Wealth
COACH
Financial Services Inc.

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Dear Investor,

If you are like many people, you have heard about various periods or events in history that caused you to wonder 'how did that happen', 'how could people in that time have *let* that happen?', and 'we need to make sure that never happens again'.

It is worth considering that we may well be wandering through our own chapter in history, potentially a pivotal one for mankind, and in particular the United States. It also may well be that the answer to the questions above are right in front of us; we simply have difficulty seeing them.

There are many reasons for the difficulty, including the phrase 'history is written by the victors', and daily proliferation of narratives instead of truths. The end result is that people ***in*** the period, in the event, simply cannot see it until it runs its course. We're wired not to.

Q2 2022 continued the downtrend that began the year in Q1. More importantly, it has confirmed our long-standing central premise rather clearly:

- Rising asset prices are fully dependent on central bank money-printing
- Money printing causes inflation, first in asset prices, then in goods and services
- Inflation is vastly understated and at current levels is impossible to hide
- Money printing destroys historical correlations: stocks rise/bonds fall and vice-versa
- The removal of money-printing reveals the fragility of the entire system

Those points not only seem very accurate, they are now very visible to a wide range of people.

One of the best things about mankind in general is the capacity to hope, our preference for it. Ironically, that may be one of our biggest hurdles too. We prefer hope, even if it blinds us.

Since money represents 'banked time' (our savings, our investments), we want to store it away and hold onto the notion that it will grow and we will be able to extract it in the future to care for ourselves and our loved ones. That is the primary reason most people collect it.

History is chock full of lessons about money: creation of it, earning of it, saving and investing of it, and use of it. And there are many chapters where the outcome is not the desirable one.

We have no control over the period in which we live, and have little control over the monetary regime under which we live. In our time, the central banks own that. But we do have control over the actions we take to earn, save, invest and spend.

The Federal Reserve has ***had to*** cease printing money solely because they reached the point where printing spiked prices of most items used by the mass population for subsistence, basic survival. So … the Fed is reversing it. Unfortunately, few understand the concept, and the Fed does not tell the truth about it, not the full truth anyway … just half truths.

The most recent CPI (Consumer Price Index) rang it at a hot +8.6%. If the official number is stated at 8.6%, the real number is considerably higher as evidenced by numerous sources.

Wall Street is dependent on money-printing, and on the low interest rates that make it possible for people to reach for larger houses, more expensive cars and so forth. Once rates rise, people have to spend more to borrow the money, so there is less to spend on the asset.

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While fundamentals matter with regards to valuing businesses (and thus stocks), it is the never-ending increase in the quantity of money that stretches those valuations.

As long as the wider public maintains faith in that one (proven-necessary) lever, the Fed's act of printing or not printing will drive asset prices up or down. When the public loses faith in that act, things should get very bumpy, likely much more so than the year-to-date ride.

Refer back to the fundamental illustration we used in the past two Quarterly Letters that showed investors paying more for shares of stock in businesses as measured against their book value, the chart with the red circle at the top. We were at historic extremes, and yet ***everyone wants it higher***. That may be understandable, but it was not entirely logical, nor was it very probable (absent money-printing). Although the extreme has corrected modestly by the end of Q2, it is still very high historically.

Earnings reports should reveal the degree to which sales have slowed down as consumers purchase less and as rising costs of inputs/ingredients eat into profit margins. Markets should roll into those reports and pursue one of those same outcomes covered last quarter:

1. Bear Market Rally: designed to entice investors back into 'buying' mode where they will then be sold shares of stock at higher levels before the market rolls back over and declines further.
2. Weimar Republic: That chapter in history where prices accelerate upward, in a blow-off top, where everyone fears getting ravaged by inflation so they panic-pile further into stocks.
3. Healthy Rally: arrival of decent earnings ***with decent forecasts***. Supply chain issues and cost inflation will shed light on forecasts which have cooled overall. We'll see how much.

Assuming faith by the broader public in the Fed's money-printing games remains intact, aside from any improvement in inflation, another major factor that should affect prices will be the war in Ukraine. If resolved, markets may celebrate any potential accompanying drop in prices of oil and fertilizers, along with the clearing of supply chain logjams that have added to inflationary costs. Those would be welcome developments.

But by far the major factor to watch for is the resumption of the money printing, (and a cap on interest rate increases that accompanies it). That's the key. And it may lead to the conclusion that, yes, markets can rise again, perhaps even soon, as per bullets 1 & 3 above.

Printing will work until it doesn't. While, believe me, it is not a whole lot of fun pointing out this information, it is important. If the concept is foreign to you, and you find yourself wondering why we beat it like a dead horse, and your neighbors are not concerned about it, the faith likely remains intact for the broader population. Historically, however, faith is not lost by the broad population until ***after*** Wall Street loses faith and public suffers the negative consequence. Thus, it is a topic that should not be ignored by anyone trying to logically assess risk versus reward.

We wish everyone wise decisions and a pleasant end to Summer. We can be reached at (614) 734-WLTH if you would like to visit your strategy and allocations.

Best Regards,

Mike Sullivan

Detail

Following are the 2022 Q2 results:

INDEX	TYPE	Q2	YTD
Standard & Poor's 500	US Based Large Stocks (500)	-16.1%	-20.6%
Dow Jones Industrials	US Based Large Stocks (30)	-10.8%	-15.3%
Nasdaq Composite	US Based Large Stocks	-22.4%	-29.5%
Standard & Poor's 400	US Based Mid-Cap Stocks (400)	-15.4%	-20.2%
Russell 2000	US Based Small-Cap Stocks (2000	-17.2%	-24.1%
Dow Jones Transports	US Based Transportation Stocks	-10.5%	-20.2%
Dow Jones Utilities	US Based Utility Stocks	-6.4%	-1.2%
EAFE International Index	International Large Cap	-14.3%	-20.6%
MSCI Emerging Markets	Diversified Emerging Markets	-11.5%	-18.3%
Commodities	Bloomberg Commodity Index	-5.7%	20.6%
7-10Y US Treasury Bonds	7-10 Y Us Treasury Bonds	-4.9%	-11.2%
3 Month T-Bill YIELD	Cash Equivalent	0.1%	1.9%

Sources: *Bloomberg, vanguard.com, yahoo.com*

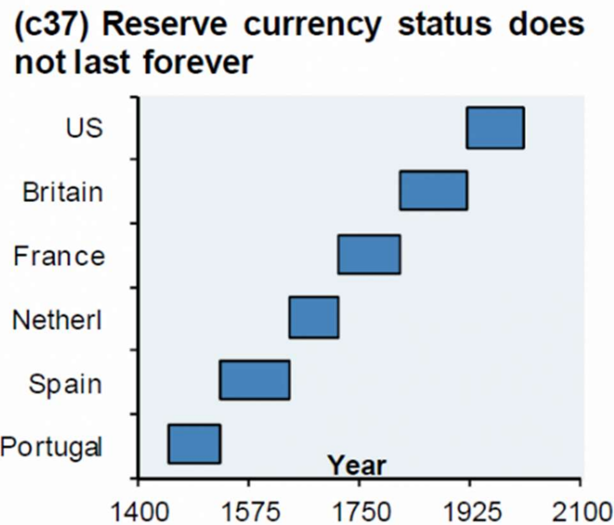
Here are your bullet point highlights for Q1:

- Almost everything got whacked, a result of the Fed's printing which when 'on' creates buyers of assets, and when 'off' or in reverse, removes buyers and creates sellers.
- Assets that held up: short-term bonds and earned modest rates of return, however even those pale against the inflation which rose upwards of **+8%**
- Commodities pulled back in Q2, but are still up strong in 2022, particularly energy.
- Economic activity slowed, and warnings are being issued. We will see if stocks have 'priced in' the expected results or whether there is more downside ahead.
- Earnings estimates and forecasts are being reduced, we will see soon just how much.
- Many companies have announced imminent layoffs
- The 3 month Treasury Bill yield surged from 0.05% January 1 to 1.88% on 6/30
- The 10 Year Treasury yield (which drives home loans, car loans, etc.) was **1.51%** at 12/31/2021
    - As of 3/31/22, it jumped to **2.33%**.
    - As of 6/30/22, it settled at **2.97%**. down from **3.48%** on June 15th.
    - Rates over 3.00% dramatically impact borrowing costs and asset prices.
    - US Treasury Bond prices, moving opposite rates, saw the worst YTD decline since 1788 according to Deusche Bank.
- Bonds have been pounded as rates rise, and the Fed is no longer conjuring up money to 'buy' them … the Fed, one of the largest buyers, is now gone.
- We provided a housing example last quarter:
    - The $400k house, financed at 4% for 30 years costs $1,909 per 360 payments
    - The $400k house, financed at 6.375% (recent rate) for 30 years costs $2,496 per 360 payments
    - The added cost is nearly **$210,660** in interest over that 30 year term
- To keep the payment at $1,909, the house price would have to drop to **$306,000**
    - The price drop would be $96,000, a decline of **-24.0%**

Importantly, the geo-political events also affect money, specifically the US Dollar and its competitor currencies (the US Dollar alternative BRIC countries, Brazil, Russia, India, China and other countries now aligning with them)

- The SWIFT sanctions on Russia severed Russia from the 'US Petro Dollar', a big deal
- BRIC countries refused to join in on sanctioning Russia for the Ukraine conflict
- The Russia Ukraine conflict bears little resemblance to the 'news' narrative
- The US Dollar has strengthened to multi-decade highs (because the Fed is raising rates), but history books show that countries that raise rates as a result of spiking inflation see a rise in their currency … ***initially***. History shows the strength reverses thereafter. We'll see what the history books have in store for us.

All of this currency activity connects straight back to the chart we have shared over the years that illustrates the life span of various reserve currencies. The U.S. has held the advantage for quiet a while. Again, we must consider whether we can '**see it**' … or not:



Since we do not control our period in history, nor the monetary system in which we live, we can only do the best we can within it.

We ***can*** foresee that the Fed ***will*** have to lower interest rates again, and they will have to resume money printing at some point … unless they have the goal of letting the system implode. Importantly, investors that have been comfortable buying and holding assets, and remaining comfortable in 'the long-term', largely do it for one reason: **'they'** will make asset prices go back up again. Ironically, that mindset acknowledges one very important point: there is a **'they'**, and 'they' hold the goal of stability and prosperity for the population at large. If the goal is different, logic dictates the result will be different. The goal now is to reduce prices which includes inviting job losses … which the Fed deems necessary for the 'greater good'.

The 'they' is the elite power center: the central bank, the government, and the politicians that pollute and exploit just about everything. History shows that group in particular is quite adept at prospering personally, perhaps insatiably, up until the point where doing so is no longer sustainable. When that point is reached, the population at large is handed a big mess, a difficult chapter in history, and it takes time to resolve it … years, even decades.

The task at hand is to 'see' that pattern, determine where we reside within it, and take actions that fortify ourselves to navigate through it if it arrives.

So, for investors, the game has become one of seeking to determine when our money can be deployed into the system with the sole goal of increasing its quantity, and when we conversely may have to remove it from various assets to preserve the quantity, the value, from decreasing. That is no small task, and it would be easier if we had more truth on the table, but that would require this period in history to differ from those that have preceded us.

Regarding the potential arrival of the next cycle where asset prices rise, that will depend on the resumption of money printing and the reduction of the rising interest rates (the cost of money) which in turn will require inflation to begin to decline. We may actually see inflation come off their crazy levels soon. Too much more reverse-money-printing may invite deflation instead.

So … again assuming faith in the money-printing function remains intact, look for inflation to decline to become more 'bullish', and view any resolution of the war between Russia and Ukraine as a potentially bullish event as well. We get the next inflation reading on 7/15.

Should we get those two events, we could see asset prices begin to rise again, perhaps rapidly.

Another major factor will be 'Corporate Buy-Backs' which have been relentlessly **strong** in the money-printing environment. Those may lose some steam in Q3 since companies are criticized for buying back declining shares of stock. But, if the Fed hints it will return to money-printing, or at least stop removing money from circulation, the corporations may again move to scoop up their own shares propelling stock prices back upward.

In conclusion, we can see the potential dangers that exist from a historical standpoint, and we can see the ***potential*** impact on asset prices near term, both up and down.

The challenge will be what to do with the various assets, and when to do it.

Call us if we can help you consider this perspective and adjust allocations as you deem best to either seek appreciation in subsequent up cycles, or protect from any further declines. We can be reached at (614) 734-WLTH (9584).

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