Perspective: Thoughts on Russia/Ukraine
March 10, 2022

Two years ago, global markets crashed as we all quickly recalibrated our understanding of COVID. At that time, we shared our thoughts on how the virus could affect our clients and global markets. Then as now, it's uncomfortable to think in economic terms when there's so much suffering. L&M has made a donation to support vulnerable children in Ukraine.

There's no good way to transition to markets, so here is a bad transition. Consider $100 invested in the S&P 500 (our proxy for the US stock market) pre-COVID, in January 2020:

- At the lows in March 2020, the $100 investment had fallen to $68
- At the high in January 2022, it had grown from $68 to $150
- And now, at the recent low in February 2022, it's fallen from $150 to $130

While we're not sure how the crisis in Ukraine will resolve, we are confident *that* it will. The shared link among all crises that rattle markets is unknowability. As Elroy Dimson said, "risk means more things can happen than will happen," and with a nuclear armed lunatic invading a neighboring country, Dimson seems especially right in this moment. Add inflation and the Federal Reserve's plans to increase rates, and this seems like a good time to stop and think.

So here are a few thoughts to consider.

Control Controllables
The central focus of our investment advice, always, is to control controllables. While we cannot control markets or the path of returns, we can help you make the right investment decisions for your situation. We invite you to give us a call anytime you're concerned – **<u>this is what we're here for</u>**.

Crisis/Opportunity
The brilliant finance writer Morgan Housel, says "every past decline looks like an opportunity and every future decline looks like a risk." If we could go back in time to any historic crisis, in retrospect, it would have been a great time to invest. $100 invested during the Cuban Missile Crisis in 1962 would be worth over $6,000 (not a typo) today. If history is any guide, and it may be the only guide we have, it's worth contemplating what an investment today will be worth decades from now.

Much more recently, the market fell by 20% in 2018 as the US and other countries implemented tariffs on imports: even with the recent decline, the US market is 83% higher today than its 2018 lows. If you or your loved ones are earning income or holding excess cash, this type of volatility may provide a great opportunity to invest over a period of months into a globally diversified portfolio of quality companies.

There is a Bottom
Market bottoms feel like repellent magnets: the closer the market gets to its eventual bottom, the more it feels like the bottom is moving further and further away. But market bottoms are actually more like a pen falling to the floor: the more it falls, the closer we are to the bottom.

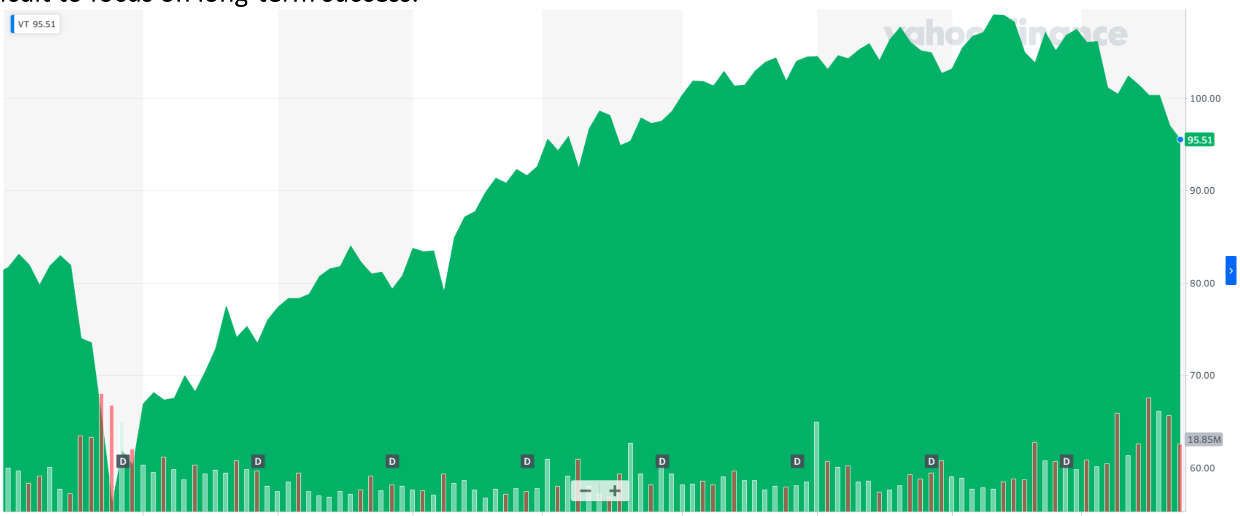
This Market Decline is (not yet even) Average
Though it doesn't feel like it now (and it never does in the moment,) this current market decline is a bit less than what's historically normal. 2022 is the 19th mid-term election year since 1950. During these mid-term election years, the market's average top-to-bottom decline has been 17% (credit: LPL Research). So far in 2022, the lowest the US market closed was -13% below its previous high. And unless this crisis resolves in a way that's better than what appears possible, it's likely that the market will fall by more than average.

Don’t Forget the Good News

There is plenty of good news in the economic data, much of which is better than it’s ever been before. Corporate earnings are at all-time highs and projected to continue to grow. Household net worth is at an all-time high, wages are growing, and the unemployment rate is lower than it was in every single month from 1970-2017 (credit: Eddy Elfenbein). There’s bad news too, no question, but we hear a lot more about inflation, gas prices, and the market decline than we do about all this favorable economic data.

Zoom Out

In spite of recent volatility, as of today, global markets (measured by the Vanguard Total World ETF (VT)), are up 17% since January 2020 (as shown in the green graph below). The daily headlines make it easy to worry about volatility, and very difficult to focus on long-term success.



Eventual Recovery

A -25% decline requires a 33.3% return to recover. (A -35% drop in the market, like we experienced in March 2020, required a 53.8% return to recover.) If you’re optimistic – as we are – it’s a question of when markets will recover, not if.

Recent S&P 500 declines of 10% or more:

Correction Period	# Days	% Decline	Cause	# Days From Previous High To New High
2022: Jan 4 - Feb 24	51	-14.6%	Inflation, Fed, Russia/Ukraine	?
2020: Sep 2 - Sep 24	22	-10.6%	COVID, Election	68
2020: Feb 19 - Mar 23	33	-35.4%	COVID	181
2018: Sep 21 - Dec 26	96	-20.2%	Rising Rates, China Trade/Tariffs	220
2018: Jan 26 - Feb 9	14	-11.8%	Inflation, Rising Rates	207
2015/16: May 20 - Feb 11	267	-15.2%	Greece/China, Oil, N. Korea	418
2012: Apr 2 - Jun 4	63	-10.9%	Europe Debt Crisis	141
2011: May 2 - Oct 4	155	-21.6%	Europe Debt Crisis, US Debt	301
2010: Apr 26 - Jul 1	66	-17.1%	Europe Debt Crisis, Flash Crash	192
Median:	**63**	**-15.2%**		**200**

Most of all, we hope you’re comfortable knowing that our investment advice and financial plans are designed in preparation for market declines of 30%, 40%, and more. And as always, please don’t hesitate to reach out to us at any time for any reason.

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