

Kenneth A. Gilpin CFP

Sound Investments Inc.

3rd Quarter 2021

DJIA 33843.9 S&P 500 4307.5 NasDaq 14566

Summary

September Slump Goes Away

Stock market history clearly shows the primary risk to investors is a recession. We subscribed to Bob Brinker's Marketimer letter timer for a number of years. It is a good resource for predicting major turns in factors that lead the market. Brinker looks at trends in interest rates, whether money is tight, inflation, rapid growth and stock market overvaluation. He doesn't see a recession on the Horizon

America's money managers are optimistic about the long-term outlook for the economy, the financial markets, and the recovery from the Covid pandemic. It's the short-term prognosis that concerns them.

Although the Big Money managers are biased toward U.S. stocks, they see plenty of value abroad, particularly in Europe and emerging markets. "

Last month marked the worst September since 2011 for both the S&P 500, down 4.7%, and the Dow down 4.2%. The NasDaq lost 5.7%. Markets have been overdue for a correction. For most of the year, there hasn't been a correction of more than 5%. According to Barron's, the S&P 500 went 227 days without a 5% drop, the seventh-longest such streak on record. While markets have experienced mild pullbacks this year, investors have generally used them as buying opportunities and the indexes have never reached a correction, defined as a 10% drop.

Even though the news and politics in 2021 were tumultuous, the broad market appeared to plod along, rising steadily, with the occasional step back, before pushing to new highs. However, the averages were deceiving. Market leadership proved unpredictable as it vacillated between technology and value stocks. At times large international stocks led the charge, then switched back to small caps.

Why Did the Market Go Down in September?

When markets are fully valued, as there are now they are subject to a greater level of volatility. This happened when a property developer in China (Evergrande) reported on Sept 20th, they were unable to make their interest payments which caused the market to drop. All of a sudden, money managers became preoccupied with a host of issues such as the inability of partisan Washington to reach an infrastructure deal or raise the debt ceiling. Other issuers include supply-chain bottlenecks, most notably in ports on the west coast. An up-tick in inflation and slower job growth didn't help. Also, there are lingering concerns about COVID 19 and its impact on the business recover. Make no mistake, these issues are real but solvable. As I write this on October 18th, the market has basically recouped the September losses

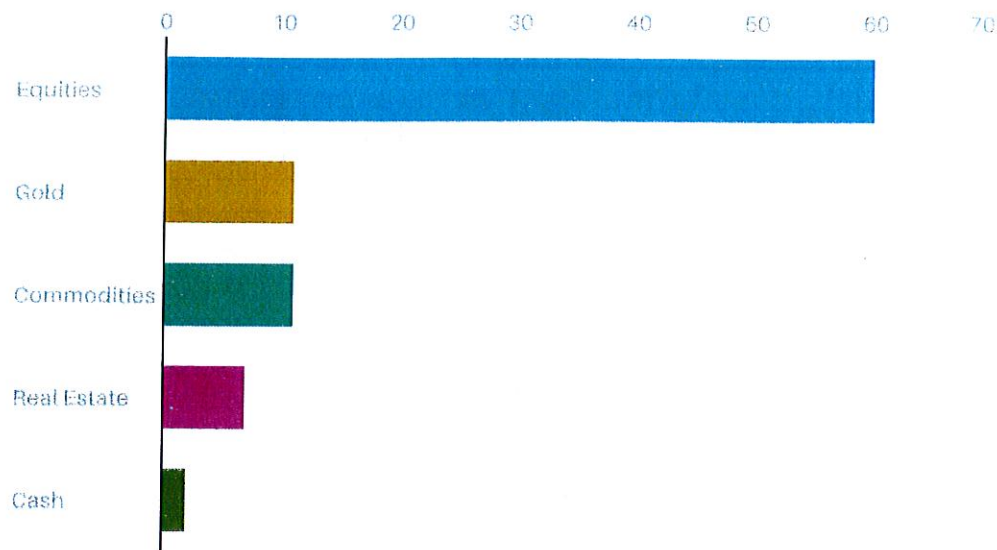
The Real Issue

Stock market history clearly shows the primary risk to investors is a recession. We subscribed to Bob Brinker's Marketimer letter timer for a number of years. It is a good resource for predicting major turns in

This investment letter is mailed quarterly to our clients and friends.

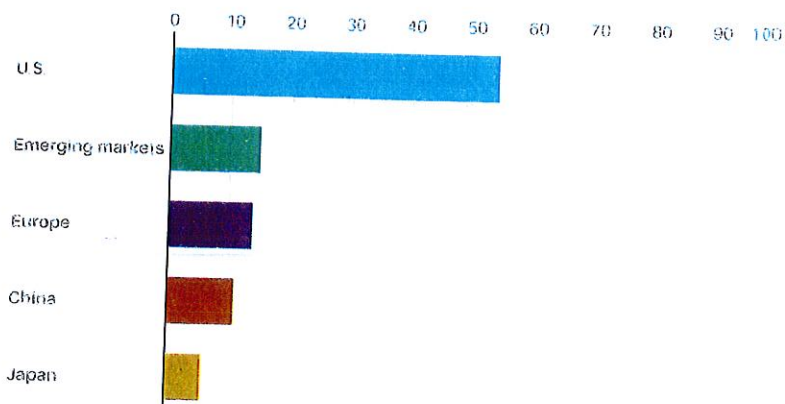
Sound Investments Inc. / Kenneth A Gilpin CFP

Which asset class do you consider most attractive today?



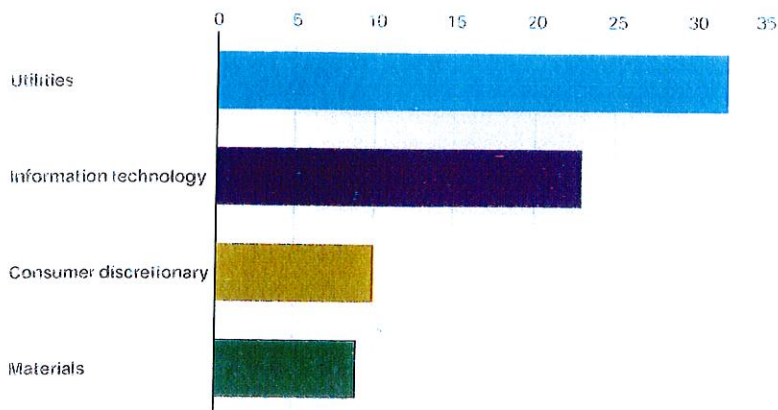
This Bull Market Can Weather a Setback, Money Managers Say | Barron's

Which major equity market will perform best in the next 12 months?



This Bull Market Can Weather a Setback, Money Managers Say | Barron's

Which industry sector will perform worst in the next 12 months?



the market. Brinker looks at trends in interest rates, whether money is tight, inflation, rapid growth and stock market overvaluation. He doesn't see a recession on the Horizon

One Resilient Market

We agree that the chances of a recession are not likely, but there is still a lot to puzzle or think about in this economy. Barron's Magazine had a great article entitled "**This Market Can Handle a Setback.**" Once a year, Barron's polls institutional money managers on their investment views. Here are some of their comments:

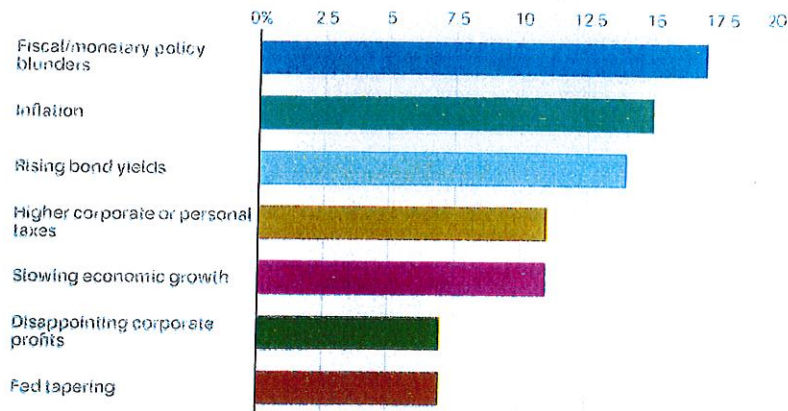
- America's money managers are optimistic about the long-term outlook for the economy, the financial markets, and the recovery from the Covid pandemic. It's the short-term prognosis that concerns them.
- Monetary and fiscal policies are in flux. Supply-chain bottlenecks and labor shortages are igniting inflation and threatening corporate profit margins, and the economic recovery from 2020's recession—so robust until now—is decelerating. So, the immediate future suddenly looks more challenging than the recent past.
- Most Big Money managers don't consider inflation, rising interest rates and slowing economic growth troubling enough to end the bull market, which began in March 2020, although they could cause near-term indigestion. Nearly 80% of respondents expect a stock market correction in the next six months, defined as a drop of at least 10% from the most recent high. But less than 10% see a bear market—a decline of 20% or more in stock prices—in the same time horizon.
- Indeed, the Big Money bulls expect the Dow Jones Industrial Average to rally about 6% through the middle of next year, to around 37,000. They see the S&P 500 ending this year at 4600, en route to 4812 by next June 30, for a gain of 8% before dividends. In addition, the tech-heavy Nasdaq Composite could add as much as 10%, in their view.
- Although the Big Money managers are biased toward U.S. stocks, they see plenty of value abroad, particularly in Europe and emerging markets. "If the large tech companies have been the silver bullet for the past five years, now we want silver buckshot for the next five years—which means, spread the money out over the world, and over smaller companies in the U.S.

Conclusion

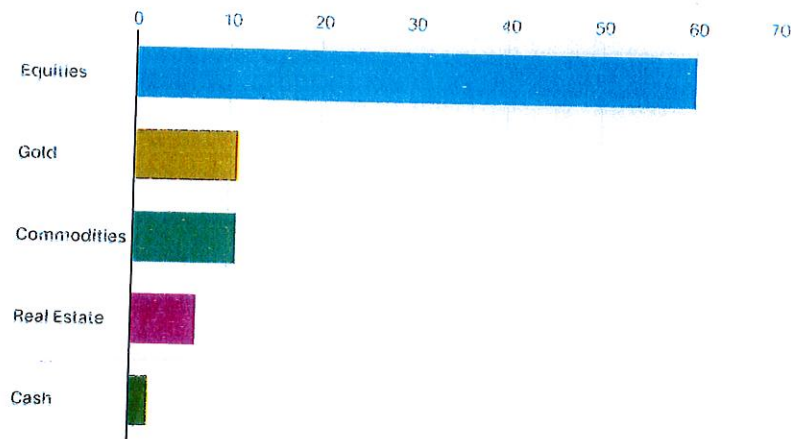
So, how should we proceed? We think the market's recent September weakness has been constructive, as it tested the lows. Now, investors can feel a little bit more confident looking out to the 4th quarter, assuming the economy stays on course. True, the current backdrop is not idyllic. Still, with interest rates at near record lows and alternatives to stocks few, we feel the best option may be to just stay calm and carry on.

We welcome your calls.

What is the biggest risk that the U.S. stock market will face in the next 6-12 months?



Which asset class do you consider most attractive today?



Will U.S. stocks enter a bear market (falling 20% or more from the most recent peak) in the next six months?

Yes No

100%

80

60

40

20

0

