Wealth
COACH
Financial Services Inc.

January 18, 2023

Dear Investor,

2022 ended with another clear-as-day message for investors who are looking: asset prices do not rise unless the central bank is diluting your purchasing power. Clear. As. Day.

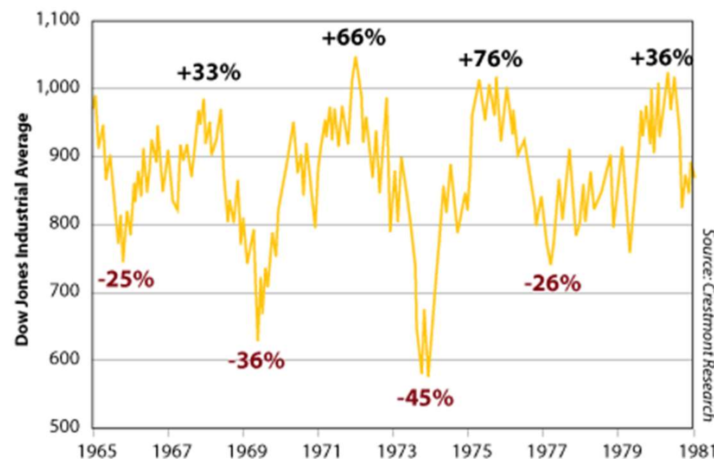
The dollar has been diluted so persistently, so relentlessly, that investors have come to accept it as not only normal … but desirable. What just happened is that the mirage of dollar destruction ran into a brick wall of limitations. All fiat debt-based money regimes run into the same dose of reality eventually, followed by the stage where everybody figures it out.

Double the money supply and the prices of resources, assets, goods and services should follow suit. That's fun for a while for those who own stocks of companies that can raise the prices of the goods they sell or services they offer, but its brutal for everyone else. Such was 2022.

The fourth quarter of 2018 showed everyone the necessity for dilution of your dollar to continue. 2022 brought the lesson home in spades. Remember:

1. **If the central bank, the Federal Reserve, prints money, asset prices rise.**
2. **If the central bank removes money from circulation, asset prices fall.**

So … what will the Fed do this year? Market bulls celebrate that interest rate hikes have to be nearing an end, so everything will be awesome again. Market bears hold to the belief that we ain't seen nothing yet. The average investor wants 'they always make it go up' again. The Secular Bear market from 1966-1982 did not care two hoots what investors wanted:



What investors should want is integrity to return to the monetary system. One way or another, that will happen. It is just a matter of how much turmoil lies between now and then. Was 2022 the extent of a draw down like 1966? Or, are we half way there like 1974? For those closer to retirement, that is an important question to consider. Call us if we can assess your allocations and strategy at (614) 734-WLTH (9584).

Best Regards,

Mike Sullivan
President, Certified Financial Planning Professional®

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Detail

2022 Q4 results gave a reprieve from the damage of the first three quarters. Foreign markets generally did better than domestic markets. Here are the results:

INDEX	TYPE	Q4	YTD
Standard & Poor's 500	US Based Large Stocks (500)	**7.5%**	**-18.2%**
Dow Jones Industrials	US Based Large Stocks (30)	**16.0%**	**-6.9%**
Nasdaq Composite	US Based Large Stocks	**-1.1%**	**-33.1%**
Standard & Poor's 400	US Based Mid-Cap Stocks (400)	**10.7%**	**-13.1%**
Russell 2000	US Based Small-Cap Stocks (2000	**6.2%**	**-20.4%**
Dow Jones Transports	US Based Transportation Stocks	**11.5%**	**-17.6%**
Dow Jones Utilities	US Based Utility Stocks	**9.8%**	**1.7%**
EAFE International Index	International Large Cap	**17.4%**	**-14.0%**
MSCI Emerging Markets	Diversified Emerging Markets	**7.5%**	**-18.1%**
Commodities	Bloomberg Commodity Index	**2.2%**	**16.0%**
10Y US Treasury Bonds	7-10 Y Us Treasury Bonds	**0.3%**	**-16.6%**
3 Month T-Bill	Cash Equivalent	**7.5%**	**-18.1%**

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

Here are your bullet point highlights for Q4:

- Almost every traditional asset bounced in Q4, on hopes for a 'soft landing' pinned to inflation which was anticipated to roll over (and has through January's CPI & PPI).
- The Nasdaq index performed the worst again in Q4 2022 and for the full year
  - As was the case at Y2k Tech Wreck, what goes up a lot, goes down … a lot.
  - It 'held' at the 200 week moving average shown last quarter.
  - Tech, and 'growth' stocks get hit hard when money printing stops
- 2022 saw the Fed removing money to quash inflation its QE caused. The QT (Quantitative Tightening) will almost surely pressure asset prices downward
- The 10 Year Treasury yield (which drives home loans, car loans, etc.) was **1.51%** at 12/31/2021. At 12/31/22 it was **3.88%.** It exceeded 4.2% for a few weeks in Q4.
- Bond prices were pounded all year as rates rose, the worst YTD decline since 1788.
  - They bounced modestly in Q4 as bond markets (far bigger than stock markets) are stating the Fed will have to lower rates again not too far down the road.
  - The reason the Fed would lower rates ('pivot') would be their policy's destruction of wealth … otherwise known as declining asset prices
- Commodities performed the best, followed by Utilities.

We note a few things for those who have been following markets for a few decades:

- Commodities are 'late cycle' stars … recall 2008 when oil hit $148/barrel … only to tag $35/barrel a year later. Also recall Wall Street saying it would hit $200 …
- Of stock indices, the Dow is often the late cycle star … note the Dow performing 'less worse' than the other indices as we wound down 2022

We also note that while January has started out with a positive tone (boosted by inflation up only 6.5%), earnings and forecasts will ultimately dictate the trend of 2023. We will all have a read on those broadly within the next few weeks, although major banks just started the reporting with a mix of earnings beats and misses, but warnings on Consumer health.

Simply because 2022 was terrible, does not mean 2023 will be good (of course that is what Wall Street is selling). Remember, Wall Street needs people to want to buy stocks in order to sell them to the public at better prices … it is an age-old pattern. Before the era of out of control money printing, stocks historically would 'bottom' two or three quarters ***after*** Fed cuts rates. The actual **act** of cutting rates is a 'pivot'. Wall Street financial media lapdogs have been promoting the word 'pivot', re-defining its historical context to pretend a 'pivot' is the Fed raising rates by less than previously feared, for instance only 0.5% instead of 0.75%. That is not a 'pivot', that is a 'lie'. But … that is how the system rolls, and what is important is that investors can see it. So, the key points for 2023 as we see them are:

- Wall Street boosted prices in Q4 selling 'a soft landing'.
    - The Fed, on the record, states 1) it must cause people to lose jobs (so they don't spend), and 2) it does not want asset prices, including stocks, rising as the 'wealth effect' and cause prices to not 'go down' … their stated objective.
    - Following January's report of CPI +6.5%, three Fed speakers rolled out to state hikes would continue until 'Fed Funds' costs reach 5% to 5.25%, where they will hold them for a while. The Fed Funds rate is at 4.25% now… so 1%+ to go.
- We provided several housing examples last year in quarterly letters. Housing is now rolling over … note the lag time from rate hikes beginning (Jan) to price movement
    - The potential price drop of a $400,000 house, based on mortgage rate calculations alone, would be a decline of **-24.0%**
    - As the Housing industry goes, so generally goes the broad economy
    - People will ***wait*** to buy houses when they see 1) housing prices declining, and 2) the likelihood for rates to decline
    - (see preceding point on bond market rate expectations … lower)
- Late cycle assets performed relatively well as 2022 closed (oil, commodities, DJIA)
- The cost of borrowing money is higher than has been sustainable without QE, money printing. Cost of money matters to the broad public, hence the economy and markets.
- Opportunity always exists in markets. IF the Fed is close to concluding their rate hikes, and will actually have to reduce rates at some point, the US Dollar may lose its strength and global money may move towards areas which offer better potential. That may make foreign markets more attractive, particularly Europe perhaps which may benefit from ferocious levels of inflation plummeting moreso than in the US, coupled with a winter that has thus far been relatively mild which reduces fear of Europeans being crushed by energy costs for heat and electricity. Additionally, China is once again open for business. Global opportunities may lead this year.

We anticipate, like the bond market, that the Fed will achieve their targeted asset price declines, people will indeed feel less wealthy, and prices will cease to hyper-inflate … as long as the Fed and its antics retain control of the monetary system.

Newsflash: the Fed ***does not control*** the public's faith in the monetary system, the public does. The Fed does ***not even control interest rates***, the bond market does. The Fed always 'acts' only when they have to do so … in normal times. The Fed is now dealing not only with their very visible policy errors of printing that stoked high inflation, then reducing money supply which brings pain to the public. They are also dealing with the very visible and numerous acts of their own members, who set policy and traded their personal accounts for profit, yet suffered zero consequence. The Atlanta Fed head was the latest culprit. Their credibility is damaged, with very good reason, and its about time people saw it… many now do. But, the proper loss of faith may come with a price that everyone pays, unfortunately.

Graft aside, the bond market is stating the Fed must lower rates again not too far down the road. Thus … they have to have a reason to do that: price declines. **IF**, and that is a big word, IF the Fed's goal is to perpetuate the system, they will almost with mathematical certainty, have to both lower rates and begin printing money again. At that point, investors will get to choose whether or not to increase their risk exposure again in an effort to increase their account balances. And, at that point, the choice will be whether or not to allocate into the fully-diversified portfolios which have achieved growth while relentless money printing has succeeded, or to merely allocate in for an upward ride with the intention of moving back to the sideline.

That is a ***very different*** market mentality and investment strategy than has existed since 1987 when Fed Chairman Greenspan opened up the era of bailouts, booms and busts.

THAT, is a secular bear market environment, last seen from 1965-1982 as the chart on the first page illustrates. There are numerous risks with that type of environment, first and foremost the risk of 'timing' the market wrong. Nonetheless, if you do not have a 30 year time horizon for growing and withdrawing assets, Secular Bear Markets are something you should seek to understand. The scenario for 2023 remains the same as that held out for 2022:

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.

Add in the competition for the US Dollar from the BRICs discussed last quarter, and the backdrop remains sketchy.

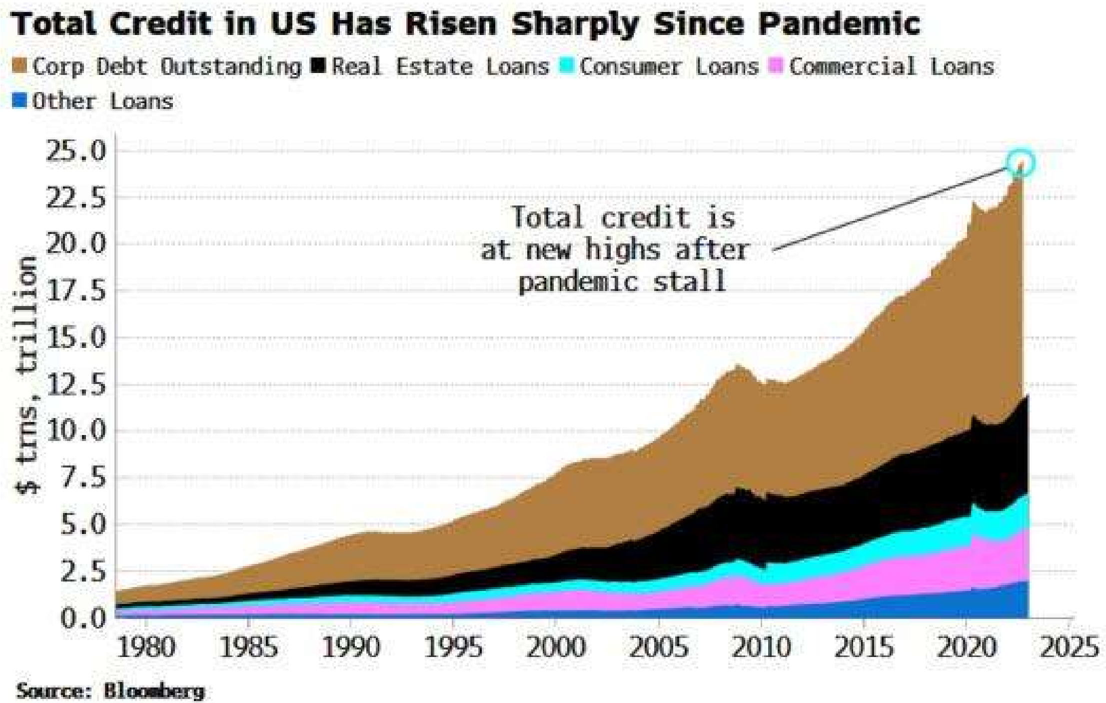
As further evidence of the sketchy backdrop, three charts are presented below. The first chart illustrates the impact of the money removal (Quantitative Tightening) on the real backbone of the economy, manufacturing, the NY Empire Manufacturing Index just dropped precipitously. The second illustrates the extent to which everything is operating on Credit, which as we know from the sizable rate hikes has become much more expensive than it was at the start of 2022. And the third shows the boost to the ultra-wealthy as a result of the Fed's COVID monetary hi-jinx. Note the solution is to make mortgages and cars more expensive to the middle and lower classes … the ultra-wealthy don't need loans:

#1: Manufacturing in New York:

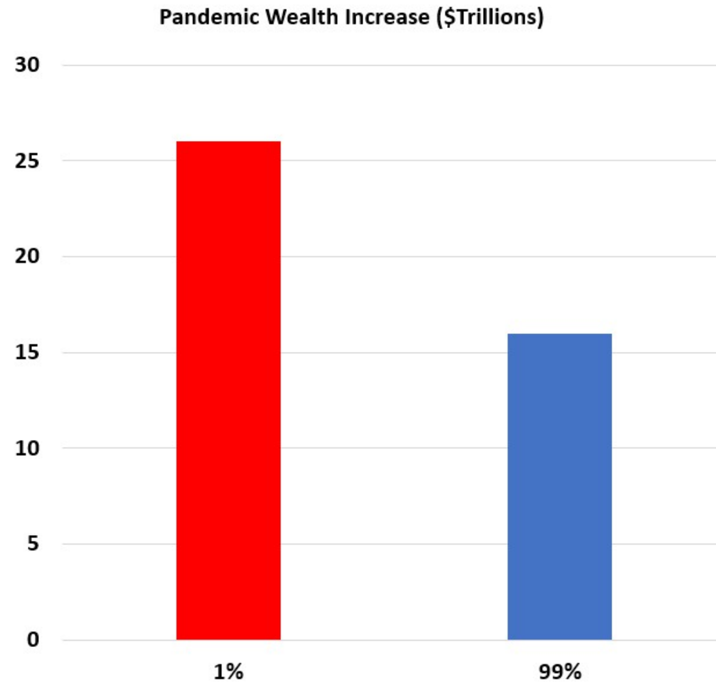
Source:

ZeroHedge

#2, credit:



And following, #3 … the COVID Wealth Boost:



It seems that the euphoria the first two weeks of January may be yet another head fake. We will find out soon enough. We think the top 1% will manage just fine.

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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