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## **CFS Viewpoint Spring 2023 - The Prediction Game - “I’ll wait until things get better”**

Baseball legend Yogi Berra reportedly said “predictions are very difficult, especially about the future!” This applies to investing. With so many complex headlines investors are looking for some way to predict and anticipate what markets will do in the short run. Rarely is this possible.

### **Faster than you think**

Stocks bounced back very quickly after Covid *arrived*. After the invasion of Ukraine oil/gas prices jumped temporarily, then dropped down to pre-Ukraine levels despite predictions of \$200/barrel oil.

### **Wait until things get better**

Often investors want to wait. What for? The mid-terms to be over? *Wall Street shrugs over politics*. The war in Ukraine? *European stocks have gone up dramatically since Labor Day of 2022*. Who predicted this? In most cases where we've seen maximum negativity, the following 12 and 36 months have been very positive for the stock market. By the time “things get better,” or there is “less bad news” or “after an election” the stock market usually has already moved ahead and investors have paid higher prices when “things feel/look better.”

### **Waiting is the enemy of Investors**

They say on Wall Street; “stocks climb a wall of worry.” We saw maximum negativity in the fall of 2022. Then, stocks had a very strong upswing in the 4th quarter of 2022 *and into* the first 4 months of 2023. We are not fully recovered, but stocks bounce back when least expected. In a world of pessimism, we are optimistically contrarian. This has served us all well for decades.

### **Last years losers are this years winners**

Most technology stocks dropped significantly last year in response to rising interest rates. Technology stocks have gone up dramatically in the first four months of 2023. We cannot assume what went down last year will keep going down.

### **Interest rates are up**

This is a double-sided coin. High rates are not good for borrowers, the housing market, and all businesses. Companies borrow money from banks to finance equipment, construction, inventory, receivables, and payrolls. Higher interest slows all this activity. However, with higher interest rates, we can now offer investors and savers (where appropriate) much more attractive interest rates on CDs, bonds, money market funds and fixed interest annuities than we have seen in over a dozen years.

### **Market Predictions on the internet**

We have seen many videos predicting stock market crashes and global economic crisis. Many of these so-called economic/market prognosticators get paid based on their internet views. Not by how correct they are. We have seen no reason to jump on the economic gloom and doom train. These same doomsayers say the

same thing every month and every year, whether stocks are up or down. The sky is always falling... We are not buying it.

### **What recession?**

Forecasters have been predicting a recession for a year and a half and have been wrong. It's not predictable. There is some economic slowing, such as in housing. The job market is strong. Inflation is cooling since last Summer, and the stock market has made a partial yet strong recovery from being over-sold in the 1st 6 months of 2022. There is always a chance of a recession. If we have one we expect it to be mild and short. Recessions are only recognized after they happen.

### **Gold/Digital Currency**

Simply stated: we are not fans. Crypto currency is very volatile, and we shy away from it. Investors want to sell their stocks after they've gone down and buy gold after it has gone up. Makes no sense to us. Gold is based on fear, and we are not in that camp.

### **The US Dollar**

We view negative comments about the US dollar with a high degree of skepticism. The dollar does fluctuate and has drifted downwards in the past year compared to foreign currencies. The dollar had become much stronger in the prior dozen years. A modest, weakening of the dollar is normal and part of typical currency cycles. With recent modest dollar weakness European stocks have gone up as noted above, even while most investors were worried about Ukraine. A competing large scale global currency: such as the Euro or the Chinese "yuan" is not very believable at this stage. We see no convincing evidence that the US Dollar will be replaced as the backbone of global economic transactions.

### **Inflation**

For the past 6-10 months inflation has eased. Notably; Oil and gasoline prices are up since early 2021, but down from mid-2022. The cost of oil, gas, and other energy sources increase inflation because they are part of everything we do and move and buy. Restricting oil and gas production is inflationary. Having more oil drives inflation down. We will use less over time but it will take a while. Other inflationary measures are not rising as much as last year. A modest amount of inflation indicates a healthy economy.

### **Two years in a row?**

2023 does not resemble 2022 because stocks went down due to interest rates going up last year; too much and too fast. This rising interest rate cycle is almost done in 2023. Stocks are looking ahead.

### **Investment Policy**

Our Investment Policy Committee meets quarterly with outside consultants in addition to our own internal research to review investment *opportunities* and consider modifying our current investments choices. This provides the basis for long-term diversified, balanced, patient portfolios. We do not try to guess what will happen in the short term. We modify our portfolios *as needed*, adding/subtracting investment funds based on the various sources of information we receive from many investment firms, large and small.

### **Fundamentals of Investing**

We have known forever to buy stocks when they are low and sell high. However, investors usually sell their stocks only after they have gone down and try to wait for the next dip to occur, while looking for a forecast of when that will happen in the next few months. These moves are simply market timing; which is

impossible. This costs investors money by missing the rebounds and paying higher prices for stocks later. Fear of investing is expensive.

### **When should we invest**

When you have the money to do so! Because no one can predict what will happen to the stock market in 3 months or a year. Our long-term patient balanced approach has worked consistently for decades, and we do not allow short term news, mini-crisis, politics, and occasional market dips to interfere with our long-term approach.

The twin enemies of investors are (1) being fearful, and (2) trying to guess when to get in or out of the stock market. Both cost us all money over the long run.

### **The Debate**

There is lively debate on every one of these topics. However, overtime we have found that more often than not, long-term patient diversified investors benefit from the enduring strength, breadth, depth, and resiliency of the American economy and American entrepreneurship. Businesses do not simply stop running and growing and trying to succeed because of temporary economic slowdowns, interest rates, the price of oil or political and international squabbles. We all carry on because that's what we do.

So as always, we are here and available for any questions or concerns you may have as well as a more in-depth conversation about what may be of particular concern to you. Please do not hesitate to reach out to us. Thanks, and have a great day!

Warmest Regards,  
Brian, Arnie and Dan

*As usual this commentary is based solely the opinions of Brian Cassidy, Arnie Magid and Daniel Kelly. Nothing in the above written material is endorsed by, or written by, or provided by Cambridge Investment Research, Inc., or by any other outside party or firm.*

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