

# Mindful Advisory Update

April 6, 2026  
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[Mindfuladvisory.com](http://Mindfuladvisory.com)

Dear Investor,

The past few weeks of war in the Middle East have roiled the markets – though not as badly yet as some might have expected (myself included). So, it's important for investors to realize we've been here before.

One shouldn't try to "trade the war" (or any other event), but the volatile markets are an opportunity for some investors to re-assess their risk-tolerance and asset allocation.

**(Readers should also pay attention to the disclaimers and disclosures throughout, and at the end, of this letter. This letter is intended to be educational and not investment or tax advice for any client or prospect.)**

## **Recent and Longer-term Market Performance: We've Been Here Before**

So far, this year, the S&P 500 index, including dividends, is down 3.53% for the "year-to-date" period, from January 1 through April 2, (or 3.55% after applying Mindful Advisory's highest annual fee of 0.75% annually or 0.1875% quarterly). Fees may vary by client.

The global stock market (measured by the MSCI ACWI NR) in dollar terms is down 1.78% (or down 1.97% after the firm's highest fee).

At the same time, the main US investment-grade bond index, the Bloomberg US Aggregate ("the Agg") is down 0.04% (or 0.23% after the firm's highest fee) for the year.

All of that means a portfolio composed of 60% global stocks and 40% domestic bonds is down around 1.08% (or 1.27% after the firm's highest fee) for the year through April 2.

**It is important to note that none of these returns include taxes, that it's not possible to invest directly in an index, and that a 60/40 portfolio is not the right one for many investors.**

While those aren't an impressive returns, they're also far from catastrophic.

It's also unclear whether stock market returns are commensurate with the magnitude of what is happening in the Middle East and the closure of the Strait of Hormuz.

This is not a prediction, but it's possible that stock and bond markets are not fully reflecting what an extended closure of a strait, through which flows 20% of daily global oil consumption, 20% of natural gas consumption, and 30% of fertilizer consumption, may mean for the global economy. (Of course, it's also possible that the strait could be reopened more quickly than many observers think.)

Historical perspective can help investors tolerate volatility and uncertainty.

## The previous inflation episode

Please forgive the blizzard of numbers in this section, but I want to illustrate the inflation shock markets endured in 2022.

In that calendar year, the S&P 500 index was down 18.11% (or 18.86% after Mindful Advisory's highest stated fee), while the global stock market (MSCI ACWI NR) was down 18.36% in dollar terms (or 19.11% after the firm's highest stated fee).

Significantly, the inflation pressure that sent stock markets down then, also sent the Agg down 13.01% (or 13.76% after the firm's highest stated fee) that year. That magnitude of that second decline is nearly unheard of for investment-grade bonds.

All of that meant a portfolio comprised 60% of global stocks (MSCI ACWI NR) and 40% of US bonds (Bloomberg US Aggregate) dropped more than 16.22% (or 16.97% after the firm's highest stated fee) for the year. The inflation problem in 2022 also meant that bonds didn't serve in their usual protective or shock-absorbing role against stocks.

Investors don't always translate percentage drops into dollar terms, so let me help with that. Rounding the 16.07% loss to 17% means a loss of \$85,000 on \$500,000. A 17% loss on a \$1,000,000 portfolio is a \$170,000 loss.

But, if someone was able to tolerate that, for the next three years, the global stock index posted a 20.65% annualized return in dollar terms (19.10% after the firm's highest fee), while US bonds delivered 4.66% (3.91% after the firm's highest fee) on an annualized basis. That means a 60% global stocks / 40% US bonds portfolio (rebalanced quarterly) delivered 14.12% (13.37% after the firm's highest fee) annualized from 2023 through 2025.

And so, the \$1,000,000 portfolio that dropped to \$840,000 in 2022, eventually recovered to around \$1.22 million (after the firm's highest fee) at the end of last year.

This is a **hypothetical** illustration, and is based on index returns for an exceptionally strong 3-year time period. It does not represent a particular client account. Also, one cannot expect such a recovery to repeat after the next poor year for stocks and bonds.

For further reference, a 60/40 portfolio of global stocks (MSCI ACWI NR in USD terms) and US bonds (Bloomberg US Aggregate) has 1-, 5-, and 10-year annualized returns through April 2, 2026 of 9.44%, 5.9%, and 7.7%, respectively. With the firm's maximum fee included, those returns are 8.7%, 5.2%, and 6.9%, respectively.

**Investors should note that past performance is no guarantee of future returns. Indices are unmanaged, do not incur fees or expenses, and cannot be invested in directly. Their returns also do not include taxes. The volatility of the indices may be materially different from that of a client's portfolio. Also, this is a reflection of past index behavior and does not represent a back test of any Mindful Advisory portfolio model or any Mindful Advisory client.**

### **Inflation is a problem for investors**

The 2022 inflation episode didn't have to do with war completely, though the war in Ukraine likely contributed. Some part of it also likely had to do with the US's deficit level and low real interest rates and also with the supply chain problems stemming from Covid.

In any case, there is an important parallel. The current episode and 2022 are inflationary, and inflation is often bad for both stocks and bonds – at least longer-term bonds.

Bonds, by definition, are loans investors make with a contractual fixed dollar interest return. A spike in inflation (and the presumably higher rate of newly issued bonds) renders already existing bonds paying lower rates worth less by comparison.

Another way to think of this is that if your bond is paying you a fixed 3% interest rate (say, \$300 annually on a \$10,000 investment), and inflation starts to run at 4%, you may be losing money in “real” or inflation-adjusted terms. Your capital could be losing purchasing power, and it is certainly earning less than it would be if you had waited until rates rose to buy the bond.

And while stock returns have outstripped inflation handily over very long (multi-decade) periods of time, at the moment inflation is running hot, stocks have tended to suffer. That's because investors tend to pay lower prices for the profits and dividends they are delivering at inflationary moments. Stocks get “re-rated,” as some investment professionals say, during inflation.

That's especially true if stocks carry historically high prices relative to sales and earnings to begin with – and they do now.

Although they didn't always have to do with inflation, the investment firm GMO in Boston recently published [a study showing](#) that since 1900 there were 7 periods of between 7 and 19 years in length where a 60% stocks/40% bonds portfolio broke even with, or didn't keep pace with, inflation.

Still, for all these fallow periods and for all the trouble stocks have during inflationary spikes, US stocks have returned 10.02% on an annualized basis from 1928 through 2025, according to [data from the NYU Stern School of Business](#). That number is not inflation-adjusted, but it's still impressive.

### **Distance to retirement matters**

So what does one do with this historical information - that US stocks have done splendidly over roughly a century, but alarmingly poorly over a meaningful amount of extended periods?

No investment letter can address any single investor's situation, but, in general, those close to or in retirement should have more bonds, and maybe more bonds than stocks. Those with more distance (say, 10 years or more) from retirement can have more stocks than bonds.

The bottom line is that if you're a young investor, this shouldn't affect your investment journey adversely. Stay the course, and don't think too much about it.

In fact, if you're younger than, say, 45, and still investing with every paycheck or on some regular schedule, you should welcome declines like this unless you have a considerable intolerance for volatility. They give you the opportunity to buy at cheaper prices. Not to be callous about the tragedy of war, but the price declines it brings are benefits to those in early or earlyish savings mode.

If you're older, now is a good time to reevaluate your allocation. The markets aren't down enough to have created much damage in anyone's portfolio. But they've given investors a taste of loss. That makes it a good moment for risk-reassessment.

Most investors have filled out risk questionnaires, but there's nothing like going through actual losses in your portfolio to see what your risk tolerance really is. If you think this is all you can stand, you may be in the wrong allocation. A discussion with your advisor is warranted. If you can tolerate this and more, then you may well have chosen your allocation well when you set your portfolio up.

Nobody knows if markets will decline more, or if the worst is over. But it's reasonable not to be surprised by something worse than what we've experienced already.

## **TIPS Bonds**

Finally, I will repeat a section from my last note.

TIPS can be part of a longer-term financial plan for clients.

Unlike plainer bonds (called “nominal” bonds), TIPS are tied to the consumer price index (CPI), and can provide a measure of inflation protection. The principal value of TIPS is adjusted for inflation as measured by the CPI, though market prices still fluctuate based on interest rate movements.

TIPS generally work better as inflation protection when they are held to maturity. Before they mature, they frequently trade like nominal bonds, declining when inflation rises despite their CPI tether.

TIPS are not right for everyone, and they can present tax problems in taxable accounts, meaning you may owe taxes on the inflation adjustment without receiving a cash payment. But they can help in tax-advantaged accounts like IRAs and 401(k)s.

Consult with a tax professional or advisor about adding them or adding to existing positions. All bonds, including TIPS, provide some duration risk, or the risk of price decline in the face of rising interest rates. In other words, if interest rates rise faster than inflation expectations (duration risk), TIPS can lose value.

TIPS also have deflation risk, and the "phantom income" tax issue – tax on the CPI bump to the bond's principle that doesn't deliver cash immediately.

Investors should note that the mention of specific asset classes does not constitute an individual recommendation for any individual client.

Finally, investors should consider that it's not impossible that higher oil prices could depress the economy, and lead to recession or economic stagnation.

## **Our Dedication to Your Financial Plan: Don't predict, but be prepared**

While it's natural for investors to be concerned with geopolitical turbulence, the point of sharing my thoughts on markets and financial planning is to provide some education and encourage investors to maintain diversified portfolios and consider a variety of strategies.

In an uncertain world, it is important to focus on what we can control: managing costs, maintaining a well-diversified portfolio aligned with your long-term goals and risk tolerance, and avoiding reactive decisions based on short-term market noise.

Please do not hesitate to contact me if you have any questions or if there have been any changes in your financial situation.

Respectfully submitted,  
John Coumarios  
Mindful Advisory, LLC

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