



WOODSTOCK

Quarterly Market Perspectives

FALL 2022

A quarterly newsletter offering our views on the market and economic topics of interest to investors.

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A Path Through the Turmoil

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The major news stories of the day will have an impressive impact on the financial markets: Russia's war in Ukraine, escalating China versus US competition, and the worldwide effort to control inflation. However, there are minor story lines which may show an investor a path through the turmoil: the put-spread collar, liability-driven investing, and which financial market "rules."

The put-spread collar is one of the latest innovations offering stability to equity investors in a volatile market.¹ Generally these strategies offer "insurance" to a portfolio. Instead of insured and insurance company, however, there are counter-parties. One party trades the upside in an equity portfolio for protection on the downside, or for income as in securities lending. The problem for the equity investor is that the only reason to invest in equities versus the enhanced bond return of the endowment or institutional model is for the upside of equities, which happens without warning and in very short bursts during an investment horizon. Otherwise, the risk is not worth the reward. If you are in equities, then be in equities through the ups and downs and know it's best to eschew "insurance."

Liability-driven Investing for Pension Plans

As you probably know, the old-style defined benefit pension plan has been mostly replaced in the private sector by the defined contribution plan, which shifts the burden of retirement financial success from the employer to the employee. Those familiar with watching the regulatory destruction of the defined benefit plan realize that the asset side, the investment portfolio, needed an equity return, rather than a bond return, to grow successfully and stay comfortably ahead of payments to beneficiaries. The liability side, the present value of future obligations, was made heavily dependent on current interest



rates through regulation even though the obligation to pay was over 20 years or more. The gradual decrease in interest rates from the 1980s to the recent past increased the calculation of the present value of future obligations beyond the ability of the asset side to grow as measured annually.

For decades, private-sector companies in the US and UK have been trying various methods of funding their present value of future obligations without going bankrupt themselves. About a third of workers enrolled in a private pension in the UK have a defined benefit pension plan and about 20% of private sector workers in the US do, too.² The regulators in the UK thought they had come up with a scheme to protect defined benefit plans from the escalation of the present value of future obligations when interest rates fell: liability-driven investing (LDI). To help struggling plans, the regulators approved leverage within the scheme and felt so strongly as to recommend their adoption. Well, it worked. UK plans adopted the scheme.

¹ Steven M. Sears, "How a 'Put Spread Collar' Protects Your Portfolio," *Barron's*, September 26, 2022, p. 36.

² "Who Blew Up Britain's Pension Fund?" *WSJ*, 10/13/22.



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However, the present environment isn't falling interest rates but rising interest rates. The problem with leverage, or debt, is that if the "bet" starts to go wrong then the counterparty asks, rather demands, more margin, or capital to be placed on deposit with the counterparty by the pension sponsor. Panic ensued and this corner of the investment world did eventually bring down a newly formed UK government.

One Market to Rule Them All

Which financial market "rules," as in "one ring to rule them all"? The worldwide equity markets, at approximately \$64 trillion (US: \$20 trillion), are much larger than the commodity markets. The worldwide bond market, at approximately \$120 trillion (US: \$46 trillion), is mostly made up of sovereign, supranational and agency (SSA) issuers. The size of the currency markets is harder to determine. In the US the money supply as measured by M2 is approximately \$20 trillion; however, the amount of notes and coins of US currency in existence worldwide is only \$2 trillion. The trading in currencies is what makes the currency market the ruler: \$6.6

trillion per day.³ Currency markets can swing bond markets, and bond markets can swing equity markets. Even with, or perhaps because of, the additional volatility, stocks offer more attractive return potential.

There are three reasonable actions an investor can take while watching and reacting to the major news stories. One is to not burden an equity portfolio with an "insurance" drag, a second is to be mindful of the unintended consequences of the regulatory state's actions, and a third is to try to concentrate on the higher-quality equity market which, while being buffeted by the larger currency and bond markets, still has its niche.

We know that you are the most valuable business development tool that we have. Your referral of a friend, colleague or family member to us is the most important way that we grow.

We thank you for your support and want you to know that we are dedicated to serving your best interest.

³ Christopher High, Concentio Capital Management, LLC, 9/22/22.



Grimace Now, Smile Later

Thomas C. Stakem, Jr., CFA, Vice President

“Capital markets are supposed to discount the future which, always includes an infinite array of potential outcomes. Because of this groupthink reality, the majority will have to be late in identifying the trigger for an upturn in stock market fortunes.”

“To this observer it is not at all too early to think about a Federal Reserve pausing sooner than most participants now expect, which is probably mid-2023.”

We are all data dependent and we will all react together. The entire world is data dependent. In this observer’s opinion, the phrase “data dependent” may be the second most commonly used term behind “climate change” today. Federal Reserve policy makers are data dependent. Corporate managements are data dependent, and because security analysts rely on company guidance for the bulk of their revenue and earnings growth forecasts, stock opinions and ratings are data dependent. No wonder there is so much attention and focus on this Fed meeting or that real GDP and unemployment report or what bond yields are doing and whether the curve is inverted or not. It is a large laboratory experiment in large group action and reaction.

Capital markets are supposed to discount the future which, always includes an infinite array of potential outcomes. Because of this groupthink reality, the majority will have to be late in identifying the trigger for an upturn in stock market fortunes. Today’s strategist and pundit-class behavior reminds this author of the John Maynard Keynes quip that it is better (career wise) to fail conventionally (i.e., think/act like everyone else) than to succeed unconventionally (act on an unconventional view).¹ Even though all forecasters must realize that there are long and variable lags between policy decisions and their impact on economic performance and statistics, investment opinions and outlooks inevitably emphasize the current state of affairs along with some personalized extrapolation into the future—but all with a heavy dose of recency bias.

In the US, real GDP growth was negative in Q1 and Q2. Until late September the Q3 real GDP estimate from the Atlanta Federal Reserve teetered near 0% but has since risen above two percent. Because this model generates forecasts in real time, they are volatile. That so many investors react to this type of output exposes our data dependency. Many must think that a readout on the just-ended Q3 real GDP activity will be determinative of what real GDP prospects will be two to three quarters in the future,

when in fact it may not inform at all. It may just be statistical noise as it is revised several times, subsequently rendering first interpretations as in error.

The effective federal funds rate troughed at 0.08% on March 16, 2022 (<https://fred.stlouisfed.org>) and has risen to 3.08% as of September 30, 2022. Penciling in 0.75% increases on November 2, 2022 and December 14, 2022, the next two Fed meeting dates, would result in an effective federal funds rate of 4.58% in mid-December. This would be a 4.50% increase in just nine months. That is a lot of Fed tightening and no one can calibrate exactly the toll it will take on the economy or when. It would seem logical that less than half of the 3% uplift in rates YTD has actually been reflected in the economic data that so many depend on in terms of making their forward-looking decisions. Yet the economic pulse already seems pretty anemic with a lot of impact (twice what has been realized YTD on a time-weighted basis) yet to be felt. Looking ahead to another 1.50% of increases (a total of 4.50% for the cycle), it would seem very unlikely that the full brunt of the magnitude of rate tightening could be fully reflected in the data until Q2-Q3 of 2023.

A Long Shadow Over Growth

The fragile state of the global economy, the ongoing war in Ukraine, Europe’s inflation/recession problem, the combination of current weakening conditions, and another 1.50% of tightness have to cast a long shadow over economic growth well into 2023. Policymakers and investors (equity more so than bond) seem to have a very cavalier attitude about the potential impact on growth, unemployment and inflation. To this observer it is not at all too early to think about a Federal Reserve pausing sooner than most participants now expect, which is probably mid-2023. And once the Fed pauses, investors, armed with additional evidence of weak economic data, will conclude the next step is to pivot to ease. With the negative monetary influence of higher rates intensifying (in Q4 doubling on a time-weighted basis), far softer expected economic

¹ John Maynard Keynes, *The General Theory of Employment, Interest, and Money*, 1936.

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data can be expected, particularly if one also considers the 20% strength in the US dollar.

Tightening further into a weakening economy with a dollar that's exerting downward pressure on the rest of the world is a recipe for widespread economic malaise. This will lead to investors quickly bidding up bond prices, and equity investors will assume that the Fed pivots will inspire some optimism, limit future economic damage (at least in terms of cycle length), and investors can begin to lengthen time horizons. First, from a few quarters to years, and before long a new cycle is on the horizon. But it all begins with the Fed pivoting to stimulate growth rather than induce a severe recession. Believing the pivot will have to occur long before the data-dependent consensus does (mid-2023) inclines this observer to long-duration investments (i.e., bonds and stocks), particularly because of their current statistical attractiveness on rolling 12-month percentage price-change statistics.

From Risk On to Risk Off

At year-end 2021, the rolling 12-month percentage change in price of the S&P 500 was +26.9%, putting it in the 87th percentile of rolling 12-month percentage changes since December 1978. Fast-forward to September

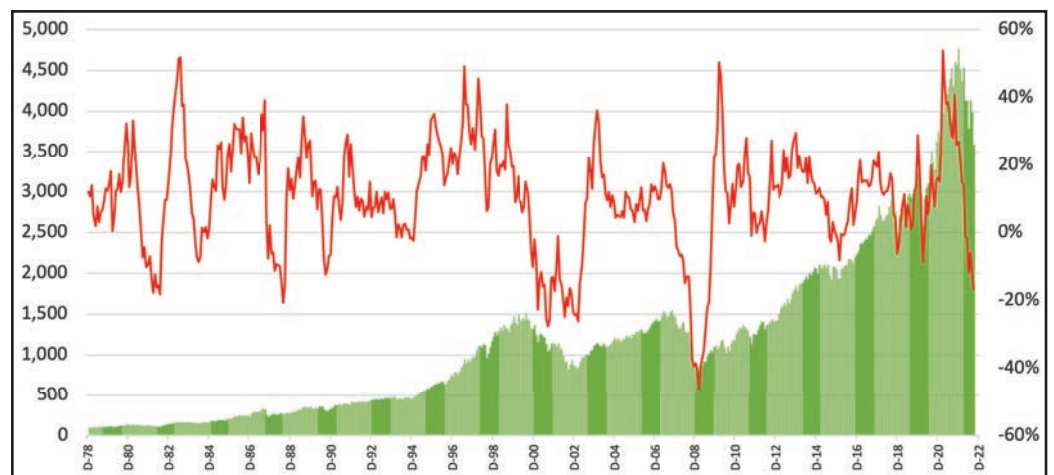
2022 and the rolling 12-month percentage change in price of the S&P 500 was -16.8% and in the 30th percentile of rolling 12-month percentage changes. The worst reading (-46.2%) was back in February 2009, the month before the March 2009 low that marked the beginning of the bull market of thirteen-plus years ago. That -44% negative second derivative (+27% to -17%) must discount a healthy combination of valuation (P/E change) and earnings outlook (EPS) change or deterioration.

Only time will tell how much more damage needs to occur, but this author believes 67%-75% of the bear trend in stocks has been absorbed in terms of time and/or price. (This is based on a presumption that the average bear market lasts 12-13 months and declines 33% peak-to-trough.) On that basis, the current bear market would end in February-March 2023 with the S&P 500 at 3,200, an 11% S&P 500 price decline (from 3,600). Painful but absorbable if a new bull market commenced thereafter. If the next upcycle only returns to the 4,800 high of January 2022 within three years, then stocks would appreciate 12% per annum and return 14% per year including dividends. Relative to the remaining risk of 11%, that is a very favorable reward-risk relationship for an equity investor. This is illustrated in Figure 1.

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Figure 1. Rolling One-Year (12-Month) Price Change vs. S&P 500



Source: FactSet - all charts use FactSet historical pricing data

latest	-16.76%	9/30/22
average	10.31%	
median	11.92%	
minimum	-46.25%	2/28/09
maximum	53.71%	3/31/71



“Only the prospects of a very hard landing impact on earnings combined with pronounced dollar strength could weaken stocks to the extreme of February 2009, in my opinion.”

“There is a strong correlation between the rolling price change and the Treasury bond price.”

“Patient investors would buy the plunging red lines as that is when appreciation opportunities are presented.”

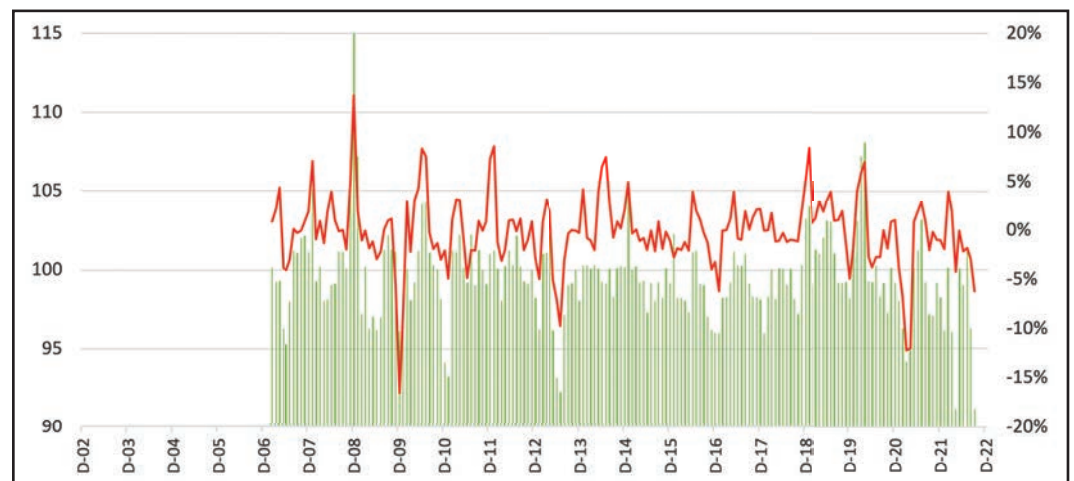


Several spikes down in the rolling 12-month return are visible in Figure 1, with the eye naturally grabbing several -15% or -20% readings that correlate with low absolute S&P 500 levels. While the February 2009 level did register a much lower -46.2% reading than currently, the next few months will exceed -20% because of high base-period price effects on the comparisons and be on a par with those red figures in the 2001-2003 period visible on the chart. Only the prospects of a very hard landing impact on earnings combined with pronounced dollar strength could weaken stocks to the extreme of February 2009, in my opinion.

A similar insight is available for bonds using the 10-year US Treasury bond. Again, the sole focus is on rolling 12-month percentage price change. There is a strong correlation between the rolling price change and the Treasury bond price. In both instances, when the accumulated percentage price change over rolling 12-month periods is low, one can be assured that the stock or bond index, in this instance, is low. Patient investors would buy the plunging red lines as that is when appreciation opportunities are presented.

Familiar red-line downside plunges also align with low 10-year Treasury bond prices. Yields up, prices down (see Figure 2).

Figure 2. Rolling One-Year (12-Month) Price Change vs. UST10



Source: FactSet – all charts use FactSet historical pricing data

latest	-6.18%	9/30/22
average	-0.09%	
median	-0.05%	
minimum	-16.46%	12/31/09
maximum	13.73%	12/31/08



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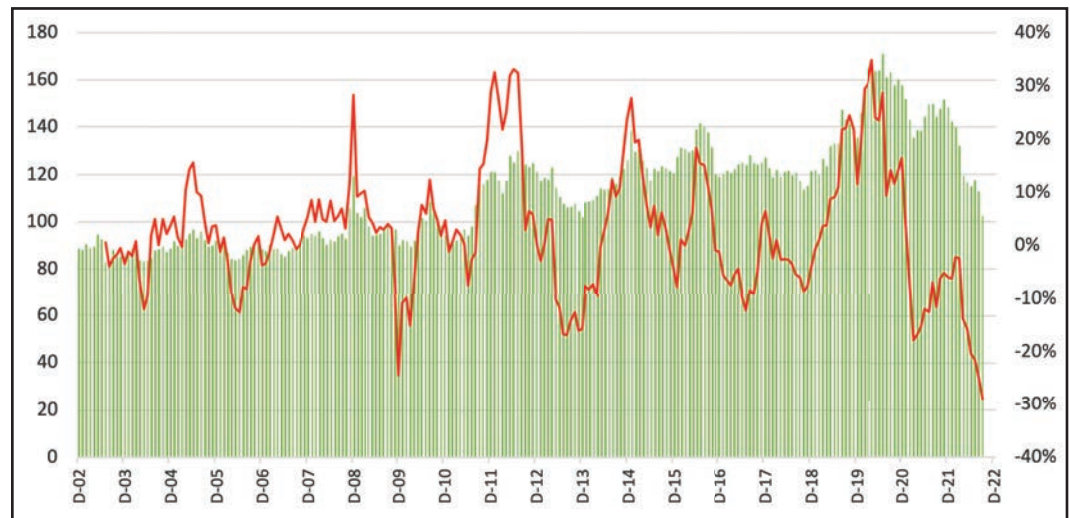
Because TLT (iShares 20 Plus Year Treasury Bond ETF) is widely followed and traded, its price/performance profile corroborates with its shorter-maturity cousin, the US 10-year Treasury. It also provides insight into bond appreciation and when buying opportunities might present themselves. The TLT duration is about 18 years while the 10-year Treasury is about 8 years. So, the duration (sensitivity to changes in interest rates) is more than double for TLT. Note that TLT also offers a longer data history (2½ years more) than the 10-year Treasury per our data source

(FactSet). Currently, the TLT rolling 12-month percentage price change is -29%, putting it in the 0% percentile as it is a record low reading (see Figure 3). The 10-year Treasury rolling 12-month percentage price change is -6.2%, putting it in the 4th percentile of all readings. TLT has 232 rolling 12-month periods slightly higher than the 10-year Treasury's 189 rolling 12-month periods. The higher-duration influence of the TLT is certainly evident in the numbers. Bonds have been pummeled and longer-term-oriented investors should be attracted to, not shunning, long-duration sensitivity because of the favorable reward-risk relationship.

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“Bonds have been pummeled and longer-term-oriented investors should be attracted to, not shunning, long-duration sensitivity because of the favorable reward-risk relationship..”

Figure 3. Rolling One-Year (12-Month) Price Change vs. TLT



Source: FactSet - all charts use FactSet historical pricing data

latest	-29.01%	9/30/22
average	1.98%	
median	0.64%	
minimum	-29.01%	9/30/22
maximum	34.85%	4/30/20

3 P's: Pivot, Peace & Probabilities

While the most likely trigger for a Fed pivot is a weaker-than-expected US economy, a currently unlikely source could also be a negotiated peace settlement between Russia and Ukraine. Although a near-zero-probability event currently, momentum could build quickly should attractive exit paths appear for Messrs. Putin and Zelensky. The absence of the war factor would reduce investor anxiety over all the macro factors that now distract investors from thinking and investing for the long term. Lower energy and food inflation expectations and positive

thinking about the normalization of supply chains would further reduce structural inflation, leading to more tangible evidence for policymakers that inflation had indeed rolled over and that it would be time to nurture growth for a struggling global economy. Another benefit would be a reversal in the dollar's multiyear strength. This would be positive for commodities as well as emerging market economies.

In any case, the cumulative probability of weakening macroeconomic data and favorable geopolitical developments is an alluring combination, particularly with



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investment returns having turned so negative so quickly since year-end 2021. The clearest example is the 60% equity/40% bond Vanguard ETF (VBAIX), the fiduciary standard, which is down 20% YTD through September 30, 2022, the worst performance in over forty years.

The probabilities seem high that both the stock and bond markets have priced in the worst of the outlook and little of the potential of pivot or peace developments.

Asset Class Expected Returns

For the first time in a few years, reasonable expected returns appear to be positive for the next five years for all three asset classes: Cash, 3%-5%; Bonds, 5%-7%; and Equity, 0%-10%. The old reliable 60% equity/40% bond diversification standard has a solid chance of providing a positive absolute and positive real rate of return in contrast to the YTD -20% blended asset return (VBAIX). That's because both bonds and stocks have declined at the same time and at about the same rate due to the Fed's aggressive approach to fighting inflation, after ignoring evidence of it for quarters. The notion of inflation being “transitory” has been all but forgotten in recent months.

The passage of time should allow base-period inflation effects to wash through the system and the data, and allow supply chains to normalize. Targeted fiscal measures to incent the supply side could return secular inflation to much lower levels than the 8%-9% reported levels of late. Core or enduring levels of inflation are lower, but admittedly high, in the 4%-5% range, and could likewise be worked down over time, perhaps not to 2% but into the 3%'s is a high-odds probability. The capital markets are in the process of adjusting to that environment but are also buffeted by a fracturing global economy that is bent on creating parallel supply chains because of de-globalization and political systems while a costly and deadly war is occurring in Ukraine. Its related sanctions have also caused heightened inflation and forward supply uncertainty in important areas of energy and food production, leaving most of the world precariously positioned due to having weakening economies at a time when a 20% stronger dollar is raising the cost of



these items to well beyond affordable levels.

In less than a year, the investment backdrop has dramatically changed from improving confidence post COVID-19 with generational low interest rates and high equity valuations to a war-torn, disrupted global economy battling energy and food inflation and central bankers intent on implementing positive real interest rates to slow the economy further and bring down inflation. At such times when the economic and investment outlook becomes near invisible, it is always wise to consult history. While history doesn't repeat exactly, it can inform: when the invisibility has led to despair, opportunities present by merely looking at the performance return data which we have provided in Figures 1-3.

High confidence and enthusiasm inevitably correlate with strong past investment performance, while emotional panic and investor despair correlate with poor recent returns and low expectations of the future. At such times as now, one's forecast of GDP or earnings growth or interest rates or the dollar or how much to pay for growth are very low confidence because of all the uncertainty that can be cited. But history teaches that those psychologically tormented periods are when the best opportunities for low-risk entry occur for an investor. The data suggests that we are now in that period. While indiscriminate selling has perhaps not occurred, the internal market statistics are consistent with the process that normally gets to such a point.



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“The long-term investor’s challenge today is to recognize where in the cycle we are currently and see within a fairly short time the meteorologists will again be calling for bright and sunny weather.”

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Clearly, the S&P 500’s June 17th low of 3,637 did not hold and has been undercut by 4% to 3,492 as this article is being written. Pinpointing the precise low is a fool’s errand as no one knows what the “right” earnings per share or P/E multiple is for the market overall or a particular stock. If it’s \$200 of EPS and 16x for the S&P 500, then a 3,200 market low could be in our future. But earnings could be higher or lower than that as well as the market P/E. Investors could capitalize decimated earnings at a higher-than-imagined P/E because long-term investors will value the market on trend earnings, not just a below-trend point in time. In emotional markets those investors are more likely to dominate and set pricing than short-term, panic-driven investors.

The main point is that while 3,600 wasn’t the low, it is likely near enough in terms of price and time that an investor with a multiyear time horizon has to believe that purchases made in these conditions have a high probability of achieving excellent future absolute returns, likely well into double digits. And well in excess of what will, by then, be receding inflation.

The best time to buy stocks is not when the sun is brilliant outside and all the meteorologists are calling for nice weather to continue, but when the outlook is dreary, rainy, no sunshine for days with no warm fronts on the horizon. Psychologically, it is easy to invest when things look bright and sell when things look hazy, bleak or hopeless. This dichotomy between the economic or stock market cycle and the investor’s psychological cycle is why individual investor performance materially trails that of the equity market over time. Studies have shown that where the S&P 500 has earned 10% annually over time, individual investors have fared much worse, often only earning 50%–60% of the market return.² The difference is due to being wrong-footed at important times, which results in considerable frictional cost of market timing. Emotion is very costly in investing.

The long-term investor’s challenge today is to recognize where in the cycle we are currently and see within a fairly short time the



meteorologists will again be calling for bright and sunny weather. Then “risk on” conditions will resume and a return to previous highs (4,800) or beyond will occur. But for now that cycle can only be glimpsed. It cannot be dimensioned as too many variables (GDP, profits, interest rates, inflation, P/E, the dollar) need to come into sharper focus. There are not many “free lunches” in the investment world but there are two important ones: portfolio diversification (in both numbers of economic sectors and numbers of stocks) and investor time horizon. Thirty to fifty stocks dispersed across eleven economic sectors fulfills the former while a five-to-ten year minimum investment horizon exemplifies the latter.

Investors with their focus on the long term should be well served by availing themselves of the ~25% market decline (~40%-50% for individual stocks) in 2022. Uncertainty has clouded the crystal ball, leading to opportunity. This could persist until investors begin to sniff out the timing of the Federal Reserve pausing, which will kick off less restrictive monetary conditions and will lubricate economic growth as well as lower the discount rate applied to future growth. This should result in another multiyear period of very attractive equity returns. We are anxious for the capitulation to occur, as it will usher in several years of positive investment returns and make the current red numbers worth enduring.

² Murray Coleman, “Dalbar QAIB 2022: Investors are Still Their Own Worst Enemies,” *Index Fund Advisors*, April 4, 2022, https://www.ifa.com/articles/dalbar_2016_qaib_investors_still_their_worst_enemy/



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“Famed fund manager Peter Lynch said, “The key organ here isn’t the brain, it’s the stomach.”



How Should You View the Market Downturn?

David M. Layden, Portfolio Manager

The stock market has seen its share of peaks and valleys over the years. The peaks can be a euphoric time with the rapid growth of account market values and the accompanying wealth effect. Conversely, the valleys can have just the opposite effect—both fiscally and mentally. To see your statement market value moving in the wrong direction can bring about a feeling of helplessness. Many people need a certain performance return on their savings to meet daily living expenses or to one day comfortably retire, and the equity market has historically proven to be an effective place to meet the necessary return. We need the good, but would prefer to avoid the bad (risk!). So, how should an investor react to the recent market pullback?

Risk always seems to carry with it a negative connotation. But everyone must accept some level of risk in their day-to-day lives—from driving a car to purchasing a house. The stock

market is no different—the key is to understand the inherent risks and create a portfolio with the best probability of a good outcome. Holding securities that are traditionally less volatile than the market and diversifying between the S&P 500 sectors are two tools with a proven track record for minimizing risk. Still, a better understanding of the probability of good and bad outcomes doesn’t eliminate anxiety during the pullbacks.

Famed fund manager Peter Lynch said, “The key organ here isn’t the brain, it’s the stomach. When things start to decline—there are bad headlines in the paper and on television—will you have the stomach for market volatility and broad-based pessimism that tends to come with it?” Mr. Lynch is describing the very predicament we find ourselves in today (S&P 500 -23.9% YTD). A second quote from another legendary investor, Warren Buffett, provides a concise reason to “stomach” that very market volatility and the worrisome downturns. Buffett said, “The stock market is a device for transferring money from the impatient to the patient.”



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There are two sides to every trade and the patient investor is typically on the right side. The impatient tend to be more reactionary to short-term events and sell just when they should be buying. It obviously takes more than patience to build a winning portfolio. An investor needs to be patient with good companies—enterprises with proven business models, strong managements, and solid balance sheets. Reliable cash flow and sustainable debt levels will help those companies weather almost any recession.

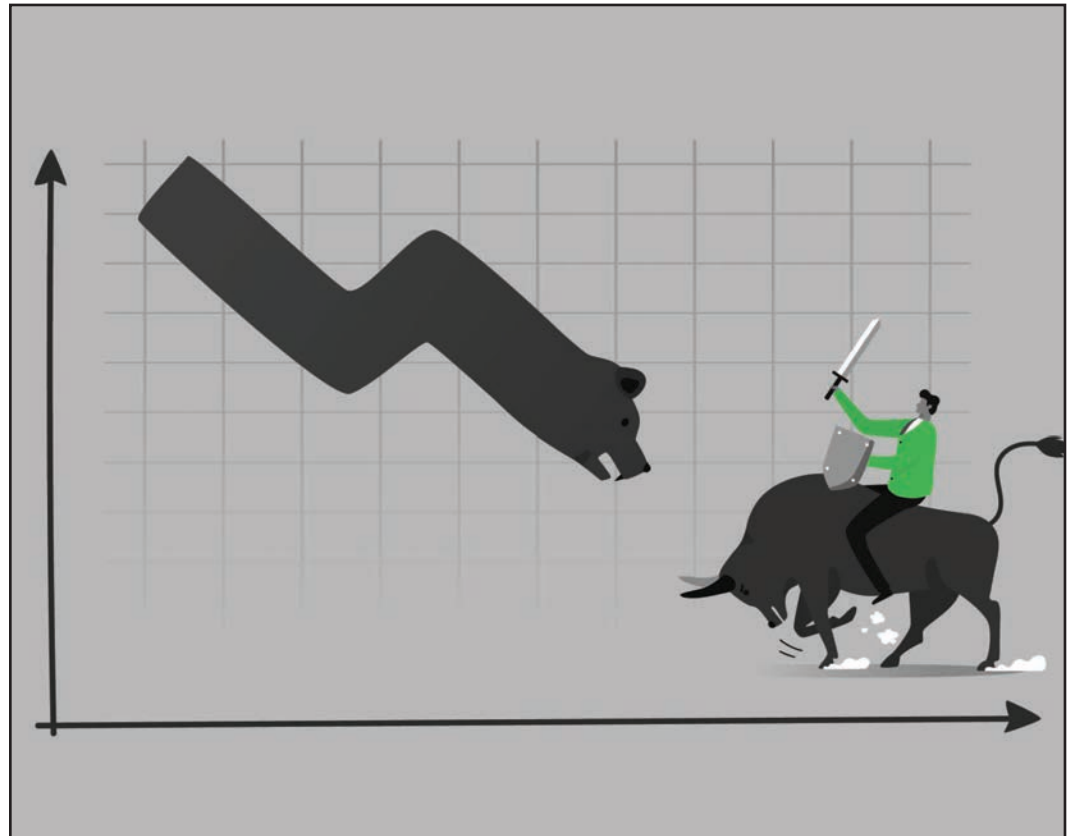
Since the turn of the century, we have seen three significant pullbacks in the S&P 500 (greater than 20% declines). After the dot-com bubble in the early 2000s, technology companies with wildly high valuations, without the revenue or earnings to support those numbers, didn't make it through. In 2007 through 2008, it was the financial companies with exposure to subprime loans and unsustainable debt levels that were the victims of the Great Financial Crisis. During

the COVID-19 crash in 2020, most publicly traded companies made it through, after governments around the world provided much-needed stimulus during a unique time of uncertainty.

Today's downturn is really just an offshoot of the 2020 decline. Fiscal and monetary policy enacted to combat the COVID-19 economic disruption resulted in generational inflation (7.7% Annual CPI for October 2022). The Federal Reserve is now in the midst of a series of rate hikes in an effort to stamp out that inflation. Difficult days lie ahead, but the patient investor with a portfolio full of financially sound companies will likely come out on top. The stock market has proven itself to be a wonderful place to build wealth over the years. It's not without its faults, but history can provide many examples of the market rebounding from lows to all-time highs. One last quote from Mr. Buffett perfectly highlights a final reason to "stomach" the market: "If you don't find a way to make money while you sleep, you will work until you die."

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Tax Roundup: Record IRS Revenue Intake, Excessive Penalties, and TIPS

William H. Darling, CPA – Chairman & CEO

Jeanne M. FitzGerald, CPA – Tax Manager

According to figures for tax receipts for the nine months ended June 30, 2022, the Internal Revenue Service (IRS) was projected to take in \$5 trillion for fiscal year 2022, ending September 30th.¹ Last year's figure was \$4 trillion. For the period through June 30, 2022, individual income tax receipts made up 56% of the amount taken in and social security and retirement receipts made up 29 percent. The other 15% is made up of corporate income taxes, excise taxes, and custom duties, with estate and gift taxes making up just .6% of the total. The year-over-year increase in receipts would lead one to believe that the federal government has a spending problem, not a revenue problem. National defense is just 13% of spending. Social Security, income security, health and Medicare make up 65% of expenditures.

Excessive Penalties Spotlited

The recently passed Inflation Reduction Act of 2022 allocated \$80 billion to the IRS for enforcement and improved service. A recent article about our tax code pointed out that the "code is riddled with excessive penalties for what are often honest mistakes."² The article suggests that the US Supreme Court could decide to hear one or all three of the cases before it referring to the Eighth Amendment prohibition against excessive fines by the federal and state governments. As practitioners we are geared to meeting deadlines, but taxpayers continue to arrive at a professional's office with problems that shock them and us.

For example, new work relationships for non-office-bound employees are highlighting disagreements among the various states over nexus. Penalties and interest for underpaying estimated taxes due quarterly, not annually, will be a taxpayer surprise. The IRS has partially recognized the problem through a recent program to waive penalties and interest for taxpayers who wish to become



compliant. There is probably better success when appealing under the federal program than the states' programs and laws, from our experience.

A Tip on TIPS

Although it is an investment product, we've looked at the US Treasury's Inflation-Protected Securities (TIPS) as a purchasing power of the dollar guardrail. In an inflationary environment, such as we're in now, why would TIPS be decreasing in value almost in line with regular Treasury bonds (13.3% decline versus 13.5% decline over 2022, respectively)? Because the semiannual interest payments on TIPS and the ultimate amount returned at maturity both adjust to changes in the Consumer Price Index, the inflation protection should work, if "held to maturity."³ However, TIPS are bought and sold daily. The market value of TIPS, not held to maturity, varies daily, similar to other bonds.

If you or any other advisors have questions about the issues raised here, please contact your investment manager or one of us.



¹ Terence P. Jeffrey, "Federal Tax Collections Set Record," CNSNews.com, July 18, 2022.

² Travis Nix, "The Justices Can Restrain the Taxman," WSJ, 9/28/22.

³ Matt Grossman, "Why TIPS Fall When Inflation Is So High," WSJ, 10/10/22.

"The recently passed Inflation Reduction Act of 2022 allocated \$80 billion to the IRS for enforcement and improved service."

"Although it is an investment product, we've looked at the US Treasury's Inflation-Protected Securities (TIPS) as a purchasing power of the dollar guardrail."



Wishing you all the happiest
of holiday seasons!



Your ideas and questions are important to us. What would you like to see in our Quarterly Market Perspectives? Please contact your portfolio manager, or anyone from Woodstock's team of professionals, and let us know. **We want to hear from you!**

If you're new to Woodstock, you can reach us at info@woodstockcorp.com.