Stanley Katz

From:	Dan Wiener and Jeff DeMaso <customerservice@exct.investorplace.com>
Sent:	Thursday, August 4, 2022 3:45 PM
To:	skatz@rsanet.com
Subject:	AdviserOnline Hotline: Recession, Schmecession

THE INDEPENDENT ADVISER for Vanguard Investors

August 4, 2022

WEEKLY HOTLINE

Recession, Schmecession

Hello, this is Dan Wiener with the *FFSA Vanguard Hotline* for Thursday, August 4.

There are no changes recommended for any of our Model Portfolios.

Last week we learned that the economy—measured by real GDP—contracted in both the first and second quarter this year. In my book that doesn't automatically count as a recession, but Jeff covered that ground last week. To a certain extent, I don't really care if it's officially a recession or not—that's just a label. The question I'm interested in, as an investor, is, what do I do with the information that GDP has declined in back-to-back quarters?

To help answer this question, I turned to Jeff and Jeff turned to the history books. He identified past periods when GDP went negative in consecutive quarters and looked at how stocks (measured by the price return of the S&P 500 index) performed over the following 12 months. In fact, stocks generally did pretty darned well. The average return in the year following back-to-back quarters of economic contraction was

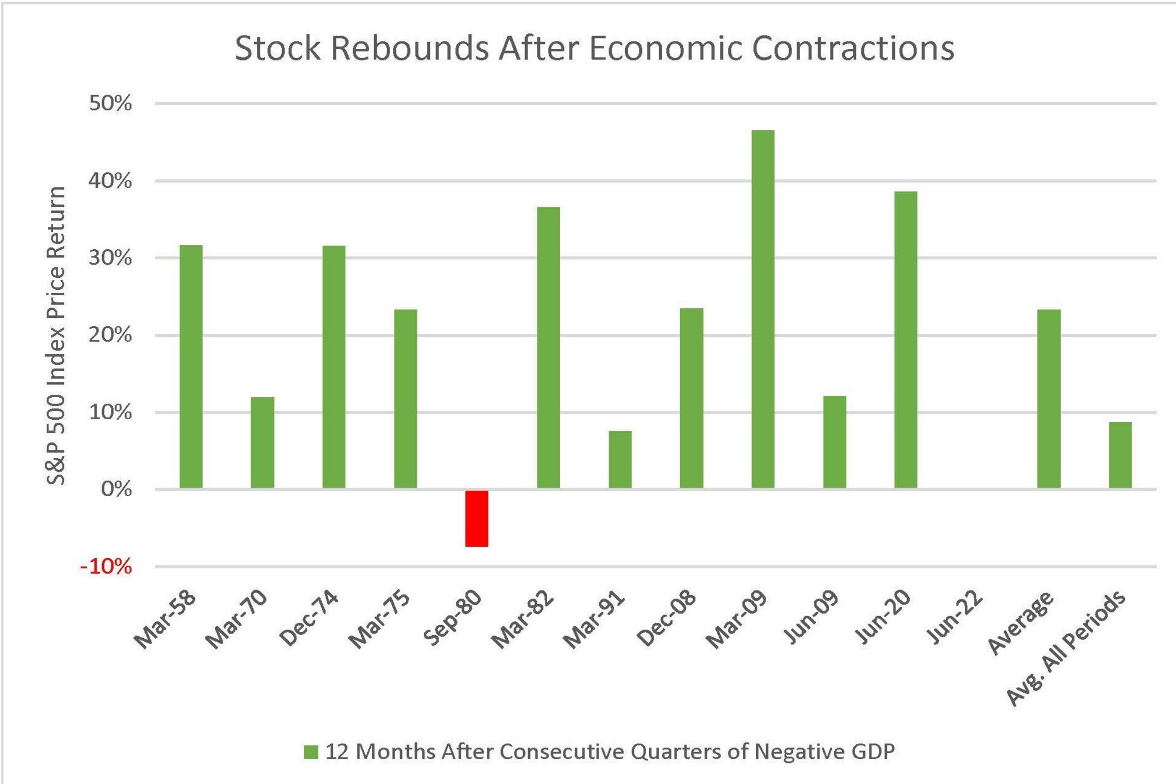
23.3%. That's nearly three times stocks' average 8.7% return in all 12-month periods.

So, if there's one thing you should be doing if you've got cash it's buying—and if you don't have cash then the one thing you shouldn't be doing is selling.

If you are worried about the economy continuing to slide from here, let's take a look at the Great Recession. The U.S. economy contracted in the third and fourth quarters of 2008. So, had you bought stocks at the end of 2008, despite the fact that the economy continued to contract well into 2009, you would have earned a 23.5% return over the next 12 months.

Yes, stocks fell in early 2009 as the economy continued to contract but they bottomed in early March and then rallied despite the continued economic decline. Investors with foresight knew that there would be economic light at the end of the tunnel, and it paid to buy early— before the rest of Wall Street's herd figured it out.

Of course, buying after a two-quarter economic decline isn't a guarantee. You can't get many guarantees on Wall Street. In 1980, after the economy contracted, stocks declined 7.4% over the following year. But, on average, buying after a couple of negative GDP reports has been a profitable strategy.



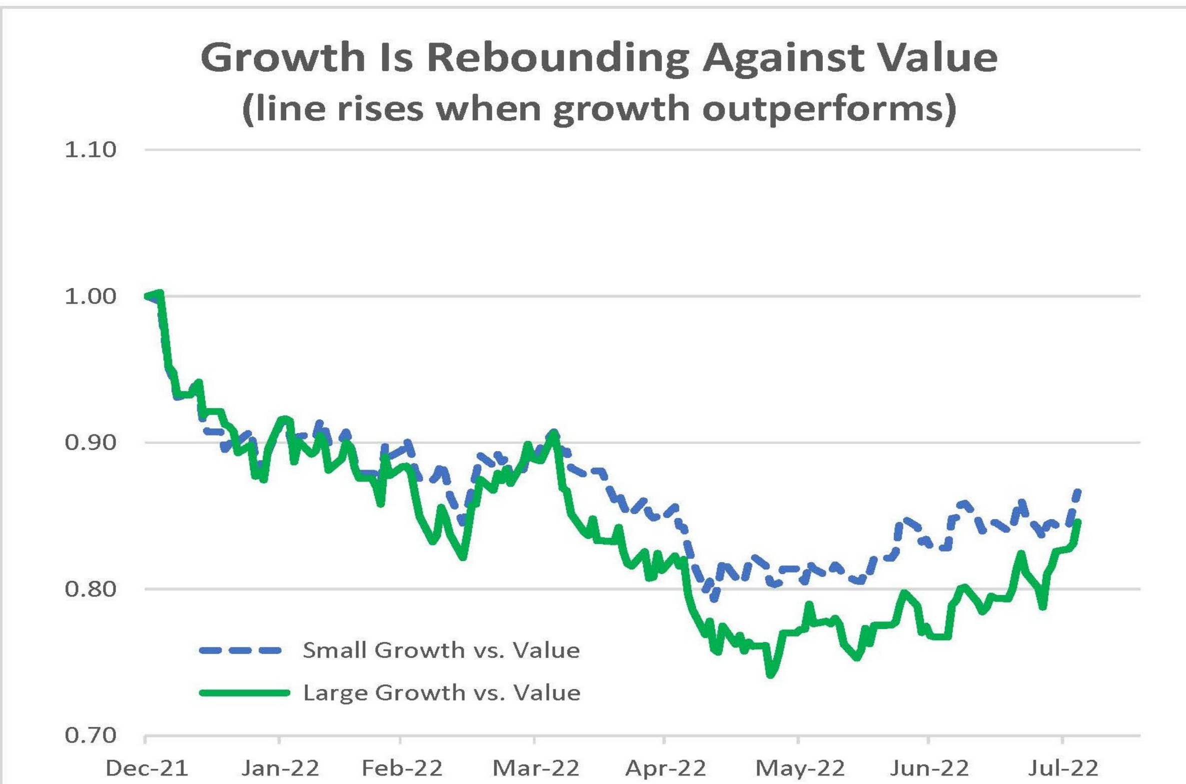
I encourage you to try and set aside the recession debate. We haven't outlawed recessions so at any point in time we are either in a recession or heading towards one. That's always been the case, and always will be. But that doesn't mean investing in the stock market is a bad idea.

Closer to home, and Vanguard, I'm asking myself if this could be the start of something big. In the technology race to provide month-end statements, Vanguard beat Fidelity by almost 8 hours this past month—a first. I've kept track of the tech foibles at Vanguard for years. The speed with which it is able to process and alert shareholders, like me, that monthly statements are available is one indicator of their tech progress. And who better to compete against but Fidelity which is well-known for spending billions and billions every year on what the industry likes to call its "tech stack." Fidelity is where both Jeff and I keep our non-Vanguard accounts. Anyway, Vanguard won this month. Can they keep it going? I'll let you know.

While July saw a sea-change in investor sentiment, at least temporarily, and August is off to a marginally good start, the rankings haven't changed much. **Energy ETF** (VDE) is still the top performer for the year through Wednesday, up 37.0%, far outpacing all comers. Next in line is **Commodity Strategy** (VCMDX)—it is up 18.1% on the year but is almost 14% off of its June high.

And yes, **Advice Select International Growth** (VAIGX) and **U.S. Growth** (VWUSX) are the laggards for the year, down 30.6% and 27.9%, respectively. Among sectors, **Communication Services ETF** (VOX) is down 26.1%, driven there in large measure by its largest holding, Meta Platforms (nee Facebook), as well as Alphabet (nee Google.)

All that said, growth stocks and the funds and ETFs that hold them have been rebounding. Small-cap growth stocks bottomed against their value counterparts in mid-May and large-cap growth stocks followed suit in late May. Their relative recoveries accelerated over the past week or two.



So, while our growth managers are staging a bit of a comeback, Don Kilbride at **Dividend Growth** (VDIGX) continues to provide the portfolio ballast I've always said he would. Don's down 5.7%—that's right, just 5.7%—for the year. Meantime the market is down double-digits.

And that's helped our *Model Portfolios* which are showing better returns for the year through Wednesday. The *Growth Model* is down 12.7%, the *Growth Index Model* is off 14.1%, the *Conservative Growth Model* has lost 11.6%, and finally, the *Income Model* is down 9.3%. This compares to a 13.3% drop for **Total Stock Market Index** (VTSAX), a 15.7% decline for **Total International Stock Index** (VTIAX), and an 8.5% loss for **Total Bond Market Index** (VBTLX). Vanguard's most aggressive multi-index fund, **Target Retirement 2065** (VLXVX), is down 13.5% for the year and its most conservative, **LifeStrategy Income** (VASIX), is down 9.1% for the year. Vanguard's poster child for diversified portfolios, representing the firm's best thinking, **Managed Allocation** (VPGDX) is showing a loss of 7.3%.

Until next week, this is Dan Wiener wishing you a safe, sound and prosperous investment future.

Sincerely,

Dan Wiener
Editor, *The Independent Adviser for Vanguard Investors*

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