The Best Is Yet To Come…

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...but the worst could be right around the corner.

2021 was a pretty remarkable year for the stock market. Due in part to a stronger than expected economic recovery, the S&P 500 finished the year up 28.7% including dividends. That marked its third straight year of double-digit returns. The stock market never goes up in a straight line and 2021 was no different. However, in a year filled with supply chain disruptions, historically high inflation and the continuing Covid-19 pandemic, investors in the S&P 500 experienced a relatively smooth ride. In fact, the maximum drawdown in 2021 was just 5.2% and the index managed to notch 70 all-time highs, second only to the record set in 1995.

Is it possible that we could see a repeat performance in 2022? Somewhat lower valuations, still historicaly low interest rates and a continued economic expansion could bode well for public company's prospects this year. At the same time, there are a number of things that could create challenges for the stock market's ability to continue its historic bull market run. The Federal Reserve is projected to hike interest rates three times in the coming months, we may continue to see historically high inflation and supply chain bottlenecks and there's always the threat of some new COVID variant. Not to mention events that aren't yet on our radar screen. How will all these potental opportunities and challenges play out and effect the stock market?

Now is the time of year when many large financial firms, news outlets and investment pundits come out with their preditions for the year ahead. It can be tempting to read or hear their predictions, accept them as fact, and feel like we need to make big sweeping changes to our financial plan or investment portfolio to prepare for the "inevitable." However, it's important to remember that no one knows what 2022 has in store for the stock market and even the best and brightest on Wall Street usually get it wrong. For example, in December 2019, the median consensus on Wall Street was that the S&P 500 would rise 2.7 percent in the 2020 calendar year. The S&P finished the year up 18.4%. So, what's the best course of action?

I've heard it said that you should invest as if the best is yet to come but the worst could be right around the corner. I'll suggest that a good way to accomplish that is to adopt a well thought out investment philosophy, do the important work of bulding a well-diversified, carefully constructed portfolio and maintain a financial plan that ensures you're taking only the amount of risk necessary to accomplish your financial goals. If that's the case for you, it's likely that you can relax stick with your plan. Sure, there will be adjustments and tweaks that need to be made along the way, which is why we encourage our clients to schedule planning and portfolio review meetings on a regular basis.

And of course, there will be times down the road when the stock market will seem less friendly than it did last year. As Dr. Seuss said in his book, *Oh, the Places You'll Go!*

"You will come to a place where the streets are not marked. Some windows are lighted. but mostly they're darked. But mostly they're darked. A place you could sprain both your elbow and chin! Do you dare to stay out? Do you dare to go in? How much can you lose? How much can you win?

Those times are an inevitable (and necessary) aspect of investing. But when they come, you can be sure that we will be here at the Beacon house ready to talk, answer questions and take action if neceesary. I'll close with a quote from Sam that often encourges me in the face of investing uncertainty...

"[When investing, it's important that you not] lose sight of the fact that [the stock market] represents thousands of companies run by many more thousands of smart people busily innovating, creating, and producing goods and services they sell to generate profits. Whatever the circumstances, whether [Fed rate hikes, supply chain bottlenecks, higher inflation or pandemic], they simply find new ways to profit – they figure it out. Your money is not invested in a faceless, breathless stock market ticking away endlessly, rather you are invested in the creative, productive energy of people and companies all over the world."