

July 6, 2022



Clients,

All of the market indexes, as well as the valuation of your accounts, have fallen precipitously year-to-date, and particularly over the last quarter. Beyond the explanations given in the Performance Summary, how should we understand what is driving this and future directions?

At this point in the correction, changes in price are not a reflection of dramatic changes in company earnings or expected dividends, but rather a change in valuation. Buyers are paying less for projected earnings. For our high dividend positions, as the price drops the dividend relative to price increases. My perspective is that stocks were overvalued. As prices have continued to fall, what began as a deliberate judgment that stocks were overvalued has been overrun by margin calls in which the sellers are not given a choice about selling at a significant loss and the selling pressures in the market continue. Stocks were purchased with funds borrowed from the broker, and brokers are selling the positions out of owners' accounts because the current prices no longer provide adequate collateral. This will continue in a vicious cycle until enough buyers with cash are attracted to the prices. We are reminded again that stocks do not have an objective worth based on company earnings, past price patterns or expected future earnings, dividends, or momentum. Stocks are worth what someone will pay.

In terms of the market, there are always more storm clouds than actual storms. Most of the clouds blow over. While there are many dire events taking place in our world, we tend to exaggerate the impact such events have on the stock market. That is true even for economic events, especially if one looks beyond the next month or quarter.

There are long-term economic issues creating some economic squalls in the current environment but without a viable and obvious path forward. For example, ESG (Environment, Social, company Governance) has become an investment fad. The buyer values and accompanying metrics within each component are not consistent and objective enough to be more than a ploy. We have seen disruption in the energy sector resulting largely from endeavors to shut off fossil fuel supplies before creating viable alternatives such as Generation IV Advanced nuclear power to generate electricity, hydrogen, ammonium, and heat for industrial production such as for cement, steel, and aluminum. Wind and solar are being funded by fossil fuel companies as a way to lock in dependence on fossil fuels for when the wind isn't blowing, or the sun isn't shining. Government endeavors to address climate are short-sighted and inadequate. We need to begin with the end in mind. What would a solution look like? Progress or a partial solution is inadequate. Wind and solar won't get us there. Just as most families do not adequately prepare financially for retirement, we fuss about the current price of gas while ignoring what may be required to maintain a habitable world for our grandchildren.

In the shadow of that dire perspective, the current stock price decline is quite manageable. Fortunately, we were defensively positioned in preferred stocks and other very high dividend positions which continue to generate income independently of market gyrations. In no case are we having to sell at current prices in order to meet withdrawal needs. While I read some expectations of new market highs by yearend, I expect we may see a year or more of the market moving sideways between current prices and the New Year's high. Over-valued growth stocks will suffer while value stocks with Price/Earnings ratios under ten will do better. Developing economies will do better as people clamor for what we take for granted.

Personally, I find that I'm pulling back from a wide-ranging interest in investing and zeroing in on administering what I've found to work.

*Lee*

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