Winter 2022

The Wall of Worry

An old Wall Street expression, “the market climbs a wall of worry,” aptly summarizes how investors are continually concerned about *something*. When the market is up, investors worry that it is “overheated” or at “an all-time high.” When the market begins a plunge or correction, investors worry about contagion, the chance that one small event will cause a chain reaction leading to a global market collapse.

As we celebrate the beginning of 2022, the media reports concerns about inflation, a transformation in the Federal Reserve (the “Fed”) policy and the Omicron coronavirus variant. *Should we be concerned about these issues? Will they impact our savings and the quality of our retirement?* In our last Market Review, we offered up some techniques to help us worry less and stay focused on the long-term. In this quarter’s letter, we address the current areas of worry and offer some perspective.

Sticker Shock

Let's start with inflation. Over the last year, we've all had sticker shock watching prices of products we normally purchase rising more than normal, or becoming just plain unavailable. Much of this is because the end of COVID-19 lockdowns unleashed pent-up demand, alongside a crippled global supply chain.

THE WALL STREET JOURNAL.

Supply-Chain Issues Leave New Homes Without Garage Doors and Gutters

Home builders blame bottlenecks for huge backlog of uncompleted homes

By Nicole Friedman/Photography by Brandon Tribodeaux for The Wall Street Journal

Jan. 9, 2022 5:30 am ET

The supply chain is a complicated set of activities and infrastructure that bring goods and services from producers to consumers. Because of labor shortages, and the fact that much of manufacturing and assembly takes place in countries more vulnerable to the impact of COVID-19, restarting the supply chain has been difficult. Prices tend to rise when demand is high and supply is limited. Commodity prices such as gasoline were the biggest drivers of a 6.8% increase in the Consumer Price Index (CPI) in November, 2021.

Supply and demand imbalances do tend to work themselves out over time. We protect **Rebalance** clients against inflation by owning investments that rise in price as much or more than the rate of inflation.

When companies are able to pass on higher costs to customers, for instance, they are able to maintain (if not expand) profits, which in turn increases dividends, earnings and, often, stock prices, too.

U.S. stocks and real estate stocks (REITs) have protected investors against inflation for decades. Last year, corporate profit margins continued to expand despite price pressures, helping S&P 500 earnings reach an all-time high in each of the first three quarters of the year. In fact, from January 1975 to February 2021, the CPI rose at an annual rate of 3.6%, compared to the S&P 500 Index increase of 12.3% and an average gain for REITs of 11.9%. Gold returned just 5% annualized over the same period — one reason why it is not included in **Rebalance** portfolios.

"Fed" Up with COVID?

Against a backdrop of very strong demand, the Federal Reserve signaled that it will slow down bond purchases in 2022 and begin to raise short-term interest rates in response to higher inflation and stronger employment. The U.S. is no longer in an economic emergency and policy should be adjusted. In past periods of gradual Federal Reserve tightening against a backdrop of strong growth, stocks continued to perform well even as short-term interest rates rose.

No one saw Omicron coming and COVID-19 is still a wild card that may weigh on the global healthcare system, on travel, the workplace, and growth potential for the foreseeable future. Highly contagious variants and the most recent wave of infections are impacting even the fully vaccinated and boosted.

While the restrictions from COVID-19 have had broad economic impact, society has had a couple of years to adapt. Our experience with the coronavirus, vaccines and "herd immunity" — protection from virtual contagion that results from mass vaccination, widespread exposure or a combination of the two — should continue to dampen the impact on businesses. Scientists at Pfizer said that they believe COVID-19 will become endemic by 2024, but it remains an unpredictable pandemic in 2022.

We have created a "Wall of Worry" chart (Appendix A) to illustrate that, historically, investment portfolios always recover. As long you do not bet on segments of the global economy (such as energy or tech stocks), and use the **Rebalance** investment approach of broad global diversification, research and history suggest that your savings will continue to appreciate.

Today's stock market "wall of worry" includes inflation concerns, a less accommodative Fed, new, ultra-contagious coronavirus variants and the $1.8 trillion "Build Back Better" bill hanging in the balance. But these factors are understood and have been largely incorporated into stock prices. Stock market risk is more related to something unexpected happening, e.g. the Fed is unexpectedly aggressive, new variants, or inflation that is more persistent than expected.

Take a few minutes to read through, year-by-year, the last pages of this letter, in which we track yearly worries dating back to 1934 and corresponding changes in the S&P 500 Index. You will note that not even wars, tech bubbles, credit defaults, pandemics, currency devaluations, nor inflation could stop the upward climb of a capitalistic system.

Consider that:

- for over 100 years stocks have roughly doubled every eight years,
- a dollar invested 50 years ago in the S&P is worth well over $100 today, and
- there is no five-year period where the S&P did not register a positive return.

Sure, it will take some time to fill concert venues, cruise ships and to reinvigorate foreign travel. As we move forward into 2022, the **Rebalance** Investment Committee will make note of what is giving investors pause and maintain a long-term focus, knowing that, most of the time, the things we worry about do not amount to much. Stock prices always adjust to perceived risks, creating a wall of worry that the stock market ultimately climbs.

We hope that you had an enjoyable holiday season and that the new year's concerns never materialize!

World Markets Review

Fourth Quarter 2021

Q4 2021	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
	Stocks				Bonds	
	9.28%	3.14%	-1.31%	12.35%	0.01%	0.07%

Since Jan 2001	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Avg. Quarterly Return	2.5%	1.7%	2.9%	2.7%	1.1%	1.1%
Best Quarter	22.0% Q2 2020	25.9% Q2 2009	34.7% Q2 2009	32.3% Q3 2009	4.6% Q3 2001	4.6% Q4 2008
Worst Quarter	-22.8% Q4 2008	-23.3% Q1 2020	-27.6% Q4 2008	-36.1% Q4 2008	-3.4% Q4 2016	-2.7% Q2 2015

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net dividends]), Emerging Markets (MSCI Emerging Markets Index [net dividends]), Global Real Estate (S&P Global REIT Index [net dividends]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2022, all rights reserved. Bloomberg data provided by Bloomberg.

The **Rebalance** Investment Committee works with two broad asset classes as the basic building blocks of our client portfolios: Growth and Income. During the fourth quarter of 2021 these asset classes performed as follows:

Growth Asset Classes

Large U.S. Stocks. Large company stocks rose in the fourth quarter of 2021, finishing a positive year on a strong note despite a resurgence of the COVID-19 virus, lingering inflation and supply chain issues, and the knowledge that the Federal Reserve will likely become less accommodative in 2022. U.S. stock markets rallied, driven by record company earnings and profitability and continued strong consumer demand.

Small Cap Stocks. Like their large-cap counterparts, small company stocks also rallied in the fourth quarter of 2021. The collection of companies that make up small-cap indexes are often the most economically sensitive and they responded well to continued growth in the U.S. economy throughout the year.

International Developed Stocks. Developed markets outside of the U.S. were up after a late-quarter rally but finished well behind U.S. large cap stocks in 2021. The Omicron variant of the coronavirus caused renewed travel restrictions in Europe, limiting travel and economic growth. The euro consistently weakened vs. the dollar during 2021, further weighing on performance.

Emerging Market Stocks. Growth and regulatory issues in China are negatively impacting Chinese stocks and emerging market indexes, which had a difficult fourth quarter and full year relative to developed markets. Currency movements also worked against emerging markets. Valuations for emerging market stocks are well below historical averages.

Real Estate. The recovery in commercial real estate continued in the fourth quarter of 2021. Improving fundamentals, as well as the attraction of real estate as an inflation hedge, drove positive performance in the fourth quarter for REITs, which were also one of the top performing asset classes in 2021.

Income Asset Classes

U.S. Government Bonds and TIPS. Despite strong inflation readings, interest rates as measured by the 10-Year Treasury note stayed relatively stable during the fourth quarter, perhaps because of the negative economic influence of continued COVID-19 outbreaks and the view that consumer price increases are temporary. TIPS turned in a positive three-month performance because of inflation adjustments while government bond prices fell to conclude their worst year since 2013.

U.S. Corporate Bonds. Investment grade corporate bonds weakened slightly in the fourth quarter as inflation and COVID-related concerns caused investment risk (spreads) to increase, pressuring prices. Investment grade corporates had become somewhat expensive in 2021 relative to history and were extra vulnerable to any threats to fundamentals.

High Yield Corporate Bonds. U.S. high-yield bonds rose slightly in the fourth quarter and finished the year in positive territory. Investors sought out credit risk in 2021 vs. the interest rate risk inherent in higher quality government and corporate bonds, continuing a trend that started in 2020.

Emerging Market Bonds. Emerging market sovereign debt often is issued in U.S. dollars and suffers when the dollar strengthens vs. the local currency of the issuing country. This happens because the debt payments in dollars effectively are increased when the local currency weakens. While emerging market bonds were up fractionally in the fourth quarter, they were negative for 2021.

Preferred Stocks. As a "hybrid" security that is part fixed income and part equity, preferred stocks often are influenced by forces influencing both stock and bond markets. In the fourth quarter of 2021, preferred stocks were positively influenced by the same forces pushing stocks higher and because of their premium dividend yields.

The Rebalance Investment Committee

The **Rebalance** Investment Committee meets several times a year to review our client portfolio options, asset class selections, and overall economic factors. The Committee's goal is to curate client portfolios that generate the most investment return for the least amount of risk.

The Rebalance Investment Committee meeting in New York, April 2019 (left to right: Scott Puritz, Charles Ellis, Jay Vivian, Burton Malkiel, and Mitch Tuchman)

In April 2021, slight modifications were made to client portfolios. **Rebalance** income portfolios, for investors seeking more of their total return from income and also less volatility, were revised toward more dividend paying stocks both in the U.S. and internationally.

In the equities portion of **Rebalance** growth portfolios, we rebalanced between our funds to be more consistent with the global equity benchmark, and to provide investors returns that come more from capital appreciation than income.

- Emerging markets had grown to 12% of the benchmark from 8% last year, so this weighting was increased.
- Smaller company U.S. stocks had a large run-up since the onset of COVID-19. As a result, this tilt was decreased and the funds reallocated to the broad U.S. market.

Rebalance and its clients are fortunate to have such respected and savvy financial experts guiding key investment decisions.

Professor Malkiel is an emeritus Princeton University economics professor, a former board member of The Vanguard Group, and the author of the investment classic *A Random Walk Down Wall Street.*

Dr. Ellis was Chairman of the Investment Committee of the famed Yale Endowment, the managing partner of Greenwich Associates, a consultant to large institutional investors, and served on the governing boards of The Vanguard Group, Yale, Harvard, NYU Stern, Exeter, the Whitehead Institute, and the Robert Wood Johnson Foundation.

Jay Vivian is the former Managing Director of the IBM Retirement Funds, responsible for over $100 billion in IBM investment funds for more than 400,000 employees worldwide.

We thank them for their input and wisdom.

Very truly yours,

Your **Rebalance** Team

Appendix A

The Stock Market Climbs A Wall of Worry

The world is a scary place. Every year, there are new things to worry about. But through it all — World Wars, violence, recessions, depressions, hurricanes, terrorist attacks and other catastrophes — the Global Stock Market has continued to grow over many decades.

Year	Events	S&P 500 Total Returns*
1934	Massive Wall Street reforms passed; National Recovery Act price controls; Hitler declares himself Fuhrer	-1%
1935	Italy invades Africa; Hitler rejects Versailles treaty; Dust Bowl; Social Security Act; NRA overturned	47%
1936	Hitler occupies Rhineland; Nazi appeasement; Spanish Civil War; top US tax bracket hits 79%	32%
1937	Short but sharp US recession - Capital spending & industrial production drop; Japan invades China	-35%
1938	Nazis annex Austria and invade Czechoslovakia; New England hit by major hurricane	29%
1939	Germany & Italy sign military pact; Britain, France and Poland form alliance Poland invaded, beginning WWII	-1%
1940	France falls to Hitler; Battle of Britain; top US income tax bracket over 81%; Wall Street regulations passed	-11%
1941	Pearl Harbor; Germany invades USSR; US declares war on Japan, Italy & Germany	-13%
1942	Wartime price controls; Battle of Midway; top US income tax bracket over 88%	19%
1943	US Meat & Cheese rationed; price & wage controls; major U-boat attacks; fed. deficit exceeds 30% of US GDP	25%
1944	Consumer goods shortages; Allies invade Normandy; top US income tax bracket hits record 94%	19%
1945	Post-war recession predicted; Invasion of Iwo Jima; FDR dies; Atom bomb dropped in Japan, Europe in ruins as war ends	36%
1946	US net debt exceeds 100% of GDP; Employment Act of 1946 passed; Steel & shipyard workers strike	-8%
1947	Cold War; high US inflation; Israel/Palestine debate swirls; Indo-Pakistani War; Communists take Hungary	5%
1948	Berlin blockade; US seizes railroads to avert strike; Israel independence, immediately invaded; US recession	6%
1949	Russia explodes atom bomb; Britain devalues the pound; Communists control China; Taiwan/China tensions begin	18%
1950	Korean War; McCarthy and the "Red Scare"; China invades Tibet; Global population exceeds 2.5 billion	31%
1951	Excess Profits Tax; Rosenberg trial; Korean War continues; US tests H-bomb; Marshall Plan ends	24%
1952	US seizes steel mills to avert strike; Egyptian revolution' Jordanian coup; America's polio scare hits a high	18%
1953	Europe hit by North Sea floods; Russia explodes H-bomb; Recession; Stalin dies; Korean War ends	-1%
1954	Dow 300 - fear of heights; Taiwan/China conflict; French Indochina War; Brown v. Board integration debate	53%
1955	Eisenhower illness; Warsaw Pact formed; North Vietnam invades South; US 7th Fleet aids Taiwan's army	33%
1956	Suez Crisis - Israel and Egypt fight; Asian flu; Hungarian Revolution crushed by Soviets;	7%
1957	Russia launches Sputnik; Recession; Little Rock Central High integration crisis; Eisenhower suffers stroke	-10%
1958	Recession; Taiwan/China conflict; Marines dispatched to Beirut; Khrushchev attempts to unify control of Berlin	44%

*Includes reinvested dividends

Appendix A (cont.)

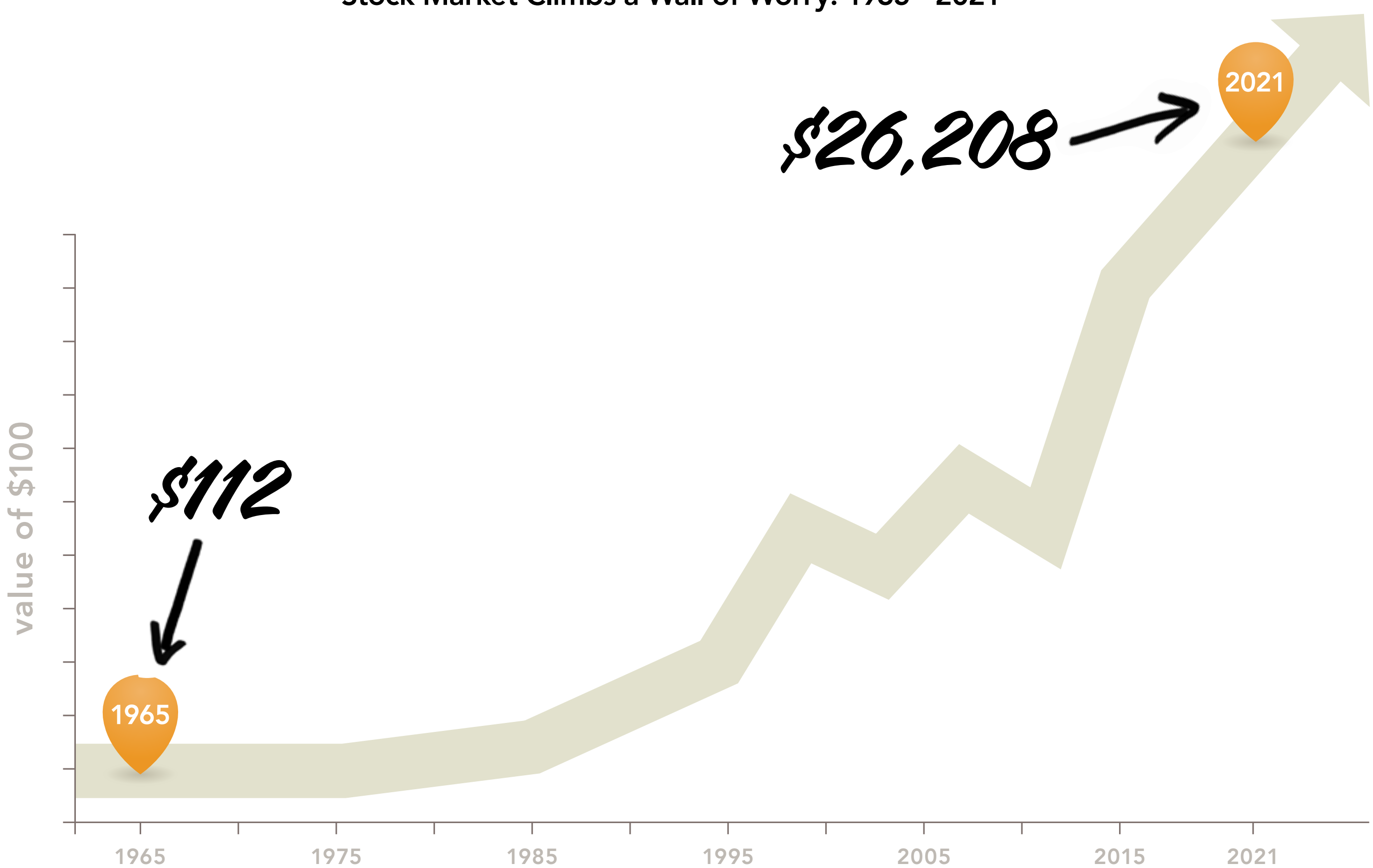
Year	Events	Global Stock Market Returns
1959	Castro seizes power in Cuba; US steel strikes; Cuban-backed revolt in Dominican Republic fails	12%
1960	Recession; Russia downs U-2 spy plan' Castro nationalizes foreign property; Global population over 3 billion	0%
1961	Berlin Wall erected; Green Berets sent to Vietnam; Bay of Pigs invasion fails; Freedom Riders-civil rights debate	27%
1962	Cuban Missile Crisis; JFK cracks on steel prices, Cuba embargo; China/India fight	-9%
1963	President Kennedy assassinated; South Vietnam government overthrown; integration/segregation debates swirl	23%
1964	Gulf of Tonkin; Race riots; Brazil coup d'état; segregation abolished; Khrushchev deposed-USSR leadership uncertain	16%
1965	Civil rights marches; regular US troops in Vietnam; India/Pakistan war; China/Taiwan naval battle; US draft card burnings	12%
1966	Vietnam War escalates; Nigerian coup; Chinese Cultural Revolution begins-results in millions of deaths	-10%
1967	US race riots, British Parliament votes to nationalize 90% of steel industry; Six-Day War between Israel and Arab nations	24%
1968	USS Pueblo seized; Tet Offensive; Martin Luther King & RFK assassinated; Watts riots; Bitter election campaign	11%
1969	US recession; Prime rate at record high; N. Korea down US navy plan; Ghaddafi takes Libya	-8%
1970	US invades Cambodia; Bankruptcy of Penn Central; Aussie Poseidon bubble bursts; Kent State shootings	4%
1971	Wage & price freezes; Bretton-Woods era ends, gold standard abolished; US Dollar devalued	14%
1972	US mines Vietnamese ports; Israeli athletes murdered at Munich Olympics; Iraq nationalizes oil companies	19%
1973	Energy crisis-Arab oil embargo; US recession begins; Watergate scandal; Agnew resigned; Yom Kippur War	-14%
1974	Steepest market drip in four decades; Nixon resign; Yen devalued; Franklin National Bank collapses	-26%
1975	NYC bankrupt; North Vietnam wins war; UK nationalizes automaker; Spanish dictator Francisco Franco dies	37%
1976	OPEC raises oil prices US government takes over many private railroads; Lebanese Civil War	24%
1977	Social Security taxes raised; Spanish neo-fascists attack during political assembly; NYC blackout	-7%
1978	Rising interest rates; US net debt crosses $600 billion, double 1970's level; Cleveland, Ohio defaults	7%
1979	CPI inflation spikes; Three Mile Island nuclear disaster; Iran seizes US embassy; USSR invades Afghanistan	19%
1980	All-time high interest rates; Love Canal; Iran-Iraq War; Chrysler bailout; Silver crash; Carter blocks grain exports to USSR	32%
1981	Steep recession begins; Regan shot; Energy bubble bursts; AIDS identified for the first time; Israel bombs Iraqi nuclear facility	-5%
1982	Worst recession in 40 years-profits plummet; Unemployment spikes; Falklands War; US embargoes Libyan oil	20%
1983	US invades Grenada; US embassy in Beirut bombed; WPPSS biggest muni bond default ever; US net debt hits $1 trillion	22%
1984	FDIC bails out Continental Illinois; "Ma Bell" monopoly broken up; Net debt his $1.5 trillion-double 1980 level	6%
1985	Arms race; Ohio banks closed to stop run; US is largest debtor nation; Net debts hits $1.5 trillion-double 1980 level	31%
1986	US bombs Libya; Boesky pleads guilty to insider trading; Challenger explodes; Chernobyl	18%
1987	Record-setting single day market decline; Iran-Contra investigation blames Reagan; World population hits 5 billion	6%
1989	Tiananmen Square; SF earthquake; US troops in Panama; Exxon Valdez spill; S&L crisis-500+ banks fail, RTC formed	31%
1990	Recession begins; Consumer confidence plummets; Iraq invades Kuwait-tensions rise; German reunification fears	-3%

Appendix A (cont.)

Year	Events	Global Stock Market Returns
1991	US begins air war in Iraq; Unemployment rises to 7%; Irish terrorists attack 10 Downing Street; USSR collapses	30%
1992	Hurricane Andrew devastates Florida; Race riots in LA following LAPD acquittals; Recession fears; Bitter election contest	7%
1993	Tax increase; World Trade Center bombed; European double-dip recession; British pound devalued	10%
1994	Attempted nationalized health care; Mexican peso crisis; Former Yugoslavia descends into civil war, Kim II Sung dies	1%
1995	Weak dollar panic; Clinton bails out Mexico; Aum Shinrikyo sarin gas attacks in Japan; Oklahoma City bombing	37%
1996	Fears of inflation; Whitewater investigation; Khobar Towers bombing; Greenspan cities investors' "irrational exuberance"	23%
1997	Tech "mini crash" in October & "Pacific Rim crisis"; China takes control of Hong Kong; Iraq disarmament crisis swirls	33%
1998	Russian Ruble crisis; "Asian Flu"; Long-term Capital Management debacle; US embassy bombings in Africa	28%
1999	Y2K paranoia & correction; Clinton impeached; Venezuela's Hugo Chavez takes power; War in Balkans	21%
2000	Dot-com bubble begins to burst; Gore v. Bush-hanging chads & contested Presidential election; USS Cole bombed	-9%
2001	Recession; September 11th terrorist attacks; IRA bombs BBC; US/Afghan War; Contentious Patriot Act becomes law	-12%
2002	Corporate accounting scandals; Sarbanes-Oxley Act passed; Terrorism fears; Tensions with Iraq and "Axis of Evil"	-22%
2003	Mutual fund scandals; Conflict in Iraq; SARS; Space Shuttle Columbia explodes; Israeli airstrikes within Syria	28%
2004	Fears of a weak dollar and US "triple deficits"; Madrid train bombings; Indian Ocean tsunami kills over 100,000	11%
2005	Tension with North Korea & Iran; Hurricane Katrina; Oil price spikes to $70; 7/7 London bombings	5%
2006	North Korea testing nuclear weapons; Continued war in Iraq & Afghanistan; Mexican Drug War begins	16%
2007	Financials take writedowns; Significant accounting rule changes; Israel strikes suspected Syrian nuclear facility; Subprime	5%
2008	Global financial panic; Steepest calendar year stock market declines since 1930s; oil exceeds $140; government bailouts	-37%
2009	Unemployment exceeds 10%; Massive global fiscal and monetary stimulus; US automaker bailouts	26%
2010	PIIGS sovereign debt scares; Double-dip recession fears; "Flash Crash"; US health care and financial reform laws passed	15%
2011	Arab spring; Japanese earthquake and tsunami; Continuing PIIGS sovereign debt concerns; Bin Laden killed; US downgrade	2%
2012	Bank ratings slashed; LIBOR scandal; Superstorm Sandy; European bailout; Middle East wars	16%
2013	US 'sequestration'; Boston Marathon bombing; government shutdown; Detroit bankruptcy	32%
2014	3rd Europe recession since '08; African Ebola; Russia attacks Ukraine; ISIS emerges; oil crashes	14%
2015	Oil crashes nearly 50%; ISIS bombings; Greece defaults on billions; China slows; Putin invades Ukraine; Euro bonds negative	1%
2016	Global stocks crash nearly 10%; Brexit shocks Europe; first Fed rate hike in a decade; Wells Fargo scandal; Trump elected	12%
2017	President Trump sworn in; U.S.-North Korea tensions flare; major hurricanes in Texas, Florida, Puerto Rico	22%
2018	Trade war begins; two government shutdowns; Democrats take the House; U.S. leaves Iran nuclear deal	-4%
2019	Longest U.S. government shutdown in history; terror attacks in New Zealand; Mueller report released; House impeaches Trump	31%
2020	Covid 19 pandemic causes global economic shutdown, Trump loses election, workers and students go remote	18%
2021	Global pandemic continues, January 6th attack on Capital, inflation surges, Federal Reserve signals policy tightening	29%

Appendix A (cont.)

Stock Market Climbs a Wall of Worry: 1965 - 2021



Year	1965	1975	1985	1995	2005	2015	2021
Value of $100 (beginning 1/1/1965)	$112	$156	$538	$2,324	$5,490	$11,051	$26,208