



Forward Focus

October 2021



Quarterly Market Review

Uncertainty finally started to weigh on stocks in the third quarter. Debt ceiling, inflation concerns, the delta variant, vaccine mandates, supply chain issues, China's Evergrande, Fed policy, stock market valuations... The list goes on. All that uncertainty led to the worst monthly drop for the S&P 500 in a year and a half.

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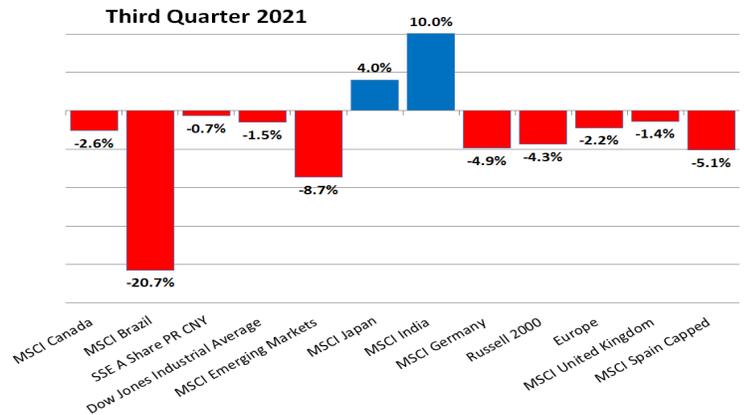
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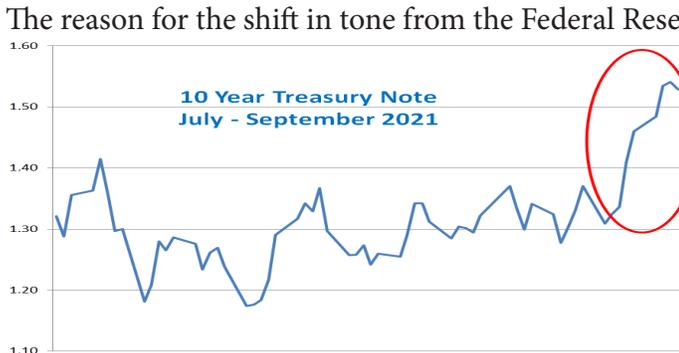
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As you can see from the chart on the right, most major world stock markets declined in the third quarter.

Digging deeper, 67% of the stocks in the Dow Jones Industrial Average lost value in the past three months.



The Federal Reserve mentioned that it was ready to pull back on stimulus in the fourth quarter and is contemplating raising rates sometime in 2022. This caused the 10-Year Treasury yield to spike to 1.56% in September.



The reason for the shift in tone from the Federal Reserve is due to inflation data that shows that the 'transitory inflation' that the Fed predicted, might not be so 'transitory'. This is forcing the Fed to consider cutting stimulus and raising interest rates sooner than anticipated to curb inflation and prevent it from possibly getting out of hand.

Forward believes the Federal Reserve is taking the proper steps, but acknowledges that it will create a brief period of adjustment in both the stock and bond market.

For the quarter, the best performing sectors were Financials, Utilities, and Health Care, while the worst performing sectors were Materials, Industrials and Energy.

Last quarter, we stated that *'Forward anticipates positive yet more muted returns, and increased choppiness as the year progresses'*, and that *'periods of longer malaise'* are coming. That prediction came true and the picture proof of that statement is on the right. As you can see, the **red arrow** on the far right points back to the middle of April, showing that the market has been choppy, returns have been muted, and the malaise has been occurring for almost 6 months. We expect uncertainty to linger in Q4, but for markets to end the year higher.



Third Quarter 2021

- Dow Jones Industrial Average -1.5%
- S&P 500 0.6%
- MSCI EAFE (International) -1.1%
- Russell 2000 (Small Cap) -4.3%
- MSCI EMI (Emerging) -8.7%
- Barclays Capital Aggregate Bond -0.0%

Defining Success: It's More Than A Number

The Merriam-Webster definition of success is 'a favorable or desired outcome'. Merriam's definition of the essential meaning of success is 'the fact of getting or achieving wealth, respect, or fame.'

I don't and won't agree with that. Success is more than a finish-line and much more than 'getting' something. That definition is too vague and is not useful. True success, YOUR success, should have deeper meaning and a more defined definition.

Let me explain. If success to you is \$1 million and you get that through a payout of a loved one's life insurance policy, is that success? No, you'd rather have the loved one. If success to you is retiring at 62, but you have to stay 6 months longer, is that failure? No. If success to you is 10% return and the market is down, was investing unsuccessful?

Too often, success is defined as an outcome. The problem is that most outcomes in life are outside of our control. We can't ultimately control our health, longevity, employment status, the tax code, property taxes, the price of milk and eggs, the weather, the stock market, economy, anything in Washington; the list goes on and on.

So what can we control? What we eat, when we sleep, whether we exercise, how we treat others. How about when it comes to our money and finances. We can control how much we spend (budgeting), how much we save each paycheck (saving), What we do with that savings (investing), what debts we assume, what lifestyle we live, what risks we take, what car we drive, etc...

Ultimately, the things we can control should have a greater impact on our definition of success than the things we can't. Floods happen, accidents happen, sickness happens, recessions and market downturns happen. Those are outside of our control. When things outside our control, control our definition of success, we lose hope. When we lose hope, we often give up.

I want to repeat the sentence from the paragraph above. Ultimately, the things we can control should have a greater impact on our definition of success than the things we can't. If you are living on a budget, saving and investing each month, and have a goal in place, congratulations, you are succeeding. Regardless of the stock market this month, or if you have to replace the water softener, or if have to pay a deductible due to a car accident. The things you can control, you are. Don't lose hope. Don't give up. Keep going, you are still moving toward your goal, controlling what you can control, and THAT is success.

YOUR outcomes undoubtedly include life and its limitations, but your definition of success should focus on the things you can control. The reason this is on my heart and mind is because we are likely entering into a period where negative headlines will dominate, markets will fluctuate, and Washington will legislate. During times like this, it is vital to have a plan, a purpose, and a healthy definition of success to keep you focused, engaged, and confident that you are succeeding.

Interesting Factoids:

- The U.S. has outperformed the EAFE Index (the 21 developed markets countries) for the last 13.9 years
- The S&P 500 is in a period of multiple contraction. The Forward P/E of the S&P 500 is 20.3 (versus 22.33 on January 1st) This is occurring because earnings are growing faster than stock prices
- The top 10 stocks in the S&P 500 account for 29.3% of the market capitalization of the index
- The 2022 federal budget is \$5.5 Trillion. Over \$1.15 Trillion of that (about 21%) is borrowing

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