By Ben Offit, CFP®
Offit Advisors

Another Year, Another Market Prediction

Another year in the books – stocks are up, bonds are down, and cryptocurrencies pretty much did everything imaginable and we added to our vocabulary included meme stocks, SPACs, Non-Fungible Tokens (NFTs), so what does 2022 hold?

At Offit Advisors we are not in the prediction business, but instead we are in the business of managing risk and expectations.

In 2021, the big theme was inflation which ended at around 6.8% according to the Consumer Price Index. This means things that costed $1 in 2020 ended up costing $1.068 by the end of 2021.

How did this happen? When the pandemic hit and there was risk to the economy that businesses could go under and thus have ripple effects throughout the economy, the Federal Reserve (Fed) stepped in. The point of the Fed is to interfere to help sustain and regulate the economy. They have targeted benchmarks of 2% inflation and full employment (96% of people working). To achieve this, they added a range of stimulus packages to businesses and individuals and families and created a low cost of borrowing environment with low interest rates.

They accomplished their goal, but perhaps we still have too much money flooding the system and interest rates are perhaps still too low and this creates inflation. Think of the real estate market – when interest rates are low, it inflates asset values because you can pay more for a house. Also, when more money is chasing the same thing, prices also go up. So, in essence what the Fed has done is inflationary.

If you believe that the "market is efficient" what it is telling us so far is that with prices going up, and businesses are passing on these price increases to consumers, so far it is working because the market is going up with this notion.

How will this affect the markets in 2022? Well, we don't know exactly how this will play out in the markets, because there are variables, so instead of focusing on what the market will do, **one needs to focus on their own financial plan.**

Many "experts" predict where the stock market will wind up by the end of the year, but they are usually wrong! The prediction game is futile, because we don't know perfectly how technology or inflation will unfold, the pandemic proves no one can prove with certainty how will it play out or how the recovery or how the Fed, Congress, or what Presidents will do. There are risks in the background – war, terrorism, cyberthreats, etc.

The other thing is that people have become accustomed to 15%+ returns over the past couple of years with almost no volatility, which usually is not the norm. We may see a market pull back of negative returns for a longer period at some point soon or have returns under 10% for a more sustained period, and that is ok and normal. That doesn't mean we are having a bad year; it just means the market is having less acceleration than it has the past couple of years, which is okay!

Investors should always be investing based on their needs because the market is unpredictable on a day-to-day basis – instead of saying what will do well this year, say what do I need to do for my plan to be successful for years to come? How much income do I need and when do I need it? And match up your portfolio allocation to your personal needs.

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