

Comprehensive Investment Management, LLC
Fee Only Personal Financial Planning
Fall 2021

A Review of the Financial Markets at September 30, 2021

Finally, September was the month when percolating investor anxiety finally rose to a level that sent stock prices down. The S&P 500 tumbled 4.8%, its largest decline since March 2020 when Covid took it down 34% from its previous high reached just one month earlier. Despite the rough September the S&P managed to eke out a .2% gain for the quarter.

What could possibly be bothering investors? Well I guess it could be the ongoing impact of Covid and its delta variant, or the recommendation for booster shots when 44% of the US population still hasn't received their first shot. Perhaps it is the surge of inflation, vast supply chain issues, labor shortages, and signs the US economy is slowing. Maybe it's the Federal Reserve's plan to finally begin to cut back on monetary easing that has artificially lowered interest rates, or the seemingly over the top political wrangling in Washington. And it has to be said there are fears of a big time economic upheaval in China, the second largest economy in the world. Something to do with housing, which may remind US investors of our own Great Recession in 2008. In normal times any one those issues would be seriously detrimental to the US economy and markets. It will be more than surprising if all of them are not clearly reflected in lower corporate profits and projections that will be reported over the next few weeks.

Recent market and economic activity is newsworthy. However a good bit of it can be dismissed as "noise" and not indicative of a trend. Asset performance over longer periods, while not predictive, is significantly more meaningful.

On average our large cap stock funds did not eke out a gain for the quarter. Dividend Growth was up by .7% but that was offset by an average -2.6% for Primecap managed large cap funds including those under the Vanguard banner, Primecap and Primecap Core. Actually our portfolios have most of their US large cap exposure in the Wellington fund. The Wellington is balanced with 65% stocks and 35% bonds and the performance of the two sections are not reported separately. Wellington invests primarily in large high quality dividend paying companies with about 10% outside

(Continued on page 2)

Average Annual Returns of CIM Select Mutual Funds							
At September 30, 2021	QTR	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
Large Cap Stocks	-1.9	14.7	31.4	12.5	15.7	16.4	11.2
Mid Cap Stocks	-2.1	12.6	33.6	13.4	16.5	17.9	12.1
Small Cap Stocks	-1.5	8.6	36.0	12.1	16.4	16.9	12.1
Healthcare Stocks	1.3	11.0	26.4	16.2	18.1	21.6	16.5
Foreign Stocks	-5.1	3.3	25.0	16.1	15.0	12.0	9.3
Short Term Bonds	.5	-.4	.6	3.7	2.3	2.1	3.0
Intermediate Bonds	.4	-.3	.9	6.5	3.5	3.4	4.6
High-Yield Bonds	.9	3.2	7.9	6.3	5.6	6.6	6.3

The Financial Markets (from page 1)

the US. The fund is rated Gold which means Morningstar has given its highest rating based on the five P's (process, people, parent, performance and price). The fund gets five stars because its performance places it in the top quintile of similar funds run by Vanguard and other various mutual fund companies.

As to small and mid cap funds they performed 5% higher than the S&P over the last year and longer term (15 years) by 2% per year. Our foreign funds 15 year performance of 9.3% trails the S&P's by less than 1%. Other than adding Vanguard's Global ESG Fund, which is 50% foreign, CIM has been gradually reducing foreign exposure over the last few years. We recognize the benefit of diversification since the US represents less than 50% of the global economies, but we don't agree with Vanguard's long standing recommendation of allocating 40% of stocks and 30% of bonds to international. You have to acknowledge, if not go along with, Vanguard's consistent commitment to allocation recommendations that match the overall markets. However there is more to picking investments than just matching market indexes. For one, there is the opaqueness and lack of reliability of information distributed by a communist country like China. The 15 year annual return of Vanguard's Total International Index Fund is just 4.4%. That's lower than our US intermediate bonds at 4.6%.

September is the one month of the year that averages a loss for the S&P. But it is followed by the quarter that has the best record for returns. Over the past sixty years, on average, the S&P index has gained 3.8% during the months October through December. Is that guaranteed? No. Is today's market in uncharted waters? Yes.

THERE ARE BONDS AND THERE ARE HIGH YIELD BONDS

One persistent question is why invest in bonds when yields are so low? The answer is although bonds won't match stock-like returns, they are a steady and dependable source of income. Much less riskier than stocks, their value often goes up when stocks go down.

The risk of High Yield bonds falls somewhere between stocks and bonds. On a range of 1 to 5 with 5 the highest, Vanguard has High Yield at 3. It assigns a 2 to Intermediate Corporate Bonds and a 4 to its S&P 500 stock fund. Vanguard reminds us that with less risk there is less reward, with more risk more reward. When CIM calculates how many years of safe withdrawals a client has in lower risk investments, it doesn't include High Yield bonds in the low risk figure.

Morningstar likes Vanguard's High Yield fund, giving it a 4 Star Gold rating. It notes a strong team, a cautious approach and low fees. When it comes to credit risk the fund has one of the most conservative strategies in its category and does that by maintaining a relatively light exposure in debt rated CCC (bonds of companies more dependent on favorable economic conditions) and below. The fund has been outperforming 75% of the funds in its category by avoiding the pain of major sell-offs. A current concern is that because of Covid the Federal Reserve has infused particularly high liquidity into high yield bonds. As the economic recovery progresses it is going to pull back and the market will no doubt react.

Annual Return of Vanguard Balanced Funds With Opposing Bond/Stock Allocations						
At September 30, 2021	Quarter	1 Year	3 Years	5 Years	10 Years	15 Years
Wellesley 65% bonds	.3	11.2	9.0	7.2	8.0	7.2
Wellington 65% stocks	1.0	20.2	12.0	11.5	11.5	8.6

IS THE INFLATION SPIKE GOING TO CONTINUE?

Social Security is increasing 2022 payments by 5.9%, so that answers the question. In fact, the increase, which goes to 70 million recipients (20% of the population), will itself add to inflation. It's the biggest jump since 1982. The change in social security payments is based on the change in an index of wages between the third quarter of the current year and one year prior.

There is an abundance of demand and shortage of supply of just about everything including workers. The unemployment rate is down more than expected, so no surprise wage growth is higher than expected. Average hourly earnings in September rose at an annualized 7.5%. Interest rates are below the Federal Reserve's considered neutral level of 2.25%, and are in fact close to zero. Combined with COVID inspired shortages and structural changes throughout global economies, inflation is going to run higher than we would like (2.5%) for a while.

WHAT TO EXPECT IF CORPORATE TAXES ARE INCREASED?

Blair Efron is co-founder and partner of Centerville Partners, a leading global investment banking firm, was asked on Bloomberg Washington Week about the potential impact of President Biden's "Build Back Better" proposed tax increase on large corporations.

Here is a summary of his comments: We should take a historical perspective. Donald Trump cut taxes by two trillion dollars and the impact of that was negligible in the three and a half years before Covid. A tax increase is unlikely to have a meaningful impact. During Covid tremendous wealth has and is still being created. The top ten percent of companies added about ten trillion dollars of wealth. A tax increase is something that can be handled. Of course a very important key is where the money gets applied, especially to the extent it is focused on the physical side, that is, water, airports railroads, electric grid. That's a good thing. And on the human side how much goes to caregivers who can get back to work and education related to skills for future employment. NEWS FLASH: There's a distinct possibility Democrats and Republicans may have different views on what would be the most sweeping tax increase in thirty years.

In other news there was a hugely favorable development this past week related to setting a global minimum corporate tax. The agreement is probably the most important global economic agreement so far in the 21st century. It will fortify tax collections world wide and will stop countries from running a self-defeating race to the bottom of tax rates.

WHAT HAPPENS IF THE US DEFAULTS ON ITS DEBT?

Higher interest rates would raise financing costs for the government (i.e taxpayers), businesses and individuals. Debt ratings would be at risk leading to even higher interest rates for certain borrowers and stocks would likely be pressured as future cash flows become less predictable. These developments would be on top of the economic concerns in the recovery from Covid which is still far from complete and makes the potential scenario more important to avoid.

Although Vanguard doesn't expect it to happen ("stakes are too high"), it says it is well-prepared from an operational standpoint in the event that a default can't be averted or its resolution comes very late. Vanguard has taken measures to mitigate risk across its business. The course of events will depend in large part on how long any impasse may last. Despite the uncertainty, it's important to focus on a long term plan. That's what successful investors do.

Comprehensive Investment Management, LLC

Fall 2021 page 4

Comprehensive Investment Management, LLC

Investment Management &
Personal Financial Planning Services

It's morning in the personal financial services industry

The CIM investment strategy:
Control risk yet outperform the market
by using well managed, no
commission, low cost mutual funds.
Maintain appropriate asset allocation and
diversification. Minimize taxes.

Newsletters, information, and other
features available at cimontheweb.com

ADV and Privacy Notice available on request
and are automatically redistributed
to clients, if there are material changes.

Harry McCullough, CPA, CFP®
200 Locust Street, Ste. 3A
Philadelphia, PA 19106
h@cimontheweb.com
Phone 610.580.5554



Associates

Michael C. Collins, CPA, CFP®
Brian A. Collins, CPA, CFP®
Phone 610.566.4760

Mercedes M. Petrellis, WMS, PMP
Phone 610.960.1068

The CFP® mark is owned by the
Certified Financial Planner Board of Standards, Inc.

We Get Letters

Q&A: I hear on the news and see on the internet that we might be headed for a market correction. What's that mean and what should I do?

A correction is a temporary resetting of market prices. Specifically, it's a decline of 10% or more in the price of a stock, bond or index from its most recent peak. Corrections are common and mostly short lived. There are many reasons corrections occur, such as a macroeconomic shift, major event in society, perception of an overvalued market, and/or for a specific stock real or perceived problems with company management.

On average, corrections occur every 2 years and last about four months. The good news is they are typically followed by a sustained period of growth. The U.S. markets experienced thirty-seven corrections between 1980 and 2018. Ten of these resulted in bear markets, which is when stock prices fall 20% or more from recent highs. The other twenty-seven remained or transitioned back into bull markets.

While corrections are common, even more common is speculation by the media of when the next correction will occur. Due to the dramatic recovery of the stock market since the March 2020 lows, some pundits assume a correction must be coming.

It's normal to feel some anxiety during a market correction. However, every good investment strategy assumes market cycles are inevitable and prepares for them with balanced and diversified portfolios. A correction provides the opportunity for investors to buy securities at lower prices.

As to what should you do? If your portfolio allocation is in line with your risk tolerance and time horizon, probably nothing. Staying the course with a thoughtful plan is the path to successfully achieving long-term returns.

Send your questions to Mercedes@cimontheweb.com