A NOTE FOR OUR CLIENTS *from Topher Brennan*

Happy Summer!

In this quarterly update, I want to share several exciting life updates impacting the Tellaro Wealth Management team. I also wish to elaborate on how these experiences help positively influence our fundamental planning concepts. One of the key pillars that supports our goal of delivering an uncommon experience for our clients is creating plans that are more than just calculations. We affectionately refer to this approach as the balance between the “Science & Art” of what we deliver.

“The Science”

The science of what we do is captured in our understanding and mastery of a very complex financial system. We are able to apply an objective approach to planning because, simply put, Math doesn’t lie. We need to have mastery of variables, like the tax code and historic market data. That expertise is highlighted to our clients by the credentials, licenses, and academic accolades we have achieved.

“The Art”

The art or what we do is equally important, but it is a bit more subjective. Mastering financial planning concepts is imperative, but how we apply those concepts is guided by our practical understanding of the world. You, our clients, have unique goals and motivations. The ability to blend both the science and the art to each situation is what separates us from calculators. Unlike a Master’s Degree or a credential, these practical experiences are “earned” from life events such as getting married, becoming a parent, purchasing a home or business, retiring, etc.

Since our last newsletter, several of our team members have experienced exciting life events. We are excited to celebrate these milestones with Tellaro’s community. I am grateful to watch each team member grow because we have great relationships…. But I also know each life event broadens our cumulative basket of knowledge. These updates are shared below and we hope you can share in our excitement.

Best,

Topher

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TELLARO TEAM UPDATES

RICHARD + JO

An exciting life change is occurring in Richard's household, as his wife (and Topher's mom!) Jo retired in May after a 31-year career in book publishing – and all with the same company! Jo is looking forward to spending more time around her passions (working out, cooking, spending time with her grandchildren, traveling) and exploring some new active avenues for fun, adventure, and creativity.

TAYLOR

Taylor has officially been with the Tellaro team for the past three years working as an Associate Financial Representative. He has made himself an integral part of the business, and we are very luck to have him. Keep up the great work, Taylor!

BRYAN + CASSIE

Bryan and Cassie are excited to share that they recently purchased their first home together. They are now located in Dorchester, MA where they live with their dog, Teddie. Bryan and Cassie are looking forward to starting a family in this home and becoming active members of the Dorchester community.

RECESSIONS: SEPARATING FACT FROM FEAR

Nothing strikes fear in the hearts of investors more quickly than the word “recession.” And with that dreaded word seemingly popping up everywhere in recent days and weeks, it may be a good time to look to history to see whether the panic is warranted.

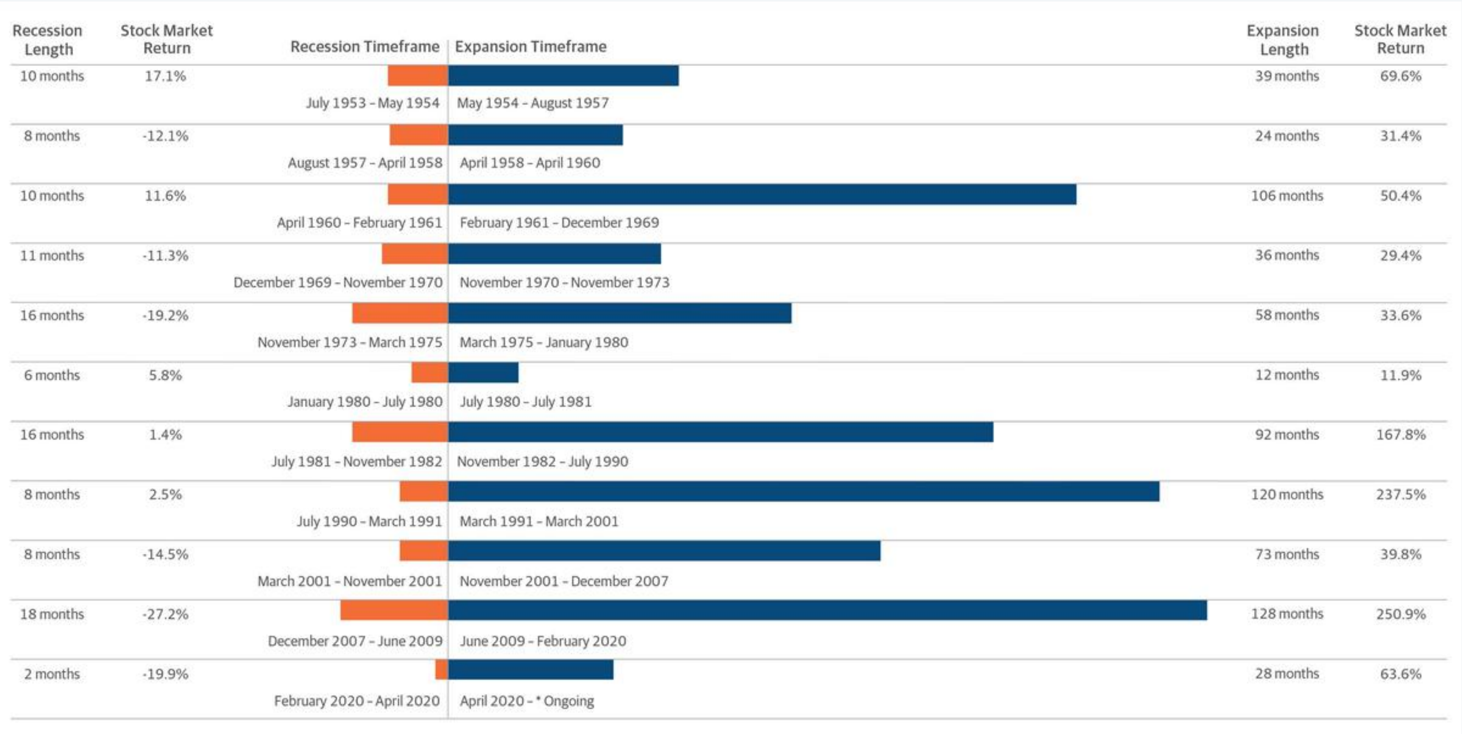
The classic definition of a recession is two consecutive quarters of declining real gross domestic product (GDP). However, the most widely adapted definition is from the National Bureau of Economic Research (NBER), which states a recession “is a significant decline in economic activity that is spread across the economy and that lasts more than a few months.”

While the definition leaves room for interpretation, since 1950, all but two of the recessions identified by NBER (1960 and 2001) were accompanied by two or more consecutive declining quarters of real GDP (the other two contractions had two quarters of declining GDP that were not consecutive), demonstrating there is significant overlap between the two methodologies. Regardless of which criteria is used, it is safe to say a recession is an event that coincides with a significant downturn in the economy.

Recessions tend to be short-lived

There have been 11 recessions since 1950, with the typical economic contraction lasting an average of approximately 10 months. This means that historically we have seen a recession roughly every 6.5 years. While the economic downturn may feel long for those living through it, the pain is relatively short when compared to the expansion that typically has followed. As you can see based on the data in the chart, during the past 72 years, post-recession expansions have lasted an average of 65 months.

ECONOMIC EXPANSIONS AND CONTRACTIONS



Northwestern Mutual Wealth Management Company. All returns are S&P 500 price returns. Stock market data is from YCharts. Recession data is from NMER. A recession is defined by NBER as "significant decline in economic activity that is spread across the economy and that lasts more than a few months."

While recessions are unpleasant from an economic standpoint, they don’t necessarily warrant the dread investors often feel. The average return of the S&P 500 during recessions since 1950 is -6 percent, with the worst being a 27.2 percent loss during the recession in 2007. In fact, this was the only recession that saw a loss of 20 percent or more during its duration, and almost half of recessions saw positive stock returns during their time span. To be fair, markets have often seen negative returns in the weeks and months leading up to the recognized start of a recession.

Additionally, stock market performance coming out of recessions tends to be strong. Forward cumulative one- and two-year returns following a recession have averaged almost 20 percent and 30 percent, respectively. These historical rebounds highlight the importance of staying invested to avoid missing the potential for above-average returns that tend to follow recessions.

S&P 500 Performance

Start of Recession	Recession Length in Months	Returns From Peak to Start of Recession	Returns During Recession	Returns 1 Year After End of Recession	Returns 2 Years After End of Recession
Jul. 1953	10	-8.7%	17.1%	34.7%	71.7%
Aug. 1957	8	-3.7%	-12.1%	31.4%	31.1%
Apr. 1960	10	-8.4%	11.6%	11.1%	6.8%
Dec. 1969	11	-13.5%	-11.3%	13.2%	34.0%
Nov. 1973	16	-9.8%	-19.2%	23.4%	23.6%
Jan. 1980	6	N/A	5.8%	13.1%	-5.5%
Jul. 1981	16	-7.4%	1.4%	22.3%	24.2%
Jul. 1990	8	N/A	2.5%	12.2%	20.6%
Mar. 2001	8	-18.7%	-14.5%	-16.4%	-0.9%
Dec. 2007	18	-4.6%	-27.2%	18.5%	46.4%
Feb. 2020	2	N/A	-19.9%	51.3%	72.5%
Average	10	-9.4%	-6.0%	19.5%	29.5%

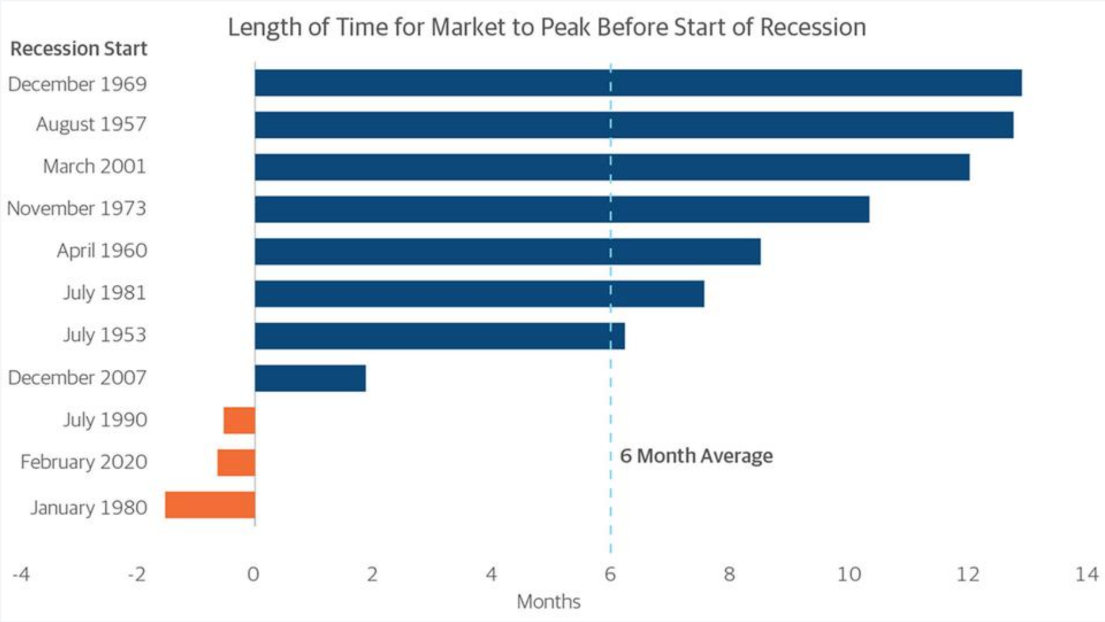
Northwestern Mutual Wealth Management Company. S&P 500 data is from YCharts and Morningstar Direct. Recession data is from NBER. All returns are price returns. NA indicates the stock market peaked after the start of the recession.

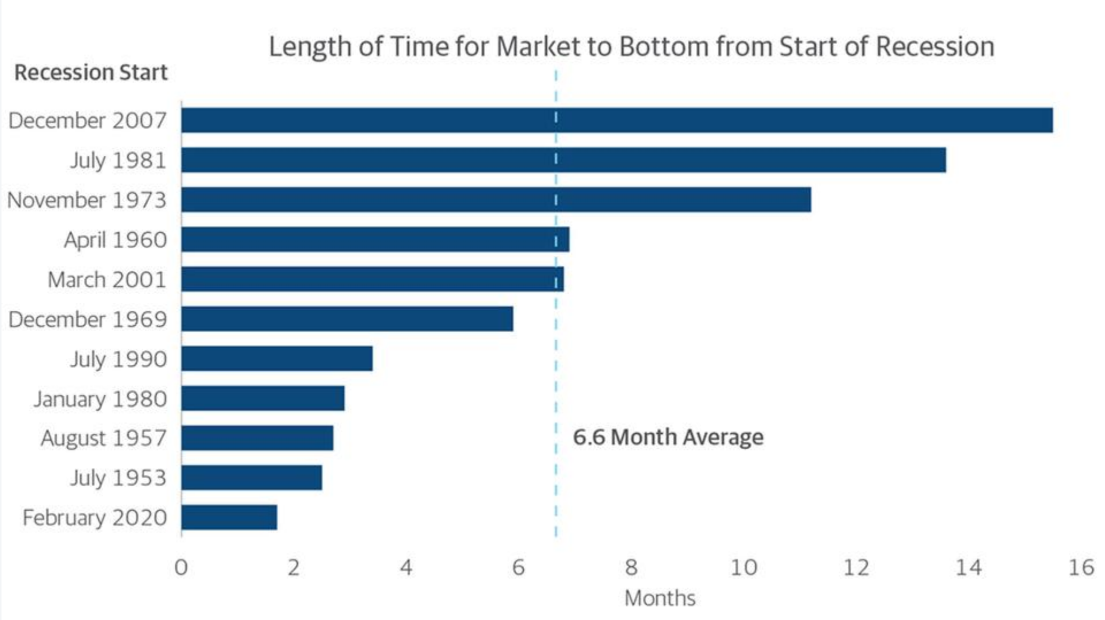
How the stock market behaves

The economy and the stock market take turns leading and following in a complicated dance that moves our financial world. It may seem surprising, but the stock market often peaks before the official start of a recession. In fact, since 1950, in all but three instances the stock market peaked before the beginning of a recession, with the average time being six months prior to the start. Odds are, if there is an economic downturn on the horizon, the stock market has already peaked and begun to sell off in anticipation of the event.

It is reasonable to wonder: If the stock market peaks prior to a recession, does it bottom before the end of it? On average, the answer is yes. When analyzing the last 11 recessions, the average length of time for the stock market to bottom after the start of a recession was about six and a half months. It took 15 months during the Great Recession (2007) for the markets to bottom. This was an anomaly; the Great Recession was called “great” for a reason — significant debt levels led to an almost unthinkable collapse of both consumers’ finances and the banking system. Notwithstanding this event that remains fresh in the minds of many investors, 45 percent of all recessions that have occurred since 1950 saw the stock market bottom within four months after the contraction began.

The last two recessions produced the longest as well as the shortest time for the market to bottom since 1950. Because these recent economic contractions were unusual, we believe it’s worth looking at a longer period of history to frame our expectations for the impact a recession may have.





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You don’t know until you know

One of the challenges of navigating recessions is that no one knows they are in one until they are told. Further, NBER does not inform in real time when a recession starts. Since NBER started formally recognizing recessions in 1980, the average lag between the start of a recession and the formal announcement was almost eight months. The lag is even greater — 16 months — for the NBER to acknowledge the end of a recession. The delay in calling the beginning or end of a recession is rooted in NBER’s need for certainty in the accuracy of the data used to gauge economic activity. However, the lag can have real-world investment implications.

Looking forward

Given that the average lag between the start of a recession and the announcement of a recession is eight months, and the average length of time for the stock market to bottom during a recession is 6.6 months, it makes sense to consider that the formal announcement of a recession could be viewed as a turning point for the markets. Looking back at the past six recessions since 1980, the S&P 500 has posted an average return of 13.7 percent during the period between the official recognition of the start of a recession and the end of the slowdown. Additionally, the S&P 500 posted negative returns only once during those six periods. For perspective, the average annualized return for the S&P 500 since 1980 was 8.7 percent. This is not to imply that this is a trading strategy but to highlight that successful investing often requires looking forward. By the time a recession is announced, it is possible that the worst may be over.

Staying the course

Whether we enter a recession today, tomorrow or in the future, having a plan in place can help guide you through turbulent times in the market and help you stay the course. Focus on your long-term goals instead of getting distracted by the short-term noise in the stock market. The fact is, wealth isn’t generated only when times are good but also by the decisions you make when the markets are under pressure. When others feel the need to react and grasp for short-term gains from one day to the next, we’re able to tune out the noise. Our ability to remain steadfast and use it as an opportunity for growth, helping capture the upside when the markets eventually recover, comes from our longstanding commitment to drive value over time — because we’ve seen that playing the long game tends to win, generation after generation.

THE VALUE OF STAYING INVESTED

Market volatility or the threat of an economic slowdown often leads to doubts for investors, which can cause them to pause their investment plan or even sell out of equities. Despite the pessimism, dire predictions and calls of “this time it’s different” that usually accompany downturns, the stock market has always recovered and reached new highs.

During periods of market volatility investors often question whether staying in the markets is the right move. Unfortunately, some take a short-term perspective and let their emotions dictate their decisions, or they choose to sit on the sidelines, waiting until things settle down, both of which can lead to years of regret. It’s important to remember that when it comes to investing, consistency wins the race. Time in the market is more important than timing the market.

Selling in a falling market may lock in losses that can take years to recover from. Investors who stick to their financial plan despite periods of volatility are often rewarded with more attractive long-term returns. Sitting on the sidelines in cash can lead to negative real returns when factoring in inflation, compared with the 10.4 percent average annualized returns of the S&P 500 from 1970 through 2022.

Northwestern Mutual Wealth Management Company. S&P 500 data is from Morningstar Direct. Events and stock market returns are since 1970. The annualized total return of the S&P 500 since 1970 is 10.4%

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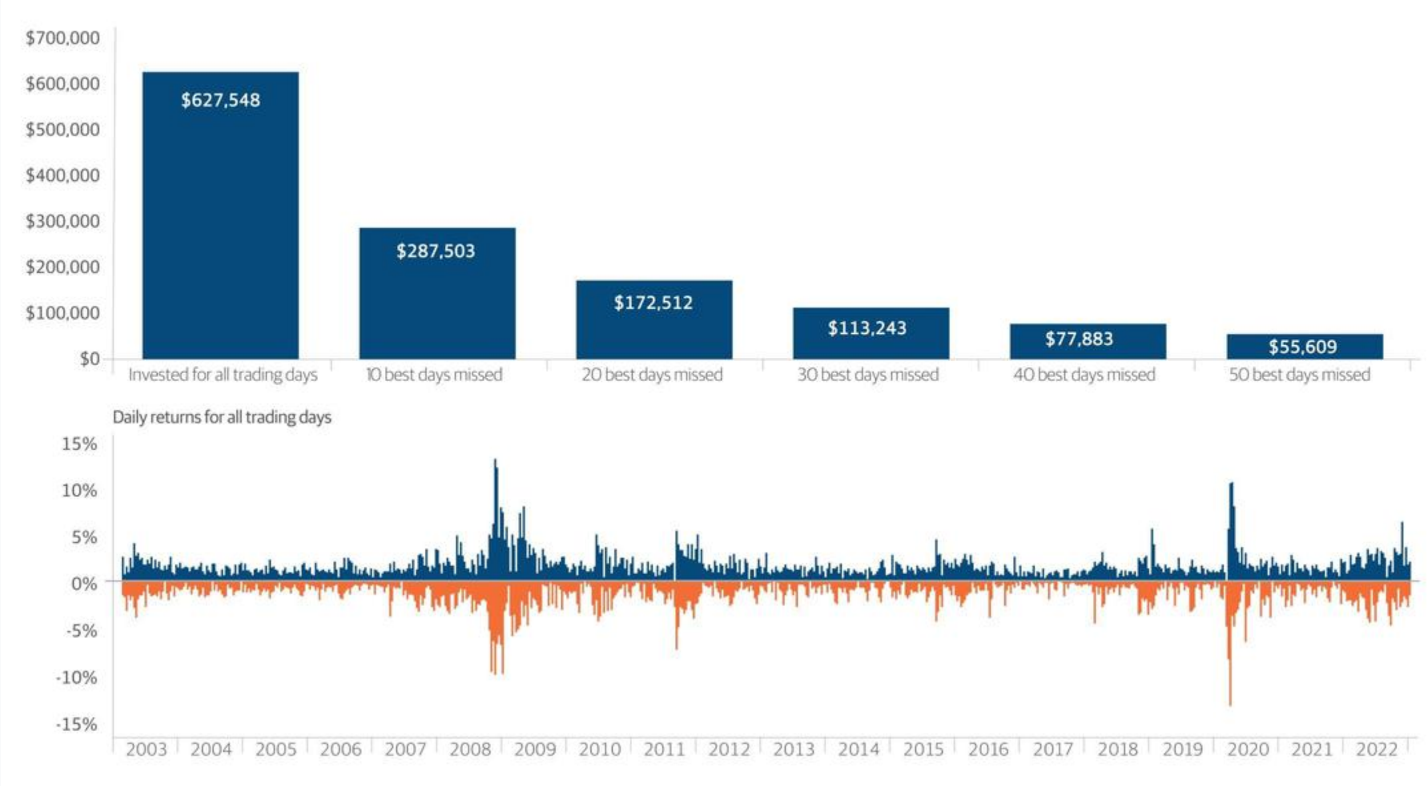
Over the course of our lifetimes, we have endured political uncertainty, recessions, social unrest and, most recently, a protracted pandemic that has shaped our country. Despite the wall of worry those events created, the stock market persevered — since 1970 the annualized total return of the S&P 500 is over 10 percent. Investors who took the slow and steady approach by investing $1,000 in 1970 would have had $191,048 by the end of 2022.

There will always be a seemingly compelling reason to sell out of the market or to try to time your entry point back into stocks, but history has shown that investors who have stayed invested have been rewarded.



Northwestern Mutual Wealth Management Company. Performance of $100,000 invested 1/2/2003-12/30/2022. Source: Bloomberg. Stocks represented are annualized total returns of the S&P 500. Indexes are unmanaged and cannot be invested indirectly.

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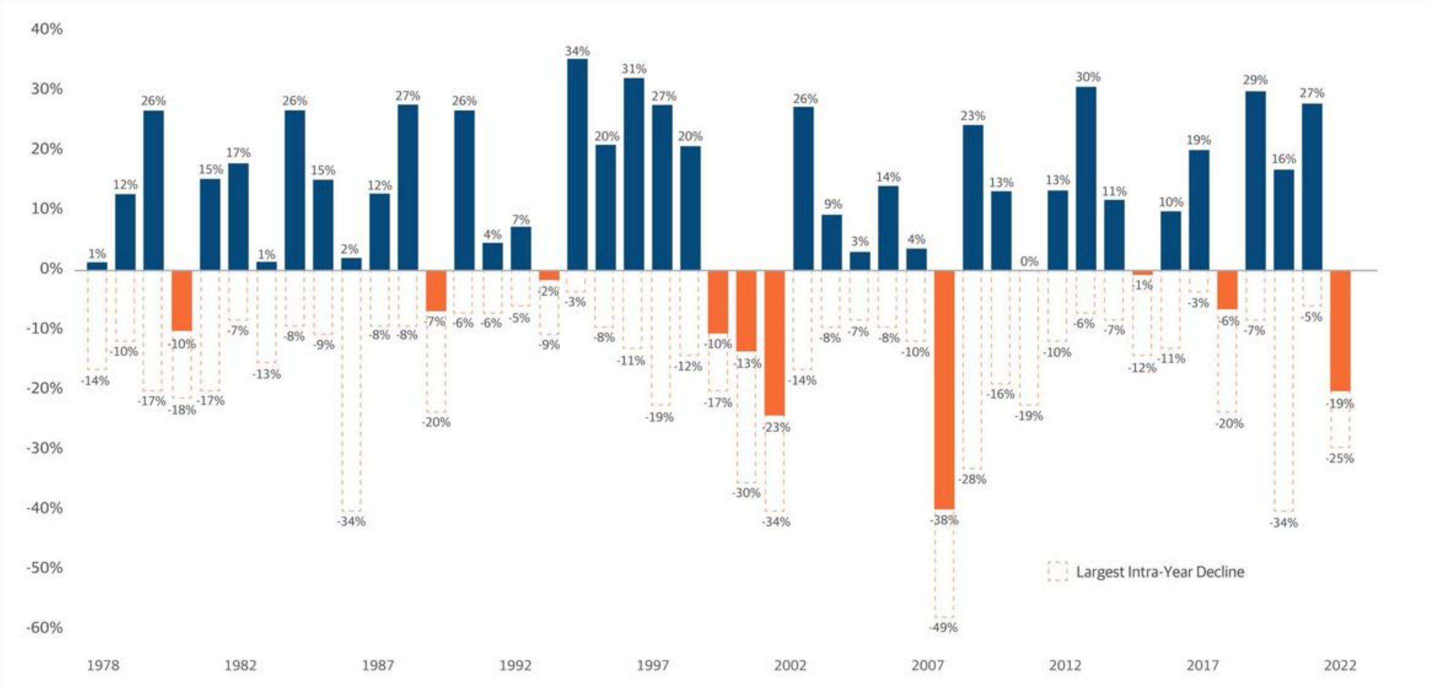
Investors who try to time the market run the risk of missing periods of exceptional returns, leading to significant adverse effects on the ending value of a portfolio. In fact, missing just the 10 best days over the last 20 years would have caused an investor's portfolio to return almost 50 percent less than staying fully invested. Put another way: If you invested $100,000 20 years ago, it would be worth $627,548 as of the end of last year. If you missed those 10 best days, you would have $287,503.

When the markets are down, deviating from a long-term investment strategy can increase the odds of missing the best days. The reason for this is volatility tends to cluster. The best up days and worst down days tend to occur near each other. In fact, of the 50 largest single-day stock market gains during the past 20 years, 47 of them occurred during bear markets. So even if you are lucky enough to miss one of the bad days, odds are that you will also miss some of the good days. Missing those strong days can have a significant effect on your long-term investment performance.



Northwestern Mutual Wealth Management Company. S&P 500 returns do not take into account the reinvestment of dividends. All data is from Morningstar Direct. Intra-year decline is defined as the largest peak to trough decline during the calendar year.

Historical annual returns paint an interesting picture of long-term trends. It is not unusual for the market to see substantial downside volatility. Over the past 30 years, intra-year declines for the S&P 500 have averaged 14.2 percent. While this volatility can be unnerving, it is far from unusual. Despite these short-term fluctuations in performance, the stock market has ended the year in positive territory 34 of the last 45 years.

In addition, our analysis shows that taking a longer view increases the likelihood of positive returns. As your investment holding period increases, volatility and returns tend to normalize, resulting in a more predictable investment experience. Consider this: If you invested in the stock market during any month since 1926, the returns on that investment five years later would have been positive 87 percent of the time. Those are phenomenal odds for those willing to stay invested through periods of volatility.

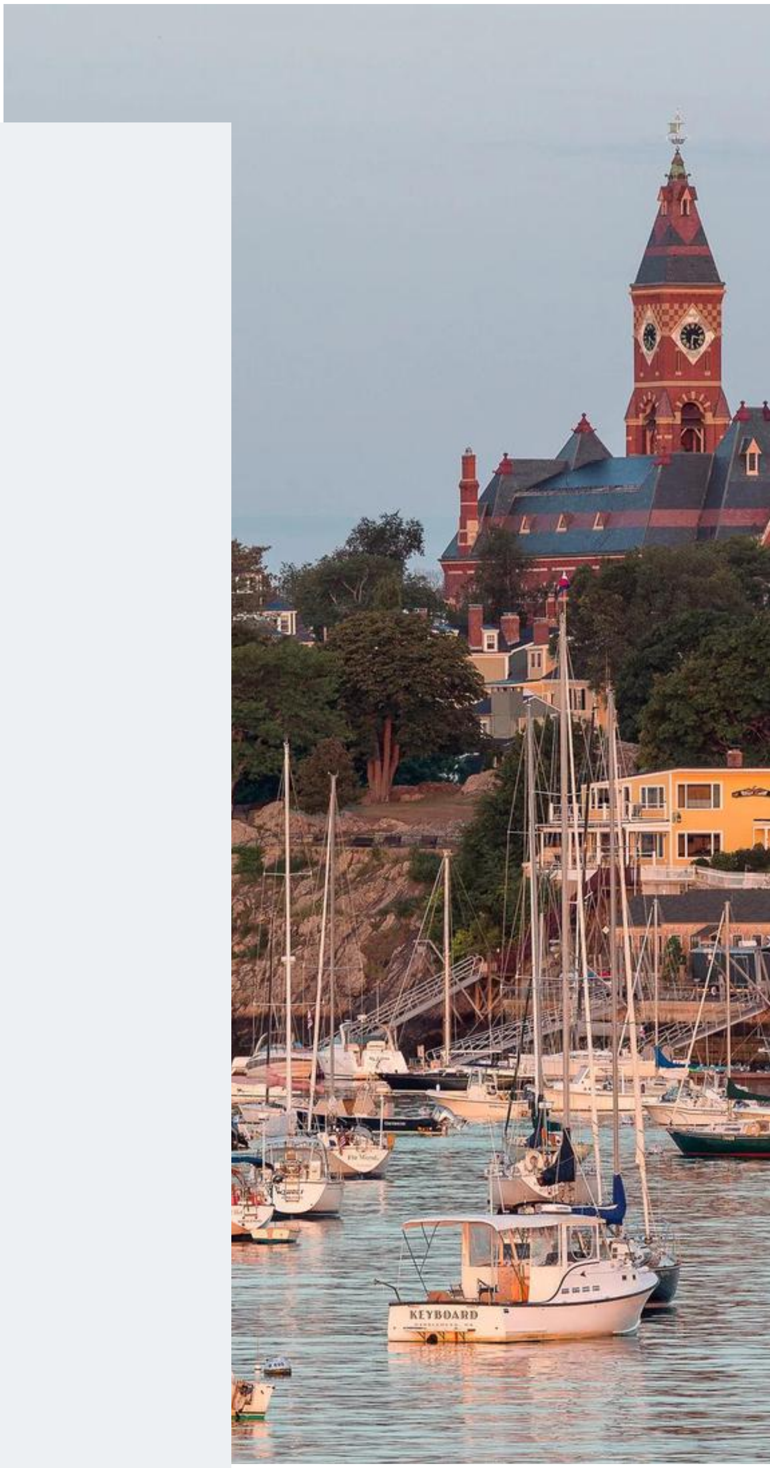
Respecting, not fearing, volatility can help you maintain the investment discipline needed to reach your financial goals. A comprehensive financial plan constructed to your risk tolerance and time horizon can help you weather the unexpected. Remember, volatility is the price of admission for access to the gains the stock market can produce — and no one gets in free.

Staying committed

The fact is, wealth isn't generated only when times are good but also by the decisions you make when the markets are under pressure. While others feel the need to react to the daily drip of news and speculation, we're able to tune out the noise. Our ability to remain steadfast and use it as an opportunity for growth — helping capture the upside when the markets eventually recover — comes from our longstanding commitment to drive value over time. We've seen that playing the long game tends to win, generation after generation.

Charts are for illustrative purposes only and not intended as a recommendation. Past performance is not a guarantee of future results. All investments carry risk, including potential loss of principal, and no investment strategy can guarantee a profit or completely protect against loss. Indexes are unmanaged and cannot be invested indirectly.

SOURCES



Recessions: Separating Fact from Fear | Northwestern Mutual

The Value of Staying Invested | Northwestern Mutual

SEE YOU NEXT TIME!

If our team can be of assistance in the meantime, please reach out to us at your convenience. We are here to help.

Topher & The Tellaro Team

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