2021 Year End Commentary & 2022 Forecast

We hope this commentary finds you well. With 2021 behind us and the uncertainty of 2022 ahead we feel it's important to share our insights on what the New Year may bring. 2022 has started with some challenges, COVID, interest rate hikes and market volatility have been the headlines of the New Year, not to mention, the fact that we are in a mid-term election year.

As of January 7, here is a look at the various indices and their performance…

Asset Class Performance YTD, Last 6 Mths, and Last 12 Mths - Total Return (%)

US Related

ETF	Description	YTD	Last 6 Mths	Last 12 Mths
SPY	S&P 500	-1.87	8.01	24.60
DIA	Dow 30	-0.28	5.34	18.67
QQQ	Nasdaq 100	-4.52	5.49	21.18
IJH	S&P Midcap 400	-1.71	4.72	16.77
IJR	S&P Smallcap 600	-1.18	3.92	16.68
IWB	Russell 1000	-2.11	6.27	21.76
IWM	Russell 2000	-2.87	-2.84	4.78
IWV	Russell 3000	-2.12	5.72	20.57
IVW	S&P 500 Growth	-4.47	7.34	25.36
IJK	Midcap 400 Growth	-4.19	1.30	8.03
IJT	Smallcap 600 Growth	-3.60	3.16	10.41
IVE	S&P 500 Value	1.14	8.44	23.13
IJJ	Midcap 400 Value	0.86	8.16	25.56
IJS	Smallcap 600 Value	1.21	4.67	22.79
DVY	DJ Dividend	3.33	10.76	30.93
RSP	S&P 500 Equalweight	-0.60	7.66	25.15
FXB	British Pound	0.55	-1.71	-0.19
FXE	Euro	-0.14	-4.17	-8.31
FXY	Yen	-0.33	-4.58	-10.69
GBTC	Bitcoin Trust	-10.26	6.90	-31.65
ETHE	Ethereum Trust	-17.43	16.12	82.83
XLY	Cons Disc	-2.43	10.39	21.36
XLP	Cons Stap	0.40	12.04	19.22
XLE	Energy	10.52	20.89	54.86
XLF	Financials	5.43	14.13	35.44
XLV	Health Care	-4.64	4.94	16.70
XLI	Industrials	0.64	3.80	20.13
XLB	Materials	-1.45	9.29	18.27
XLK	Technology	-4.57	10.11	28.69
XLC	Comm Services	-1.60	-6.22	14.45
XLU	Utilities	-1.63	10.49	17.44

Global

ETF	Description	YTD	Last 6 Mths	Last 12 Mths
EWA	Australia	-0.85	-2.16	4.71
EWZ	Brazil	-2.85	-24.26	-19.83
EWC	Canada	-0.31	4.29	21.45
ASHR	China	-2.30	-3.68	-10.63
EWQ	France	1.26	7.26	19.34
EWG	Germany	1.01	-3.90	3.64
EWH	Hong Kong	0.99	-11.73	-5.29
PIN	India	2.02	13.49	23.92
EWI	Italy	1.25	4.18	12.07
EWJ	Japan	-0.43	-0.20	0.02
EWW	Mexico	0.32	7.56	16.43
EWP	Spain	2.02	-3.57	-2.71
RSX	Russia	-2.66	-4.90	8.21
EWU	UK	2.53	5.64	14.35
EFA	EAFE	0.11	1.35	8.51
EEM	Emerging Mkts	0.08	-7.69	-6.49
IOO	Global 100	-0.71	7.78	23.53
BKF	BRIC	-0.45	-12.99	-14.03
CWI	All World ex US	0.10	-0.87	5.31
DBC	Commodities	2.21	13.34	40.48
DBA	Agric. Commod.	0.46	11.46	23.08
USO	Oil	4.25	16.46	64.12
UNG	Nat. Gas	4.24	3.83	34.23
GLD	Gold	-1.88	-0.60	-6.54
SLV	Silver	-4.14	-14.93	-18.37
SHY	1-3 Yr Treasuries	-0.29	-0.93	-0.98
IEF	7-10 Yr Treasuries	-1.97	-2.97	-4.13
TLT	20+ Yr Treasuries	-4.00	-3.20	-4.85
AGG	Aggregate Bond	-1.39	-2.15	-2.34
BND	Total Bond Market	-1.40	-2.21	-2.31
TIP	T.I.P.S.	-2.30	1.03	3.53

(Chart courtesy of BESPOKE)

Coming out of the sharp decline from COVID in March of 2020, U.S. companies have outperformed international and developing markets. Specifically, large companies focused on growth have outpaced most other areas of the market with much of the performance coming from the top 10 names in the S&P 500. As the world continues to recover from the devastating effects of COVID we anticipate opportunities in certain areas of the market.

In terms of what was different in 2021, we start with the 800lb Gorilla in the room and that's inflation/interest rates. Interest rates and bond prices work inversely, meaning that when interest rates rise, bond prices fall. It was a difficult year for bond/fixed income investing. The traditionally conversative asset class has lagged and even turned negative in 2021, *(see oval on first chart.)* The good news, is that in the last 50 years bonds have not had 2 consecutive negative returns (Bloomberg

Barclays US Aggregate Bond Index). We are watching this asset class closely and exploring opportunities to continue to generate income and safety in your portfolios.

What now…

We see three major events that will play out in 2022: COVID Variants, Inflation, and the mid-term elections.

COVID

Just when you thought we might be set to receive some relief on the Delta variant from increased vaccinations and new therapeutics, along comes the Omicron variant.

The new variant was discovered in southern part of the African continent. Since the discovery, we have seen cases showing up all over the world. Infection rates and hospitalizations in the U.S. are now the highest we've seen since the start of the pandemic.

Fear and greed are strong emotions which drives many short-term market moves. We employ a disciplined process designed to minimize risk and maximize returns by taking out much of the emotion and "noise" in our investment strategies. Long-term investment principles still hold true, even during these turbulent times.

Not knowing the long-term effects off COVID and its variants, we look to various economic indicators to analyze the economic environment for the coming year. As shown below, the ***Leading Economic Index*** (LEI), the U.S. economy remains strong and well above the pre-pandemic high. Historically, the average span between LEI highs and recessions (gray bars) has been 12 months.

(Chart from St. Louis Federal Reserve Bank)

The market does not like uncertainty, we expect continued volatility as the world continues to navigate COVID and its effects. However, we remain optimistic and believe this variant will playout like other variants. We believe our disciplined approach to wealth management will be our greatest combatant to market volatility. Each new challenge provides future opportunity.

INFLATION

Milton Friedman said, "Inflation is taxation without legislation." Some will argue that is bad policy, whether it be monetary (Federal Reserve) or fiscal (Government), is the real culprit of the current global bout of inflation but we at FIT have less time to play sides as we invest real dollars for real people.

Typically, the investments that have performed best during inflation are:

1. **Stocks** – this assumes the pace at which the Fed increases interest rates is measured and not accelerated. We are watching this closely.
2. **Gold** - we have never been big believers in gold due to a lack of yield or free cash flow. Although it might work as "the currency without a promise behind it" we don't see a lot of long-term utility in gold.
3. **Commodities** - we do see some utility in investing in commodities more broadly. Commodities act more as a window into inflation as prices rise. Owning commodities can put you on the side of participating in the increased pricing of goods and services.
4. **Real Estate** - rents tend to go up in inflationary times. Getting yourself on the right side of pricing power is always a good inflation play.

We are exploring other methods for protecting against inflation such as inflation protected bonds & leveraged loans. We are also exploring crypto currencies. Currently, we don't feel there is enough evidence to support a large investment in cryptocurrency.

Today, we sit in a unique position as there is both a push and a pull leading to higher prices. The push is coming from the labor force as we see more job openings and more people leaving the workplace. Labor is demanding better work life balance in skilled positions and higher wages from the service sector.

As shown below, the median wage is increasing at an annual rate of more than 4%, per the Atlanta Fed's wage tracker; with the lower end of the income spectrum experiencing the fastest wage gains.

(Chart from St. Louis Federal Reserve Bank)

The pull is coming from the numerous supply constraints that are bottlenecked in the global economy. The global supply chain continues to see disruptions. Producing, transporting, and/or dealing with the regulation of raw materials to produce goods is seeing challenges we haven't seen for over 40+ years. Microchips needed in the manufacturing of everything from cell phones to automobiles are months, if not years, behind in production. If any of you have tried to buy a new or used auto, you know what I'm talking about.

Will both trends continue? It is hard to say. One of the biggest drivers of the stock market has been strong earnings reports led by upward earnings revisions. As we move into 2022, we know continued upward revisions will be challenged to keep pace with what we've seen in the last decade.

We continue to research and act as the situation becomes more fluid. It is important to remember that the inflation tail should never wag the investment dog. The plan we have set for you is meant to be followed over the long term. Sticking to your goals and not trying to time events has always been the best strategy.

THE 2022 MID TERM ELECTIONS

It's a little early to be processing this one but we know it'll be the conversation of many as 2022 progresses.

It appears 2022 mid-terms look to be typical as there is an expected change coming from the current power structure in the House and, possibly, the Senate.

Since World War II the President's party has lost an average of 26 seats in the house and 4 seats in the Senate during mid-term elections. Some recent examples, Trump lost 40 seats in the house and gained 2 Senate seats during his presidential term, Obama lost 63 & 13 seats in the house and lost 6 & 9 seats in the Senate in his two terms, and George W. Bush gained 8 seats in the house in his first term and lost 32 seats in his second term while gaining two seats in the Senate and then losing 6 seats (Wikipedia).

Regardless of these one-eighty turns from one party to the other, the results for the stock market are telling. Going back to 1950 the S&P 500 averages 6.5% in the year after a presidential election, 7% in the second year, 16.4% in the third year and 6.6% in the last year of the first, or only, term of the president (Charles Schwab, 2016). The outperformance is mind blowing in the third year, or the year after the mid-terms, of the presidential cycle. The best explanation I can give is gridlock. The inability of congress to enact legislation might be the best answer. My point is not to insult our legislators but to point out that the market doesn't like uncertainty. When there is a stalemate very little can change.

We'll continue to monitor as the story develops. Polling has become highly inefficient as technology has made it harder to poll people in traditional ways. We also feel that the highly charged political environment is causing many individuals to maintain privacy when it comes to personal beliefs.

2022 will be a year of knowns and unknowns and that will produce volatility. Our best defense against short term volatility is by having a plan in place that is customized to your ability to balance reward with risk. As the year progresses, we will be reaching out to make sure your plan is on track.

FINAL THOUGHTS…

FIT was created to address a wide range of planning considerations.

After seventy one plus years of working with the markets, the three of us have become accustomed to sleeping at night in the most volatile of times. Whether it was the Tech Bubble in 2000, the Financial Crisis of 2007 or even the most recent Pandemic of 2020, we have built up a thick skin dealing with these types of "Black Swan" events (Btw…Brian owned his first stock during the crash of '87). In other words, been there, done that. Our process has been proven to work overtime and we take comfort in it. Please remember that we aren't just the owners of FIT, we eat our own cooking. We are clients of the same portfolio's we build for most of you based on our own personal risk tolerances.

What will keep us up at night is knowing that you, the backbone of the FIT family, might not be aware of what we can help you with. Here are some of the things we keep top of mind:

1. Retirement Plans – having updated beneficiary designations is a must, both primary and contingent. It's a good place to start. Haven't started a retirement plan? Let's start a conversation to see if we can find a good strategy for you and your family.
2. Establishing Wills, Trusts, Powers of Attorney and Medical Directives.
3. Are you approaching 65? Do you have a plan for Medicare in place? Have you considered your Social Security strategy yet?
4. Do you need a review of your insurance strategy? We have great internal & external resources for your life, health and property/casualty needs.
5. Taxation. We are constantly reviewing the changes and proposed changes in the tax code. We often talk to the accountants that partner with our clients to see if we can help in finding solutions that work.

We are constantly reviewing what conversations we need to have with you as we meet during the year. If you see something here that you want to emphasize in our next review, please let us know and we will do our best to address your concerns and/or curiosity.

With wealth and growth comes complexity. There are things we can suggest along the way. Aaron has held his CFP® for 11+ years and Bill passed his CFP® back in 2021 after an intense and extensive yearlong master's level educational program. We pride ourselves on helping you navigate through these items and consulting on what needs to be done. Accountants do a great job with taxes and attorney's draft documents but both professions rarely give planning advice. We can't do your taxes or draft documents, but we do pride ourselves on making sure you have direction when dealing with both. If you feel it necessary for us to work directly with either your accountant or attorney, please feel free to make an introduction for us, we'd be more than happy to meet them. The beauty of it all is we do this as a service for all our investment advisory clients.

In conclusion, it is most likely that the themes of our investment forecast will change every year, but the underlying premise remains the same; have a customized plan in place that will serve you in the long run. Financial planning does see adjustments but it is more static by nature. If 2022 is the year we get it all done, then it will be one of the most productive FIT years yet…

Welcome to 2022.

Brian, Aaron and Bill