September 30, 2021

S.F. EHRLICH ASSOCIATES, INC.

Managing Your Money

STAN'S WORLD—LIGHTS, CAMERA, ACTION!

For a very unusual reason, it was especially difficult to write this edition of Stan's World. It wasn't because anything was wrong; it was because I was continually distracted by the commotion under my office window. Frankly, the police were no help at all in quelling the disturbance.

They were making a movie! The producers and directors of the movie BROS selected Alden Street in Cranford to shoot an LGBTQ pride parade that included 300 extras, multiple parade floats, classic cars, not to mention the dozens and dozens of crew. In addition, there were tractor-trailers that took up the better part of the town's main parking lot for support services. To quote my 3-year-old grandson, "It was awesome!"

I would turn on the office lights at 6:30 each morning and look down at a growing sea of humanity. The costumes were elaborate, the music was loud, and the mood was festive. Of all the front row seats one could ever have, I had the best one! (The photo below will give you a small sense of what I got to watch.)

STAN'S WORLD—LIGHTS, CAMERA, ACTION! (CONT'D)

I've been on sets before thanks to my daughter, Katie, and her position as a wardrobe stylist in Hollywood. Those sets, however, were 'merely' for TV shows; less dramatic, less noise, fewer people. (Nonetheless, those visits are still exciting to me. To Katie, when we go on set, it's akin to "Take your dad to work day.")

This was a parade that kept repeating, over and over, because directors want to get the perfect shot. What an incredible show!

Having watched Katie on set, I naturally spent time watching the crew work. While they were getting set up for the first day's shooting, I stepped out front of the building and happened to engage a few electricians in conversation. I was curious to hear about their jobs. The financial planner in me came out when the conversation turned to what happened to them during the COVID lockdown.

As I suspected, the electricians said COVID shut everyone down because the movie and TV businesses went on hiatus. While I can only assume they were all able to collect enhanced unemployment benefits, I'm also aware those benefits are somewhat less than a union electrician earns while working on a job with substantial overtime due to the 14-hour workdays they had in Cranford. As I walked backed to my office, our conversation led me to think about the people I've met at the food pantry where Pearl and I volunteer.

As I've discussed on numerous occasions, we've volunteered in food pantries and soup kitchens for many years, and I have concluded that the people who use our services are people who genuinely need help. They're not coming for a free meal or a bag of groceries because they're trying to 'game' the system. They show up because they're making very difficult decisions on how to spend the few dollars they manage to collect.

Admittedly, there have been a few occasions when even I wondered if one of the guests really needed our services. I clearly recall when I observed one food pantry client walk down the street and climb into a Lexus. I was appalled, but my voice of reason (e.g., Pearl) added some perspective to what I witnessed. "Perhaps he was picking up food for a neighbor." "Perhaps he just lost his job." "You can't pass judgment; you don't know his story."

After speaking to the electricians and while watching the crew set up, I thought back to that conversation. When people are unemployed, they use a lot of their benefits to pay for car insurance and gas so they can go to a job when they find one. Maybe the person I saw getting into a Lexus was on the crew of a show that had been canceled or worked for a company that was no longer in business. Or maybe he had to quit his job to support a sick spouse. Regardless, if that individual only had enough money to pay for a car, a cell phone, rent, and some medical bills, then food had to come from a different source. I thought I understood it before; I understand it better now.

STAN'S WORLD—LIGHTS, CAMERA, ACTION! (CONT'D)

Speaking of volunteering, I encourage friends and clients to volunteer if they're able to do so. While those who have the means can help with monetary donations, volunteering itself can be a labor of love. It can be very satisfying to know you made a difference, albeit small, in the lives of a few people on any given day. My role as a volunteer at a food pantry is easily defined: assemble bags of food and hand them to clients in a pleasant and respectful manner. And do it without passing judgment.

As a family, to include our grandchildren, we donate breakfast bags for children whose parents then pick them up at a soup kitchen. We all draw and color pictures and faces on the brown bags to hopefully elicit a smile on a young face, and then we fill the bags with the food items we purchased per agency guidelines.

In addition to food pantries and soup kitchens, food insecurity is addressed with community gardens and food deliveries to people who can't get out. And those tasks just scratch the surface.

It's not always easy to find your best fit as a volunteer, but if you'd like to try it, I'll spend the time trying to help you connect with an agency. I can't predict whether or not you'll be satisfied from the first experience you have, but I can report how good I feel when I'm done with a shift or even dropping off breakfast bags. Frankly, it's even more satisfying than watching a staged parade.

MARKET PULLBACKS AND MARKET DOWNTURNS

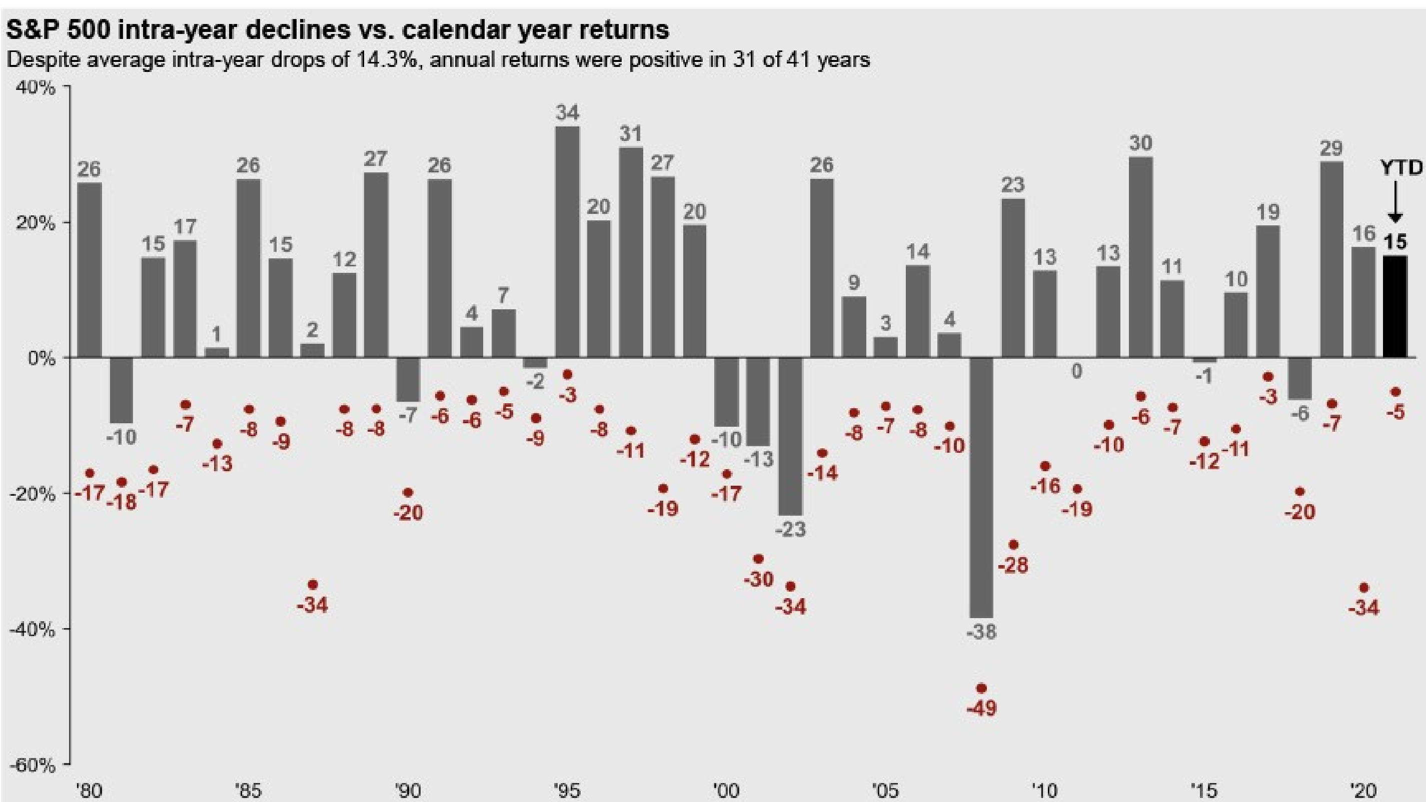
When the Dow Jones Industrial Average was at more pedestrian numbers, like 6,000, 8,000, or even 10,000, market drops of 600, 700, and 800 points caused quite a stir. That reaction was logical, as a drop of 600 points when the Dow was at the 10,000 level meant a loss of 6%. A drop of 600 points when the Dow is at 30,000, however, represents a loss of 2%. Yes, it's still a loss, but a drop of that size in today's stock market means a substantially smaller loss to a diversified portfolio. Regardless of whether you're a long-term investor or a novice, a drop of 600 or 700 points can be striking when it appears on-air, online, or in a newspaper: Dow DOWN 600 points!

An obvious concern when the market records a significant drop – as measured by points, at least – is that it's the beginning of a long-awaited correction. (NOTE: Every correction is long-awaited. We all know they're coming; we just don't know when.) But is the fear accurate; does a market pullback really mean more nefarious news is ahead?

MARKET PULLBACKS AND MARKET DOWNTURNS (CONT'D)

Notes Vanguard[1], "…2020 qualifies as one of the most tumultuous years in recent memory," as the year included the first case of COVID in the US; the World Health Organization declaring a pandemic; protests opposing police brutality erupting across the country; a state of emergency in CA as wildfires spread across the State; an unprecedented presidential election; and the FDA approving the Pfizer vaccine. So how did the market do, considering it was down more than 30% on March 23, 2020? The S&P 500 ended the year UP 18.40%!

If we look at a longer time frame, Dimensional Funds states the following about the period 2001 – 2020: "Stock market declines over a few days or months may lead investors to anticipate a down year. But the US stock market had positive returns in 16 of the past 20 calendar years, despite some notable dips in many of those years." (See chart below.) Of significance, note "Intra-year declines for the (S&P 500) index ranged from 3% to 49%."



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2020, over which time period the average annual return was 9.0%.
Guide to the Markets – U.S. Data are as of September 30, 2021.

J.P.Morgan
Asset Management

MARKET PULLBACKS AND MARKET DOWNTURNS (CONT'D)

The next time the headlines talk about a sizeable drop in the stock market, take a moment to consider the following data from Dimensional: "A broad market index tracking data since 1926 in the US shows that stocks have generally delivered strong returns over one-year, three-year, and five-year periods following steep declines. Just one year from a decline of 10% or 20%, returns were higher than the long-term average of 9.6%...Looking three and five years later also shows annualized returns averaged higher than the long-term average."

While it may be challenging from an emotional perspective, research[2] shows that buying when the market is falling can lead to outsized gains when measured over a long period of time. To quote the great investor, Warren Buffett: "…be fearful when others are greedy and greedy only when others are fearful."

THE BENEFIT OF OWNING BONDS, REGARDLESS OF LOW OR RISING INTEREST RATES

In a brief titled "Rising rates don't negate benefits of bonds," Vanguard[3] addresses arguments that target why investors shouldn't own bonds in a low interest or rising interest rate environment. They start with a point we've made ad nausea over the years: "…the role bonds play in a diversified investment portfolio – to be a shock absorber at times when equity prices head downward."

Myth 1: "Bonds are a bad idea – abandon the 60/40 portfolio." Ironically, "…the more that bond yields rise…the more important it is for long-term investors to maintain a strategic allocation to bonds, which could require rebalancing into bonds, not the other way around." The notion that bonds are not needed in a portfolio because yields are currently low speaks directly to risk. If investors sell bonds and purchase equities, they've added risk to their portfolio. That may not be a problem if you're a 25 or 30-year old with decades of time ahead of you. But for the rest of us…

Myth 2: Go to cash, avoid duration risk." Duration risk pertains to the sensitivity between the price of a bond and the change in interest rates. For example, bonds with longer maturities tend to be more sensitive to interest rate increases, so their prices are more likely to fall when interest rates go up. Rather than fearing bonds when interest rates are projected to rise, bonds, or bond funds, with shorter durations are an effective option.

THE BENEFIT OF OWNING BONDS, REGARDLESS OF LOW OR RISING INTEREST RATES (CONT'D)

Myth 3: "When interest rates are rising – don't just stand there – do something!" Unfortunately, the notion that doing nothing will hurt you is widespread, though not necessarily true. If interest rates are low and investors want downside protection in their portfolios, nothing has to be done if they already own short-term bond funds. Selling for the sake of selling doesn't make the decision to sell a correct one. While difficult, sometimes doing nothing is actually the best thing an investor can do.

We all know that interest rates can't stay this low forever, though the length of time they've been this low has been a surprise to most market prognosticators. The most important takeaway is knowing that bonds have a place in almost every investor's portfolio. Good quality, short-duration bonds can not only help to cushion a portfolio against drops in the stock market, they also provide the liquidity that investors need for ongoing or emergency cash-flow needs. Owning bonds may not be sexy, but boring is beautiful when markets are most volatile.

S.F. EHRLICH ASSOCIATES, INC.

S.F. Ehrlich Associates, Inc. has been providing financial advice on a fee-only, independent basis for over 25 years.

Managing Your Money is compiled entirely by Stanley F. Ehrlich and John Zeltmann.

Questions or comments are always welcome (and encouraged!).

Did we mention? If you have a friend or family member who you think might benefit from a discussion with us about financial planning and asset management, please pass along our phone number and email address. Long-term growth is not only crucial to portfolios, it's also critical to a business.

If you have a friend, co-worker, or relative who's in need of financial advice due to a pending or actual job loss, please give them our contact information. We're always glad to speak **pro bono** with people who need a hand.

CLIENTS: Please remember to contact S.F. Ehrlich if: a) there are any changes in your financial situation or investment objectives, b) you wish to impose, add or modify any reasonable restrictions to our investment management services, or c) you've changed your permanent residence.

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[1] "A Recent Lesson on Market Pullbacks." Vanguard, 30 Sept. 2021.

[2] "Putting a Value on Your Value: Quantifying Advisor's Alpha." Vanguard, 19 Aug. 2019.

[3] Aliaga-Diaz, Roger. "Rising Rates Don't Negate Benefits of Bonds." Vanguard, 30 Sept. 2021.