocks "stalwarts," and even though they rose and fell like every other stock with the market's tides, they always managed to end up higher at the end of each economic cycle. This is the beauty of our nation's securities markets and the reason we remain confident and eager to pursue new opportunities, for there is never a ninth inning when it comes to investing, and new opportunities are always going to be available to the patient and studious investor. M

Ned Montag is CEO

DID YOU KNOW? *(from page 3)*

Answer: <u>All</u> were true of 1982!

A. Montag & Associates now does business as **MONTAG Wealth Management**. As we approach our fortieth anniversary, we're naturally nostalgic. Other notable events of 1982?

- Britain and Argentina went to war over the Falkland Islands
- Diet Coke was introduced
- USA Today made its debut
- Movies "Tootsie", "E.T." and "Gandhi" were released
- "The Color Purple" was published, written by Alice Walker
- Time Magazine named the personal computer "Man of the Year"

Source: funtrivia.com M

A PARTING THOUGHT

"At twenty years of age, the will reigns; at thirty, the wit; and at forty, the judgement."

– Benjamin Franklin

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