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A View From Here - September 2022

You know the good ole days weren't always good and tomorrow ain't as bad as it seems - **Billy Joel, Keeping the Faith**

It's Hip to Be Pessimistic

Economic and earnings numbers continue to show resiliency as markets rebounded from the lows made in June/July, yet the message coming out of those releases caution that inflationary measures could slow future profitability. I maintain that whether we are going into a period of reduced economic activity or not, markets have priced in a lot of these concerns. Those who believe that the financial world has suddenly changed in 2022 will warn that you have no idea what is yet to come. They don't either. No one knows. For some reason, the world of finance negativity comes with an intellectual edge, as if the only ones who truly understand our doomed future are the self-proclaimed 'smartest ones in the room'. As such, it's hip to be pessimistic these days.

One of my favorite investors is hedge fund pioneer Michael Steinhardt, who once said *"Just as outright euphoria is often a sign of a market top, fear is for sure a sign of a market bottom. Time and time again, in every market cycle I have witnessed, the extremes of emotion always appear, even among experienced investors. When the world wants to only buy treasury bills, you can almost close your eyes and get long stocks."*

2022 finds us working through an unsettling period and its trigger wasn't just the rising cost of goods and services because that has been going on for over a year, but rather policy makers’ reaction to it through interest rate hikes.

Markets respond to change and then move through a cycle of consensus that has formed around a narrative that we are on the precipice of a massive shift. The view calls out decades-long excesses paved by over-consumption, deflation and low interest rates. Now we are looking at its opposite, that many point out, reverses the wind that has been at our backs for 40 years - the last time inflation peaked.

Raising interest rates is the bluntest tool policy makers have to slow rising prices and it’s supposed to come with a side of reduced economic activity. It is also somewhat necessary given how low rates got to accommodate the populace during the pandemic. My belief is that policy makers are reversing the accommodative stance they took to help people through the pandemic.

From my first day in the financial services industry, I’ve been warned that we are on the precipice of dire economic consequence and the fall of western powers just like the Roman Empire. These negative narratives reared their heads during every sell-off before markets resumed climbing ‘a wall of worry’ beset with crashes, crises, and wars.

It’s impossible to predict the future as there are so many unexpected surprises, and few examples can rival the economic and stock market strength we witnessed during the Pandemic. There were a lot of pundits calling for the next great depression at the onset, and how couldn’t you believe them? We don’t hear about that much anymore, because markets adjusted and went higher. How many times do we see headlines warning of positive economic developments? Compared this to its ‘intellectual’ half-brother who tells you what we fear about economic calamity.

The September Effect

Although the common belief is that October is the worst month of the year that distinction actually belongs to September. However, my friend Ron Meisels recently commented that *"Given that 2022 has already brought us a number of bad months, (January, April, June), it's possible the honor of being the worst month has been used up already."*

Speaking of the negative narrative, I was recently sent an interesting YouTube link on Charlie Munger (Warren Buffet's partner in Berkshire Hathaway).

This 16-minute video was far more interesting than its misleading title, which is; Charlie Munger Predicts a horrible economic crisis where EVERYTHING WILL COLLAPSE. He's not saying that at all in the video, but rather speaks to long-term economic and social challenges. Given that actions speak louder than words, Berkshire is always investing. Of interest, he validates one of my core beliefs: Diversification as practiced by the investment industry is the least prosperous way to invest.

You Can View it Here

Ultimately it's All about Long Term Returns

The best we can do is to reevaluate our investments given the changing information we have - something that I do that over and over again, every day - all the time.

During the summer, we spent 3 weeks at a cottage and a lot of time was spent thinking about our investments considering these new concerns. I concluded that given their reduced valuation over the year, current profits and growth potential, I would not only continue to hold, but commit more of our funds to them. In almost each case, I view the perception of, or how actual economic events might adversely affect their profitability through the lens of negative consequences and then look at just how far off from their previous valuation they got and conclude that for the most part, it stands to reason that the valuations already reflect the prediction of dire economic consequences.

Further, most have put up strong revenue, cash flow and earnings growth. Lastly, buying our way out of a malaise has been a fundamental part of our success over decades of helping you manage your wealth. This time is (hopefully) no different.

It's all about the long-term return of our portfolios and successful investing is never as comfortable as we would like it to be. But we are seeking something bigger and our well established long-term track record suggests we remain in the light.

Thanks for taking a look, and as always,

All Good Things

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