

SUMMIT PERSPECTIVE

FACING THE BEAR: WHAT TO DO WHEN MARKETS FALL



Inflation is running hotter than at any time in 40 years. There is a war in Europe, interest rates are rising, and consumer sentiment is in the tank. As a result, a bear has been mauling the stock market this year. Additionally, a spike in interest rates has caused double digit declines in bond prices, and high inflation is eating away the value of any cash in the bank. Other than the historically volatile energy and commodities sectors, there has truly been nowhere to hide in 2022.

Many of our clients have lived through down markets before. Most notably in 2008-2009 when the Financial Crisis caused the S&P 500 to slide over 57% and diversified portfolios to decline more than 30% at their lowest point. It was no fun, but those who remained invested saw the benefit of staying the course as the S&P 500 bottomed at 666 in March of 2009 and recently stands over five times higher without counting dividends! (3,775 as of 6/22/22).

While that historical knowledge might provide context, it rarely makes anyone feel better about current losses in their own portfolio. Furthermore, most investors that lived through the 2008-2009 slide have significantly more money invested today than they did 14 years ago. A smaller percentage decline off a bigger number feels a lot worse because the total dollars are bigger. As a result, anxiety and worry can be even greater today – even if this downturn ends up being less severe than the Financial Crisis. We understand your worries, and moments like these are when your advisors can help the most. Perhaps a discussion about bear markets and what you should be thinking about in this environment would be helpful as we walk through this together.

What Happened?

As with most bear markets, it is rarely one thing. Although in this case, a few factors loom larger than others. In 2020 a hot economy with very low unemployment crashed headlong into the COVID pandemic. The corresponding shutdown was like nothing ever seen, and the world economies were thrown into a self-induced but incredibly sharp recession. Central banks and governments responded by printing money on a massive scale to keep the economy on life support. Some would argue it was completely necessary while others argue that public policy went too far. The reality is likely in the middle, but it would be asking a lot of policymakers and central bankers to get that perfectly right given the extreme conditions at the time. The flood of cash in the economy combined with a snarled supply chain sowed the seeds of inflation that we are feeling today. Food, energy, and vehicle costs led the charge of higher prices, and it has now spread to housing costs, services, and wage pressure. To further exacerbate the challenges, Russia invaded Ukraine causing oil prices to spike and challenge the slowly healing supply chain.

As headline inflation topped 8% year over year, the Federal Reserve began to signal an aggressive posture of raising interest rates and bringing inflation to heel. Markets predictably sold off and as the inflation numbers continued to run hotter than desired, further interest rate hikes have stoked fears of an economic recession. Add it all together and “voila” – A bear market is born!

About Bear Markets

There have been 16 bear markets since 1950 if you count the current episode.

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Welcome Baby Cameron!

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“

Tough times never last, but tough people do.”

– Robert H. Schuller

”

KUDOS!

Summit Spirit Award:

Monika and Bay Area Crisis Nursery

Each quarter, Summit recognizes one team member who receives kudos from their peers and managers for going the extra mile. The winner receives \$1,000 to donate to the charity of his or her choice. Congratulations to Monika Orrey, Practice Manager to Vanessa Savage, as the recipient of this quarter's Summit Spirit Award!

Monika: I am making my donation to Bay Area Crisis Nursery (BACN) headquartered in Concord, CA. BACN is the only crisis nursery in the San Francisco Bay Area. Since 1981, BACN has provided no-cost short-term residential care for over 300,000 children, from birth to 5 years of age, who have experienced family emergencies ranging from poverty, homeless, escaping domestic violence, dealing with medical and/or mental health emergencies, or the sudden loss of a childcare provider.



BACN is near and dear to my heart as I personally know of a husband/ father who lost his wife in childbirth. Without family nearby and two kids at home, ages 4 and 2, he relied upon BACN to provide warm, safe, and loving care for his children as he grieved and navigated the new world of solo parenting, along with the daunting task of funeral planning. Years later, the family is thriving and BACN is often thought of warmly as their saving grace.

For additional information about BACN visit: <https://bayareacrisisnursery.org/>.

SUMMIT UNIVERSITY



Upcoming Virtual Courses and Workshops



Teens and Money: Setting the Stage for Financial Success

Thursday, August 4
from 3:00-4:30 pm

Inklings Coffee & Tea

Chances are your kids first learned about saving by adding change to a piggy bank. As they grew, they traded in those piggies for a savings account. Now it is time to look ahead. Learning how to become financially independent adults is vital for their future success. As parents, our goal is to provide our children with the tools they need to go out into the world and thrive. This interactive workshop will lay a foundation that will last a lifetime. During this fun and educational event geared toward kids in grades 7-12 we will cover:

- Budget creation and management
- Setting financial goals
- How to manage a bank account
- Identity and asset protection
- Investing
- Saving and spending
- Credit and debt
- Costs of living

Registration is open for our fall retirement seminars!

Retirement Planning Today

Whether you plan to retire 20 years from now or have just recently retired, the information you'll learn in this class can deliver rewards throughout your lifetime. During this two-evening workshop, you will learn how to create an informed plan and set goals for a successful retirement.



Learn more and register for classes through the Summit University page on our website: summitadvisors.com/education/university/ OR call 925-866-7800.



FACING THE BEAR: WHAT TO DO WHEN MARKETS FALL

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Thus, about once every five years, an equity investor has seen her investment values fall 20% or more. Each seems scarier than the last because it is the one facing you at that moment, and the losses feel larger every time (because you typically have more invested as time goes on). However, it should also be mentioned that every bear market has ended, and spectacularly so! Despite all those frightful declines, \$10,000 invested in the S&P 500 in 1960 was worth almost \$5 million at the end of 2021¹. Even after enduring the current downdraft, the S&P 500 has averaged almost 10% compounded since 1960².

Price of Panic. They highlighted the six occasions where the market fell more than -30% since 1960 and compared the results of several types of investors. We invite you to focus on the *Equity Investor* and the *Balanced Investor* vs. the *Reactionary Investor*. Despite those bear markets, the *Equity Investor* (100% stock) had almost ten times the assets of the *Reactionary Investor*, and the *Balanced Investor* (50% stock, 50% bonds) had over five times as much as the *Reactionary Investor*! This analysis assumed that the *Reactionary Investor* panicked into Treasuries every time the market went down -30% and stayed there for 2 years before going back into the market. While it is doubtful that one would panic at exactly the -30% mark and get back in exactly 2 years later, the illustration is clear: the failure to participate in a recovering market significantly impacts return. Running from the bear can cost you big-time!

How Long Do Bear Markets Last?

S&P 500 Bear Markets Since 1950

Peak	Trough	% Decline	# of Days	Breakeven	# of Days	Years
7/15/1957	10/22/1957	-20.7%	99	9/16/1958	329	0.9
12/12/1961	6/26/1962	-28.0%	196	9/3/1963	434	1.2
2/9/1966	10/7/1966	-22.2%	240	5/4/1967	209	0.6
11/29/1968	5/26/1970	-36.1%	543	3/6/1972	650	1.8
1/11/1973	10/3/1974	-48.2%	630	7/17/1980	2114	5.8
9/21/1976	3/6/1978	-19.4%	531	8/15/1979	527	1.4
11/28/1980	8/12/1982	-27.1%	622	11/3/1982	83	0.2
8/25/1987	12/4/1987	-33.5%	101	7/26/1989	600	1.6
7/16/1990	10/11/1990	-19.9%	87	2/13/1991	125	0.3
7/17/1998	8/31/1998	-19.3%	45	11/23/1998	84	0.2
3/24/2000	10/9/2002	-49.1%	929	5/30/2007	1694	4.6
10/9/2007	3/9/2009	-56.8%	517	3/28/2013	1480	4.1
4/29/2011	10/3/2011	-19.4%	157	2/24/2012	144	0.4
9/20/2018	12/24/2018	-19.8%	95	4/23/2019	120	0.3
2/19/2020	3/23/2020	-33.9%	33	8/18/2020	181	0.5
Averages		-30.2%	338		603	1.7

Source: A Wealth of Common Sense; How Long Do Bear Markets Last? May 2022

On average, those bear markets fell 30% from their peak and lasted a bit less than a year. A full recovery averaged under two years, although in half of those bear markets, it was less than one year to recovery. While a bear market can be fearfully sharp, it is not permanent. For those who can stay the course, it may even be an opportunity.

Do Not Run from the Bear!

The Yellowstone National Park Service posts safety placards to advise hikers how to act if they encounter a bear in the wild. Each of those signs prominently displays the instructions to **DO NOT RUN** from a bear. Running can trigger the predator/prey instinct in a 600 lb. eating machine, possibly turning a bear encounter into a bear attack! Similarly, it is not advisable for an investor to panic and run from their holdings in a bear market. Losses are not permanent until you capitulate and sell. While the prices might be temporarily depressed, you still own the assets ... unless you run!

Hartford Funds created the accompanying graphic to illustrate the impact of selling in a bear market in their recent piece *The*

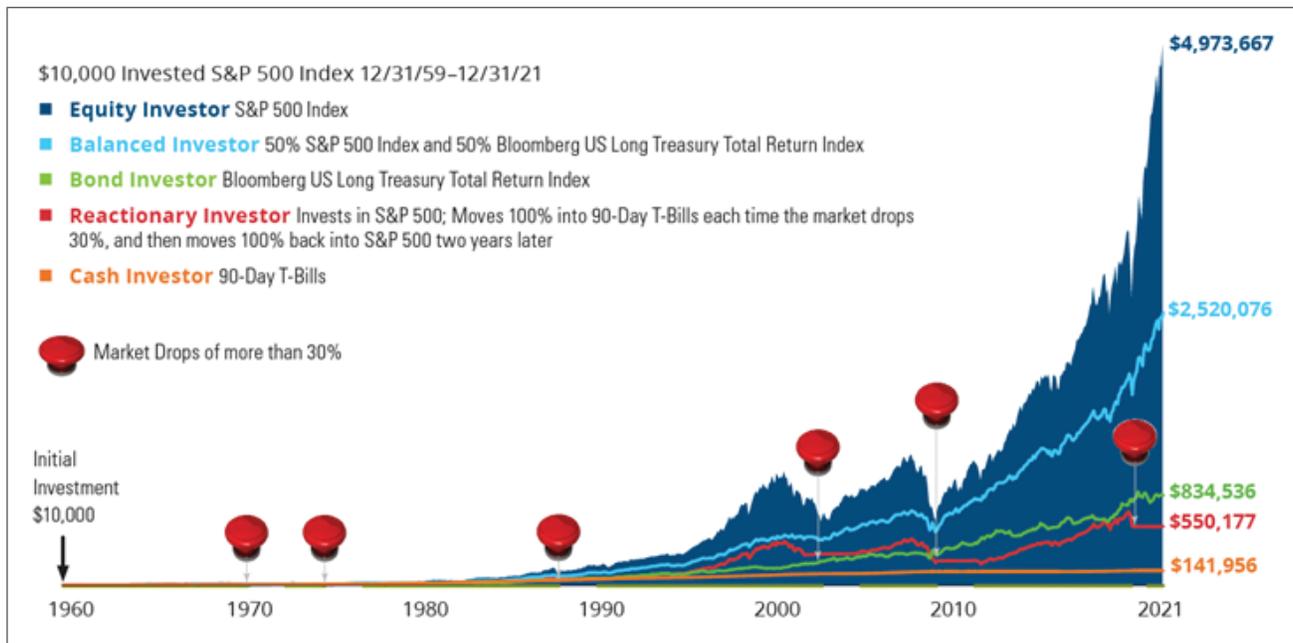
What Can You Do?

Fight Your Emotions – For most people, the pain of loss is far greater than the thrill of gain. Thus, when markets fall sharply, it is difficult for investors to remain calm and keep investing when the safety mechanism in their brain is telling them to do something! As illustrated previously, panicking during downturns can be hazardous to your investment results. Resist the temptation to go to cash or to stop your systematic purchases.

Manage Cash Flow and Spending – While no one wants to adjust their lifestyle, there is no question that reducing the outflow from your portfolio can help the assets last longer and have more time to recover from down markets. Hopefully, your financial plan anticipated the

ever-present possibility of a market pullback, and you have assets that can be spent without forcing a sale at a substantial loss. Even still, delaying large discretionary purchases, or curbing unnecessary expenses so that you can withdraw less from your portfolio can have a meaningful impact on your long-term growth. Similarly, those who are still accumulating assets for retirement can benefit by delaying large purchases and investing those dollars toward portfolio savings while markets are cheaper. Most importantly, talk with your advisor about the spending items you know are coming over the next 12-24 months. Surprise withdrawals during bull markets are quickly forgotten as market gains overcome the outflow, but extra withdrawals have a larger impact if one is forced to liquidate depressed assets to get the funds.

Tax Loss Harvest – Losses are no fun, but at least you can do some tax planning when they occur in taxable accounts. Assets sold at a loss create a capital loss for tax purposes. Capital losses can be used to offset capital gains in the same year and can be carried forward to future tax years (assuming there were not enough capital gains that year to fully utilize



the loss). By selling an asset that is down, you book the tax loss for future use. The important part of tax-loss harvesting is that you immediately reinvest into a security in a similar area of the market. Market timing is not the goal! Thus, if you sold the ABC Growth Fund, it makes sense to invest in the XYZ Growth Fund immediately³. If the market rebounds the XYZ Growth Fund is likely to perform similarly to the ABC Growth Fund that was sold, and you fully participate without being on the sidelines. The capital losses accumulated can be helpful in the future if you need to realize capital gains when rebalancing or withdrawing money.

Roth Conversions – The IRS allows you to convert pre-tax IRA dollars to tax-free Roth IRA dollars by paying the tax in the year of conversion. There is much to consider before doing a Roth Conversion, and we encourage you to read our [recent blog article](#) on the topic. However, all else being equal, when you convert pre-tax dollars that are depressed in value, you are paying tax on a lower dollar amount and letting the assets rebound in a tax-free vehicle. This can be attractive to those who can afford to pay those taxes from other funds and allow the full conversion amount to recover in the Roth IRA. Talk with your advisor before executing a Roth conversion. However, there are more factors to consider besides the market being “on sale”.

Be Bold if You Have Time – Famed investor Warren Buffet has been quoted as saying, “Be greedy when others are fearful,” and that applies in a bear market. If you have positive cash flow and can save into your portfolio when markets are depressed, you stand to profit when a recovery occurs. Even if you are no longer earning income, you might be able to opportunistically move conservative assets into equity investments if you know that you have enough other capital to make it through a few years of cash flow needs. Time is the critical component, however, because although bear markets recover (and historically quite substantially), there is no way to know when that will occur. Keep in mind that the typical

retirement spans over 30 years. Your time horizon might be longer than your emotions would have you believe – even if you are already retired!

Talk With Your Advisor – Sometimes it helps to talk with a coach. Although Summit advisors have been holding Zoom sessions, recording video messages, and proactively reaching out to clients, they cannot know exactly how you feel at this moment. Often, a quick conversation will help you level-set on your plan and make sure you are comfortable with the strategy for your portfolio. Bear markets are when advisors are at their best and needed most. Do not hesitate to reach out and lean into the support they can provide.

No one knows how long this downturn will last, if we will see an economic recession, or how long we must wait to recover lost ground. History tells us that these episodes are not permanent, and that recovery awaits on the other side. The trick is to hold your ground and avoid running from the bear. That gets a lot easier with an advisor to guide you, and a strategy to follow.

¹ Hartford Funds – The Price of Panic, May 2022

² Data from YCharts – S&P 500 price return from 1960 to June 22, 2022

³ ABC and XYZ funds are examples only and not actual securities. It was assumed they were in similar allocations with similar underlying holdings.

The S&P 500 Index is an unmanaged index of 500 stocks that is generally representative of the performance of larger companies in the U.S. Please note an investor cannot invest directly in an index.

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COMMUNITY CORNER

FROM BEAUTY QUEEN TO GIRLS' ADVOCATE



Kimberly Horikoshi (formerly Root) has held many titles: Stunt Performer, Martial Arts Black Belt, Wrestling Coach, and Ms. International Beauty 2021 to name a few. At Summit, her title is Executive Assistant to Summit Advisor and Partner, Nathan Bennett and Advisors Cody Smith and Nik Linton. Around the office, Kimberly is upbeat and approachable. Those qualities, combined with her petite stature may make it seem to the casual observer that she doesn't pose much of a threat. In reality, she could take a person down with a swift kick or wrestling move.

The daughter of an immigrant from former Czechoslovakia, Kimberly hails from Youngstown, Ohio, a city that defines grit. She became involved in martial arts almost 30 years ago. It was a passion for her father and older brother, so she naturally gravitated in that direction. Plus, she wanted to be like the Pink Power Ranger on TV who shared the same name. She now holds a 2nd degree black belt in American Kenpo and a blue belt in Brazilian JiuJitsu.

It was her skills in martial arts that led her to wrestling in 2004 as a senior in high school. (Coincidentally, that was the year women's wrestling became an official sport at the Olympics.)

A friend who knew her background thought she would be the perfect mentor for the only girl on the wrestling team and asked her to come to practice and work with her. The coach took note of her skills and told her she was on the team. Kimberly wasn't thrilled. "I told him, 'No, I'm not on the team.' And he said, 'YES, you are!'"

Wrestling would prove to be a challenging sport for Kimberly. She broke her two front teeth during the first match, requiring extensive dental work, but she didn't quit. More obstacles arose during the wrestling season as team after team refused to wrestle a girl. They would rather forfeit. "They didn't want to be the guy who 'beat up' a girl. And they especially didn't want to be the guy who got beat by a girl,"

Kimberly recalls. "When they did wrestle me, some of their arms were as big as my legs."

Flash forward to today, Kimberly recently completed her fourth year as an assistant coach for the Dougherty Valley High School wrestling team. There were six girls on a team of 40. The girls and boys practiced as one unified team at the school.



Girls' wrestling has been a sanctioned and recognized sport in California since 2011. That is not the case for many states in the country. Currently, only 34 states sanction girls' high school state tournaments. That means girls who wrestle in the remaining 16 states where the sport is not sanctioned do not have their own official state championship tournament. The only opportunity girls have to compete for an official championship is at a boys' tournament.

It was those statistics that spurred Kimberly to champion *Wrestle Like a Girl* during her recent run for Ms. International Beauty, which she won. The pageant is part of the Ms. America® Pageant Inc. system and is for women 26 years old and up. It was developed to promote and honor women, celebrate their accomplishments, and use their crown to support and encourage involvement in volunteer service.

Similarly, the mission of *Wrestle Like a Girl* is to empower girls and women using the sport of wrestling to become leaders in life. To accomplish this, the non-profit vows to increase wrestling access and opportunities for girls and women worldwide. "I want wrestling for high school girls to be sanctioned in all 50 states in the USA," said Kimberly. "I want to fight for their equality and work with state high school athletic governing bodies to help get girls' wrestling sanctioned and give girls the opportunities that I didn't have. I want them to have the opportunity to be scouted by

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colleges for their talents. The number of women's wrestling programs in colleges and universities is growing and girls can get more easily recognized in a sanctioned state."



After the pageant, Kimberly's home state of Ohio and the state of Iowa became the 33rd and 34th states to sanction the sport for girls. "I wish I could say that I had a hand in that, but the grassroots movements in each state worked tirelessly to get the job done."

Kimberly says that inspiring young women is the most meaningful part of being Ms. International Beauty. "I recently posted a Facebook status about my feelings on the sport of wrestling and a call to action to sanction the sport for girls across the country. The post had over 600 shares. The best part of it was having parents send me photos of their girls wrestling and telling me that I inspired them. I want to show women that they can be whatever they want to be, and they don't have to put themselves in a box. They can be strong *and* beautiful. They can be wrestlers *and* beauty queens. Their opportunities are endless, and they don't have to limit themselves. I want to lead by that example."

INTRODUCING CUTIE PIE CAMERON!

Summit advisor Brendan Noonan and his wife Amanda are thrilled to announce the birth of their daughter, Cameron Beverly Noonan.



Born on June 26, weighing 6lbs., 8oz, Cameron is the perfect addition to the Noonan family. Big sisters Ava (11) and Ella (8) are over the moon about their new baby sister.

Join us in congratulating them!



SUMMIT TRIVIA CHALLENGE



The answer to this quarter's question can be found on the Summit Facebook page (facebook.com/summitfinancialgroup/). Each person submitting the correct response will be entered to win a \$25 Starbucks gift card.

Congratulations to last quarter's winner, Julia Crane!

Ready? Here it is ...

What is the name of our summer intern and what sport does he like to play?

Know the answer?

Email it to angela@summitadvisors.com by August 15.

The Trivia Challenge winner will be notified via email.

CONTACT US



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