

A night landscape featuring a river with numerous smooth, dark rocks scattered across its surface. The water is dark and reflects the light from the sky. In the background, there are dark, silhouetted hills and mountains. The sky is a deep blue and black, filled with countless stars and the prominent, glowing band of the Milky Way galaxy stretching diagonally across the frame. The overall mood is serene and majestic.

Quarterly Booklet

# Summer 2022

"Crossing the River by Feeling the Stones"

Summer 2022

ONE DAY  
IN JULY

Issue XX

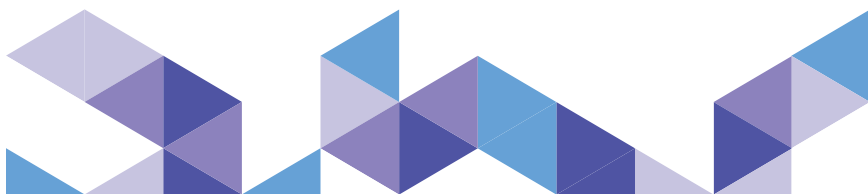
# A Note from our Founder

“An investor’s chief problem - and even his worst enemy - is likely to be himself,” legendary value investor and Warren Buffett teacher Benjamin Graham once noted. As you’ll read in the pages that follow, uncertainties abound. But you don’t want to add yourself to the list of difficulties, something worrying over the market tends to do.

Instead, take the advice from the front cover, attributed to Deng Xiaoping, leader of the People’s Republic of China, though likely not original to him. You cross a river one step at a time, feeling your way and making decisions carefully. Focus on what you can control. Income coming in, spending going out.

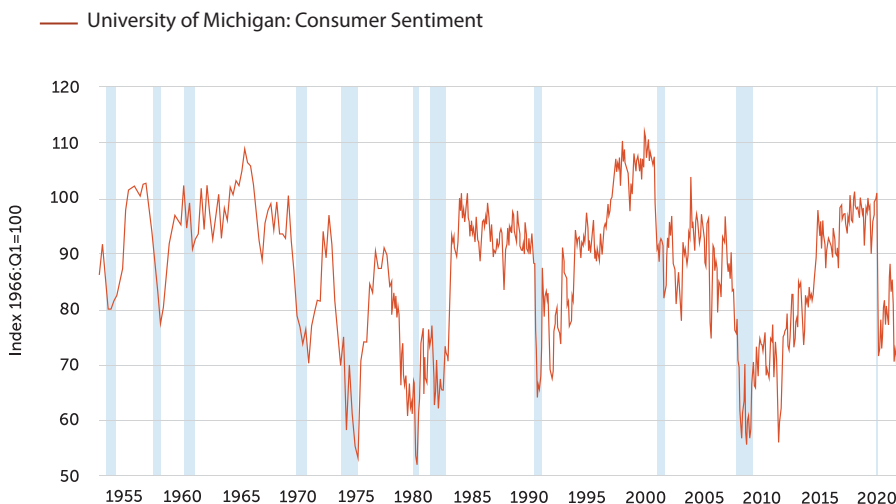
Keep your eyes on the stones.

Dan Cunningham



# A Long Face

The University of Michigan's U.S. Index of Consumer Sentiment fell to a record-low of 50 in June, down sharply from the prior month. This implies that the average consumer is feeling worse about the economy now than they have at any point since 1952 (including during prior recessions). After all, those gas and food prices *are* pretty difficult to ignore.



## Sources:

University of Michigan Surveys of Consumers, [www.sca.isr.umich.edu/](http://www.sca.isr.umich.edu/) Retrieved 29 Jun 2022

YCharts, "US Index of Consumer Sentiment"

FRED Economic Data St. Louis Fed, "University of Michigan Consumer Sentiment"

Chart data recorded quarterly 1953 - 1978, monthly from 1978 - present. Shaded areas indicate U.S. recessions.

# Inflation has a lot to do with it.

The Consumer Price Index climbed to a worse-than-expected 40-year high of 8.6% in May. The Fed reacted with a larger-than-originally-anticipated rate hike of 75 basis points (0.75%) at their June 15th meeting, the largest single increase since 1994. Although it is widely expected that the Fed will continue to raise rates and shrink its balance sheet throughout the year, inflation may not materially subside in the short term. Chris McReynolds, head of U.S. inflation trading for Barclays PLC, says, "Monetary policy certainly acts with a lag and the market is saying monetary policy is not going to ease the oil shortage in the next two months, and it's not going to help food prices or get wheat out of the Ukraine in the next few months. For the next few months...the main sticking points of inflation are something raising rates are not really going to take care of."

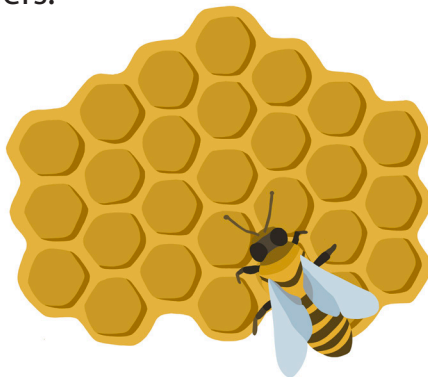
Sources:

MarketWatch, "[Rising rents, gas and food prices push U.S. inflation to 40-year high of 8.6%](#)" 10 Jun 2022

MarketWatch, "[U.S. inflation expected to keep running hot: Traders see 4 straight months of roughly 9% or higher CPI readings.](#)" 16 Jun 2022

## But is the economy actually bad?

We may not get a break from inflated prices any time soon, but at least the labor market is healthy. Unemployment is low, currently at 3.6% (May's reading). The latest Federal Reserve Bank of New York survey shows that consumer expectations of losing one's job are well below last year's average and the mean probability of quitting one's job over the next year rose to 20.3% in May, the highest level since September 2020. Both measures indicate widespread confidence in a resilient labor market. Combine this with the aforementioned University of Michigan's latest grim reading and you can see the mixed messaging from consumers.



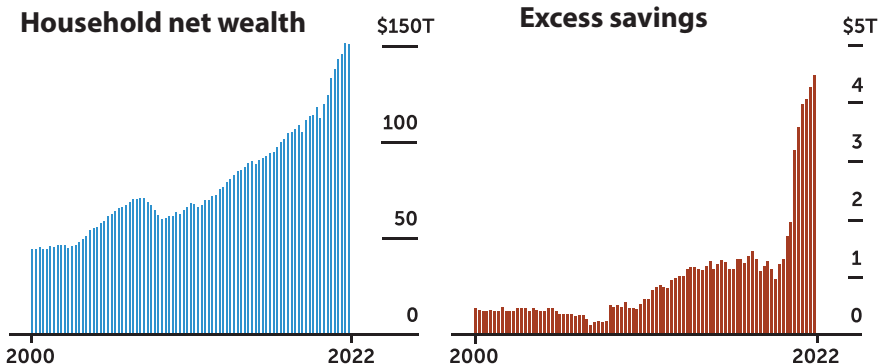
Sources:

Reuters, "U.S. consumer short-term inflation outlook worsens - NY Fed survey," 13 Jun 2022

FRED Economic Data St. Louis Fed, "[Unemployment Rate](#)."

# Household balance sheets look good.

All that Covid-related government fiscal stimulus had to go somewhere. On an aggregate basis, U.S. household wealth swelled by 35% from the start of the pandemic through the first quarter of this year, an increase roughly equal to that achieved during the previous six years combined. Despite the inflation we've already endured, Americans are still maintaining an ample amount of savings. Household and nonprofit organizations checkable deposits have more than tripled in the last two years. However, it's worth noting that the rate of savings, after dramatically surging to a record high of 33.8% in April 2020, has dropped radically to 5.4% as of May 2022. Add that to the list of ambiguous economic signals.



Sources:

Bloomberg, "[How Close Are We Really to 1970s-Style Inflation?](#)" 11 Jun 2022 Chart: US Federal Reserve  
FRED Economic Data St. Louis Fed, "[Personal Saving Rate](#)."

# Recession as Self-Fulfilling Prophecy

Despite healthy consumer balance sheets and a robust labor market, there's a palpable sense of dread among consumers right now. Add to the stubbornly high inflation over two years of a pandemic, war in Ukraine, and political dysfunction, and the mood is officially grim. Consumer sentiment levels are low indeed, but Americans haven't stopped spending yet. This is a key point. Similar to how the Fed believes worrying about inflation begets inflation, noted economist Robert Shiller purports that recession could be a "self-fulfilling prophecy," as pessimistic consumers, investors, and companies prepare for a downturn by slowing their spending. "The fear can lead to the actuality," argues Shiller. To help stave off recession, perhaps now is again a good time to heed Warren Buffett's October 2008 advice, offered via a NY Times op-ed, to "Buy American." (American stocks, that is.) The piece was published in the midst of the Global Financial Crisis when U.S stocks were down about 30% and fear pervaded the markets. In it, he noted, "I haven't the faintest idea as to whether stocks will be higher or lower a month, or a year, from now. What is likely however, is that the market will move higher, perhaps substantially so, well before either sentiment or the economy turns."

Sources:

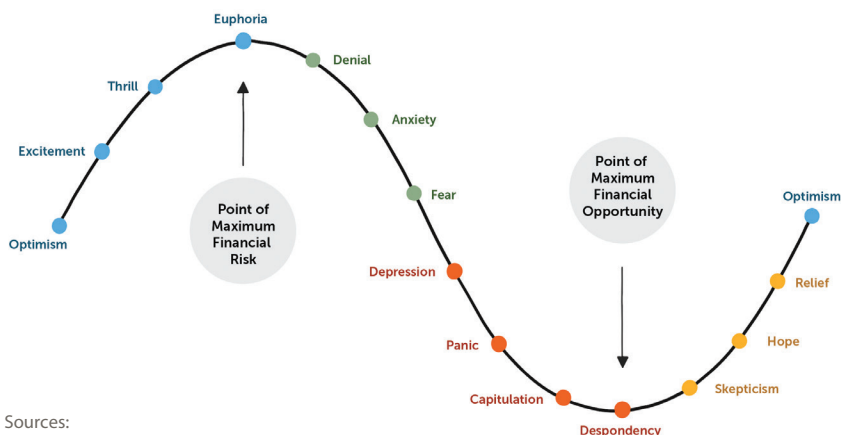
Fortune, "[Famed economist Robert Shiller says there is a 'good chance' of a recession—it's a 'self-fulfilling prophecy'](#)" 8 Jun 2022

RBC Global Asset Management, "[Wise words from a master investor.](#)" Retrieved 21 Jun 2022

# “Be fearful when others are greedy...”

“...and be greedy when others are fearful.” This was another line from Buffett’s 2008 NY Times piece. Stock market performance from January through June 2022 has been the worst first half of the year since 1970 as measured by the S&P 500, so it’s a good time to discuss this.

One of our financial advisors, Hans Smith, is quite fond of tracking investor sentiment. In a recent article, Hans agrees with Buffett, saying, “The riskiest time to invest is when the market looks safest, and the safest time to invest is when the market looks riskiest.” Hans highlights the “cycle of investor emotion” with the image below.



Sources:

New York Times, “[Buy American. I Am.](#)” 16 Oct 2008

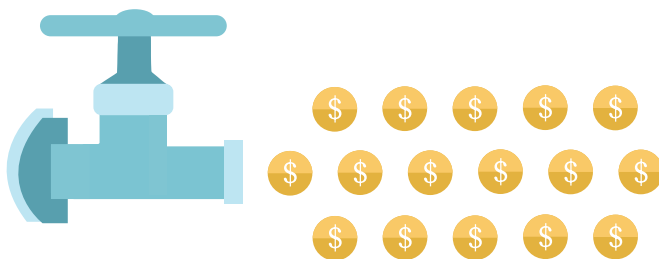
One Day In July LLC, “[The Cycle of Investor Emotion.](#)” 3 Jun 2022

CBS News, [Stocks suffered their worst first half of the year since 1970. What's next?](#)



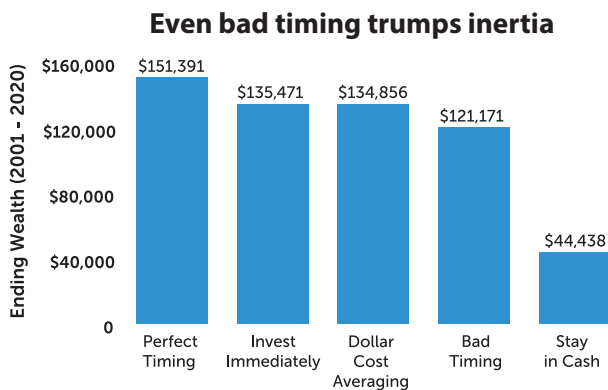
## Dividends: Focus on the cash flows.

A dividend is the cash (or additional stock) you receive in exchange for owning a security. It is a distribution of a company's profits paid to its shareholders. We encourage our clients to view their investments like a business and focus on the cash flows. Historically, dividend payouts have been less volatile than stock prices, even during recessions. During the 11 bear markets and recessions from 1946-2009, dividends paid by companies in the S&P 500 were cut only 0.5% on average vs. the average stock market decline of 34%.



# “Be wise today, ‘tis madness to defer.”

That title is a line from “Night-Thoughts,” written by English poet Edward Young in 1742. Let’s apply this to investing. Admittedly, the markets look scary right now. Many people fear deploying their cash into investments while the bottom may still be ahead of us. And yet, we know how difficult it is to properly time the markets. At One Day In July, we don’t try to do it. A study from Schwab illustrates what you might give up when you try to wait for the best entry point. Schwab portrays the hypothetical results achieved by five investors, each with a different approach to the market. They ran the numbers for 2001-2020, a period that includes both the dot-com bubble burst and the Global Financial Crisis. Assuming you can’t achieve perfect timing, the next best outcome came from the investor who “simply put her money to work as soon as she received it each year—without any pretense of market timing.”



Sources:

Wikisource.org. The full title of the poem is “[The Complaint: or Night Thoughts on Life, Death, and Immortality.](#)” Charles Schwab, “[Does Market Timing Work?](#)” 15 Jul 2021. Past performance is no guarantee of future results. The examples are hypothetical and provided for illustrative purposes only.

# The Only “Free Lunch” in Investing

Nobel Prize laureate and economist Harry Markowitz is reported to have said, “Diversification is the only free lunch” in investing. To round out that complimentary meal, we would add asset allocation for an appetizer and rebalancing for dessert, gratis. Once you have your properly diversified, appropriately allocated long-term investment plan in place, the challenge is sticking with it. We consider periodic portfolio rebalancing as an essential investing discipline. This practice of maintaining your target asset allocation by purchasing underperforming asset classes and selling outperforming ones is ‘buy low, sell high’ in action, although for tax reasons we often must manage the situation without selling. Market volatility tends to make this more difficult; rebalancing challenges common investor emotions of fear and greed. We can help.

For the record, One Day In July really does offer free lunches at many of our educational events.

Visit [www.onedayinjuly.com/lunch-learn](http://www.onedayinjuly.com/lunch-learn) for the latest.



Source: ForbesBooks, “[Diversification Is the Only Free Lunch](#).” Retrieved 21 Jun 2022

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# ONE DAY IN JULY

77 College Street, #3A  
Burlington, VT 05401

[www.onedayinjuly.com](http://www.onedayinjuly.com)  
(802) 503-8280

"My advice is, never do tomorrow what you can today.  
Procrastination is the thief of time. Collar him."

— *Charles Dickens (in his 1850 novel "David Copperfield")*

Burlington, VT: (802) 503-8280 • Shelburne, VT: (802) 777-9768 • Rochester, VT: (802) 767-7665 • Darien, CT: (203) 554-9466