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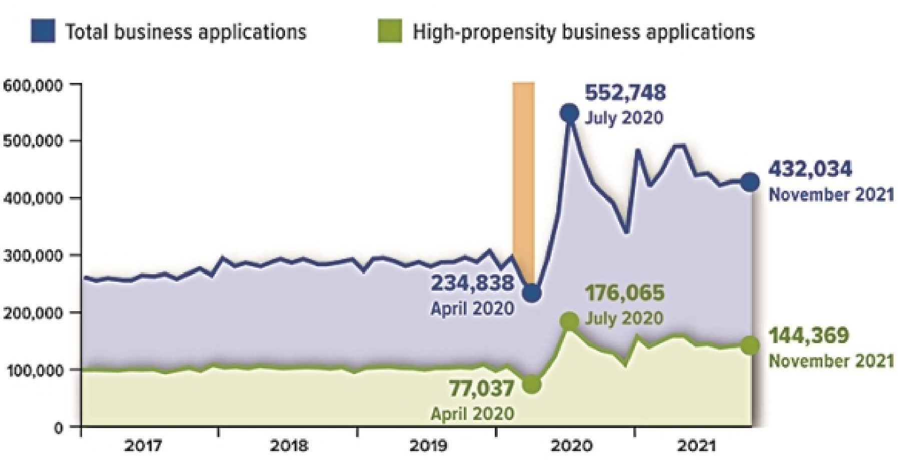
Make sure to read John Stewart's article "Market Volatility Continues" below.

New Businesses May Be Good News for the Economy

After taking a nosedive at the start of the pandemic recession (gold shaded area), business applications rose sharply, peaking in July 2020. Applications have fallen somewhat since then but are still up approximately 84% from their April 2020 low. Businesses that are likely to hire employees — called high-propensity businesses — make up approximately one-third of total applications. Businesses with payroll are considered more likely to power job growth and economic recovery.



Source: U.S. Census Bureau, 2021 (data for the period January 2017 to November 2021)

Market Volatility Continues

Last month I discussed stocks' rocky start to 2022, and the market volatility that began last month has continued into this month as well. Equities staged a rally at the beginning of the month as earnings from Google parent company Alphabet came in well-ahead of expectations. Weak earnings numbers from Netflix, PayPal, and Facebook (now called Meta Platforms) injected more volatility into the market, as all three stocks fell in excess of 20% following their respective reports. Overall, earnings season this quarter has been quite respectable. However, there are some cracks in the façade. For one, overall earnings growth is in fact decelerating quite rapidly, and even though the majority of companies are beating expectations, it is a smaller majority than last quarter, and the average magnitude of earnings beats is less than it was in previous quarters. In addition, earnings estimates for the first and second quarters of 2022 have been trending lower. To make matters worse, the Fed is still on a path toward tighter monetary policy even as the economy appears to be decelerating. I'd expect a few more bumps in the road for markets during the coming weeks.

The past few weeks have shown investor sentiment to be a rather powerful market timing tool, and while we don't advocate trying to time the market, you can certainly use sentiment indicators to avoid making bad timing decisions. Most investors buy when they feel good and things seem positive, and they sell when they feel bad and things seem negative. This is a natural force of human emotions. The reality is that they should be doing they exact opposite, or they should at least try to avoid doing what everyone else is doing at extremes of market sentiment. Investors headed into 2022 with a lot of optimism, flows into equity mutual funds were strong, and investor surveys showed little worry about market downside. Rarely is that a good time to take your pile of cash and go "all in" on stocks. In the first three weeks of January the S&P 500 index proceeded to fall roughly 10% in value. Sentiment was at the opposite extreme at the end of January with bearishness at levels not seen since the COVID-induced plunge of March 2020. That is likely not the time you want to be selling. And right on cue, markets bounced 6% off their January 27th low through February 2nd only to see that positive momentum fade as dip buyers learned an important lesson on risk.

Even as stock prices have swooned thus far this year, higher interest rates have put pressure on bond prices as well. This has been frustrating to investors hoping their bond portfolios would provide them diversification and help to cushion the market's blow. Fear not, as we have strong reason to believe that the Fed's bark will prove much worse than its bite, allowing interest rates to moderate somewhat moving forward. Not only will this help support bond valuations going forward, but it should also keep defensive sectors like utilities and consumer staples well-positioned to provide a much needed offset to more volatile and economically sensitive sectors.

Smoothing Market Ups and Downs

After the wild ride of 2020, the U.S. stock market was relatively calm in 2021, but there was still plenty of volatility. There were 55 days when the S&P 500 index — generally considered representative of U.S. stocks — closed with a rise or fall of 1% or more from the previous day's closing price. And there were seven days with a change of more than 2%.[1]

The good news for investors is that the trend was generally upward, and the S&P 500 ended the year up almost 27%.[2] But no matter which way the market is moving, trying to choose the "right" time to buy or sell can be stressful and counterproductive.

An investor who waits to buy may be frustrated as prices rise and then decide to stop waiting and purchase securities just before prices drop. On the other hand, an investor who sells when prices are dropping may lock in losses and miss out on gains when the market turns upward again. That's why one of the most fundamental maxims of investing is "you can't time the market."

One approach that might help steady your blood pressure and build your portfolio over time is *dollar-cost averaging.*

A Consistent Strategy

Dollar-cost averaging involves investing a fixed amount on a regular basis, regardless of share prices and market conditions. Theoretically, when the share price falls, you would purchase more shares for the same fixed investment. This may provide a greater opportunity to benefit when share prices rise and could result in a lower average cost per share over time.

If you are investing in a workplace retirement plan through regular payroll deductions, you are already practicing dollar-cost averaging. If you want to follow this strategy outside of the workplace, you may be able to set up automatic contributions to an IRA or other investment account. Or you could make manual investments on a regular basis, perhaps choosing a specific day of the month.

You might also use a similar approach when shifting funds among investments. For example, let's say you want to shift a certain percentage of your stock investments to more conservative fixed-income investments as you approach retirement. You could execute this in a series of regular transactions over a period of months or years, regardless of market movements.

Steady Investments

If Tina invested $6,000 in a security with a $50 share price in month one, she could purchase 120 shares. If instead she invested $1,000 each month over a six-month period, she might be able to accumulate more shares for the same dollar investment, which could result in a lower average cost per share.

Month	Amount invested	Share price	Shares acquired
1	$1,000	$50	20.00
2	$1,000	$55	18.18
3	$1,000	$45	22.22
4	$1,000	$40	25.00
5	$1,000	$50	20.00
6	$1,000	$55	18.18
TOTAL	$6,000	[$295 ÷ 6]	123.58

Average price per share: $49.16 ($295 ÷ 6)

Average cost per share: $48.55 ($6,000 ÷ 123.58)

This hypothetical example is based on mathematical principles and used for illustrative purposes only; it does not represent the performance of any specific investment. Actual results will vary.

Dollar-cost averaging does not ensure a profit or prevent a loss, and it involves continuous investments in securities regardless of fluctuating prices. You should consider your financial ability to continue making purchases during periods of low and high price levels. However, dollar-cost averaging can be an effective way to accumulate shares to help meet long-term goals.

Asset allocation is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss. All investments are subject to market fluctuation, risk, and loss of principal. When sold, they may be worth more or less than their original cost.

1–2) S&P Dow Jones Indices, S&P 500 index for the period 12/31/2020 to 12/31/2021. Retrieved from FRED, Federal Reserve Bank of St. Louis. The S&P 500 is an unmanaged group of securities that is considered to be representative of the U.S. stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Actual results will vary.

Plan Ahead to Help Ease the Burden of Tax Season

Most U.S. taxpayers "completely agree" (68%) or "mostly agree" (26%) that paying their fair share of taxes is a civic duty.[1] However, no one wants to pay more than his or her fair share. To help avoid doing so, consider addressing some important priorities before you begin filling out your tax forms.

Here are some steps that might help reduce stress when preparing your return.

Create an online account with the IRS. In addition to making it easier to review important tax information from previous years, an online IRS account provides a secure platform for reviewing the total amount you owe, making payments, responding to third-party tax information authorization requests, and more. Your balance is typically updated each night, and the service is available seven days a week, which makes it a good resource if you don't have easy access to hard copies of previous returns. Visit irs.gov for more information.

The IRS issued more than 125 million individual income tax refunds in 2020; the average amount was nearly $2,600.

Source: Internal Revenue Service, 2021

Organize paperwork for all sources of income. Completing a tax return can be stressful enough without having to search for supporting documents, so at the outset gather records of all taxable income you earned during the year. If you are unsure whether income is taxable, review IRS Publication 525, *Taxable and Nontaxable Income.* For example, if you received income in the form of a valid check during 2021 but did not cash the check until 2022, you must still include it on your 2021 return. Other forms of taxable income include workplace bonuses and awards (e.g., goods, services, and vacation trips) and winnings from lotteries and raffles. The fair market value of any "found property" you acquired is also taxable. Found property includes anything you found and kept that did not belong to you but is now in your "undisputed possession."

Determine whether you qualify for disaster relief. If your home or business is in an area that was affected by a natural disaster, the IRS may extend deadlines for filing returns and paying taxes. To determine whether you qualify, consult the Tax Relief in Disaster Situations page on the IRS website.

Filing your taxes doesn't need to be an annual exercise in frustration. This year, consider simplifying your financial life by doing some basic pre-planning. Before you take any specific action, be sure to consult with your tax professional.

1) Internal Revenue Service, 2021