

Cliff's Notes

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2022: The Year in Review

 by Cliff Robello



Every January, it's customary to look back at the year that was. What were the highlights? What were the "lowlights"? What events will we always remember? Most importantly, what did we learn?

So many things happened in 2022. War in Europe. Historic inflation. Protests in Iran. The shortest-serving tenure of any prime minister in British history, followed by the end of its longest-serving monarch. The Winter Olympics and a winter World Cup. Enough headlines about Elon Musk and Twitter to last a lifetime. And that's just scratching the surface.

But when I ask myself, "What did I learn in 2022?", there are three events that jump out in my memory. Two of these events are serious, one is just for fun. One is financial in nature; the other two are not. But all three have something in common. All three provide an important lesson that we as investors should remember and learn from: The importance of being adaptable.

Here are the headlines, from most recent to least:

**World Cup stunner:
Saudi Arabia beats Argentina 2-1**
November 22, 2022

**Fed raises rates and projects six more
increases in 2022**
March 16, 2022

**Mood in Kyiv calm despite threat of
Russian attack**
January 10, 2022

On the surface, these three events don't seem to have anything to do with each other, do they? Nevertheless, let's take a look at each one and see what we can learn. Let's start with the most important:

Ukraine

There's something very poignant about re-reading an article from early January about life in Kyiv before the war. Here are a few excerpts from it:

As Russia and the US sat down on Monday for talks in Geneva...the mood in the Ukrainian capital, Kyiv, was calm. Snow had settled for the first time this winter on the city's cobbled boulevards and fairytale art nouveau mansions. Some people were following political events keenly. Others were doing their best to avoid them.¹

"Actually, I had an exam today. I'm focused on normal life," said a 20-year-old IT student sitting in a downtown coffee bar. "This situation has been going on since 2014. You can't live under constant pressure. You adapt." ¹

From another article that same month:

The streets of Kyiv don't feel like those of a city readying for war. Shops and businesses are open as usual, the railway station is not full of anxious mothers with hastily packed suitcases. The casinos and bars are thriving. ²

It seems incredible to think now about a time when so many Ukrainian citizens were just going about their daily lives. Making normal plans for the future. Pondering questions like, "Where will I go to college?" "What will I do for a living?" "Who will I marry?" "What should my child's name be?" "When will I retire?" It's incredible because, as you know, Russia invaded Ukraine just a few weeks later. The start of a tragic war that is still going today with no end in sight. A war that, among other things, disrupted all those plans and hopes and dreams.

When the war began, many pundits and analysts expected Kyiv to fall quickly. But as we know, that's not what happened. Check out this headline-and-excerpt published just a week into the war:

**War transforms ordinary Ukrainians into civilian
defenders**
March 2, 2022

Ukrainians from all walks of life – programmers, teachers, parents – have shifted into full wartime mode, making Molotov cocktails, camouflage tents, gathering supplies and money to send to their troops less than one week into Russia's invasion of their country. ³

One day, many Ukraine citizens were focusing on their schoolwork, or simply going about their daily lives. But when their country was invaded, what did they do? They adapted. This was the result:

**Russia's failure to take down Kyiv was a defeat for
the ages**
April 7, 2022

The Russians were ill-prepared for Ukrainian resistance, proved incapable of adjusting to setbacks, failed to effectively combine air and land operations, misjudged Ukraine's ability to defend its skies, and bungled basic military functions like planning and executing the movement of supplies. ⁴

Now let's turn to a story closer to home →

¹"Mood in Kyiv calm despite threat of Russian attack," The Guardian, January 10, 2022. <https://www.theguardian.com/world/2022/jan/10/its-our-house-mood-in-kyiv-calm-despite-threat-of-russian-attack>

²"Defiance, patriotism and cool heads on the streets of Kyiv as threat of Russian invasion looms," CNN, January 29, 2022. <https://www.cnn.com/2022/01/29/europe/ukraine-kyiv-tensions-russia-intl/index.html>

³"War transforms ordinary Ukrainians into civilian defenders," CNBC, March 2, 2022. <https://www.cnbc.com/2022/03/02/russia-ukraine-war-citizens-adapt-by-making-molotov-cocktails-spy-catching.html>

⁴"Russia's failure to take down Kyiv was a defeat for the ages," Associated Press, April 7, 2022. <https://apnews.com/article/russia-ukraine-war-battle-for-kyiv-dc559574ce9f6683668fa221af2d5340>



2022: The Year in Review. Continuation.



by Cliff Robello

The Federal Reserve

It's easy to forget, but in early 2022, interest rates were barely above zero. Back then, the Fed was still trying to stimulate the post-COVID economy by keeping rates low and buying billions of dollars in bonds every month. Unfortunately, while this was going on, inflation was ramping up.

By March, it became apparent to the Fed that inflation was not simply going to go away on its own. The Consumer Price Index, which tracks the average change in price for goods and services over time, was up a staggering 8.5% compared to a year earlier. It was the largest 12-month advance since 1981.⁵

In response, the Federal Reserve decided it was time to raise interest rates, starting with a 0.25% hike on March 17. It was the first rate increase since 2018 and was seen as a huge deal at the time. At the same time, the Fed also unveiled their plans and expectations for the year.

Policymakers projected six more similarly sized moves over the course of 2022. Officials now expect to raise rates to 2.8 percent by the end of 2023, based on the median estimate, up from 1.6 percent in their previous projections. The Fed's quarterly economic projections, released alongside the rate decision, showed that officials expected inflation to be 4.3 percent by the end of 2022.⁶

I think you already know what happened next. The future didn't work out quite as the experts predicted. Inflation continued to rise...and the Fed ended up hiking rates much more than they expected. Instead of sticking to small increases, the Fed had to adopt a much more aggressive approach.

Fed hikes its benchmark interest by 0.75 percentage point, the biggest increase since 1994
June 15, 2022

The Federal Reserve on Wednesday launched its biggest broadside yet against inflation, raising benchmark interest rates three-quarters of a percentage point in a move that equates to the most aggressive hike since 1994.⁷

By the end of the year, interest rates rose to 4.5%. Now, reasonable people can disagree about whether the Fed is doing the right thing, or whether they should have made these moves much earlier. The point is, the Fed had a goal to reduce inflation, and their original plan – raise rates just a little at a time – wasn't working. So, what did they do? They adapted. The result:

Inflation Cooled Notably in November
December 14, 2022

Inflation slowed more sharply than expected in November, an encouraging sign for both Federal Reserve officials and consumers that 18 months of rapid and unrelenting price increases are beginning to meaningfully abate.⁸

⁵ "Consumer prices up 8.5 percent for year ended March 2022," Bureau of Labor Statistics, <https://www.bls.gov/opub/ted/2022/consumer-prices-up-8-5-percent-for-year-ended-march-2022.htm>

⁶ "Fed raises rates and projects six more increases in 2022," The New York Times, March 16, 2022. <https://www.nytimes.com/live/2022/03/16/business/fed-meeting-interest-rates>

⁷ "Fed hikes its benchmark interest rate by 0.75 percentage point," CNBC, June 15, 2022. <https://www.cnbc.com/2022/06/15/fed-hikes-its-benchmark-interest-rate-by-three-quarters-of-a-point-the-biggest-increase-since-1994.html>

⁸ "Inflation Cooled Notably in November," The New York Times, December 13, 2022. <https://www.nytimes.com/2022/12/13/business/economy/inflation-cpi-november.html>

Finally, let's turn to our final headline →



2022: The Year in Review. Continuation.



by Cliff Robello

The World Cup

When the World Cup began in November, Argentina was one of the favorites to win the trophy. After all, they were the third-ranked nation in the world. As a result, everyone expected them to steamroll their first opponent, Saudi Arabia. Ranked #51 in the world – forty-eight spots lower – they were the lowest ranked team to participate in the tournament.

Even if you don't follow soccer, you probably saw the news when the unthinkable happened. *Saudi Arabia defeats Argentina. #Forty-eight beats #3. David slays Goliath.*

Afterwards, reporters asked Argentina's star player, Lionel Messi, how he felt. His response?

*"The truth? [I feel] dead. It's a very hard blow because we did not expect to start this way."*⁹

Can you guess what Argentina did next? That's right, they adapted.

Flexibility has helped Argentina adapt to challenges at World Cup

December 12, 2022

*"Tactically...Scaloni [Argentina's coach], has responded to the challenges offered by a potentially demoralizing shock defeat to Saudi Arabia. For all its boldness, the Saudi win...did not derail Argentina because Scaloni managed to marry two contradictory impulses. He had enough faith in his original idea to stick to his guns, while also recognizing the need for change. Things would be harder now; adaptations would be needed."*¹⁰

The result:

Argentina wins incredible World Cup final

December 18, 2022

*"Argentina won the World Cup in an extraordinary final on Sunday. It was a night of drama, high emotion, and fluctuating fortunes...one of the all-time great finals to cap a wonderful tournament."*¹¹

As you can see, all these stories featured people who were willing to adjust what they were doing based on the reality around them. So, if there's one lesson to take away from 2022, it's this: The importance of adapting. Of being flexible. Of being willing to use new facts, new information, even new setbacks, to figure out a better way to reach your goals.

Now, this doesn't mean that we should never hold to a long-term plan or stick to a long-term strategy. But the fact is, life will always throw curveballs at us. Some are aspirational, some financial, some even a matter of life and death. Either way, life rarely complies entirely with our vision for it. Life rarely goes exactly how we predict it will. The best-laid plans of mice and men often go awry.

Which means we have to be flexible. We have to adapt.

Now, fortunately most of us will never have to experience what the people of Ukraine are experiencing. Most of us will never have to make nation-wide decisions like the Federal Reserve. And none of us will have the pressure that comes with trying to win a World Cup. But as investors, we will face times when we must reassess what we're doing. Times when we must adjust our expectations, mindset, and vision. Times when we may need to tweak our approach, update our plan, and say, "You know what? I thought I would have to do X...but instead, I'll have to do Y." Just as Ukraine did, and the Fed, and those players.

If we can, then setbacks become merely temporary pauses. Obstacles become just a chance to catch our breath. And uncertainty becomes opportunity.

Frankly, I consider helping you adapt to life's curveballs as one of the most important parts of my job. In some ways, you can break down what I do into two phases: Helping you come up with a plan, and then helping you adjust that plan when needed. Whether it's in response to changing market conditions, a change in your personal life, or anything in between.

I don't know what 2023 will bring. I have ideas, I have educated guesses, but I don't know. But here's what I do know. Whatever happens, my team and I will always be here to help you adapt. To help you keep moving forward.

As always, thank you for the trust you have placed in us over the past year. We can't wait to continue serving you in the new one. So, from all of us here at CMR Financial Advisors, Happy New Year! Let's make it a great one!

⁹ "Lionel Messi fronts up to defeat," CNN, November 23, 2022. <https://www.cnn.com/2022/11/23/football/lionel-messi-fronts-defeat-argentina-saudi-arabia-spt-intl/index.html>

¹⁰ "Scaloni's flexibility has helped Argentina adapt at World Cup," ESPN, December 12, 2022. <https://www.espn.com/soccer/argentina-arg/story/4830965/scaloni-flexibility-has-helped-argentina-and-messi-adapt-at-world-cup>

¹¹ "Argentina win incredible World Cup final in shootout," Reuters, December 18, 2022. <https://www.reuters.com/lifestyle/sports/argentina-win-incredible-final-penalties-2022-12-18/>

What's Happening at CMR...

Cliff...

We spent Christmas and New Year's with my son and family in Seattle. Sheri, Zane, and family joined us as well. It's great to have all the grandkids together, especially during the Christmas season. Have an Abundant Retirement in 2023!



Roxanne...

I hope you all had a wonderful Holiday Season! May this new year bring you peace and happiness.



Zane and Sheri...

Happy New Year. We are so excited to start a new year. We were able to visit my brother in Seattle and had a wonderful time at Great Wolf Lodge. We look forward to what the year has in store for us and all the sports that our kids will be playing.



Margaret...

This year has been such a blessing for our family, with new granddaughters. And I was able to see some of you folks at in person meeting, and that was so nice to catch up!

Looking forward to what 2023 have in store for us and seeing you folks!

From my Ohana to yours,
Mele Kalikimaka and Hau'oli
Makahiki Hou!





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