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## October 2022

### 4th QUARTER OUTLOOK

We are going to take a different approach to the quarterly outlook in this piece. We write every day about the trials and tribulations of the economy and the markets. We have gone over ad nauseum the reasons we are in the predicament we find ourselves in and the causes of the 2022 bear market. We have moved from a low inflation/low interest rate environment to a high inflation/higher interest rate environment. The adage that there is no other alternative to stocks for investors and savers has changed. Short term government paper now yields more than 4%. Stocks had been buoyed for years by cheap money and few alternatives. It is different now.

When a sea change takes place like the one we are experiencing in 2022 the message needs to continuously be made clear. "This is going to take time and patience is required." We have been saying all year that moving from an environment where the Fed is providing continuous accommodation to one where the Fed is withdrawing accommodation and raising interest rates is a process that is going to take some time.

For all the reasons we have talked about this year, inflation got out of control and the Fed had to change from accommodative monetary policy to restrictive monetary policy. The old adage "don't fight the Fed" works in both directions. When the Fed is actively trying to stimulate the economy don't fight them. When the Fed is actively trying to slow the economy, also don't fight them. To fight inflation the Fed is attempting to tamp down demand. That is the only avenue available to them as they have no effect on the supply side of the equation. Indeed, the Fed is trying to reduce the wealth effect by making stocks go down and making people feel less wealthy.

Knowing all of this, it is important for the investor to show patience at a time like this. Of course, it is not easy to see the value of your stock holdings fall, not to mention the value of your bond holdings fall should they be of longer duration. But moments like this occur several times in the life of an investor. If you are old enough, you may remember the dot com bubble of the late nineties. In March of 2000, a reset of stock prices began that didn't really fully play out until March of 2003. The financial crises of 2008-2009 took all of 18 months to play out, and

there was still emotional damage for years after.

The point is that these dramatic moments in market history often take time to play out. But play out they will. We don't know how long this episode that we find ourselves in today will take to unfold in its entirety, but we suspect that we will look back on it someday as we do the previous two examples that have been cited (I go way back to the crash of 1987, but I won't bore you with ancient history). We suspected that this process of fighting inflation by slowing the economy was not going to be a smooth ride, and it was going to take some time to unfold. You have seen all year attempts by impatient investors to pick the bottom for stocks and be disappointed time after time. There will be a bottom for stocks eventually, but we are likely to have to experience more false breakouts before that happens. The same thing happened time after time between 2000 and early 2003. But finally, when no one expected it, the bottom was put in and stocks, as they always have done, recovered, and moved on to record highs once again.

The moral of this story is that there is no need to be a hero right now. The bottom will develop over time, and most won't have any idea how it happened. It just does. The Fed still has work to do, and the economy still has adjustments to make. As we have phrased it all year, 'there is still a lot of wood to chop.' If you are a young investor with decades before retirement, this market environment is a gift. Enjoy it and keep buying at these lower prices. Years from now you will be

delighted that you did. For investors in the distribution phase of your investment life, we build portfolios to provide the current income necessary to maintain a quality retirement, while a market disturbance like this one plays itself out.

So, though it is not easy, the best thing for an investor to do while in a lengthy bear market is to show patience and act with reason and not emotion. This bear market will end at some point, but like previous examples, it still will take some time before we set sail on the seas of the next bull market that will take stocks to new all-time highs and reward those who were able to stand the turbulence.

As always, we appreciate that you let us guide you on your financial journey. If you know of anyone who is having difficulty with the stress of this bear market, we'd be happy try to help them get through it. Just let us know.