Letter to our Clients in this Difficult Time

We know that some people are concerned seeing their portfolios continue to fall. So we wanted to keep you updated on what we see and the information we hear from the sources we trust, and to remind you of a few facts and investing basics.

"Financial market volatility is never easy to stomach, especially as one is living it in real time. The turbulence can fog or telescope our horizon, making it much harder to see an established investment goal that might be ten years or even longer into the future. This is when decision-making mistakes are often made, some of which might seem inconsequential during a given instance but can cumulate to something meaningful through time. Returns compound, with terminal wealth being the direct result of that compounding through time. The variability in an asset's price path is among the few consistent experiences an investor will encounter during their journey. We have lived through the U.S. equity market correction of 10% or more eight prior times in the last decade alone, two of which were close to 20% and another one that was just beyond 35%. This is the ninth such episode. Over the same period of time, the equity market has compounded at 13.3% per annum." (Source: Dynamic Mutual Funds May 17, 2022)

Bond investors weren't spared either. After years of low or negative returns returns, the Bloomberg US Aggregate bond index showed a year to date loss to May 20, 2022 of 9.1%. This made it really hard for balanced funds, made up of stocks and bonds in an attempt to be less volatile, to protect against big market drops. (Source: Bloomberg.com)

What we are going through is nothing new and nothing to be overly alarmed about. Here are some charts showing the other times we have gone through.

This Looks Like Your Average Correction (So Far)

S&P 500 Index Corrections (WWII - Current)

Start Date	End Date	S&P 500 Change	Length of Time (Days)
2/5/1946	2/26/1946	(10.2%)	21
6/12/1950	7/17/1950	(14.0%)	35
1/5/1953	9/14/1953	(14.8%)	252
9/23/1955	10/11/1955	(10.6%)	18
8/3/1959	10/25/1960	(13.9%)	449
9/25/1967	3/5/1968	(10.1%)	162
4/28/1971	11/23/1971	(13.9%)	209
11/7/1974	12/6/1974	(13.6%)	29
7/15/1975	9/16/1975	(14.1%)	63
9/21/1976	3/6/1978	(19.4%)	531
10/5/1979	11/7/1979	(10.2%)	33
2/13/1980	3/27/1980	(17.1%)	43
10/10/1983	7/24/1984	(14.4%)	288
10/9/1989	1/30/1990	(10.2%)	113
7/16/1990	10/11/1990	(19.9%)	87
10/7/1997	10/27/1997	(10.8%)	20
7/17/1998	8/31/1998	(19.3%)	45
7/16/1999	10/15/1999	(12.1%)	91
11/27/2002	3/11/2003	(14.7%)	104
4/23/2010	7/2/2010	(16.0%)	70
4/29/2011	10/3/2011	(19.4%)	157
5/21/2015	2/11/2016	(14.2%)	266
1/26/2018	2/8/2018	(10.2%)	13
9/20/2018	12/24/2018	(19.8%)	95
1/2/2022	5/9/2022	(16.8%)	127*
	Average	(14.3%)	133
	Median	(14.1%)	89

Source: LPL Research, FactSet 05/11/2022 * We don't know when the current correction will end.
All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.
Performance back to 1950 incorporates the performance of predecessor index, the S&P 90.
[redacted]

So, you see, if you've been invested for even a few years, you've lived through other downturns. Each had its own set of worries, and almost every time, people said this time it's different, it's more serious than ever. And each time the market recovered just fine and, in fact, the market had great long-term returns despite them. The chart below shows that virtually every year has a significant downturn, and many times after a significant downturn, the year ended up nicely up anyway.

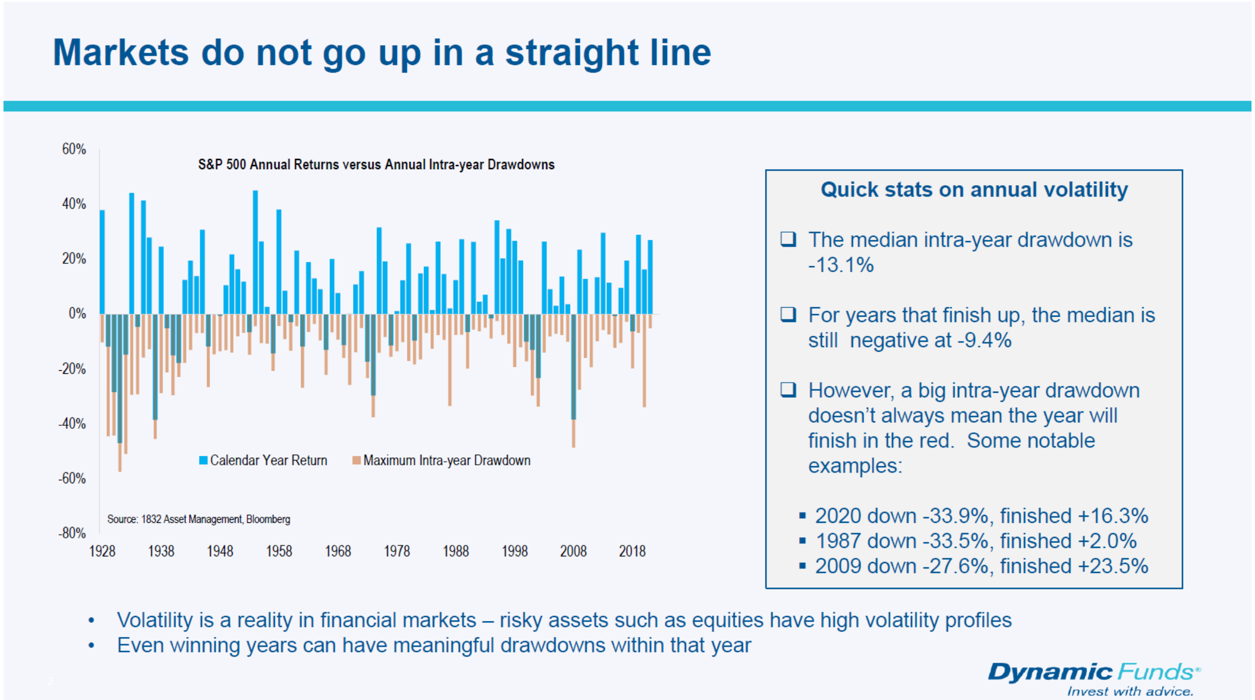

Chart courtesy of Dynamic Funds

"Before rallying on Friday [May 13], the S&P 500 had a closing low of 3,930.08 on Thursday, down 18.1% from its all-time closing high of 4,796.56 on January 3. If you consider the intraday market action, the S&P traded as low as 3,858.87 on Thursday, down 19.9% from its intraday high of 4,818.62 on January 4. Technically speaking, stocks don't enter a "bear market" until prices are down at least 20% from their highs." (Source: https://www.tker.co/p/sp500-bear-market-historical-data?s=r published May 15, 2022) Bear market or not, we're experiencing a painful downturn. "On the matter of duration, history's stock market corrections (i.e., when the stock market falls by more than 10% but less than 20%) have had an average length of 133 days from market top to market bottom, according to data compiled by Detrick. The current correction has run for 131 days as of Friday, which makes it pretty close to average assuming the market inflects upward soon." Statistics of the past can't tell us how long this downturn will last, but they do tell us that nothing unusual is happening here. "This all speaks to two conflicting realities investors must cope with: In the long run, things almost always work out for the better, but in the short run, anything and everything can go wrong. This is what investing in the stock market is all about. A note about the current moment… The economic data continues to be very strong, and there continue to be massive tailwinds that suggest growth will persist. Similarly, expectations for earnings growth have been improving. Taken with falling prices, valuations are increasingly attractive. As of Friday, the forward P/E ratio on the S&P 500 was 16.6, according to FactSet. This is below its 10-year average of 16.9. This combination of resilient economic growth, improving earnings expectations, and attractive valuations has at least some Wall Street pros advising clients to take on risk. And history says that sell-offs like the one we're experiencing now, are often followed by sharp recoveries. According data from Benedek Vörös, director of index investment strategy at S&P Dow Jones Indices, "a decline of 15% or more [over a five-month period] for the S&P 500 has been followed by positive returns in the ensuing 12 months in all but two occasions over the past 65 years, with an average gain just shy of 20%." " (Source: https://www.tker.co/p/sp500-bear-market-historical-data?s=r published May 15, 2022)

The Basics

For your long-term money (money you don't need to spend in the next 5 or more years, the money you might need in 10, 15 or 20 years, money you want to leave to your heirs etc), the goal is long-term returns and the bumpy path to achieve these returns in the years before you need the money should be unimportant, as long as you know you are holding quality, growing, profitable businesses and that it is just the market's normal, periodic anxiety or a temporary recession which is causing the market gyrations. If your mutual funds hold quality companies that are profitable and growing, they should remain profitable or grow more profitable over the long-term, although recessions and things like pandemics can certainly affect them. Take a company like Nestle. Won't most of us still keep buying their Easter, Halloween and everyday treats over the next 10 years, and won't some pet owners will still be buying their dog food? Are the lines at Costco getting shorter? Not in our area. Will you ever want to order from Amazon the flower planters and home repair stuff that you want right away or that you need advice even naming and choosing, or will you keep popping out to Home Depot for advice and immediate possession? (And since Home Depot only has a small market share of the huge volume contractor business, their planned expansion into that area could bring it substantially greater business.) Novo Nordisk will unfortunately continue to have a huge number of clients for its diabetes supplies, and now they are producing a new weight loss product that has minimal competition. Unless watches, cars, fridges, computers, robots, video games etc stop needing chips, there should continue to be huge demand for semi-conductor manufacturers' products, like those of Nvidia or Taiwan Semi Conductors. As the huge Baby Boomer population sector ages, won't the demand for artificial hips and knees grow? And now the leading artificial joint manufacturer, Stryker, is expanding their product line (and hopefully sales) by developing artificial finger joints too. Your funds are invested in companies like these. Don't let short-term market performance or noise make you forget that quality companies will still make products the world wants and needs, and that great companies will make money over the long-term.

If you have shorter term cash flow needs from your savings, remember that with our income matching strategy, you should be invested in lower volatility funds that aren't suffering as much as the market. So don't look at your whole portfolio and mistakenly assume that the shorter-term funds you are withdrawing from have also lost so much value. The income matching strategy we practice of having less volatile funds to withdraw money from in the shorter term has worked for over two decades, through tremendous market drops like 2007-2009 and multiple other smaller drops, and it should work this time too.

Anyone who panics and sells now to go into GICs might not recover for 10 years. Anyone who adds money while the market is down so much, might reap even greater returns than those who just hold on till the recovery.

If you are worried, don't stew about it. Just call us to talk about the quality, profitable businesses your funds have you invested in. That's what we are here for. Jordan's been investing in the market since he was 13 and Elaine since she was 21. We've experienced lots of downturns and recoveries. It always feels awful when the market is down, but you can't get long-term equity returns, without the ups and downs. The important thing is not to worry (and not to look at your portfolio too often), to remember that you own parts of quality, profitable and generally growing businesses, and remember that every market downturn has always been followed by new market highs. This time should be no different.

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