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Bodnar Financial 2024 Annual Client Letter

Dear Clients and Friends,

In keeping with tradition, allow us to be the very last ones to wish you a Happy New Year. The past year has been quite a ride—the past two years, really.

We can summarize the rollercoaster in two statements:

> **In 2022, the Dow Jones, S&P 500, and the Nasdaq 100 experienced peak-to-trough declines of 21%, 25%, and 35%, respectively.**
>
> **A week before Christmas 2023, all three were in new high ground on a total return basis (including dividends).**

Why stocks did this is irrelevant. (Although we have written before about the wonders of stock market volatility and would be happy to share our blog posts with you.) What matters most to us long-term, plan-driven equity investors is not why it happened, but that it ***did happen***.

Specifically, that there was a pervasive and very significant bear market over most of one year, and that those declines were entirely erased the following year for those who didn't panic and sell at the low. Though other bears and recoveries are not as quick or as perfectly symmetrical as the 2022-23 experience, in the largest sense, that's how this works.

We recently hosted a client webinar on bear markets and their important roles in successful long-term investing. If you missed it, you can watch a replay on our YouTube channel. Now, back to the annual letter…

As always, we begin the year with a two-part letter: a restatement of the timeless investment principles that guide us (attached) and some musings on current market conditions. Don't be fooled—the former is far more important than the latter.

Our Thoughts on Current Market Conditions

We remain convinced that the long-term disruptions and distortions resulting from the COVID pandemic are still working themselves out in the economy, markets, and society itself in ways that can't be predicted, much less rendered into coherent investment policy.

The central financial event in response to COVID was a 40% explosion in the M2 money supply by the Federal Reserve. It predictably ignited a firestorm of inflation.

To stamp out that inflation, the Fed then implemented the sharpest, fastest interest rate spike in its 110-year history. Both debt and equity markets cratered in response.

Despite this, economic activity just about everywhere but in the housing sector has remained relatively robust; employment activity has, at least so far, been largely unaffected.

Inflation has come down significantly, though not yet close to the Fed's 2% target. But prices for most goods and nearly all services remain elevated, straining middle-class budgets.

Capital markets have recovered significantly, as speculation centers on when and how much the Fed may lower interest rates in 2024, and whether a recession is coming. These outcomes are unknowable—even to the Fed—and they don't lend themselves to forming a rational long-term investment policy.

Significant uncertainties abound and a bitterly partisan presidential election looms. The stock market will face significant challenges this year—as indeed it does every year.

Our overall recommendations to you are essentially what they were two years ago at this time and what they've always been. Let's revisit your most important long-term financial goals soon. If we find those goals haven't changed, we will recommend staying with our current plan.

As always, we welcome all questions and comments, and we look forward to seeing your faces soon, whether it's in person or on a Zoom. It's a privilege for us to serve you and your family.

Happy New Year,

John Bodnar, CFP®, CIMA® | Justin Esposito, CFP®

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BODNAR FINANCIAL ADVISORS
INVESTMENT PRINCIPLES

These principles have guided our firm since 1988, and they are timeless.

WE ARE LONG-TERM, GOAL-FOCUSED, PLAN-DRIVEN INVESTORS

We are not day traders at Bodnar Financial. We believe in disciplined, long-term investing. We are helping people create balanced portfolios that will work to fund three-decade retirements and family legacies. When we say "investing" we are talking about the long haul. We believe that lifetime investment success comes from acting continuously on your plan, and then meeting each year to make sure it still reflects your age, cash flow, risk tolerance, and liquidity needs.

THE STOCK MARKET CANNOT BE TIMED

Bear markets happen every 3-5 years on average. They are normal. We know they are coming, but we don’t know when they'll arrive or when they'll end. But history tells us that bear markets always pass, and that bear markets tend to roar back as sharply as they dropped. We don’t get windows of time to leisurely return to the market. That’s why it’s important to buy and *hold*.

TIME, COMPOUNDING, AND DISCIPLINE ARE OUR GREATEST ALLIES

Our minimum goal as investors is to earn a return that—at the very least—offsets income taxes and inflation. We fight inflation with compound interest, the financial miracle that lets your investments collect increasing amounts of “interest on their interest” over time. The first rule of compound interest is to never interrupt it unnecessarily. The longer your investment horizon, the more time your investment has to grow exponentially. Assuming you don't tinker with it.

THE MARKET ALWAYS GOES UP—IT JUST DOESN'T GO UP EVERY DAY

Returns have trended upward since the creation of the stock market. It's a steady climb, but not a smooth one. The trend line zigs and zags. These dips are a normal and healthy part of the market's chaotic, but permanent, climb upward. Long-term investors like us have faith in the trend line. We sit through the dips and focus on decades rather than days.

HUMAN NATURE IS A FAILED INVESTOR

Humans are wired to react to fear in order to survive, and down markets are downright scary. Investors sit through sell-offs once every 5 years on average and watch about 30% of account values disappear, without knowing when they will return. We sit through 50% declines 2 or 3 times in our lifetimes. When these things happen, disciplined investors do *nothing*. This is why we work together. Bodnar Financial is here to empathize with you as you feel the fear, and to help you decide not to act on the fear.