THE
COOK REPORT

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PERSPECTIVE

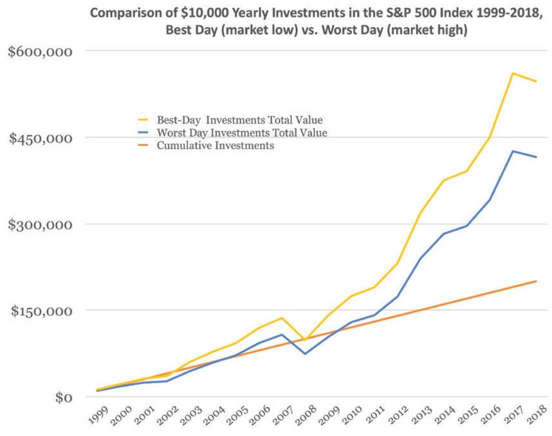
The tantrum is here. During the second quarter the S&P 500 entered a bear market, down more than 20% from its all-time high. The inflation that began to rise sharply in the latter half of 2021 remains high and led the Federal Reserve to raise the Fed Funds Rate by 0.75%—an increase not seen since 1994.

Perspective is important when watching the share value of your investments decrease. It may be unsettling to experience, but down markets offer many good opportunities to be seized. In this issue of *The Cook Report*, we look at the importance of staying invested for long-term success, as well as strategies that may become more appealing when valuations decline.

TIME IN THE MARKET

We are often asked during downturns if it is a good idea to move investments out of the markets. The answer for most long-term investors is an emphatic "NO!" Numerous studies have demonstrated that it is time in the market—not timing the market —that leads to long-term success. Pulling your money out of the market and missing the market's best days can severely damage future returns. Moreover, pulling money out at market lows locks in your losses.

The chart below demonstrates the importance of time in the market.[1] It looks at two investors, each of whom invested $10,000 per year in the S&P 500 Index over 20 years from 1999–2018. This period includes the bursting of the dot com bubble and the Great Recession of 2008–09. One investor was somehow able to invest their money on the best day of the year when the index was at its lowest. The other person invested on the worst day of the year when the market was at its highest. While both scenarios are impossible in the real world, the point is that even the person who invested on the worst days still came out significantly ahead.



Source: Data from Capital Group, "Time, not timing, is what matters" (capitalgroup.com/individual/planning/investing-fundamentals/time-not-timing-is-what-matters.html). Chart assumes dividends are reinvested, but does not account for taxes or fees, which would lower the expected returns.

Similarly, another study[2] looked at someone who invested $10,000 in the S&P 500 Index in January 1980 and stayed invested through March 31, 2020. Staying invested everyday of that period yielded a return of $697,421 (including reinvested dividends, but does not account for taxes and fees). That meant staying invested during the high inflation period of the early 1980s, the dot com meltdown, the Great Recession, and the worst of the covid selloff in 2020—among other down years. If the same

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PERSPECTIVE (cont.)

person missed only the 5 best days of that 40-year period, their return would shrink to $432,411. Missing the best 50 days of that period eroded the gains to $48,434!

Market timing simply does not work. Embrace the long-term to reach your financial goals and stay invested so that you can capture the market's best days.

OPPORTUNITIES

Now that we've conveyed the importance of staying invested, let's explore opportunities to take advantage of while markets are depressed.

Contribute to retirement accounts and health savings accounts
If you normally wait until the end of each year to make contributions to your retirement accounts such as IRAs and Roth IRAs, consider moving those contributions forward. If you have health insurance that is eligible to have a health savings account (HSA), most HSAs offer the ability to invest a portion of the account in mutual funds. If you regularly contribute to an HSA and have a high cash balance, consider moving a portion into investments.

Roth Conversions
When you convert an IRA to a Roth IRA, the amount you convert is taxed as income. However, the shares you convert remain the same – they are simply moved from a tax-deferred account to an after-tax account.

Roth IRAs offer many advantages, notably tax-free growth and tax-free withdrawals after you've met the five-year rule (and are over 59 ½). Roth IRAs also eliminate the need to track and take annual Required Minimum Distributions and beneficiaries receive the funds tax-free. When markets are down more than 20%, think of it as giving yourself a tax cut with a discount on the conversion.

Rebalance your investments
If you have a diversified portfolio with a few positions that have done well in the recent market volatility, it might be appropriate to rebalance your portfolio (particularly retirement accounts since any rebalance will not be taxable). Anyone invested in commodities over the last year likely has a larger position in commodities now than in previous years. Take some of the gains and reinvest them in portions of your portfolio that are now selling at a discount.

Invest cash
Instead of moving investments into cash, use a portion of the cash you have on the sidelines to invest. Think of it as buying something you regularly buy at a 20% or greater discount!

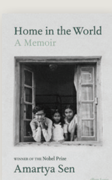
The covid-induced bear market was gone in the blink of an eye. We don't know how long this bear market will last, but it is likely to be longer than the recent covid shock. Keep a clear head, stay invested, and seek out opportunities when appropriate. We look forward to navigating these times with you.

Best wishes for a wonderful summer!

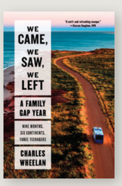
[1]Capital Group, "Time, not timing, is what matters" (capitalgroup.com/individual/planning/investing-fundamentals/time-not-timing-is-what-matters.html).

[2]Fidelity Investments, "Stay invested: Don't risk missing the market's best days" (https://www.fidelity.com/bin-public/060_www_fidelity_com/documents/dont-miss-best-days.pdf).

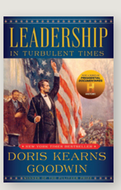
READER'S CORNER



Home in the World, by Amartya Sen (W.W. Norton & Company, New York, 2022) chronicles the odyssey of the author from his early education in India, to a Nobel Prize in economics focusing on social choice theory. A remarkable story of a remarkable individual.



We Came, We Saw, We Left/A Family Gap Year/ Nine Months, Six Continents, Three Teenagers, by Charles Wheelan (W. W. Norton & Company, New York, 2021) recounts (the title says it all) the experience of a Dartmouth professor taking a gap year with wife and teenage kids traveling around the world on a budget!



Leadership in Turbulent Times, by Doris Kearns Goodwin (Simon & Schuster, New York, 2018) relates the formative life experiences that led to great leadership at critical times in American history: Abraham Lincoln, Theodore Roosevelt, Franklin Roosevelt, and Lyndon Johnson.

IN THE NEWS

- "15 Ways Consumers Can Weather—and Even Benefit From—Rising Inflation," by Cristina Lourosa-Ricardo (*The Wall Street Journal*, May 21, 2022) offers useful tips that you may have missed.
- "Journal Report: Artificial Intelligence" (*The Wall Street Journal*, April 11, 2022) canvasses the many areas in which AI impacts our lives with positive outcomes.
- "The New Tax Playbook for Draining Your 401(k) in Retirement," by Anne Tergesen (*The Wall Street Journal*, April 6, 2022) suggests strategies tied to a proposed delay in the age for required minimum distributions.