Leigh Baldwin & Co.

Investment Brokerage

"The longest shot has won the Kentucky Derby"

The unimaginable happens. If you didn't catch the Kentucky Derby this year, we suggest that you check it out on YouTube. For context, Rich Strike's chances of winning the Kentucky Derby were 80 to 1, which means that if someone bet $10, their bet would have returned $818. Furthermore, the likelihood of this happening was a little over a 1% chance, almost unimaginable. To spoil your YouTube search, Rich Strike not only won the Kentucky Derby, but he came from behind to win possibly the greatest race in our lifetime. Rich Strike's victory proves that anything can happen even if you are behind, or the odds are stacked against you.

We look forward to closing the books on the worst start for the stock market in over 50 years. Global equity markets continue to face headwinds of Russia's invasion of Ukraine, supply chain disruptions from COVID lockdowns in China, high inflation, and rising interest rates. Furthermore, fixed income markets have provided little protection for portfolios as the correlation between equities and bonds remains positive in 2022. The gates opened, the race began, and investors feel that they are behind the pack.

The S&P 500 and NASDAQ reached bear market territory in the second quarter and the indexes are down about 20% and 30% year-to-date (YTD) respectively. The Dow Jones Industrial Average has fared better to start the year helped by its tilt toward value companies with the index down about 15% YTD. The performance dichotomy between the NASDAQ and Dow can be partly explained by their sector allocation. The NASDAQ Composite has an allocation over 60% to Information Technology and Communication Services, whereas the Dow has less exposure to technology and a higher allocation to Health Care. The information technology, communication services, and health care sectors are down about 27%, 30%, and 9% YTD.

It is during times of high market volatility where we must rely on data over emotions as investors. Since 1942, a bear market has occurred about every six years for the S&P 500 and last on average just under a year. Whereas bull market periods last about 4.5 years and on average have a cumulative total return of over 150% (First Trust). Therefore, instead of preparing your portfolio for a bear market today, it may be more prudent to upgrade your portfolio to quality companies for the bull market of tomorrow.

It may surprise some investors, but international equities (down about 18% YTD) have outperformed the S&P 500 this year. International markets have faced major headwinds caused by the Russian invasion and Chinese lockdowns, but some countries like Australia have benefitted from the rise in commodity prices contributing positively to market performance. Furthermore, Chinese equities may be a horse you want as easing COVID restrictions and potential additional stimulus may boost their equity market in the near-term.

The race is not over until it is over and every household's finish line is different. Some investors are focused on the finish line of retirement funding where others have education funding top of mind. Regardless of your household's goal we work with our clients to create a plan and to stick to their plan during rain or shine. If a client abandoned their plan and missed just the 10 best days of the stock market from 1997 through 2021, they may have missed over 4% of annualized return (Invesco). Rich Strike was not the favorite, was not the leader, but he was the winner. Stick to your plan.

We thank you for your continued support of our firm and look forward to our next phone call, zoom call, or hopefully an in-person meeting. As always, "you do the dreaming, we'll do the math."

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