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FINANCIAL OUTLOOK

SUMMER 2023

DOW THEORY: CURBING EMOTIONAL INVESTING

In addition to starting the company that publishes *The Wall Street Journal*, Charles Dow (1851–1902) also lent his name to one of the most popular U.S. stock market indexes (the Dow Jones Industrial Average) and created a theory regarding major shifts in stock market trends. While neither Dow nor those who refined the Dow theory after him believed

they were creating a sure-fire way to beat the market, they did believe that following its principles could at least avoid the mistakes associated with greed and fear.

THREE ASSUMPTIONS

Behind the Dow theory is a set of assumptions about how the stock market works:

○ **THE STOCK MARKET MOVES IN BROAD CYCLICAL TRENDS.** According to Dow, there are primary trends, which are long-lasting (from months to years), and minor trends, which don't last very long and run in the opposite direction of the primary trend. Primary up trends are called bull markets and primary down trends are called bear markets — these primary trends are marked by peaks and troughs in price charts. Within these broader trends, there are secondary (minor) countertrends called corrections, which can retrace anywhere from 33% to 67% percent of the primary trend's movement. Of course, no one ever knows in advance how long trends will last (that's a key principle of the Dow theory). And since market prices fluctuate from day to day, it can be dangerous to read too much into a single day's movement.

○ **PRIMARY TRENDS CAN'T BE MANIPULATED.** While it may be possible for private interests to manipulate the price of one security for a relatively short period of time, the Dow theory holds that the primary trend in the stock market as

FINANCIAL PLANNING FOR MARRIED COUPLES

Marriage is a partnership. You and your spouse are a team both personally and financially. But sometimes, that partnership needs a little work. Even if you've been married for decades, you may need a refresher course on financial planning basics. Here are six financial moves married couples should make.

START TALKING — Talking about money isn't always fun. Some couples avoid having conversations about finances because they're boring, while others skip the talk because of money anxiety or conflicts. But your financial lives are deeply intertwined, through both good times and bad. You and your spouse need to be able to sit down with each other and talk honestly about

your finances. If talking about finances is hard for you, consider having a monthly check in, where you sit down together and go over important issues. Or set up a meeting with a financial advisor. Having a neutral third party guiding the conversation may make it easier to talk seriously about your finances.

GET ON THE SAME PAGE — No, you're not going to agree on everything, money-wise. But when it comes to major financial moves — like saving for retirement or managing spending and debt — you should be on roughly the same page (or at least in the same chapter). If you're both working together for the same things, you're much more likely to get to where you want to be.

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DOW THEORY

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a whole is driven by forces much bigger than any single individual, cartel, breaking news, or rumor.

- **THE STOCK INDEXES REFLECT ALL AVAILABLE INFORMATION.** The Dow theory believes everything there is to know about a stock and the economy at a given moment is factored into the prices of stocks. This includes hopes, fears, and expectations of such factors as interest rates, earnings, revenue, and product initiatives. Unexpected events can occur, but usually they affect the short-term trend.

THREE PRIMARY TREND PHASES

According to the Dow theory, major trends consist of three phases of varying length:

STAGE 1: ACCUMULATION OR DISTRIBUTION. In this phase, the smart money — typically large institutional investors like investment banks, pension funds, or mutual funds — start major buying or selling programs. Initially, this looks like a secondary countertrend, but trading volume on the major exchanges noticeably increases on up days, while volume tends to be lighter on down days. In a bull market, stocks are cheap but no one other than value investors seems to want to buy them. In a bear market, there's a high level of enthusiasm for stocks, and few people believe the bull market is over.

STAGE 2: THE BIG MOVE. In this phase, there are many more days in which the indexes move in the direction of the primary trend than in the opposite direction. In bull markets, there are strings of up days, followed by shorter strings of down days, reflecting the spread of enthusiasm for stocks. In bear markets, the opposite occurs, as anxiety and pessimism that the prior bull market is over mounts. The result is a significant, long-term increase (bull markets) or decrease (bear markets) in the market averages.

STAGE 3: EXCESS. The final phase

WHEN ADULT CHILDREN RETURN HOME

Once your child has graduated from college, don't assume that your financial responsibilities are over. Adult children return home to live for a variety of reasons — they can't find a job, they have too much debt to afford living alone, or they have divorced and need financial support. Use the situation to help reinforce basic financial concepts:

- **SET A TIME FRAME.** Don't let your child move in for an open-ended time period. Financial goals should be set and followed, so your child is working toward financial independence and living on his/her own.
- **CHARGE RENT.** There are increased costs when your child

returns home — additional food, phone bills, utilities, etc. Although you don't have to charge a market rental rate, you should charge something. If you're uncomfortable taking money from your child, put the rent money aside in a separate account and use it to help your child when he/she moves out. Also decide which chores your child is expected to perform.

- **PUT YOUR AGREEMENT IN WRITING.** While putting everything in writing may seem too businesslike, it gives you an opportunity to clearly spell out your expectations and the rules of the house. This can prevent future misunderstandings. ○○○

of a primary trend is marked by extremely high levels of emotion — enthusiasm in bull markets and pessimism in bear markets — which are signs that the primary trend is about to change. These extremes can be seen in the behavior of individual investors. In bull markets, even the most conservative investors are buying stocks. On the other hand, in the excess stage of a bear market, everyone is concerned about safety of principal, while those who bought stocks at high prices have finally given up and sold their stocks at a loss.

THE INDEXES CONFIRM THE NEW TREND

For Charles Dow, the primary trend was reflected in the Dow Jones Industrial Average, which today comprises 30 stocks. But Dow also looked to another index to confirm the emergence of a new trend. In his day, that was the Dow Railroad Index. Today, it's the Dow Transportation Index of 20 companies engaged in the shipping and transportation of manufactured goods. The idea was that a true change in the trend of business activity in the big manufacturing firms would show up in business for the compa-

nies they hire to move the goods they make.

For the second index to confirm the first, the Dow theory looks for both averages to be moving in the same direction. And, new highs or lows in one index are accompanied by new highs or lows at the same time or shortly thereafter in the other index.

The Dow theory isn't intended to help short-term traders. What it's designed to do is tip off long-term investors to changes in the trend, so they can shift their money from stocks to another asset class, like bonds or cash, during a full business cycle.

Please call if you'd like to discuss this in more detail. ○○○



FINANCIAL PLANNING

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BUT BE WILLING TO COMPROMISE — Ideally, you and your spouse will be of one mind when it comes to money matters, but in reality, you might not always agree. That's where compromise comes in. For example, you may want to keep working until age 70 for maximum financial security, while your spouse may be dreaming of quitting his/her job at 60. You might want to meet in the middle by planning for a retirement that starts at 65 for both of you — a little earlier than you might like and a little later than your spouse might prefer.

PUT IT IN WRITING — Don't let inertia lead you and your spouse to skip key financial and estate planning tasks. Even if you want all your money and personal effects to go to your spouse, a will is still helpful in clarifying your wishes should you die unexpectedly. You may also want to set up a financial power of attorney to ensure that your spouse can make financial decisions on your behalf if you're incapacitated. If you don't do this, your spouse may have difficulty selling stocks or real estate while you are unable to make decisions on your own. Meanwhile, a living will and medical directive can make it clear to your spouse and your other family and loved ones what medical interventions you would want (or not want) if you are seriously ill.

SHARE INFORMATION — If the worst happens, will your spouse have the information he/she needs to keep the household running? Make sure that each of you knows how to access the bank and investment accounts — even the accounts for the household utilities. You each should also know how to locate important documents, like insurance policies, financial records, birth certificates, and the deed to your house.

MEET WITH AN ADVISOR TOGETHER — It's not unusual for one spouse

LESSONS LEARNED FROM THE STOCK MARKET

If you pay attention to the stock market, you can learn some valuable lessons:

- **THE MARKET TENDS TO REVERT TO THE MEAN.** There is a tendency for the stock market, when it has an extended period of above- or below-average returns, to revert back to the average return. Thus, following an extended period of above-average returns in the 1990s, the stock market experienced a significant downturn, helping to bring the averages back in line.
 - **DON'T CHASE PERFORMANCE.** Investors often move out of sectors that are not performing well, investing that money in investments that are currently high performers. But the market is cyclical and often those high performers are poised to underperform, while the sectors just sold are ready to outperform. Rather than trying to guess which sector is going to outperform, make sure your portfolio is broadly diversified.
 - **AVOID STRATEGIES DESIGNED TO GET RICH QUICK IN THE STOCK MARKET.** The stock market is a place for investment, not speculation. When your expectations are too high, you have a tendency to chase after high-risk investments. Your goal should be to earn reasonable returns over the long term.
 - **DON'T AVOID SELLING A STOCK BECAUSE YOU HAVE A LOSS.** When selling a stock with a loss, an investor has to admit that he/she made a mistake, which is psychologically difficult to do.
- When evaluating your stock investments, objectively review the prospects of each one, making decisions to hold or sell on that basis.
- **MAKE SURE AN INVESTMENT WILL ADD DIVERSIFICATION BENEFITS TO YOUR PORTFOLIO.** Diversification helps reduce the volatility in your portfolio, since various investments will respond differently to economic events and market factors. Yet it's common for investors to keep adding investments that are similar in nature. This does not add much in the way of diversification, while making the portfolio more difficult to monitor.
 - **CHECK YOUR PORTFOLIO'S PERFORMANCE PERIODICALLY.** Compare your actual return to the return you targeted when setting up your investment program. If you aren't achieving your targeted return, you risk not reaching your financial goals. Now honestly assess how well your portfolio is performing. Are major changes needed to get it back in shape?
 - **NO ONE KNOWS WHERE THE MARKET IS HEADED.** No one has shown a consistent ability to predict where the market is headed in the future. So don't pay attention to either gloomy or optimistic predictions. Instead, approach investing with a formal plan so you can make informed decisions with confidence.

Please call if you'd like to discuss strategies for your investment portfolio. ○○○

to take on a bigger role in the day-to-day financial planning process, either out of choice or necessity. But even if one spouse takes a hands-off approach to money, both of you should still be present at meetings with your financial advisor. That's

because you're a team, and your advisor will be better able to provide appropriate advice if he/she can hear from both of you.

Please call if you'd like to discuss this in more detail. ○○○

FINANCIAL DATA

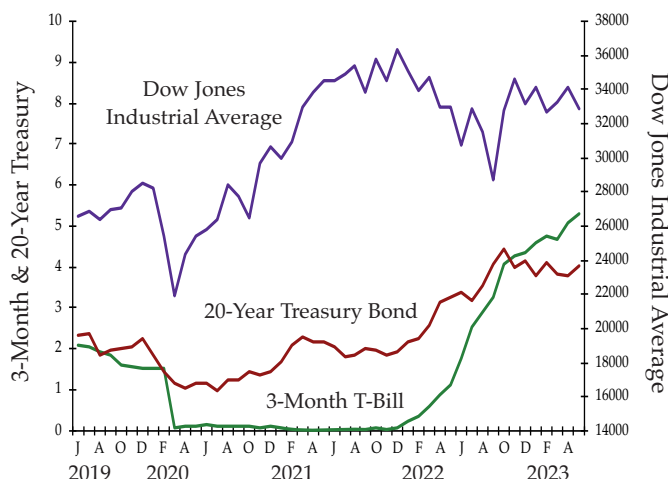
Indicator	Month-end				
	Mar-23	Apr-23	May-23	Dec-22	May-22
Prime rate	8.00	8.00	8.25	7.50	4.00
Money market rate	0.48	0.51	0.53	0.33	0.08
3-month T-bill yield	4.68	5.07	5.30	4.35	1.12
10-year T-bond yield	3.48	3.44	3.64	3.88	2.85
20-year T-bond yield	3.81	3.80	4.01	4.14	3.28
Dow Jones Corp.	5.36	5.26	5.60	5.54	4.27
30-year fixed mortgage	6.93	6.97	7.24	6.80	5.30
GDP (adj. annual rate)#	+3.20	+2.60	+1.30	+2.60	-1.60

Indicator	Month-end			% Change	
	Mar-23	Apr-23	May-23	YTD	12-Mon.
Dow Jones Industrials	33274.15	34098.16	32908.27	-0.7%	-0.2%
Standard & Poor's 500	4109.31	4169.48	4179.83	8.9%	1.2%
Nasdaq Composite	12221.91	12226.58	12935.29	23.8%	7.1%
Gold	1979.70	1982.55	1964.40	8.4%	6.8%
Consumer price index@	300.84	301.84	303.36	1.9%	4.9%
Unemployment rate@	3.60	3.50	3.40	-8.1%	-5.6%

— 3rd, 4th, 1st quarter @ — Feb, Mar, Apr Sources: Barron's, Wall Street Journal

4-YEAR SUMMARY OF DOW JONES INDUSTRIAL AVERAGE, 3-MONTH T-BILL & 20-YEAR TREASURY BOND YIELD

JUNE 2019 TO MAY 2023



Past performance is not a guarantee of future results.

NEWS AND ANNOUNCEMENTS

WILL YOUR CHILD FINISH COLLEGE IN FOUR YEARS?

When planning for college costs, a common assumption is that your child will obtain a bachelor's degree in four years. But how realistic is this assumption?

According to the Department of Education, approximately 41% of college students graduate in four years, increasing to 60% of students graduating in six years. Taking an additional year or two to complete college can add substantially to the overall cost. There are several reasons why students take longer than four years to complete their degrees:

- Many students find they need to work to help finance the cost of their college education. That could mean they either take time off from college to work or they take a smaller course load each semester.
- A substantial number of students transfer colleges. Credits don't always transfer equally between colleges, which may prolong the time needed to complete a degree.

- Many students change majors, which typically involves additional coursework. The National Center for Education Statistics estimates that 80% of students switch majors at least once.

What can a parent do to help shorten the amount of time the child spends obtaining a college degree? Actively get involved in helping the child with his/her selection of a college and a major. Since students who change colleges and majors often extend the time needed to obtain a degree, helping your child with those selections could help ensure they make good initial selections. Parents should honestly assess the child's abilities and goals when making those decisions.

Once the child is in college, the parent should also monitor the child's progress. Find out how many courses your child needs to take to complete college in four years. If the child falls behind, perhaps a summer class or two can get him/her back on track. ○○○

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