Argent Capital Management LLC

RE: INVESTMENT COMMENTARY FOR PERIOD ENDING MARCH 31, 2022

FROM: ARGENT CAPITAL MANAGEMENT

DATE: APRIL 12, 2022

"When you got skin in the game, you stay in the game, but you don't get a win unless you play in the game."
- Lin-Manuel Miranda, Hamilton

Despite recent market volatility and a negative quarter, the S&P 500 stock index has still generated a very impressive three-year cumulative return, gaining 70.9 percent. Thus, the recent pullback is the type of healthy breather that one should expect from time to time. While not fun for Argent clients, such breathers are generally positive for long-term market participants as they help keep speculative investors at bay. To be sure, the first quarter was rocky, with investors digesting higher inflation, a war in Europe, spiking interest rates and oil prices jumping from $75 to $110 per barrel. Nonetheless, stock indices were down only slightly, with the S&P 500 off 4.5 percent in the first quarter, and most other stock and bond indices down 5.0 – 10.0 percent.

"Let's change 'brink of chaos' to 'Everything is wonderful.'"

One of our many investment mantras is that stock market corrections are to be expected. Since 1980, the average annual drawdown from peak to trough during any year has been 14 percent. Despite that, the markets were up by the end of the year in 32 of those 42 years. In fact, despite four of the largest declines in the S&P 500 Index since the Great Depression, the S&P has averaged close to 12 percent annually since 1980.

Perhaps more intriguing is a study of the results of *bad-timing scenarios*. For someone who purchased the S&P 500 on October 9th, 2007 – the worst possible day prior to the Great Financial Crisis – their average annual return is now 10 percent. Similarly, if that person had invested on February 19th, 2020 – the worst possible day prior to the Covid epidemic – the annual return is 19 percent. As Charlie Munger once said, "The first rule of compounding is never to interrupt it unnecessarily."

At Argent, we tend to be optimistic, but we are not Pollyannas. We understand there is a lot of legitimate worry in today's markets. Let's take a look:

Negatives

- Inflation is back. Last measured at 7.9 percent over the preceding 12 months, the concern is that inflationary environments are frequently followed by recessions.
- We are still experiencing economic growth, but the growth rate is slowing. It is worse in Europe.
- The war in Ukraine is disrupting energy supplies in Europe and moving prices higher for many commodities, including oil and gas, corn, wheat and precious metals.

Positives

- U.S. household net worth has surged to all-time records; over $30 trillion greater than pre-Covid figures. Meanwhile, consumer debt is at an all-time low. There is a lot of money to be spent.
- U.S. Jobless Claims figures recently were the lowest since 1969.
- Inventories are low. There has been a surge in orders across all industries to meet demand. Profits will likely follow.

The bottom line is there are solid reasons why investors can take *either* a positive or negative stance. At Argent, we still see positives outweighing negatives, although we expect volatility to remain elevated. It could take a few quarters for markets to adjust and renew their gains. Nonetheless, we do not see reasons to flee the stock market. Instead, they are the very reason to own stocks. Stocks represent companies which have the ability to sustain profitability by increasing productivity, and to increase prices to maintain margins. Portfolios will need to be tweaked to reposition for a changing environment – that is always true - but stock market opportunities still seem abundant.