



Quarterly Booklet

# Fall 2022

“Who doth not answer to the  
rudder shall answer to the rock.”

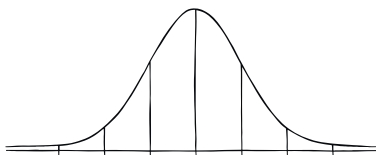
Fall 2022

ONE DAY  
IN JULY

Issue XXI

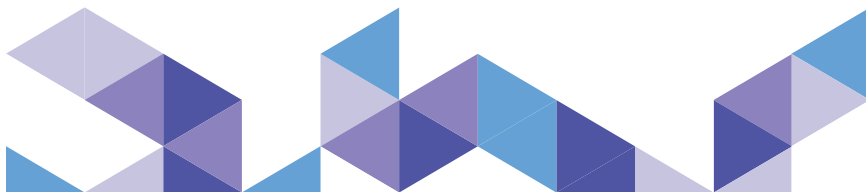
# A Note from our Founder

When we design an investment strategy, we know there will be a range of outcomes. This is a distribution curve.



Some years are going to be high, some low, but they will rarely, if ever, land on the average. Sometimes years will be so far from normal that many investors will change strategies as a reaction. This is a terrible mistake - while rare, outlier data points are part of the distribution of results. If an investor doesn't hold the rudder steady against the wind, rocks inevitably await.

— Dan Cunningham



# Habits of Highly Effective Long-Term Investors

What else are you accomplishing when you hold an investment course steady? Here is an excerpt from the bestselling book *Atomic Habits* by James Clear:

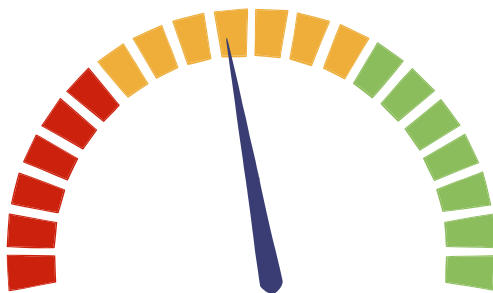
*If you show up at the gym 5 days in a row – even for 2 minutes – you’re casting votes for your new identity. You’re not worried about getting in shape. You’re focused on becoming the type of person who doesn’t miss workouts.*

It takes practice to train yourself not to care what happens day to day in the securities markets, especially with financial media blasting red and green. The more you ignore, the better an investor you become.

January 2023						
SUN	MON	TUE	WED	THU	FRI	SAT
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

# What is the optimal level of risk?

One of our jobs as investment advisors is to help clients determine how much risk they can absorb in their portfolios while still feeling comfortable. This can be tricky, as people tend to act differently during a crisis than they anticipate. Understanding risk tolerance is an essential step towards building a suitable investment plan. One way to think about your portfolio's bond allocation is that it should be as high as is necessary to avoid behavioral errors related to your equity holdings.



“The intelligent investor realizes that stocks become more risky, not less, as their prices rise – and less risky, not more, as their prices fall. The intelligent investor dreads a bull market, since it makes stocks more costly to buy. And conversely (so long as you keep enough cash on hand to meet your spending needs), you should welcome a bear market, since it puts stocks back on sale.”

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**BENJAMIN GRAHAM**  
The Intelligent Investor

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## Sale on Equities

You know the old adage: “buy low, sell high.” The S&P 500 is down nearly 25% for the year through September. We don’t believe that anyone is in a position to determine if stocks have hit their lows or if they will tumble further, but we do know that equities are cheaper than they were during most of last year. To take advantage of low prices, we recommend increasing the amount of money you contribute to your investment accounts through PYF. PYF, or “Pay Yourself First,” is a type of budgeting where you automatically deduct essential payments and savings from your income before it even reaches your checking account. After you have contributed a consistent percent of your paycheck to your workplace retirement plan or IRA and dealt with your mortgage, car payments, and any other mandatory monthly spending, part of what remains could be automatically added to an individual brokerage account to help save for medium- and long-term goals.



Source: New York Times, “Wall Street ends an ugly quarter with another drop.” By Joe Rennison, Sep 30, 2022

# Tax Efficiency: ETFs vs Mutual Funds in Taxable Accounts

Investors in exchange-traded funds (ETFs) and mutual funds face two types of capital gains taxes – taxes on the gains made when you sell shares and taxes on any gains that are generated within the fund itself and then returned to the shareholder as capital gains distributions. When you sell fund shares, the IRS taxes you at the same rate, whether it's an ETF or a mutual fund; the same is true for tax rates on capital gains distributions from a fund. The difference in tax efficiency comes from the way ETFs and mutual funds are structured.

Generally, passively managed ETFs generate fewer taxable events than actively managed funds since they require less buying and selling. Furthermore, creating and redeeming ETF shares, whether passively or actively managed, involves an in-kind trade, which is not taxable, whereas mutual funds must buy and sell individual securities, which is taxable. Research from Morningstar confirms that on average, ETFs distribute capital gains less frequently and make smaller payouts than mutual funds, which helps make them more tax efficient.

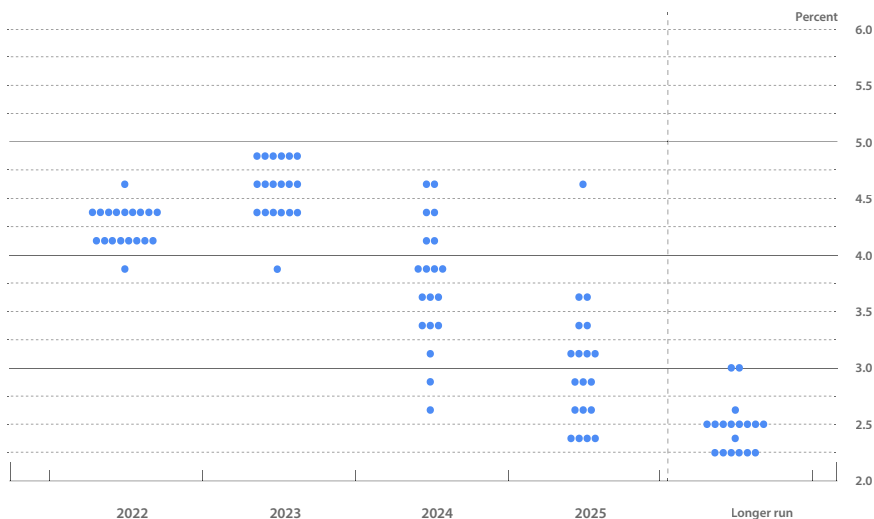
Sources: Intuit TurboTax, "Tax Efficiency: ETF vs Mutual Fund" Aug 30, 2022  
Morningstar, "ETFs Have a Tax Advantage Over Mutual Funds" by Ben Johnson, Feb 8, 2022

## Believe it or dot!

It's hard not to be inundated with financial news these days. Prudent long-term investors are able to tune out the cacophony of short-term market volatility, and we encourage our clients to do so; however, we'd be remiss if we didn't mention the FRB's (Federal Reserve Board) latest summary of economic projections. Every quarter, the Fed's rate-setting committee (the Federal Open Market Committee, or "FOMC") members submit their expectations for GDP, unemployment, and inflation for the next few years and over the "longer run." Each participant's forecasts are based on his or her "particular assessment of appropriate monetary policy" given the current economic conditions and available data. They each report what they consider to be the most effective path for adjusting the federal funds rate over time to manage inflation without putting undue pressure on employment. The target ranges are collected in a table known as the Fed's Dot Plot. September's Dot Plot anticipates the fed-funds rate hiking to 4.4% by the end of this year, plateauing at 4.5-4.75% by the end of 2023, and finally starting to fall in 2024 and 2025. Some argue that we are on our way back to normal (the average monthly fed-funds rate going back to 1954 is 4.6%).

Source: Barron's "Stocks Are Sinking and Rates Are Rising. It's Painful, But We're Heading for Normal." By Jack Hough, Sep 23, 2022

## Federal Open Market Committee Dot Plot - Sep 21, 2022



Note: Each circle indicates the value of an individual participant's judgement of the midpoint of the appropriate target range for the federal funds rate or the appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run.

Keep in mind that the Dot Plot is based on currently available data. Unknown future variables, like another pandemic or geopolitical crisis, would likely change the FOMC's projections. Hence, the longer-term expectations for rates in the Dot Plot are less reliable than those in the near-term. Notably, after the September 2021 meeting, the Dot Plot showed the committee's median forecast for the federal funds rate by year end 2022 would be a mere 0.3%. It wasn't until late November that Jerome Powell formally dropped the term "transitory" from the Fed's characterization of inflation.

Sources: U.S. Federal Reserve Summary of Economic Projections Sep 21, 2022 and Sep 22, 2021  
Reuters, "Fed's Powell floats dropping 'transitory' label for inflation" Nov 30, 2021

# The Upside to Rising Rates

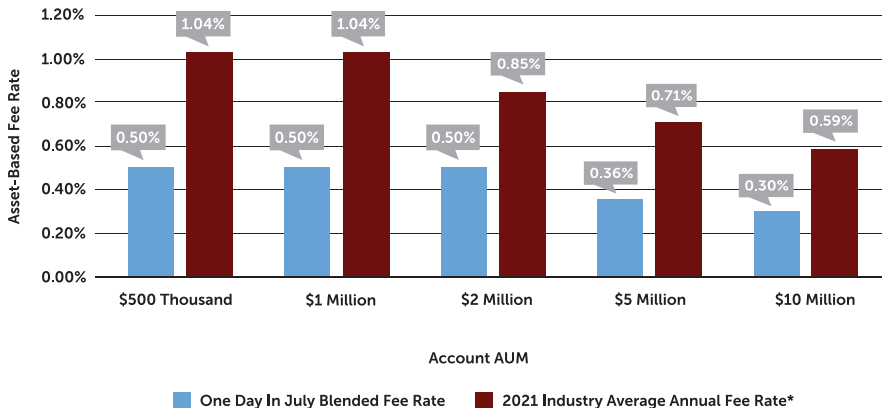
It feels relatively certain that interest rates will continue to rise in the near term. Rising rates may increase the risk of an economic slowdown, and it's not great for people who need to borrow money, but it's not all bad news! For one thing, the increased costs for borrowing money make consumers more hesitant to make large purchases. This slowdown in spending helps prices come down (one of the Fed's primary objectives). Saving also becomes more attractive because banks and bond issuers will pay you more to hold onto your money. As we alluded to earlier, rising rates and the threat of recession tend to cause a drop in stock prices, so it's a good opportunity to take advantage of low entry points into the market. Ultimately, raising interest rates is intended to help the economy return back to normal. While it may be a bumpy ride to get there, over time normalization should make it less challenging for businesses to operate, make asset allocation decisions easier, smooth out price volatility, and reduce the chances of market bubbles.



# Focus on what you can control.

You may not be able to control the market, but you can control what you pay in investment-related expenses. One of our primary goals at One Day In July is to lower fees for our clients. This matters greatly. As the father of index funds John Bogle said, when it comes to investing, “we get precisely what we don’t pay for.” Every dollar paid in fees is a dollar that cannot be invested, which results in a compounding drag on an investor’s net worth over time. One Day In July’s asset-based advisory fee rates are significantly lower than the industry average.

## One Day In July vs. Industry Average Asset-Based Fee Rate



\*Industry Average Fee Rate source: AdvisorHub.com, “Fee Compression a Myth? Advisory Fees Tick up After Years of Decline” By Miriam Rozen, March 23, 2022

*One Day In July is an SEC-registered investment advisor. Registration does not imply a certain level of skill or training. One Day In July LLC does not guarantee actual returns or losses. This content is for educational purposes only and is not investment advice. Individual circumstances may vary.*



# ONE DAY IN JULY

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"I used to think that if there was reincarnation, I wanted to come back as the president or the pope or as a .400 baseball hitter. But now I would like to come back as the bond market. You can intimidate everybody."

- James Carville, political advisor

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