September 12, 2022 Update

Good morning. A recent quote from Jeff Saut's weekly publication caught my eye. Jeff was quoting a portfolio manager from Greenbrier Partners which involved timing the market. In times like these, clients often ask: Why don't we just get out of the market until things settle down? Ah, if it were only that easy! The short answer to that question is sure, we can get out but when are you going to get back in? The answer is usually never at the right time. That's because the moment you should be buying is when it is going to hurt the most and be at the scariest time (think October, 2008 & March, 2009 when things seemed their darkest).

Unpredictable price movements are part of long term investing, which is distinct from the concept of risk – a permanent loss of capital. We do not enjoy volatility, but we accept it is part of the game of owning great companies for the long haul. The nature of great companies is that they work constantly to get better at everything they do. They start with a small competitive advantage, and, like compound interest, that advantage increases geometrically over time. In our view, one of the most foolish things an investor can do is sell a great company because the stock has performed well. Obviously the market this year has challenged our philosophy. There were plenty of signs – from bitcoin to meme stocks – that financial markets had lost touch with reality. In retrospect, it is tempting to think we might have sold our great companies at all-time highs and bought them back again at new lows. But this requires timing the market at its most irrational (not to mention a guaranteed way to owe a tremendous amount in taxes). It is a form of wishful thinking, akin to a boxer who imagines he can win a match without ever taking a punch. To invest for the long-term is to accept that the market will occasionally undervalue the companies we own as it swings manically from overvaluing companies we have avoided. Our goal is to ignore this inevitable noise and focus on the underlying fundamentals. And on this analysis, we remain confidently bullish on our portfolio. . . .

Shad Rowe, Greenbrier Partners (8-31-22)

The markets finally shook off the blues last week with the markets having their first positive week in almost a month with the S&P 500 up 3.65%. What was the cause for the sudden change of heart with the markets? Well, it was a combination of things but according to Tom Essay at The 7's Report, we can look to 4 main drivers:

1) Inflation – More evidence that inflation is declining with Chinese CPI & PPI coming in soft. There may actually be some hints that things could get better much faster than markets are pricing in.
2) Central Banks & The Fed – The end may be in sight for the relentless rake hike campaign around the globe. Since the Federal Reserve was the first to get aggressive about hiking rates they may be the first to back off. Although the odds for a .75% hike in rates is more likely than not later this month, the hike will probably get smaller and near an end around the New Year. The target short-term rate (known as The Terminal Rate) is still 4%.
3) The Dollar – One major headwind for U.S. corporations has been a strong dollar which makes U.S. goods more expensive abroad. It's actually a bigger problem than most headlines would imply but with the European Central Bank hiking rates by .75% last week, along with a decline in inflation, the dollar may have peaked which is a big relieve valve for currency markets.
4) The Fed – No more "hawkish" comments from any Fed officials last week. U.S. economic data remains solid which reduces the chances of an imminent recession although the "Yield Curve"

remains well in inversion territory which means the 2-year Treasury rate is higher than the 10-Year Treasury rate which implies economic strain down the road.

The bottom line has not changed: We remain vigilant about our asset allocation and have overweighted/underweighted our portfolios accordingly with a balance of both defense and offense. We would welcome any questions or feedback you may have. Until then, enjoy some cooler weather and we are very much looking forward to Fall in New England.

Regards,

See my Video: Thoughts on the Markets July 29 2022

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Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

The **S&P 500 Index** is widely regarded as the best single gauge of the U.S. equities market. The index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The **S&P 500 Index** focuses on the large-cap segment of the market; however, since it includes a significant portion of the total value of the market, it also represents the market.