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**Gottesman Wealth Advisory**
**BMO Nesbitt Burns**

**Abe Gottesman,** CFA, MBA
Investment Advisor, Portfolio Manager

**Victoria Karkar**
Administrative Assistant

1 First Canadian Place
38th Floor

M5X 1H3
Tel: 416-359-7721
Toll Free: 1-800-263-2286

www.GottesmanWealthAdvisory.com

# New Year Newsletter

## Quarter 4, 2022

As we begin a new year, I thought it would be a good idea to look back on a chaotic 2022 and ask, "What are the lessons I need to learn?"

In the spirit of a Top 10 list—because who doesn't love a Top 10 list—here is what I came up with (with a little help from three friends):

1) **Bear markets happen:** I'm 50 years old and this is the seventh bear market in my adult life. They happen, a lot. In fact, you can pretty much expect two bear markets every decade for the rest of your life. You have to survive them to reap the benefits of bull markets.

2) **Setbacks are the result of those bear markets:** There is no strategy, or level of sophistication, that will guarantee you will never experience a setback while investing. Avoiding drawdowns while investing in the stock market is just short of impossible. What matters is how you deal with setbacks when they arrive

3) ***"Cash is the oxygen of freedom*" – Morgan Housel:** Investors who are sleeping well this year had a pile of cash they could point to and say: "That's going to get me through this bear market." Even if stocks are going straight up you need to maintain a cash reserve—and it should be untouchable. Why? Because of #4.

4) **Things change quickly, way quicker than we think**: For the better part of a decade we had zero rates and low inflation. That changed instantly in 2022 and the vast majority of people were caught off guard and struggled to understand why it was happening. 2021 was one of the best years ever to be an investor, 2022 is one of the worst. It happened that fast.

5) **Bonds and stocks can go down at the same time:** For decades the place to hide out when stocks fell was in bonds. It was very rare for them to lose money in the same year. In 2022 they both went down together. Just because something RARELY happens doesn't mean it CAN'T happen.

6) **When money is free, people do stupid things with it and that leads to instability:** In retrospect, the next time I see someone paying $1 million for a picture of a rock on the internet, it might be time to get more defensive. There was just too much money sloshing around the system last year while rates were at zero.

7) **The US Federal Reserve trumps all:** There's a reason they say, "Don't fight the Fed." If the Fed wants to slow the economy to reduce inflation, you don't want to stand in front of them. Alternatively, when they are easing it's a breezy tailwind.

8) **Stocks aren't the only investing vehicle:** "There's no yield for my cash" was something we heard for years; zero rates punished savers and basically forced them into stocks (TINA). Now, after the Fed did all that hiking, there are more attractive opportunities in bonds. Are you taking advantage of everything available to you outside of just stocks?

9) ***"Time horizon is everything"*– Ross Mayfield:** It defines one's risk tolerance, needs, and perspective. For a younger investor, a bear market might be celebrated—stocks on sale! A better entry point for long-term investing! For a retiree in the drawdown stage, it means something entirely different. Every single discussion about investing should start with two questions: "How long do I want to invest this money for?" and "What is the purpose of this money?"



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10) **Because we're human, this will never be easy:** The second-best bull market of all time ended in 2022; it was an incredible decade to grow and compound wealth. Yet investors are miserable because a bad 10 months feels worse than a good 10 years. That's why this is all so hard: greed and fear are timeless. *"The stock market is the story of cycles and of the human behavior that is responsible for overreactions in both directions." -Seth Klarman*



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