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Dear Client

Markets Do Recover

Right now, it's hard to believe that share and bond markets recover - I know. The world share index is down some 23% from the start of this year and gloom is all around us.

The following factors are front of all our minds and are behind the fall in share and bond markets:

- sharply increasing interest rates to reduce the impact of inflation
- supply chain disruptions as a result of Covid
- outbreak of the Ukrainian war
- China's Covid elimination strategy.

However, history shows that share markets do recover – and in fact grow beyond the decline.

The following table shows the largest declines in the world's largest share market (S&P 500) over the last 100 years – and the recoveries over the next 5 years.

<i>Period</i>	<i>1929-32 Great Depression</i>	<i>1937-42 World War 2</i>	<i>1973-74 Oil Shock</i>	<i>2000-02 Tech Wreck</i>	<i>2007-09 GFC</i>	<i>Average</i>
Decline	-86%	-60%	-48%	-49%	-57%	-60%
1st year	+138%	+64%	+44%	+36%	+72%	+71%
2nd year	+1%	+9%	+26%	+10%	+18%	+13%
3rd year	+6%	+31%	-3%	+9%	+6%	+10%
4th year	+57%	+32%	+12%	+15%	+16%	+26%
5th year	+17%	-20%	+13%	+18%	+24%	+10%
Average 5-year return	+44% p.a.	+23% p.a.	+18% p.a.	+18% p.a.	+27% p.a.	+26% p.a.
Value of a \$10,000 investment over years 1 to 5	\$46,400	\$24,800	\$22,300	\$22,100	\$30,900	\$28,300

You will see that there have been some large declines (up to 86% during the Great Depression!), but in every case the market recoveries have been dramatic. The average loss during these significant events was -60% and the average annual gain after these declines was +26% p.a. over each of the subsequent 5 years.

This shows that:

- while we despair at the current state of the share and bond markets, they do recover
- if we weaken and withdraw our funds before we need them, we will likely miss out on the recovery

- it's very hard to 'time the markets' because, while you may miss some of the decline, you will also likely miss some of the recovery.

There has been lots of bad news built into the current share and bond prices. When this news turns around, and it will, then investment markets will see these events as positives and this will lead to a recovery. I expect this to happen late this year, or early next year.

Please let me know if you want me to review your investments or you have any concerns that aren't addressed here - or If you think I can assist in any way.

Best regards



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