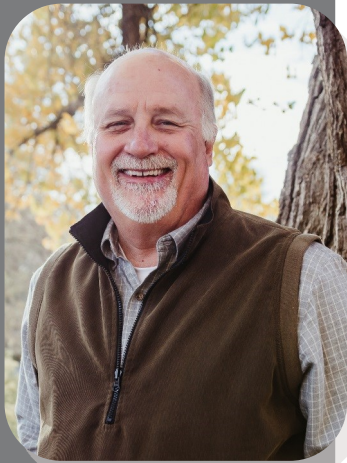


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Wealth Builder



WHAT’S THE WORST “-FLATION”?

BY MIKE BERRY, CFP®

We’ve got “inflation,” “deflation,” and “stagflation.”

We all have just experienced another round of inflation. It’s simply a period of rising prices, caused by too many dollars chasing too few goods. It should have been obvious to all that after virtually shutting down our economy during the pandemic and filling people’s pockets with money from the government to help people through the economic black hole, that once we got

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STOCK MARKET INSIGHTS FROM PRESIDENTIAL ELECTIONS

BY JEFF FUNDERBURK, CFP®

Every four years, as the United States gears up for a new presidential election, investors brace themselves for potential turbulence in the stock market. Historically, these periods have been characterized by uncertainty, speculation, and fluctuating market conditions. But what exactly does the data reveal about the performance of the U.S. stock market during presidential election years and the subsequent year?

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WHAT'S THE WORST “-FLATION”? *Continued from p. 1*

up and going again there would be a lot of dollars for people to buy things, but it would take a while for production of goods and services to get back to pre-pandemic levels, so prices of available goods would have to rise. Couple that with the fact that workers were not excited to come back to work after the pandemic, so employers had to offer higher wages and benefits to entice them back. Now you have a wage-price spiral. The only solution for inflation is a slowing economy created by rising interest rates.

But, too much slowing and you risk an economic recession and “deflation.” This is a prolonged period where the prices of goods and services come down because demand for goods and services is dropping. Unemployment goes up, wages come down. Fewer people working means that fewer people can afford the goods and services being produced. You have a wage-price downward spiral that can only be fixed by lowering interest rates and putting more money into the economy.

Neither inflation nor deflation are good, but probably the worst type of “-flation” is stagflation. Stagflation is a prolonged period where you have prices moving up, high unemployment and low economic output. The last meaningful period of stagflation was in the 1970's. The Fed pushed interest rates to combat high inflation. A lot of which was brought on by rapidly rising energy prices. Because of the high prices on goods and services people couldn't afford to buy as much so production decreased, employees were laid off and economic output declined. The unemployed continued to suffer due to rising prices. Wages were stagnant and couldn't keep up with rising prices. Stagflation is the hardest to overcome because interest rates are already high. You want to lower rates to help stimulate the economy, but in doing so, you'd risk inflation going higher. In the 1970's it took the Fed taking interest rates very high and creating a pretty severe recession before things got back on the right track.

So where are we now? The Fed can't seem to get inflation down to their targeted rate of 2%. It remains close to 4% and seems to be moving higher. Energy prices are creeping up. Food and housing costs remain stubbornly high. Between food and rent (or mortgage payment) lots of folks can't afford much more. Surprisingly, the labor market remains strong with unemployment hovering around 3.9%. However, when you dig down a little deeper, you find that a lot of jobs being created are part-time jobs. Wage gains were pretty good coming out of the pandemic, but now wages aren't increasing as much as the prices of goods and services. Economic growth seems to be slowing. Our GDP in the first quarter of 2024 was only 1.6% compared to 3.4% in the fourth quarter of 2023.

It's too early to say we are in a stagflation economy, but it does appear that the Fed is getting closer to having their hands tied when it comes to their next move. Because inflation is still higher than what the Fed wants, lowering rates seems to be off the table, at least for this year. The drop in GDP from 4th quarter 2023 to 1st quarter 2024 is concerning, but only if the trend continues. If it does and inflation still isn't where the Fed wants it, do they lower rates then? Stagflation poses a real thin line for the Fed to act and that's what makes it the worst “-flation” of all.♦

MARKET SET TO BREAK LIKE IT'S 2008 BY DAN FUNDERBURK, CFP®, CKA®

Whose blood pressure rose when you read the title of this article? That, my friends, was intentional.

In the ever-evolving landscape of financial news, you can't escape the headlines screaming of market downturns, economic woes, and impending doom. Negativity sells, and in the realm of finance, it sells exceptionally well. However, if you take a step back from the negativity and look at the facts, a different story about the market emerges.

Take, for instance, the past year. As we sift through recent financial headlines, one cannot help but notice the prevalence of negativity. "Will the Stock Market Crash in 2024? 6 Risk Factors," "Stock Market Crash: Chart Shows S&P 500 Could be Set to Crash," or perhaps the ever-popular, "Is This the End of the Bull Market?" The list goes on, painting a picture of perpetual gloom and despair. How did the market perform during this past year, despite these headlines? In 2023, the S&P 500, a broad measure of U.S. stock market performance, was up 24%, and it's up almost 9% so far in 2024.

In the midst of the relentless barrage of negativity lies a fundamental truth —the stock market, despite its short-term fluctuations, has consistently delivered positive returns over the long haul. For decades, it has weathered storms, crises, downturns, tax-law changes, and political shifts, emerging stronger and more resilient each time.

Consider the infamous Black Monday of 1987, where the Dow Jones Industrial average witnessed one of its most significant single-day declines (22.6% in a single day!). Panic ensued, and headlines screamed of impending financial collapse. And yet, in the years that followed, the market rebounded, surpassing its previous highs and delivering substantial returns to steadfast investors.

In the aftermath of the 2000 dot-com bubble burst, negative sentiment flooded financial media, with headlines warning of a prolonged downturn and questioning the viability of technology stocks (OK, OK – *some* technology stocks during that period actually weren't viable, but I digress). Despite this, the S&P 500 recovered and went on to deliver an average annual return of approximately 8.8% over the following decade.

Similarly, following the depths of the Great Recession in 2008, headlines painted a bleak outlook for the economy and the stock market. Yet, the S&P 500 staged a remarkable recovery, posting an average annual return of approximately 13.7% over the subsequent decade.

Even in more recent times, amidst the unprecedented challenges posed by the global pandemic, the market has defied expectations, staging a remarkable recovery and reaching new heights. Despite dire predictions and ominous headlines, investors who remained disciplined and focused on the long-term have reaped the rewards of their patience and perseverance.

So, what lesson can we learn from this tale of resilience and optimism? Amidst the noise and chaos of financial headlines, it's crucial to maintain a long-term perspective. While short-term fluctuations and negative news may stir your emotions and test your resolve, history has shown time and time again that the market has a remarkable ability to recover and deliver positive returns over time.

In the words of legendary investor Warren Buffett, "The stock market is designed to transfer money from the active to the patient." So, as we navigate the turbulent waters of financial news and market volatility this election year, let us not be swayed by the tide of negativity. Instead, let us remain steadfast in our commitment to long-term investing, knowing that in the end, optimism and resilience will prevail.◆



STOCK MARKET INSIGHTS FROM PRESIDENTIAL ELECTIONS *Cont. from p. 1*

In the run-up to the election, market volatility tends to increase as investors grapple with the uncertainty surrounding potential policy changes and their impact on the economy. This uncertainty often leads to heightened market swings and increased trading activity. However, despite the prevailing uncertainty, historical data suggests that the stock market tends to exhibit a degree of resilience during election years, with average returns remaining relatively stable. There have been 24 elections dating back to 1928. In these election years 20 of the 24 years (83%) provided positive stock market performance.

Following the conclusion of a presidential election, the stock market typically experiences a period of adjustment as investors digest the outcome and assess the potential implications for the economy and financial markets. This adjustment period often coincides with increased market volatility as investors realign their portfolios in response to new policies and economic priorities set by the incoming administration.

While the immediate post-election period may be marked by uncertainty, historical data indicates that the stock market has performed well in the year following a presidential election. Markets tend to rally in the year following an election as political uncertainty diminishes and investors gain clarity on the direction of government policies.

Short-term market fluctuations driven by political events are inevitable. As we navigate the peaks and valleys of the stock market during presidential election years and beyond, it's crucial to remember that patience, discipline, and a well-thought-out investment strategy are key to achieving long-term financial success.◆

WE'D LOVE TO HEAR FROM YOU!

The topics of our articles are largely inspired by questions we get from clients, friends and family. Is there a financial concept that leaves you feeling stumped? Maybe a concern that keeps you up at night, or you wish you or someone close to you could understand better? What about something that your advisor has helped you with that you think would be beneficial for others to know?

You are welcome to email any ideas to info@legacywealthgj.com, and you may just see that topic in an upcoming newsletter or blog!

Please include "Topic for Article" in the subject line and note if you'd like your advisor to reach out to you regarding the topic or question.

We sincerely appreciate each of our clients and friends. Thank you for being a pleasure to work with. Your friends at Legacy Wealth Management,

Dan, Sondra, Jeff, Alyssa, Mike, and Amanda





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