

# Fiscal Fundamentals

## Pine Haven Investment Counsel, Inc. – Commentary –1<sup>st</sup> Quarter 2023

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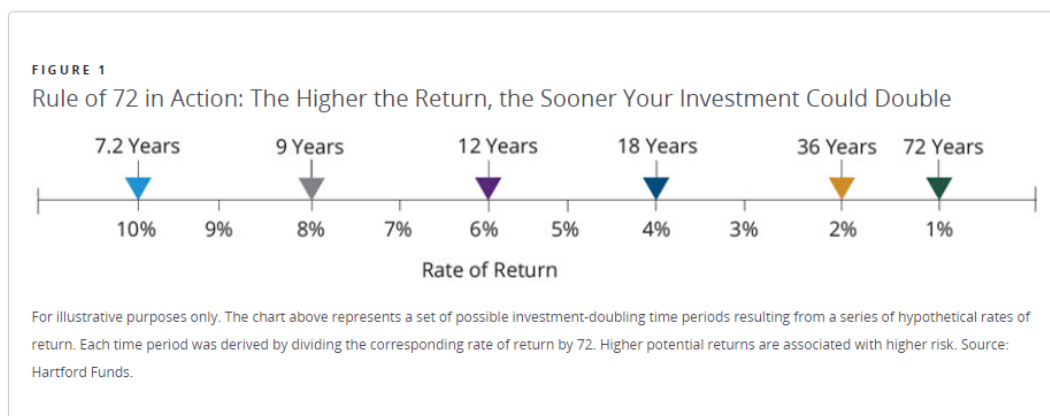
Though investing can be complex, there are a few basic financial principles and terms that are important to know as investors. These useful concepts can help us keep a high-level perspective and remind us why we invest our hard-earned money.

**The Time Value of Money** – is a financial principle that states that value of a dollar today is worth more than the value of a dollar in the future. In other words, there is a greater benefit to receiving a sum of money now rather than in the future. This is because you can put the money to “work” and earn interest.

**Inflation** – how much was a McDonalds hamburger when you grew up? Inflation eats at the purchasing power of your money. One way to counteract the pressure of inflation is investing in equities and real estate as historically these have risen faster than inflation. Currently inflation for the past year is 5%, having dropped some since last year.

**Power of Compounding** – is a corollary to the time value of money. Interest and investment returns compound in value over time. Let’s say you earn \$1 on \$100 in your high yield saving account in year one, next year you will earn \$1.01 because the first \$1 is now earning interest. As another example, if your \$100 earns 10% (\$10), you will earn \$11 in year 2 if you gain another 10%. The smaller numbers at the beginning do begin to compound quickly. Of course, investment returns are variable – particularly in the short term.

**The Rule of 72** – is a way to quickly show the power of compounding. It seeks to give a quick estimate to answer to the question “How fast can I double my money?” If you have \$10,000 to invest and hope to earn 8% over time, just divide 72 by 8 to get 9 years. That’s how long it will take to grow your \$10,000 to \$20,000. The chart below shows some different returns and how soon the money doubles.



## Time in the Market & Diversification

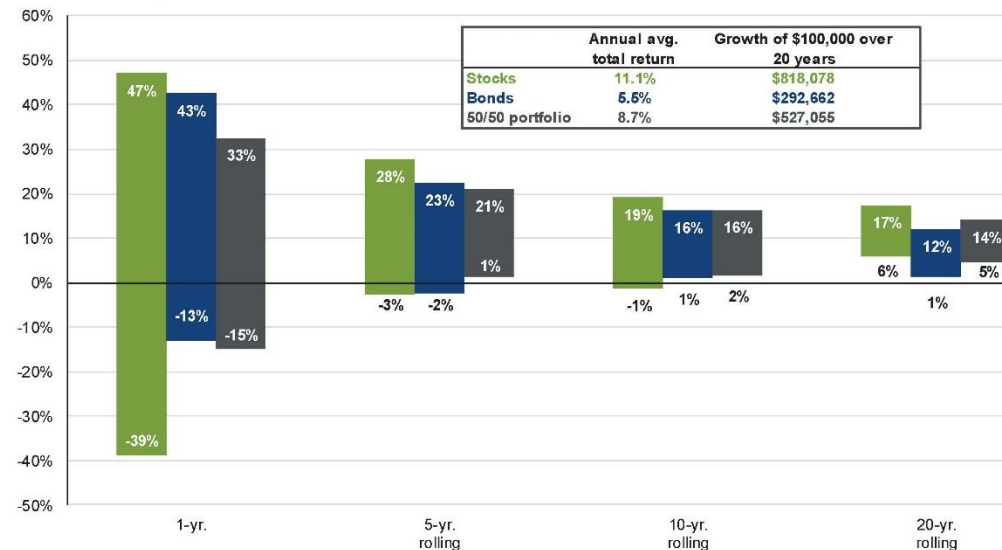


### Time, diversification and the volatility of returns

GTM U.S. 65

#### Range of stock, bond and blended total returns

Annual total returns, 1950-2022



Source: Bloomberg, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management. Returns shown are based on calendar year returns from 1950 to 2021. Stocks represent the S&P 500 Shiller Composite and Bonds represent Strategas/Ibbotson for periods from 1950 to 2010 and Bloomberg Aggregate thereafter. Growth of \$100,000 is based on annual average total returns from 1950 to 2022. Guide to the Markets – U.S. Data as of March 31, 2023.

**J.P.Morgan**  
ASSET MANAGEMENT

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The above chart shows the range of returns based on historical data between 1950-2022. In one-year periods, stock returns have ranged from -39% to 47% – quite a range and scary to have lost as much as 39% in one year. Bonds surprisingly also have had a wide range of returns (-13% to 43%). However, if you go to longer periods of time, the range of returns narrows. For 10-year returns, the range for stocks is from -1% to 19%.

The gray bars represent a 50% stock and 50% bond portfolio. This shows the power of diversification for reducing the volatility of the returns.

The amount of investment-related information available in the internet age can be overwhelming. When analysis paralysis is affecting decision-making, going back to the fundamental principles can remind investors to stay the course and put their money to work for true long-term gains.

*“Time is your friend; impulse is your enemy. Take advantage of compound interest and don’t be captivated by the siren song of the market.” Warren Buffett*