

A View From Here - January 2023

“Optimism is a vital and necessary element of everyday life. It is the spirit that propels us to go on living in the face of unavoidable suffering, that compels us to fall in love when our hearts have been broken and gives us the courage to bring children into the world, believing that even in times such as these we are surrounded by enough beauty to fill lifetime after lifetime.” - John Maynard Keynes
- world-renowned economist (1998-1946)

Welcome to 2023 - Changes

Getting older, I realize how quickly time passes as we live through change and with the benefit of hindsight, often minimize the impact it had on us in the moment. Each crisis has the power to transition our future lives until it doesn't. When the financial crisis emerged in 2008, most feared the economy was going into the next great depression.

Zip ahead to 2020 when the pandemic hit, there was talk that the financial crisis was much to do about nothing. It wasn't. Policy makers in each case did what they had to do, and perhaps got it right. It has been argued that had they taken similar steps in the 1930s, the impact of the great depression would have been significantly altered for the better. It was the lessons learned from that experience which led Ben Bernanke and his team of high-level advisors to act during 2008-2009. Using a similar playbook in 2020, governments around the world flooded

the world with liquidity and seemingly as we emerge from its grip, we will again minimize its impact at the dawn of the next crisis. An interesting way of looking at change, especially the most challenging ones is that we've had a 100% success rate of overcoming them. There's a great line in one of my favorite songs that says, *"What doesn't kill you, makes your story longer."*

2023 marks my 35th year in the financial services industry. How many years does it take to be called a veteran, when you still feel so young in the industry? This transcends to home life, where I'm realizing that my children aren't so young anymore. We recently returned from a family holiday where our conversations are now deeper discussions about economic outlooks, geopolitics and career paths. As hard as it is to accept, my children are adults and by late August, Alison and I will have two of our three in working professions. As a sideline, it was nice having one of them fighting me for the check to buy dinner. It is easy to forget that when I was their age, I was also at the ledge of my life in a career with no idea how it would shape itself. Marveling at these big-picture conversations, I was reminded that this decade of their lives (their 20's) will see more change than ever. Relationships are changing, marriage proposals are starting to occur, careers forming and soon, families of their own. Tony Soprano said in one of his few tender moments, during a family dinner. *"Someday soon you're gonna have families of your own, and if you're lucky, you'll remember the little moments like this that were good."* Amen Tony.

2022 in Review

Quite frankly, 2022 was a bad year to be an investor and there was nowhere to hide. In fact, it was the seventh worst year for the stock markets in over 100 years as it sneaks up on you slowly at first, and then quickly descends. We started the

year with accounts having excelled well north of 50% in 2021 and against all pandemic odds, an incredible 2020. Markets ran out of optimism as the weight of war, inflation, increasing interest rates, and post pandemic excess moved the narrative to one of economic challenge. The recent FTX scandal will likely be seen as the poster child of this era's excess (like Enron in 2001 or Madoff in 2008) in the new 'gold rush' of cryptocurrency world. Our accounts spent most of the year building on existing positions at what we view as increasingly attractive prices for an eventual recovery that will hopefully reward us in due course. It does seem then apropos to re-read the quote at top of this note, one of the best I've read and written ironically by an economist. Same as it ever was...

What does Historical Data Tell Us

Last year was the seventh worst year in the past 100 years, and the third weakest in the last 20, exceeded only to 2008, 2001 and 2002. What doesn't get discussed is just how strong the markets have been in the past two years, prior to this correction, especially considering a global pandemic. Many argue that accommodative fed policy and record low interest rates were the reason. That has changed. However, usually a year such as this is followed by a stronger and/or more stable performance from the financial markets, but not all economic cycles follow familiar patterns. We looked back to over the past 94 years from the 1929 stock market crash and realized that there has been 8 such occurrences of back to back weak years. Interestingly, the second year of poor performance often exceeds the first. Given this circumstance, odds for a better environment are in our favor but it stands to reason that perhaps 2023 should be viewed as a year where we set the table for the optimism that has always had a history of recurring.

I believe it is important to stay focused on the horizon because it has been a well established fact that even the best minds in the world cannot predict the future, especially in the short term. In an ideal world, we would like the opportunity to sell all positions, wait in the weeds and buy back at lower prices. I've seen people try this over my 35 years, and it's never worked. Our long-term success has been in owning overlooked, growing businesses that offer a thesis that if proven correct, has led to substantial profit. 35 years of experience tells me that being invested is still the best option, but we must remain both long-term in thought and optimistic about the world and our own economic future. And experience tells me time passes quickly.

The Gouge Economy

Recently my 9 year old car has been giving me the kind of problems associated with its age, and the last one, the window button falling off when I tried to open it a touch on the highway took my frustration level to call the dealer. My daughter and I took the journey the next Saturday, where I was informed that the wait time is a minimum of 2 years for a replacement, but I could purchase something from their small inventory for 35% above MSRP plus the new luxury tax (thanks, Trudeau).

Welcome to the gouge economy where supply and demand has made the economics of buying stuff more and more unobtainable, ironically at a time where we're supposed to be going into the next financially challenging period. But it's hard to place exactly what is affected by inflation, and what is just simply marked up beyond its fair value. Pick an item and we are paying more for it.

Despite the gouge economy, and strain on investment accounts, people are still out there consuming and economic numbers have yet to reveal that we are in recession. Is Wily E. Coyote in mid-air off the cliff not realizing nothing is below, or we are so conditioned to consume and know no other way? Every time markets reel downwards, we are reminded just how well we live...perhaps too well. But we want to. Maybe it is because it makes us feel good and/or important. I'm not sure if this is reverse correction in prices is a result of supply chain, pandemic hangover or war-related issues, but it seems that if we are willing to pay, prices will stay high. There's an old saying that the best cure for high prices are high prices. But there seems to be something else going on where greed in pricing seems to have enveloped the world. Still - I'll probably end up buying that car.

I read this in an obituary: *"You have more time than you think but less time than you know."*

Thanks for taking a look, and as always,

All Good Things

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