HUDOCK CAPITAL GROUP, LLC
WEALTH PARTNERS WITH PURPOSE®

Hudock Capital Group Newsletter

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***Our core purpose, our passion, is to make a positive and profound difference in the lives of our clients and in the communities we serve.
~Hudock Capital***

Inside this Issue

Key Index Returns thru 9/30/2022

Index	MTD%	YTD%
Dow Jones Industrial Average	-8.84%	-20.95%
Nasdaq Composite	-10.50%	-32.40%
S&P 500 Index	-9.34%	-24.77%
Russell 2000 Index	-11.13%	-24.56%
MSCI World ex-U.S.A*	-9.21%	-25.88%
MSCI Emerging Markets*	-11.72%	-27.16%
20+ Year Treasury Bonds Index	-8.17%	-29.86%

Economic Commentary

FOUR THINGS YOU SHOULD KNOW ABOUT THE MIDTERMS

1. The stock market usually dips before a midterm election.

As you know, this has been a rough year for the stock market. Both the Dow Jones and the S&P 500 have flitted in and out of bear market territory for several months. But while this type of volatility is never fun, in a sense, it's pretty typical. Why? Because, historically, markets have fared the worst during midterm election years. In fact, according to one study, the S&P 500 averages a 19% decline in the months before a midterm![1]

Of course, there are many reasons why the markets rise and fall. The single biggest reason *this* year, of course, is stress over inflation and the Federal Reserve's response to it. But midterm elections often tend to drag the markets down on their own. The reason can be summed up in a single word: *Uncertainty.*

As you can imagine, the months leading up to a midterm come with a lot of questions. Which party will control Congress come November? How will the results affect our taxes, healthcare, and budget? The fact is, no one knows what the future will bring until the future becomes the present.

The markets, of course, are allergic to uncertainty. It's the driving force behind many a market pullback. And with so much uncertainty before a midterm election, it's not surprising the markets would struggle.

2. After the fall comes the bounce.

Now for some good news: Historically, the markets enjoy a major rally in the third year of a president's term. The S&P 500, for example, usually *climbs* an average of 32% in the twelve months after a midterm election.[2]

If you think about it, this makes sense. After an election, uncertainty begins to fade as we gain a better idea of which party holds the cards and what their agenda will be. Just as uncertainty drags the markets down *before* an election, the resolution of uncertainty often pushes the markets back up!

Now, there's an important caveat here: Past performance doesn't guarantee future results.

This little bit of market wisdom is *always* true – and it's especially worth remembering now. You see, most years after a midterm, investors don't have to worry about the threat of a recession.

For months, the Fed has been trying to follow an incredibly tricky recipe: Bring down inflation *without* bringing down the economy. To do this, they have attempted to raise interest rates gradually and incrementally. Unfortunately, the effects have been minimal thus far. That means *more* rate hikes are likely in the future. Each one brings an increased risk of a recession in 2023, and if that happens, all bets are off regarding how the markets might react.

Indeed, history shows that the markets sometimes *don't* do well after a midterm whenever there is slow economic growth mixed with high inflation and rising energy costs. This was often the case in the late 1960s and 1970s…and it's just the sort of stew our country finds itself in right now.

On the other hand, even a recession – real or merely imagined – doesn't mean 2023 will be a bad year for stocks. The markets move more on the *expectation* of future events than the events happening right now. It's quite possible that, as 2022 winds down, the markets will have already priced in the threat of a recession. That means investors may be more likely to act on the anticipation of future *good* news instead of overreacting to bad news that was already expected.

3. Historically, the markets don't care which party is in control of Washington.

Whether you're a passionate Republican, devoted Democrat, or something in between, the fact is that the markets aren't as partisan as people.

Talking heads can argue till the cows come home about which party is better for the markets, but I'm not going to get into that here. History shows that, while some years rise higher than others, the markets tend to rise after an election no matter which party is in power.

The reason for this is simple. While politics certainly play a role, the markets are affected by *many* things – and Washington is not at the top of the list. Corporate earnings. Supply and demand. Interest rates. Inflation. Housing prices. Employment. I could go on. And while it's true that the government has an influence on many of those things, the government does *not* dictate the daily rhythm of the markets.

If you think about it, the markets are sort of like our own bodies. Our health is determined by what we eat, how much we exercise, our sleep, personal hygiene – and of course, by things we can't control, like our own genes. In this case, politics are to the markets what brushing your teeth is to your overall health. Both very important, but not always the difference between life or death.

As I mentioned earlier, the S&P 500 usually rises after an election. That's been true *regardless* of which party is in the White House or controls Congress. Where things get a little interesting is whether the government is *united* or not.

As of this writing, polls suggest that Republicans are favored to take back the House[3], while Democrats will keep the Senate.[4] If this happens, the result will be Congressional gridlock. Gridlock is rarely fun for us citizens, but the markets tend to take it in stride. That's because gridlock usually means maintaining the status quo in terms of economic policy – and the status quo is something investors know how to handle.

The point is that history shows the markets are as politically unbiased as you can get in this country. Which brings me to the fourth and final thing to know about the upcoming midterms…

4. We never make investment decisions based on politics.

Choosing whether to buy or sell based on who you think will win an election is the opposite of having an investment strategy. It's investment *speculation*. And given how passionate many of us are about politics, it can severely color our thinking. How many people missed one of the longest bull markets ever because they disliked President Obama? How many people missed the "Trump Bump" because they disliked President Trump?

It's true that the midterms – both before and after – do impact the markets somewhat. But that doesn't mean we should change or abandon our strategy. Make no mistake: This is an important time of year. It's a time when we, the people, get to decide the direction of our country, state, and local communities.

But it's *not* the time for changing the direction you take toward your financial goals.

10 Worst Market Drawdowns Since the 1960s

Cause	Max Drawdown	# of Months To Hit Bottom	# of Months To Break Even	Returns (%) After Reaching Bottom: After 6 Months	After 1 Year	After 3 Years
Kennedy Slide/Flash Crash (1961–1962)	-27.97	6	14	20.45	32.66	16.65
Vietnam Worries (1968–1970)	-36.06	18	21	22.80	43.73	15.92
Nixon Shock (1973–1974)	-48.15	21	69	29.74	39.36	15.49
Rate Hikes to Fight Inflation (1980–1982)	-27.11	20	3	44.14	58.33	22.35
Black Monday (1987)	-33.51	3	20	19.26	22.78	13.69
Iraq Invaded Kuwait (1990)	-19.92	3	4	27.81	29.10	15.97
Asian Financial Crisis (1998)	-19.34	2	3	29.36	37.93	5.66
Dot-com Bubble Burst (2000–2002)	-49.15	31	56	11.49	33.73	15.47
Global Financial Crisis (2007–2009)	-56.78	17	49	52.75	68.57	26.54
COVID-19 Pandemic (2020)	-33.93	1	5	44.67	74.78	?
Average	**-35.19**	**12**	**24**	**30.25**	**44.10**	**16.42**

Past performance does not guarantee future results. Data shown is for the S&P 500 Price Index as of 6/30/22. A drawdown measures a peak-to-trough decline in the market. Returns for less than one year are not annualized. Indices are unmanaged and not available for direct investment. The S&P 500 Price Index is a market capitalization-weighted price index composed of 500 widely held common stocks, and does not include the reinvestment of dividend payments. Data Sources: Morningstar and Hartford Funds, 6/22.

https://www.hartfordfunds.com/practice-management/client-conversations/managing-volatility/how-quickly-do-stocks-begin-to-bounce-back.html?utm_source=hartfordfunds.com&utm_medium=email&utm_campaign=2022-08-22-SUB-CC-HowQuickly_DoStocks_BegintoBounceBack&utm_content=client_conversations&programID=8363&mkt_tok=ODYxLVJXUy02OTkAAAGGZa8cbORhqQYZaERoJyK82GbiGS4bv1Lh3maAJL_59wZRA9xh-kK2vkTGChhE7YxVEmGY2BLScXWQVMwYR_-ismvLzY1uqFOM_GrtqU_w5FAJ-g

1 "Why Wall Street shouldn't sweat the midterms," *CNN Business,* October 6, 2022. https://www.cnn.com/2022/10/06/investing/stocks-midterm-elections/index.html
2 "Midterm Elections: The Politics of the Stock Market," *Forbes,* October 2, 2022. https://www.forbes.com/sites/bill_stone/2022/10/02/midterm-elections-the-politics-of-the-stock-market/?sh=35dcd0171cc7
3 "Republicans are slightly favored to win the House," *FiveThirtyEight,* accessed October 6, 2022. https://projects.fivethirtyeight.com/2022-election-forecast/house
4 "Democrats are slightly favored to win the Senate," *FiveThirtyEight,* accessed October 6, 2022. https://projects.fivethirtyeight.com/2022-election-forecast/senate/

Get to Know… Amanda Phillips

Where is your favorite place to be on a fall weekend?

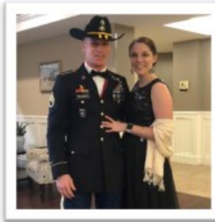
Coaching soccer for my kids or in Happy Valley with close friends!

WE ARE…

2021 Family Christmas Photo

You cannot escape the responsibility of tomorrow by evading it today.

–Abraham Lincoln



Supporting my husband and our military lifestyle

Coaching my step-daughters soccer team

Every day is a bank account, and time is our currency. No one is rich, no one is poor, we've got 24 hours each.

–Christopher Rice

Staying active with coworkers & supporting our community

What four individuals, living or dead, would you like to eat dinner with the most?

- **Queen Elizabeth II**
- **Da Vinci**
- **FDR**
- **Walt Disney**

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If you have any suggested topics or feedback about the Hudock Capital Newsletter, please feel free to call us and share!

After the Closing Bell

With the recent market volatility, it's been a stressful time for all of us. Managing stress is critical to maintaining our health, our wealth, and our happiness. Sometimes, though, that's easier said than done. I'd like to share some thoughts about one of the easiest ways I've found to help manage stress.

If you think about some of the most stressful emotions we feel—fear, anger, depression, anxiety—the one thing they all have in common is how they impact our breath and how that makes us feel. When under a state of stress, we stop breathing. When we stop breathing, we disconnect from the "present"—we disconnect from our heart and from our brain. We take on a "fight or flight" state and we compound our stress.

If, however, in these moments, we simply remember to BREATHE—to pause and take controlled breaths, preferably through our abdomen—we can transform from a state of anxiety or fear into a state of presence and calm. I know it sounds too simple. I'm not saying it's easy. What I do know is that learning to be present and honing controlled breathing skills is a discipline that anyone can practice and, in time, make a habit. When this kind of discipline becomes second nature, we instinctively trust the process of breathing and can manage stress without dwelling on it.

The same strategy works with the markets. Together, we have focused on what is important and developed a disciplined approach to investing that, over time, will achieve our goals. Practicing this disciplined approach helps realize that as markets move, we cannot disconnect from the present and we cannot take on a "fight or flight" posture. We need to remain clear-headed, maintain our discipline and trust the process. We need to breathe.

So take a deep breath. And then another. Trust the process. You'll feel better. And, when you need a friend to speak with, know that I'm here.

Warmest, Barbara

Upcoming Events

Veterans' Day Event
Thursday, November 10th
5:30 pm- 7:30 pm
Community Theatre League

The Club at Shepard Hills
Tuesday, December 6th
11:00 am — 2:00 pm

Williamsport Country Club
Friday, December 9th
11:00 am — 2:00 pm

Williamsport Country Club
Saturday, December 10th
11:00 am — 2:00 pm

Miracle on 34th Street
Wednesday, December 14th
6:30 pm pre-reception
7:30 pm show
Community Arts Center

**Don't forget to check our website for investment discussion recordings!