A Letter From CIA's Investment Committee

It's been a toilsome start to 2022 filled with worldwide financial market struggles, on-edge global tensions, as well as inflation at a half-century high. But has the market been all bad? History may be our guide to revealing that answer.

In Rough Waters – Dividend Investing Holding Up Well

It's been a challenging start to 2022. Worldwide financial markets are struggling, global tensions remain on edge and inflation is sitting at half-century highs. There's also a mid-term election coming up in November which is sure to up political rhetoric on both sides. That said, it has not been all bad. Dividend investing, or something most akin to value investing, is holding up relatively well. Thus far, 2022 has seen value stocks decline -12.3% while growth stocks have fallen -27.3%. As income-oriented investors, we remain comfortable in our long-term strategy of primarily owning high quality, dividend paying stocks and bonds designed to provide consistent income through ups and downs.

We mentioned the start to 2022 has been challenging. It's been the worst start to a year since 1940 based on a traditional portfolio allocation. The bigger question to us though is not what has happened but what is likely to happen. We have two ways of looking at this: 1) what does history tell us and 2) how do we view the economy today?

What Does History Tell Us?

Let's address the historical context first. Going back to the 1920s the S&P 500 is positive 72.7% of the time following a -20% decline (which we've had this year). On average, the S&P 500 has been up +15.4% 1 year after the decline and +25.6% 2 years after. So, in a period that includes the Great Depression, the dot-com bust and the Global Financial Crisis returns were positive almost three-quarters of the time and up well into the double digits.

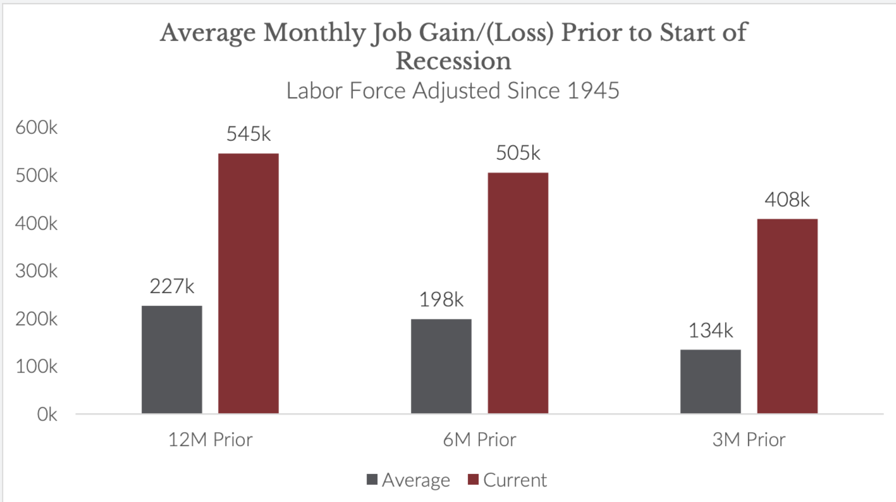
Peak	Trough	20% Down	3 Months	6 Months	1 Year	2 Years
9/6/29	6/1/32	10/28/29	(2.8%)	8.9%	(21.5%)	(55.7%)
7/15/57	10/22/57	10/21/57	6.7%	11.9%	36.2%	55.1%
12/12/61	6/26/62	5/28/62	6.9%	14.0%	30.7%	54.9%
2/9/66	10/7/66	8/29/66	8.9%	18.6%	29.0%	41.5%
11/29/68	5/26/70	1/29/70	(3.7%)	(7.1%)	16.5%	30.2%
1/11/73	10/3/74	11/27/73	1.3%	(5.9%)	(23.7%)	3.7%
11/28/80	8/12/82	2/22/82	4.4%	7.3%	38.0%	52.9%
8/25/87	12/4/87	10/19/87	13.2%	17.4%	29.0%	63.4%
3/24/00	10/9/02	3/12/01	6.6%	(6.8%)	0.1%	(29.7%)
10/9/07	3/9/09	7/9/08	(20.4%)	(26.2%)	(27.2%)	(9.2%)
2/19/20	3/23/20	3/12/20	21.6%	35.9%	61.8%	74.8%
1/3/22	6/16/22	6/13/22	?	?	?	?
		Average	3.9%	6.2%	15.4%	25.6%
		Positive Rate	72.7%	63.6%	72.7%	72.7%
Recession Average			1.7%	2.2%	10.0%	15.3%
Positive Rate			62.5%	50.0%	62.5%	62.5%
Non-Recession Average			9.6%	16.7%	29.6%	53.3%
Positive Rate			100.0%	100.0%	100.0%	100.0%

Source: Capital Investment Advisors; Bloomberg data

How Do We View The Economy Today?

Our current viewpoint is a recession is not imminent. We have a few reasons for this opinion but the main one is the US labor market remains healthy. Historically, when the economy was heading into a recession, the US had been adding between 134,000 and 198,000 jobs per month over the prior three to six months, adjusted for the size of today's labor market. The US is currently adding between 408,000 and 505,000 jobs. This is not a level normally associated with an economic calamity. Going back to the above table, returns have never been negative after a -20% decline without a recession over a 1 or 2 year horizon. Let's say a recession is on the horizon. Even if we do end up in a recession, based on the same data set, returns were still positive over 60% of the time to the tune of up +10% and +15.3% over 1 and 2 years. While past performance is not always indicative of future results, we can use history as a guide.

We'd like to add one more point to recessionary fears. Over the past few years, many companies have generated little to no profits yet were still rewarded with sky high valuations. Much of this stemmed from low interest rates. As rates have begun to normalize due to higher levels of inflation, we've seen valuations reset a bit. Our belief is that if a recession comes, it will be due to persistent inflation and a less than friendly Federal Reserve. If this happens, growth stock valuations will likely continue to adjust down and have little cushion from dividends. On the other hand, high quality dividend paying companies with more normal valuations should see less downside and still provide consistent income.



Source: Capital Investment Advisors; Bloomberg data

The Bottom Line

The start to 2022 has not been ideal. That said, history serves as a guide to show that improvement could be on the horizon even should a recession arrive. Our approach to weathering stock market volatility will continue to be owning quality, dividend paying companies at reasonable valuations. The goal is to limit extreme downside while providing consistent income along the way.

As always, we're here to help.
The CIA Investment Committee

Team Highlights

Quarterly Meeting Fun

Members from our Arizona, Florida, and Colorado offices traveled to our headquarters in Atlanta so our entire team could meet in person.

In the midst of discussing our company goals, we all celebrated past birthdays, had The Varsity for lunch and got to meet Chelsey's 5-month-old girl, Poppy!

Client Spotlight

The Story Of How Two Happy Retirees Played At Carnegie Hall

Kristin Curcio

All musicians dream of performing at the legendary Carnegie Hall in New York City, perhaps the finest stage for music performance in the world. The historic location has seen the likes of Pyotr Ilyich Tchaikovsky, Arturo Toscanini, John Philip Sousa, John Lennon, and countless more. In the Fall of 2021, our clients, Dickson and Gail, sent in an audition tape for their Tara Winds Clarinet Choir (TWCC) and crossed their fingers.

Dickson and Gail's story is an amazing example of how a core pursuit can boomerang from one life period to another. This particular adventure encompasses so many of the habits we see from the happiest retirees: marriage, organized social connections, group activities, and pursuing something that takes time and achievement to fine-tune and improve.

Retire Sooner Podcast

#108 – A Handbook To Building Your Bucket List with Ben Nemtin

If you had $10,000,000 and the ability to do anything you wanted before you died, what would it be? Star in a television show? Play basketball with the president? Walk the Great Wall of China?

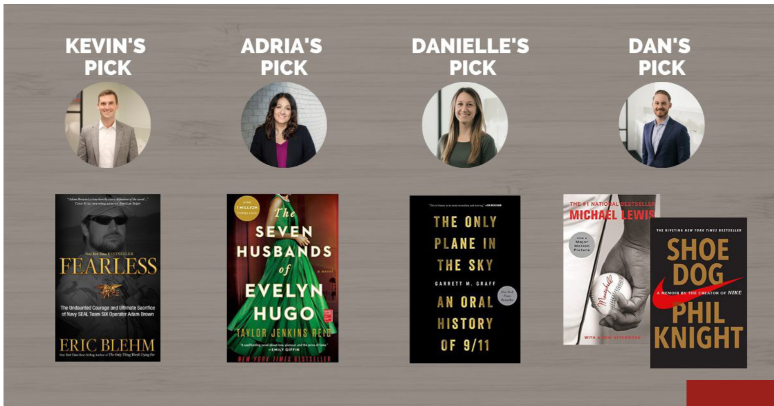
Wes sits down with #1 New York Times best-selling author of ***What Do You Want To Do Before You Die?***, star of the MTV show ***The Buried Life***, co-founder of The Buried Life movement, and one of the World's Best Motivational Speakers, Ben Nemtin, to help you unbury those dreams and prepare for creating the ideal bucket list by the time you finish this episode.

Ben opens up about his struggles with mental health, what he's learned and how he's attained self-worth through his projects. He also reveals that everyone goes through some sort of mental health crisis in their lives and why being true to yourself is important. Ben goes on to share the details of what went into creating The Buried Life along with the initial bucket list for the show, tips for how to generate your own bucket list, and why people regret their inactions more than their actions. Furthermore, Ben shares why accountability is effective for your accomplishments, talks through the categories in The Bucket List Journal that he created to help others, provides bucket list advice for retirees, and uncovers why he believes retirees have the power to change the world.

Listen To The Full Podcast Episode Here: wesmoss.com/podcasts/108-a-handbook-to-building-your-bucket-list-with-ben-nemtin/

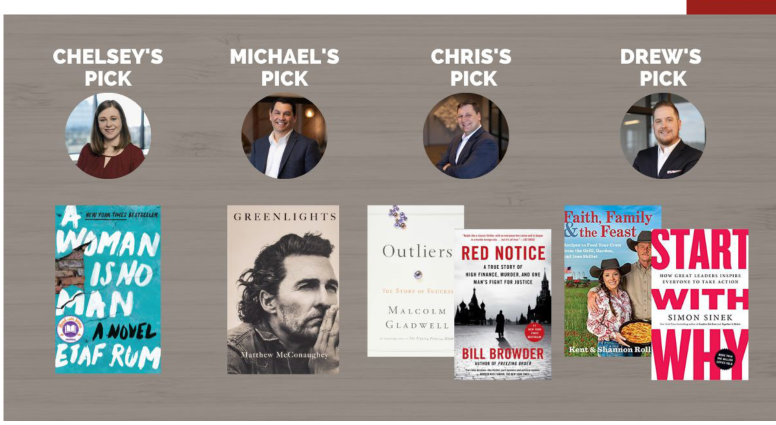
More News

Capital's 2022 Summer Reading Favorites



'Tis the season for bathing suit lamentations, swimming pool relaxations, and spousal thermostat negotiations. Yes, summer is here! This year we not only wanted to get a jump on the summer reading recommendations, but we wanted to widen the scope of the brain trust by asking some of the other offices and cities in the Capital Investment Advisors family.

They've all finished reading ***What the Happiest Retirees Know: 10 Habits for a Healthy, Secure, and Joyful Life***, but what comes after that? Let's find out!



If you have not received a statement from your account Custodian (Charles Schwab and/or Fidelity Investments) in the past month, please contact us as soon as possible.

Capital Investment Advisors | 10 Glenlake Parkway NE, North Tower, Suite 1000 | Atlanta, GA 30328