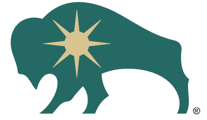

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June 24, 2022

Jane Doe
1234 Holly Lane
Omaha NE 68154

Dear Jane,

Happy belated Father's Day. I was hoping my sons would chip in and get me a crystal ball, but no such luck. I thought it might just come in handy as it looks like the "Bear" (market) has come out of hibernation. Recently, while looking over some old correspondence I came across an update we sent after a sharp market sell off a dozen years or so ago. I thought the excerpt below was timely:

We understand that when touring the wilds of Africa, the guides often take some time explaining that you should stand still and not run when you encounter any of the big cats (lions tigers etc.) But they go on to point out that in certain encounters, i.e. a particular buffalo, you should run for your life. Sometimes we feel like this when confronted by these types of markets. Is it best to sit quietly, invest more, or run like hell? Is this a lion or a particularly nasty buffalo?

Today, as in all market sell offs, there are plenty of things to worry about. We don't know how low or how long this particular decline might go on. But we are comforted by the fact that one factor we focus on when choosing most of our holdings is their ability to weather economic storms. We've also tried our best to prepare for this kind of environment by having sufficient cash and liquidity to allow us to wait out extended market weakness. And to hopefully have some "dry powder " to take advantage of opportunities. Unfortunately, the better returns that patient stock market investors usually attain come with a cost. The "toll" we are willing to accept on this journey is the periodic, inevitable decline. Many (in our humble opinion) miss-guided folks try to get in and out of the market, attempting to dodge these painful swoons. But it's certainly been our experience that these strategies usually cause far more damage to our wealth than good.

During these periods, sometimes it helps to look to history for a little guidance. We came across an interesting chart tracking previous market sell offs of 20% or more and the market levels one, three and six years later:

S&P 500 Bear Markets Since WWII

Start Date	End Date	Total Decline	-20% Date	Return 1yr later	Return 3yrs later	Return 6yrs later
5/29/46	5/17/47	-28.8%	**9/9/46**	-0.8%	2.7%	68.0%
6/15/48	6/13/49	-20.6%	**6/13/49**	42.1%	79.4%	189.7%
8/2/56	10/22/57	-21.6%	**10/21/57**	31.0%	37.6%	87.3%
12/12/61	6/26/62	-28.0%	**5/28/62**	26.1%	58.3%	75.0%
2/9/66	10/7/66	-22.2%	**8/29/66**	24.6%	27.3%	48.5%
11/29/68	5/26/70	-36.1%	**1/29/70**	11.9%	35.9%	15.0%
1/11/73	10/3/74	-48.2%	**11/27/73**	-26.9%	7.8%	11.6%
11/28/80	8/12/82	-27.1%	**2/22/82**	30.4%	61.5%	134.4%
8/25/87	12/4/87	-33.5%	**10/19/87**	24.3%	36.0%	108.8%
3/24/00	9/21/01	-36.8%	**3/12/01**	-1.2%	-6.2%	18.9%
1/4/02	10/9/02	-33.8%	**7/10/02**	7.4%	31.7%	38.4%
10/9/07	11/20/08	-51.9%	**7/7/08**	-29.6%	8.1%	58.5%
1/6/09	3/9/09	-27.6%	**2/23/09**	47.3%	83.4%	183.9%
2/19/20	3/23/20	-33.9%	**3/12/20**	59.0%	-	-
Average		**-32.1%**		**+17.5%**	**+38%**	**+79%**

Source: Bloomberg, Lincoln Financial Group. S&P 500 price return index. This chart does not include dividends. All returns are cumulative and returns 1-, 3- and 6-years later are measured from the -20% date.

The chart reminds us that first, these declines aren't rare and second, that in many instances are reasonably short-lived. However, economic, business, political and social conditions are never the same, so we should not be too surprised if things don't trend toward "average" historic outcomes. In fact, some observers point out the markets often don't bottom out until the fed actually starts to ease. Unfortunately, investing can't be reduced to mathematical formulas or elaborate spreadsheets. It is most often equal parts science and art.

Over the last few years we have been a little envious of some of the turbocharged returns achieved in some of the new exciting growth companies. We are now pleased that we stuck with our general preference for the more established, less exciting alternatives. Companies like Zoom, Netflix, Peloton, Tesla and now bitcoin have declined anywhere from 60% to 80% off of recent highs. Of course we aren't immune, as even established names like Microsoft and Disney are taking their lumps. Source: Morningstar Investor

In retrospect, as interest rates started rising, we could have raised a little more cash early last year. However, we've been concerned about rising rates for a few years now and had we shifted more away from stocks earlier, we would have missed-out on some strong gains.

Our plans going forward look rather like those of the past. We will continue to look for bargains in this much more fertile environment, both in stocks and in bonds. We are also now seeing a significant jump in safe short term instruments. For example we are now investing some cash in 6 and 9 month insured CD's at 1.6% and 2% respectively. I know it doesn't sound like much, but it's 100 times plus higher than this time last year.

As always we encourage you to contact us with any questions, concerns or just to chat a little. We don’t mean to downplay these difficult periods and I know for some they can be quite stressful (us included!)

A few months ago we sent off one of our very long tenured much appreciated colleagues off to a well-deserved retirement. In contemplating the timing of his departure he confided to me that he “would rather not stick around and work through yet another bear market.” In considering these last several months I must admit to a little envy at his rather prescient timing. However, at looking more closely at the chart I noticed that I’ve worked through about half of the listed declines. On further reflection, I’ve decided I’m hoping we are all around for many more Bear markets!

Sincerely,

Russ

& Blueprint Advisors Team:

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Susan Koesters, Senior Financial Advisor
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Tien Cheek, Financial Advisor