INVESTOR'S EDGE

Markets historically offer the best returns when the outlook is poor

Down years come with the investment turf.

"In times like these, it helps to recall that there have always been times like these."
— Paul Harvey

Jim Burns CFA
Guest columnist

Simply put, 2022 was a bad year for financial assets.

At the time of this writing in late December, the S&P 500 Index is down almost 20%, the NASDAQ Composite off over 30% and bonds, normally a safe haven during market volatility, are down over 10% — their worst year ever.

And God forbid, if you owned a lot of the speculative, high-flying growth investments such as Bitcoin, Ark Innovation Funds, Roku, Zoom, etc., you really got waxed, with most of them down 60%, 70%, or even more.

Financial values compressed due to fierce inflation throughout the year and the Federal Reserve raising interest rates at their fastest pace in history.

While not fun, after a powerful 12-year bull market, this decline should come as a surprise to no one. Down years come with the investment turf, and volatility is the price you pay for superior wealth creation.

So, will 2023 be a comeback year for the financial markets? And can our readers expect some positive returns for the risks they are taking?

First, I must admit the macroeconomic backdrop for stocks is challenging. Inflation remains elevated, the Fed continues to raise rates, and corporate earnings are softening. Much of the consensus on Wall Street — and Main Street — is bearish.

And that's good news. Historically, markets offer the best forward returns when the outlook is poor. Always remember Warren Buffett's quote: "Be fearful when others are greedy and be greedy when others are fearful."

So, let me take the contrarian view to some of the current bearishness on Wall Street and give a few reasons for you to be positive about the markets heading into the new year.

Markets rarely "double down" on yearly declines: The S&P 500 is down about 20% for the year, which is historically unusual. Even more unusual would be for the market to decline again in 2023. In fact, since 1928, there have been only four times where the S&P 500 has been down two years or more in a row – the last one being in 2000-2002.

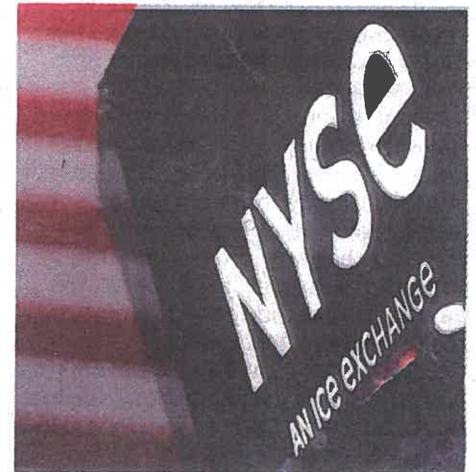
For all the bearishness out there, the numbers simply don't favor another year of declines for stocks. That's the reason why long-term investing in equities has been such a powerful wealth creating vehicle. In fact, the S&P 500 is up an average of three out of every four years and has averaged a yearly return of approximately 10% over the last century.

Is it possible 2023 could be another painful year? Absolutely. But, as Bob Pisani from CNBC aptly put it: "The odds are against it."

Falling inflation and a likely fed pause: Heading into 2023, the Fed remains resolute in its effort to slay inflation and will likely continue to raise interest rates at least in the first half of the year.

That said, inflation is clearly in a downward trend with pressures beginning to ease across almost all industries. I am confident inflation will continue to decel

SEE INVESTOR'S EDGE, E4



An NYSE sign is displayed at the New York Stock Exchange in New York City as investors count down to the end of the worst year for the S&P 500 since 2008.
Seth Wenig, Associated Press, file

erate in 2023, due to the significant lag-time effects of the Fed's aggressive hikes. In fact, the Fed may be done hiking interest rates as early as March. When the Fed pauses, it will be bullish for equities.

Patterns around election cycles: 2023 will be the third year of the Biden Presidency. Historically, regardless of whether a Democrat or Republican is in office, the third year provides the biggest returns (an average of 16%) as well as the highest probability of an up year (88%) since 1950 according to Empire Financial Research.

Furthermore, the performance on the S&P 500 Index after a negative midterm year, such as 2022, is a whopping 24.6% average return.

The market is a forward-looking animal: Slowing economic growth, falling corporate earnings, and rising interest rates all appear to be pushing the economy towards a possible – if not probable — recession. Got it.

In fact, all I hear in the financial media is that the market has "Not yet priced in a recession" in 2023. Bunk. The stock market is a forward-looking mechanism and is clearly aware of the high-recession probabilities.

Furthermore, Wall Street analysts have consistently underestimated both the U.S. economy and corporate earnings over the last decade.

Bottom line: if the economy does even moderately better than expected, stocks will have a good year.

No one likes losing money. And 2022 was all that.

However, remember that the four most dangerous words in investing are "This time is different." This time isn't different. The market will bottom and at some point, a new bull market will emerge, and slowly grind higher.

As legendary investor John Templeton once said: "Bull markets are followed by bear markets are followed by bull markets...."

Have a great year.

Jim Burns, a chartered financial analyst, is president of J.W. Burns & Co. The opinions expressed here are his and do not necessarily reflect those of The Post-Standard. Readers should do research before deciding on an investment. Contact him at jburns@jwburns.com

J.W. BURNS & COMPANY, INC.
INVESTMENT COUNSEL

Important Disclosure Information

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by J.W. Burns & Company, Inc.), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from J.W. Burns & Company, Inc. Please remember to contact J.W. Burns & Company, Inc., **in writing**, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services. J.W. Burns & Company, Inc. is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. A copy of the J.W. Burns & Company, Inc.'s current written disclosure statement discussing our advisory services and fees continues to remain available upon request.