Where is the Bull?

Looking for the Bull Market in the 21st Century

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HERITAGE Wealth Management Group

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The objective underlying investing is the deferring of current consumption for the purpose of maintaining or increasing future consumption through savings.

Note that it is not the **ABSOLUTE** but the **RELATIVE** value of savings in relation to the cost of goods and services necessary to maintain one's standard of living that matters.

In other words, it is necessary for the value of those savings to rise in value at a rate that exceeds the increase in the cost of the goods and services that they will be used to purchase in future years if the objective of investing is to be realized.

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Since the onset of the 21st Century it has been necessary to create a return on savings of 2.5% per annum to maintain the purchasing power of those savings.

Inflation Calculator

If in	2000	(enter year)	
I purchased an item for $			1.00
then in	2022	(enter year)	
that same item would cost:		**$1.72**	
Cumulative rate of inflation:		**72.4%**	

CALCULATE

Learn how this calculator works. The US Inflation Calculator uses the latest US government CPI data published on Oct. 13, 2022, to adjust for inflation and calculate the cumulative inflation rate through September 2022. The U.S. Labor Department's Bureau of Labor Statistics will release the Consumer Price Index (CPI) with inflation data for October on November 10, 2022. (See a chart of recent inflation rates.)

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Most “well constructed” investment portfolios include exposure to both stocks and bonds to create a targeted level of risk in that portfolio that is hopefully appropriate to the goals and tolerance for risk of the investor.

Stocks are the “accelerator pedal” of the portfolio. Higher exposure levels to stocks create the potential for higher portfolio return but at the cost of higher levels of risk, the loss of one’s investment capital.

Bonds are the “brake pedal” of the portfolio. Higher exposure to bonds creates a lower level of portfolio risk but with the potential for lower portfolio returns.

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Many investment firms, including Fidelity, make it possible to invest in what is commonly referred to as a 60/40 Portfolio (60% stock, 40% bond) through a single mutual fund or ETF. Note that Fidelity allocates just over 30% of its exposure in stocks to foreign markets.

Fidelity Asset Manager® 60% FSANX

Portfolio | Analyst rating as of Oct 24, 2022

Asset Allocation

Asset Class	Net	Short	Long	Cat.	Index
U.S. Equity	42.58	0.02	42.60	47.12	45.47
Non-U.S. Equity	19.37	0.00	19.37	9.65	13.02
Fixed Income	36.51	0.02	36.53	36.17	35.88
Other	2.09	0.08	2.17	2.61	5.41
Cash	-1.19	4.02	2.82	8.35	0.00
Not Classified	0.65	0.00	0.65	0.99	0.21

Investment as of Jun 30, 2022 | Category: Allocation--50% to 70% Equity as of Sep 30, 2022 | Index: Morningstar US Mod Tgt Alloc NR USD as of Sep 30, 2022 | Source: Holdings-based calculations.

Portfolio managers do not diversity stock market exposure solely by geography (US versus foreign) but also by capitalization, the market value of the individual stock. Note that Fidelity allocates 73% of its exposure to Large & Giant capitalization companies and 27% to Mid and Small capitalization companies.

Market Cap

Avg Market Cap	Category Avg Market Cap	Index Avg Market Cap
69.32 Bil	106.76 Bil	78.29 Bil

Size	Investment %	Cat. Average %	Index %
Giant	24.92	27.05	24.82
Large	20.09	16.24	18.95
Mid	12.82	9.99	11.38
Small	3.48	2.47	3.23
Micro	0.56	0.40	0.10

USD | Investment as of Jun 30, 2022 | Category: Allocation--50% to 70% Equity as of Sep 30, 2022 | Index: Morningstar US Mod Tgt Alloc NR USD as of Sep 30, 2022 | Data is based on the long position of the equity holdings.

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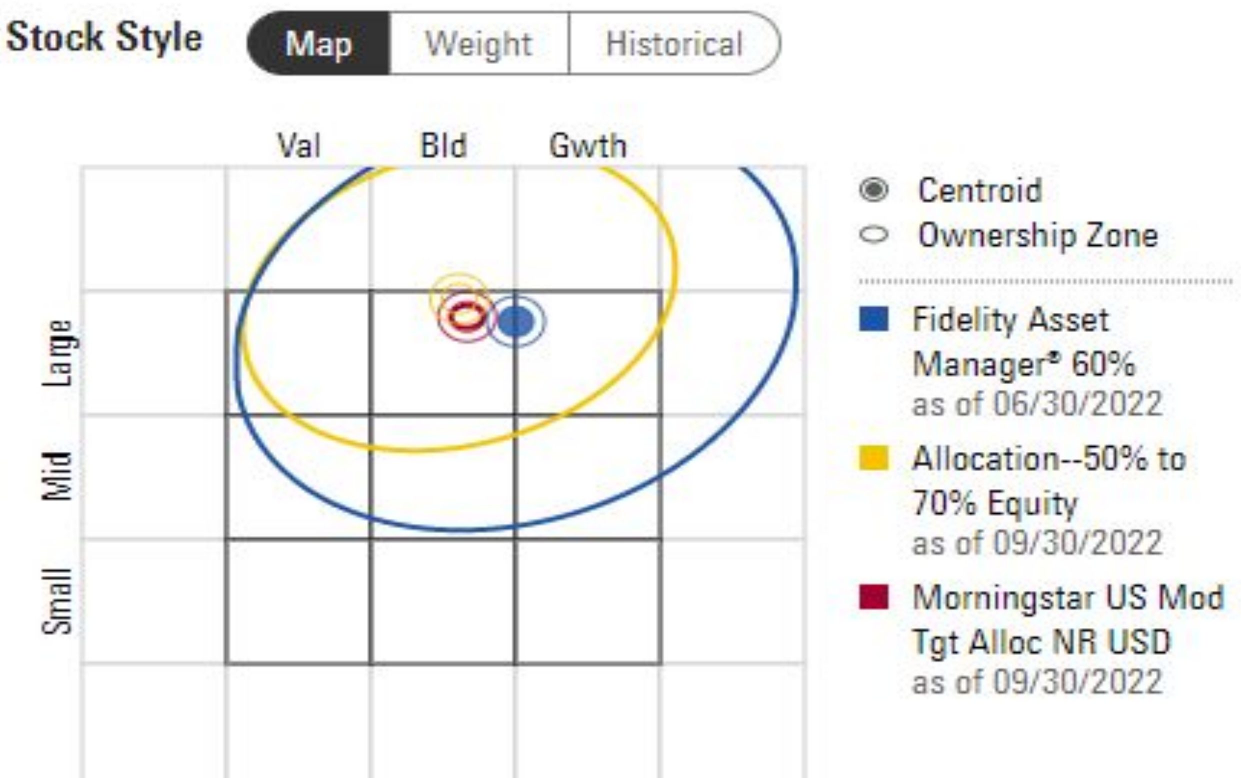
Finally, in addition to geography and capitalization portfolio managers allocate their stock market exposure by "style". Growth stocks are those whose earnings are expected to grow more rapidly than that of the overall stock market and thus command higher valuations. Value stocks are their opposite and also usually pay higher levels of dividends. Fidelity "tilts" its stock holdings in favor of growth stocks.



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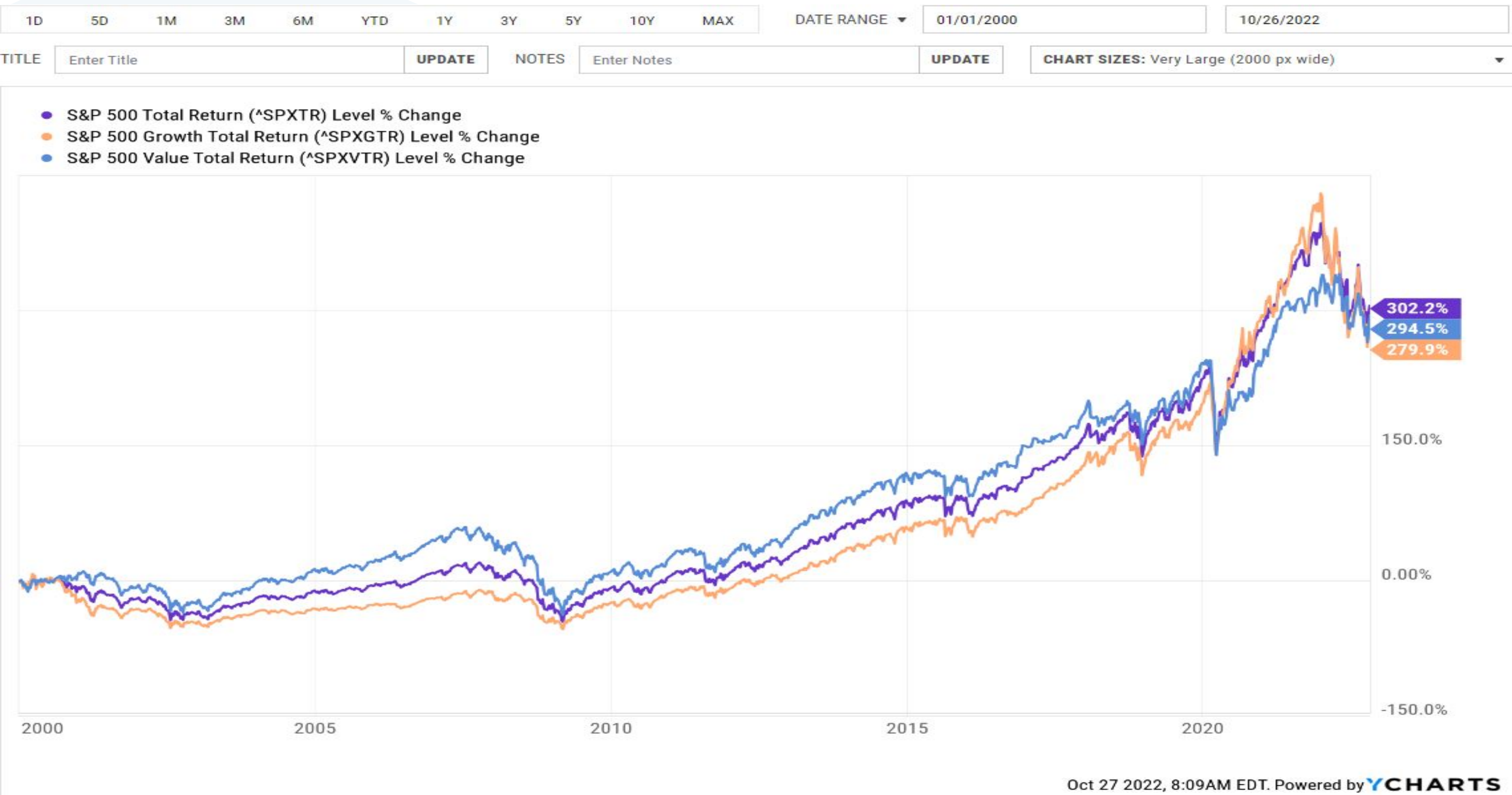
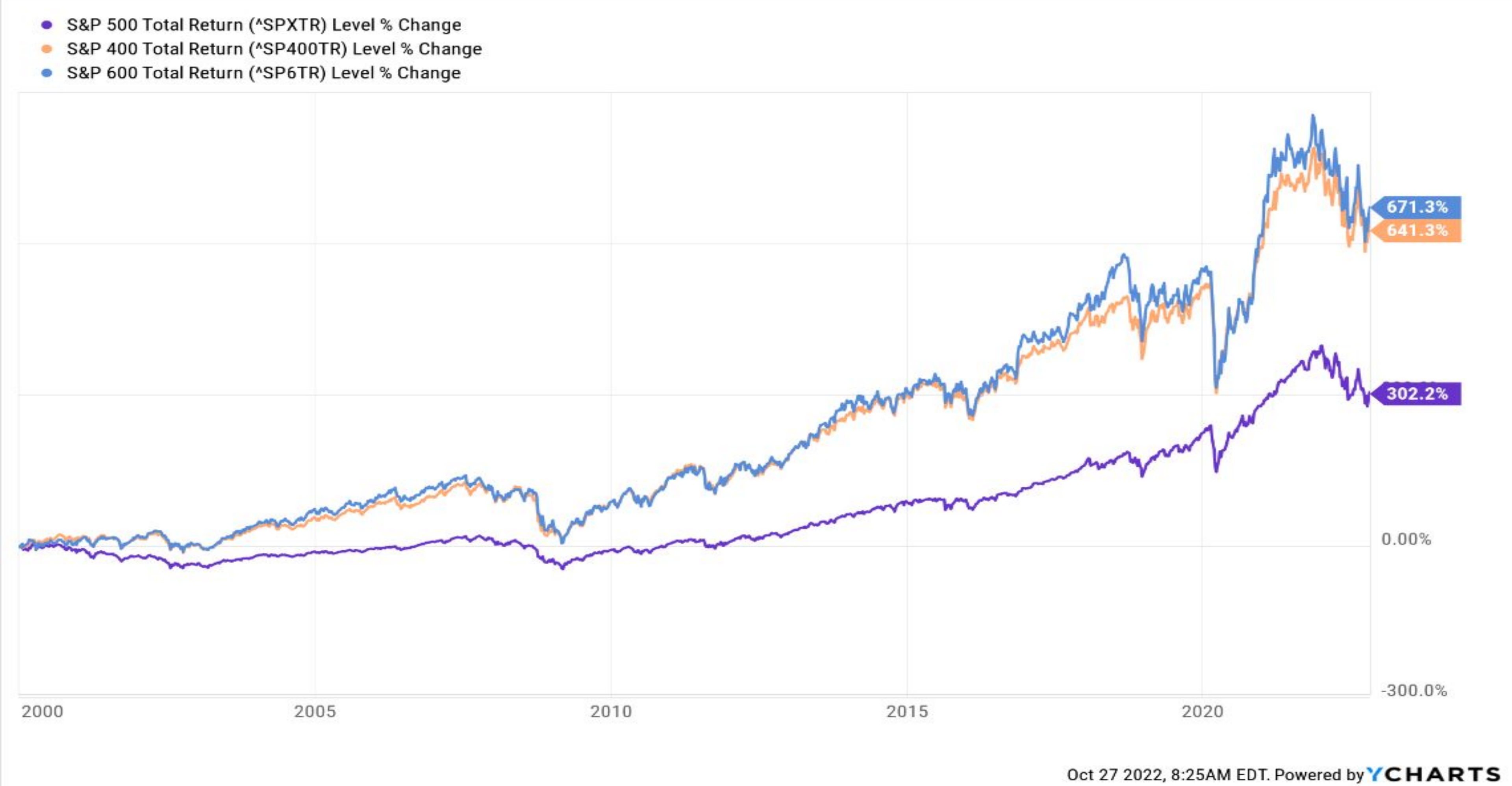
Century to date (as of October 26, 2022 close) the S&P 500 has provided investors a 6.4% annual return slightly exceeding growth's 6.0% and value's 6.3%. Note that the return of the overall index is able to create a return exceeding that of its growth and value subsets due to their combing for 80% of the overall composition of the index.



The S&P 400 and S&P 600 are US mid and small cap indices respectively. Interestingly, for all the “hullabaloo” in recent years over the returns of the “mega cap” technology companies (Apple, Amazon etc.) investors seeking higher returns have been much better served by investing in US small to mid cap stocks with those indices creating annual returns of just over a nearly identical 9%.



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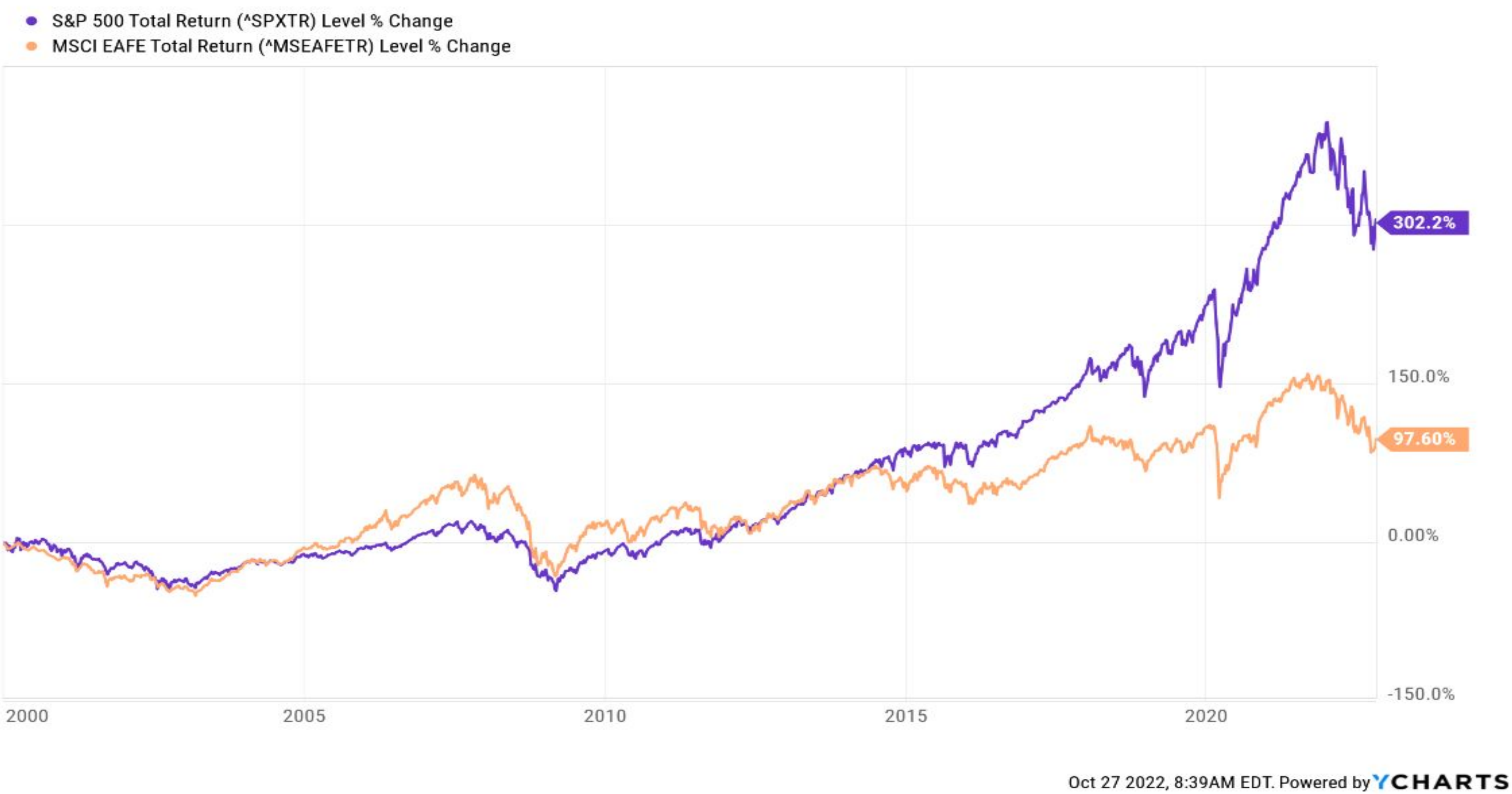
US investor's have been much better served if traveling to foreign countries to leave their money at home as foreign developed markets have offered US investors a miserly 3% annual rate of return.



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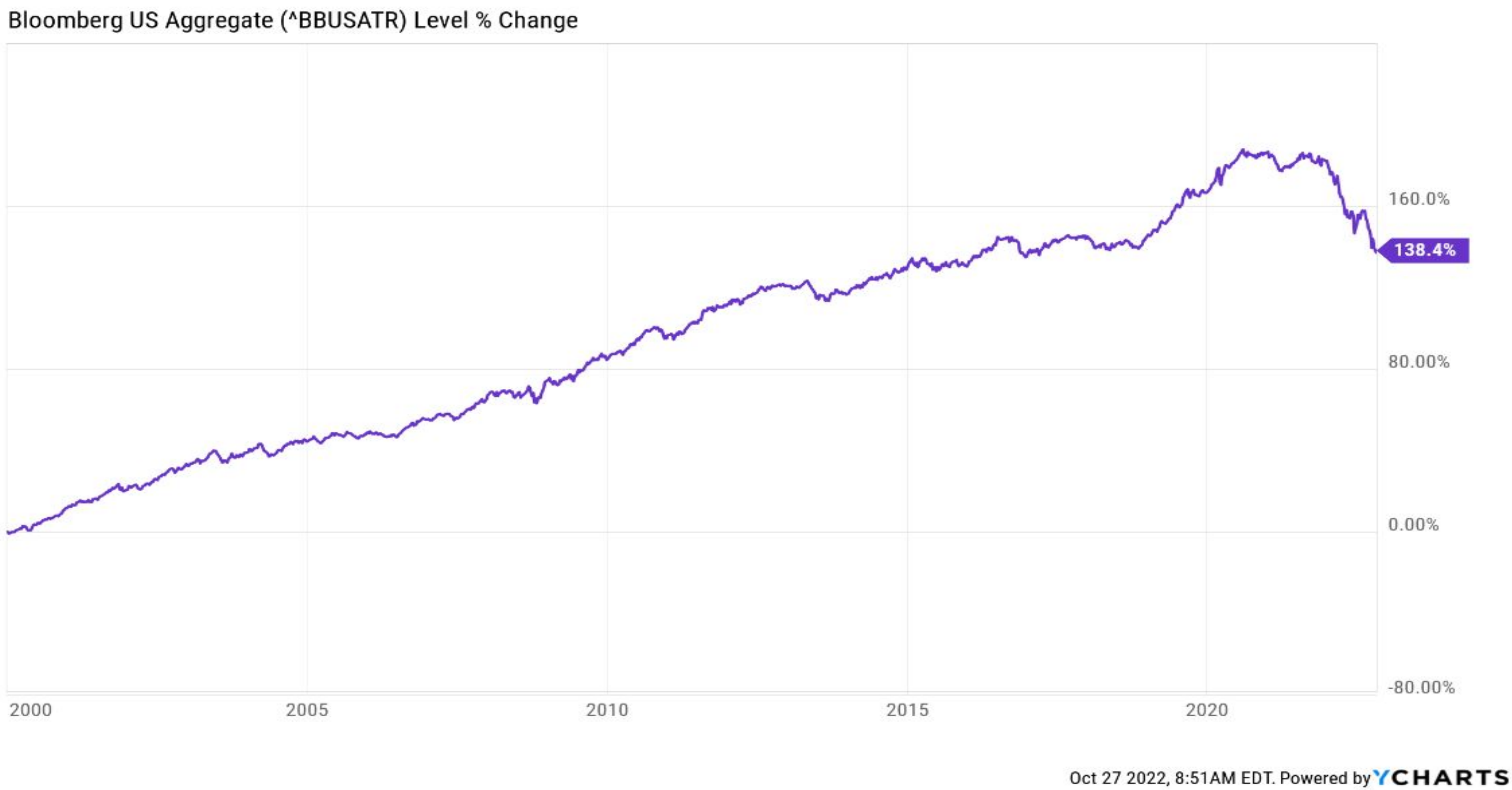
On to Bonds…the Bloomberg US Aggregate is an index tracking the performance of US treasury and agency debt, mortgage securities and investment grade corporate bonds. The annual rate of return of that index has been 3.8%.



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The 60/40 Portfolio

40% Bloomberg US Aggregate (Bond); 20% S&P 500 Growth (US Large & Mid Cap/Growth); 20% S&P 500 Value (US Large & Mid Cap/Value); 5% S&P 600 (US Small Cap) & 15% MSCI EAFE (Foreign). (note. These include returns from interest and dividends and so are “total returns”)

Symbol	Target Weight
^BBUSATR	40.00%
^SPXGTR	20.00%
^SPXVTR	20.00%
^MSEAFETR	15.00%
^SP6TR	5.00%

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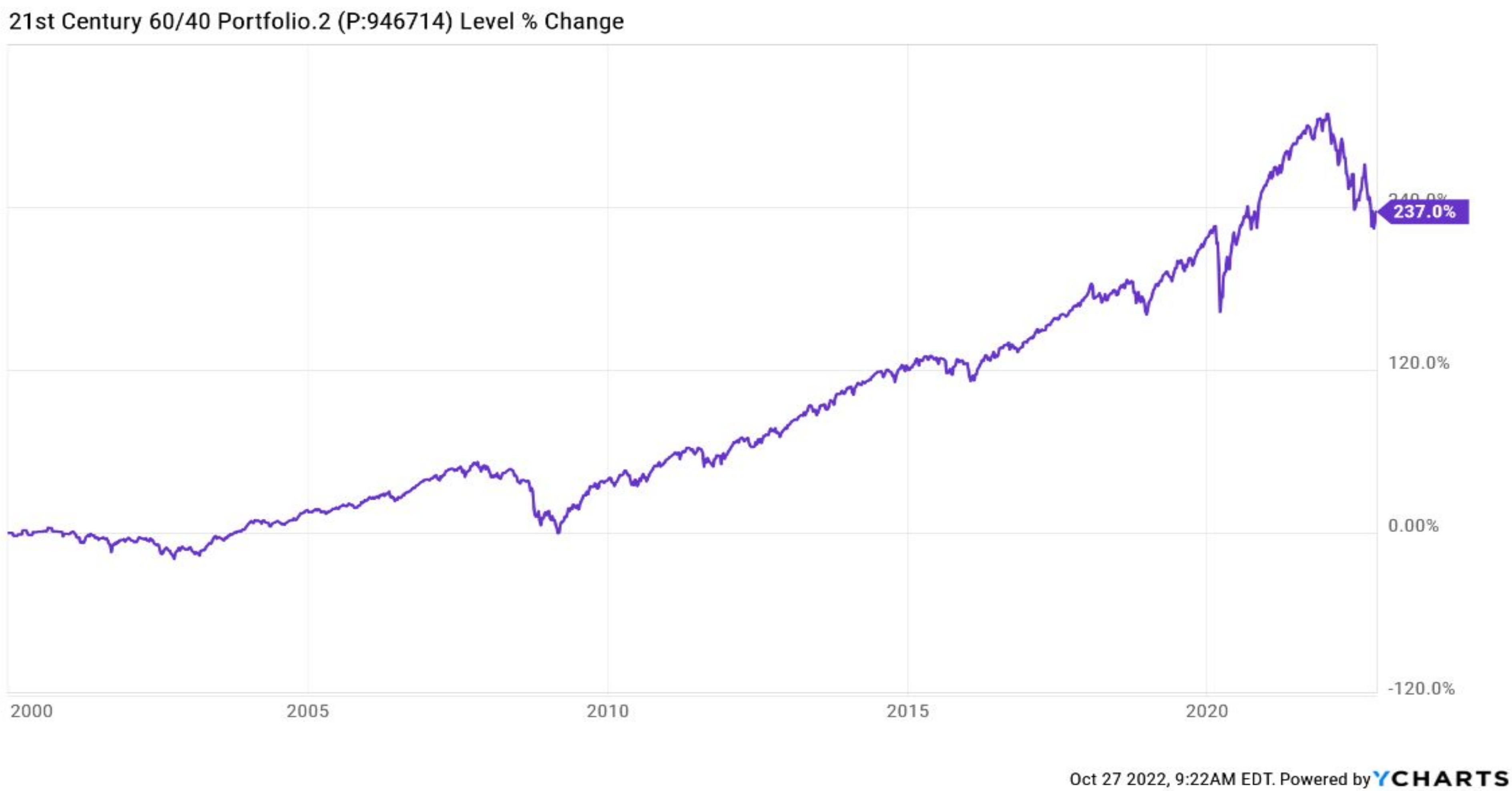
The return of the 60/40 portfolio century to date is 237% or 5.35% per year. But are we missing something? The answer is yes. What has been the actual increase in the **PURCHASING POWER** of these dollars over a now almost 23 year period of time?



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This is what matters…

$100,000	**Purchasing power January 1, 2000**
$172,400	**$ required in current $'s to match January 1, 2000 purchasing power**
$237,000	**Current value of 60/40 portfolio**
$64,600	**Increase in purchasing power over 23 years**

$64,600 inflation adjusted return on investment of $100,000 over 23 years

=

2.2% inflation adjusted return per year

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So…

To finish where we began

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Various indexes were chosen that are generally recognized as indicators or representation of the stock market in general. Indices are typically not available for direct investment, are unmanaged and do not include fees or expenses. Some indices may also not reflect reinvestment of dividends.

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