

February 24, 2022

On today's events in Eastern Europe

Dear Clients,

Not 60 days ago, our Annual Client Letter included the following:

In general, it seems most likely that in the next year:

- The lethality of the virus continues to wane
- The world economy keeps reopening and corporate earnings keep advancing
- The Federal Reserve begins draining excess liquidity from the banking system, with some resultant increase in interest rates
- Inflation subsides somewhat
- **Barring some other exogenous variable—which we can never really do** (*emphasis added*)—equity values continue to advance, though at something less (and probably a lot less) than the blazing pace at which they've been soaring since March 2020

These outcomes seem to me more likely than not, but this is not a forecast. I repeat: this is not a forecast! I'm fully prepared to be wrong on any or all of the above points—and if and when I am, my recommendations to you will be unaffected, since our investment strategy is driven by the plan we've made together, **and not at all by current events.** (*emphasis added, again*)

Russia/Ukraine is the exogenous variable of the moment. The investment policy of a goal-focused, plan-driven, long-term equity investor should be unaffected by it. That concludes this memo's core message—everything else is commentary.

As many of you know, I am not shy about my opinions. But this one is a bit personal. The Bodnar (or as they would pronounce it, "Bud-nar") family village is located in Ukraine, much closer to Budapest than Kyiv, but Ukraine, nonetheless. I'm an eastern European brat. My father's family came to the U.S. from the Carpathian Mountains, once part of the Austria-Hungary Empire, today part of Ukraine. My mom's side came from Poland and Lithuania. Putin and the history of the USSR have never been celebrated in the Bodnar household.

So, under the heading of personal editorial commentary:

(1) The Russia/Ukraine event has nothing to do with "democracy." It has to do with energy, which is the lifeblood of the Russian kleptocracy. Russia supplies 40% of Europe's heating fuel, in the form of

natural gas. One of the two aging pipelines through which the gas is transmitted runs through Ukraine, which had lately evinced a growing yearning for increased ties to the West. Putin could never allow this. (See Lukas Alpert's [essay](#) on MarketWatch.)

(2) At around 4,100, the S&P 500 has experienced a drawdown about equal to its average since 1980. We are currently in the classic "correction" territory of 10%. If you are seriously considering changing your long-term investment policy in response to this, then you may want to rethink your participation in the equity market. These 10% corrections will happen every year on average whether there's a big international event or not.

(3) At the risk of making a political statement: Hopefully, this leads both the United States and Europe to a significant reappraisal of their respective energy policies, to the detriment of Putin's Russia.

(4) Underlying earnings of the greatest companies in the world are excellent. Companies are flush with cash and have been announcing stock buybacks, and increasing dividends. Despite record low interest rates, corporate America's leverage has been decreasing not increasing. Corporate balance sheets have never been stronger and the same can be said of American households.

(5) Bodnar Financial funded its pension and 401(k) plans early this year and may be putting that money to work in the next few days (hours?) as the equity prices flash the **ON SALE** sign. My advice: consider funding your IRAs, 529 plans, etc. during this correction.

I leave you with another excerpt from our Annual Client Letter:

"Is this a market forecast? Far from it. But the next correction is never an 'if,' it's a 'when.' And *when* the next one arrives, as the leaves will surely change in autumn, it is my hope that during that time you will do absolutely nothing. That you will fight the urge to follow the herd retreating into a cave of cash, tune out the news, and continue to act on the plan we made together."

THIS TOO SHALL PASS.



John Bodnar, CFP®, CIMA®

These are the opinions of Bodnar Financial and not necessarily those of Cambridge, are for informational purposes only, and should not be construed or acted upon as individualized investment advice. Indices mentioned are unmanaged and cannot be invested into directly. Oh yeah, and past performance is not indicative of future results. My lawyer wanted me to tell you that.