MIKE CHADWICK'S **MONEY MATTERS**
ADVISING, EDUCATING & INSPIRING YOU TO A BETTER LIFE
Volume 18, Issue 11 Because Money Does Not Come With Instructions! November 2022

Growth or Value?

Let's define the two types of investing first and then get into looking at what makes sense to invest in moving forward. Value investors buy things at a discount to true value, just like you do when you go shopping for items in the real world. The value investor appraises the asset for a true long term valuation through fundamental analysis and then looks to buy it for a discount to the appraised value. The discount they're looking for could be a dsicount to book value, tangible book value or a discount to the present value of future cash flows. Value investors like to find gems in disguise and will often buy stocks with low P/E ratios, low P/B ratios and often those with very little debt, or some type of restructuring or speical situation at hand. This works well historiclly and value traps are part of the process so avoiding them is a key aspect of value investing. The value investor is out of favor today in a big way. We're old school value investors, we don't overpay for investment assets, ever. The growth rate of an investment is almost always part of the equation in determining the value of an invstment, so these two schools overlap a bit here and there. We love the concept of a margin of safety in our investments and when you can buy things for less than book value or another solid determination of value, you've got just that, a margin of safety on your investment. Some notable value investors that everyone knows would be Benjamin Graham, Charlie Munger, Seth Klarman, David Dodd, etc.

Growth investors are willing to pay a high premium for the investments they believe will be able to accelerate earnings at a level that justifies higher than average prices. The growth investor also is willing to buy copmanies with no earings or new technolgoies that are not proven. Many growth investors will buy into companies that are bleeding money but have a great story or technology. Growth investors don't really have a way to accurately pinpoint values, and no value ever seems too high for a growth investor to pay, especially when the investing mood is that of an optimistic and aggressive one as the past decades have been. The growth investor is looking for capital apprecaition and that is it. Nowhere in the growth investors vocabulary is a margin of safety, it's go, go, growth. The growth investors will often look to emerging markets and new technology as a basis for their path to invest in.

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INSIDE THIS ISSUE

Comfort Ruins You

We all want to be comfortable and there is nothing wrong with that, we all strive and work hard to have a comfortable life. We've all got a comfort zone and we mostly all like to exist within that zone. I don't mean comfort in terms of having a home, utilities, food, family, and basic needs. I mean the habits and choices we make daily. We mostly go to school or to our job and do what is required of us. We get quick fixes of dopamine by using electronics we love or shopping. We hang out with the same people, and we stick with the opinions we've always had. We like routines and people are creatures of habit in a very big way. Life becomes a predictable routine and there are no real challenges. Many of us love it here. There are no real challenges in this ecosystem and people tend to stagnate here.

It's easy to understand why most people stay here for most of their lives. Why would you leave you comfort zone and put yourself in a position of struggle? I think you grow physically and mentally by leaving the comfort zone. Challenge yourself often, your thinking often, your opinions often, your health often and you'll grow. The issue is that if you stay in your comfort zone for extended periods of time your world shrinks. Everyone around you and the world continue to push forward. If you don't push forward, the world and everyone else will not stop so you'll be losing ground. If you are socially anxious and prefer to be alone or hang out with just a small group of friends, that's fine, but in time that social group shrinks. People move, pass away, their life circumstances and social circles change, and then we have fewer people to socialize with that we feel are comfortable to us. The social anxiety rises as that circle of comfy people shrinks. Paradoxically if you choose to live in current comfort, it leads to future discomfort. That applies to the physical, spiritual, mental, and psychological aspects of our lives.

The same thing is true with our muscles. If you don't use them, they atrophy. I found this to be true once I hit forty, the once muscular body had deteriorated into an older weaker version of itself and the muscle mass evaporated. Once simple things became harder and to do. Hitting the gym was tough in the beginning but it's reversed the process and now things are easy again on a day-to-day basis, but only because we're challenging the muscles in the gym far and above what we do daily and clearly getting out of the comfort zone. There is a school of thought that suggests those who are consistent at working out and staying fit have a much lower propensity to need joint replacement later in life. I'd much rather avoid the new joint replacement surgery and the miserable recovery and necessary workout routine that is post recovery by just sticking to a workout plan while everything is original equipment and working well.

To get into new space you must get into the "Grow zone" where things are tough for you and it's a challenge to get it done. It'll be tough in the beginning

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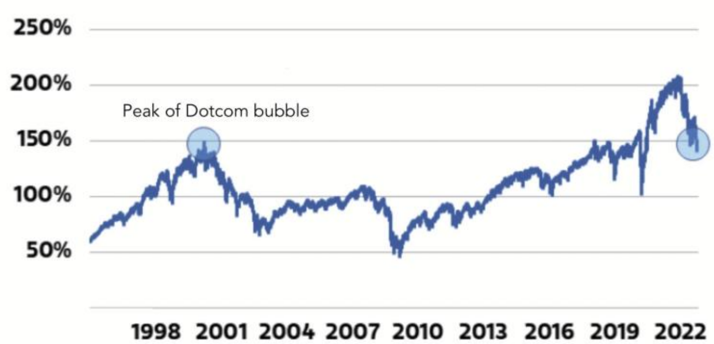
Growth or Value? (cont'd from page 1)

In times like today when growth has led the investing world for a decade nobody is thinking much about value. The last decade has been a tough time for us value investors, but when the tide turns, it's obvious that value will be the leader for a period of time, likely a very long one. The 90's were dominated by growth stocks, then they were decimated from 2000 – 2002 and many never recovered and went out of business. Some have yet to recover 22 years later, and some have just recovered recently. It's all about what you pay for an investment that determines the outcome of that investment.

When growth is overpriced, the investment community has come up with a way to get growth at a reasonable valuation. They call it Growth at a Reasonable Price and have nicknamed it GARP. Sounds like a Star Trek character but it's been popular as growth stocks get out of hand valuation wise.

Back to growth investors, when markets are hot like they have been in the past few years and in the late 90's, the valuations get overly optimistic. Markets have fallen in 2022 substantially, yet they're now at the levels we saw from a Buffet Indicator perspective at the top of the market in 2000. This suggests markets have a long way left to fall, a very long way and the hottest growth issues will be hit the hardest.



Source: Bloomberg as of Oct. 20, 2022

Moving forward, where is the best place to be? Although we can never be absoluty sure, it looks like values time is coming, if not here already. The past twelve months have seen value outperform growth which is something we haven't seen in a decade. As you can see, we're just beginnnig a descent on the chart where growth moves to the side and value becomes the more attractive place to be in the investment space when comaparing growth to value. All of us value guys are eagerly anticipating the move to sanity where valuations, earnings and economics matter, and not an environment based purely on insane speculation, fads, hot ideas and the like.

True Diversification

Diversification is spreading your investments across many different assets so that if one is doing well, the others may be doing poorly and it is a risk control measure when you're not sure what to do. Many Billionairres don't spread their risk out or diversify, just about all of their net worth is tied up in one company. Look at the top 100 list of the global elite and every one of them got there because their company, or the one their parents or grandparents created, went on a tear and grew into a global giant. Their share of stock ownership made them appear on this list.

Let's look at the 2022 top list and see which companies are responsbile for the meteoric rise in wealth for some folks.

Indivdidual	Company	Net Worth
• Elon Musk	Tesla	219B
• Jeff Bezos	Amazon	171B
• Bernard Arnault	LVMH	158B
• Bill Gates	Microsoft	129B
• Warren Buffett	Berkshire Hathaway	118B
• Larry Page	Google	111B
• Sergey Brin	Google	111B
• Larry Ellison	Oracle	106B
• Steve Ballmar	Microsoft	91.4B
• Mukesh Ambani	Indian Conglomerates	90.7B
• Gautam Adani	Indian Conglomerates	90B
• Michael Bloomberg	Bloomberg	82B
• Carlos Slim	Mexico Telecom	81.2B
• Francoise Bettencourt	L'Oreal	74.8B
• Mark Zuckerberg	Facebook/Meta	67.3B

Poor Zuck was at 250B a year ago but since the company lost 75% of it's value in the past 12 months he's having a bad year. You get the point. The richest people in the world don't diversify, they put all of their efforts and assets into an entity that they own and control. They accept the risks that if the entity fails it's game over for them.

In our business we use diversification as a risk control measure and it's wise to always do so. Many of our clients own small businesess where they have most of their net worth wrapped up in those businesses and many corporate executives with the same thing, all of their future is tied to those companies. Once the wealth is made, it's wise to diversifity away from just one company and go into things that provide growth and safety.

Most of the population thinks a mutual fund, or a handful of them, are diversified. Not true, not even close. 2022 has been an odd year, almost all investments have fallen, stocks, bonds, gold, commodities, the only real rising asset has been the dollar. Now the question is, which ones are safe to buy now and which ones will continue to fall a lot further? A typical stocks/bonds/international stock portfolio isn't really diversified.

Noteworthy News!!!

- Congratulations to Hiram Palacios on her new job!
- Congratulations to David Woods on his new job!
- Congratulations to the Dusty Dude's Woodworkers on their new makers space at the shop in Bristol!
- Our condolences to the Stolfi family on the passing of James, a wonderful man, husband, father, grandfather, great grandfather, uncle, brother, and friend.
- Our condolences to the Morton family, on the passing of Robert a wonderful man, husband, father, brother, uncle, grandfather, person, and friend.

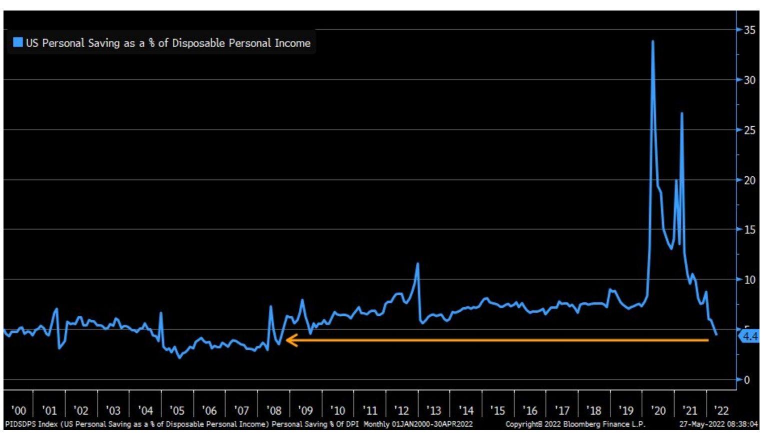
Question & Answer

Ask any financial question you have, and we'll address it here.

Q: Are people still saving at record rates?

No, not even close. We did have a savings boom for a while in the midst of the lockdowns when there was absolutley nothing to do and the government was dishing out money for nothing. That was substantial and the biggest spike in savings I ever saw in the past 30 years. Now we've gone full circle and people have spent that free money. Now the average person is working less and inflation is real and impacting people's abiltiy to live or live well.

This perfect storm of issues has casued the amazingly high savings rate to plummet to a long term low, something we haven't seen since the 2008 financial crisis. Sadly this is a period of time when things are still good overall economically but people are falling behind quickly.



The graphic above shows the personal household savings rate as a percentage of disposalbe income. The savings boom has busted and people are beginning to borrow to live, not a good sign overall for the economy or the fiscal health of the average American. This should improve in time once the prices of basic necessities come back down to reality. This big ramp up of commodity prices is a very predictable event that is pre-recessionary. It's a self correcting process. At a certain point people just stop buying what is priced out of their liking.

Comfort Zone (cont'd from page 1)

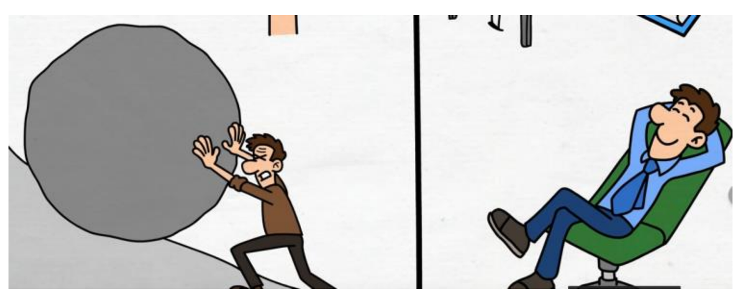
but in time it gets easier and easier. Then before you know it, these things are now within your new, larger and expanded comfort zone. Doing anything that is tough more consistently, more intensely or for longer periods of time will make those things that seemed tough very easy in time. Anything can be done, it's just a matter of how hard you decide to press on the button of choice. Humans are capable of doing amazing things, the hardest part is just deciding you're going to do something. In general, the choice between the easy route and the difficult route is generally the key, the tougher route is always the way to go for long term benefits, fiscally, fitness wise, mentally, and psychologically.

The saying "short term pain for long term gain" comes from this concept that doing something uncomforftable is really good for us long term.

Positive change requires us to move beyond our comfort zone, but not setting unrealistic expectations. I find it better to chip away at things and just keep pushing forward. It leads to improvements you can see and feel which creates a positive feedback loop and leads to healthy endorphins where success begins to breed on itself.

I enjoy doing something difficult every day and riding that edge. It's a way to grow and keep expanding the comfort zone. Cup often asks why I can't just stop or sit still and my endless obsession with pushing forward is likely rooted in this comfort zone expansion theory. I'd happily embark up an uncomfortable process now to gain a higher and expanded level of knowledge, strength or whatever it is I'm looking for.

You can't always push hard on every area of your life, but you can set the goal to keep growing and never stagnate or shrink. It's exciting to have things become comfortable that were once hard and the only way to make that happen is to take the bull by the horns!



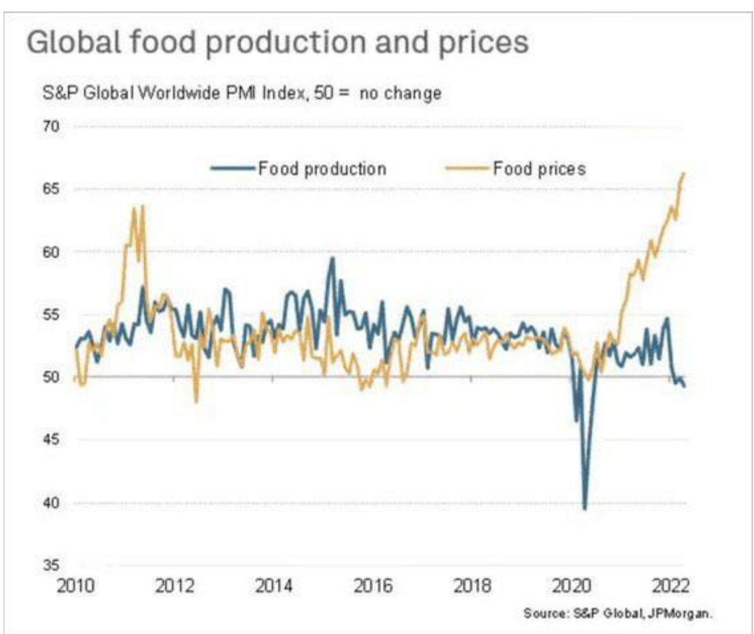
Money Quiz

This month's challenge is on Sunflower Oil. What percentage of the worlds production of Sunflower Oil comes from our friends in the Ukraine who are being unjustly invaded and attacked? Winner gets lunch on us at Chick-Fil-A! 😊 05.23.22.8

Food and Fuel

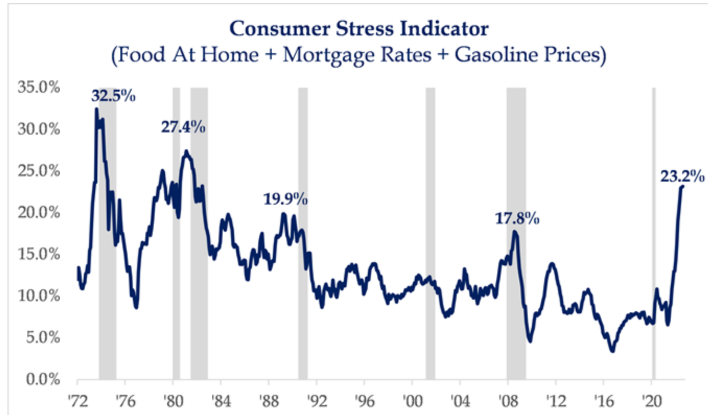
Consumer sentiment is hit hard recently as two of the main things people need to live are food and fuel. Fuel is being squeezed price wise because the political class has decided we're going to chase the green agenda and the policies are hurting supply. The green agenda is great, but the pace at which they're trying to force it is causing the massive spike in prices. It should be done much more gradually so the average consumer isn't put in so much pain. The current technology isn't there yet to make an all-green energy space in short order, that may take a few generations or may not be feasible.

The pandemic caused global shutdowns and the government paid people to sit home and not work so it'll take a long time to correct the supply chain imbalances. The current fuel prices are causing a large part of the inflationary impact on foods as well. The below graphic is a great image on how production of food is way down and prices are sky high with this perfect storm of issues hitting together. Don't believe the narrative that the war in Ukraine is the reason for the fuel price hikes. Simple economics of supply and demand combined with poor policy is what it boils down to.



How do Consumers Feel?

Consumer sentiment isn't great, squeezed would be a good description here. The average American is now paying $5 - 6,000 per year more for basic living expenses such as food, fuel and housing. That's not a great thing for anyone and inflation is cause and the stealth tax.



Now let's look at the real estate bubble, which is on the brink of popping. This graphic shows we were selling houses as a country at the clip of 6.5 million/month at the beginning of the year. Now we're selling them at the clip of 4.7 million/month. That's the largest single year decline we've seen.

The only sentiment indicator we follow that isn't negative, yet is real estate. Prices are still through the roof despite an inventory surge this year, the doubling of mortgage rates, record high inflation, a war, and a pending recession. The real estate market seems to be slow to respond to the macro picture, but the numbness is beginning to wear off. We think full feelings will be here by the spring. We'll see! 😊

Inspirational Quotes

- If you hire people just because they can do a job, they'll work for your money. But if you hire people who believe what you believe, they'll work for you with blood and sweat and tears."
  — Simon Sinek
- "Fortune does favor the bold and you'll never know what you're capable of if you don't try."
- To escape fear, you have to go through it, not around it
- The purpose of bureaucracy is to compensate for incompetence and lack of discipline
- Outstanding leaders go out of their way to boost the self-esteem of their personnel. If people believe in themselves, it's amazing what they can accomplish.
- Success is walking from failure to failure with no loss of enthusiasm, success never comes without failure along the way.
- The role of a business owner or executive is to enable people to excel, help them discover their own wisdom, engage themselves entirely in their work, and accept responsibility for making change in the workplace and the world.

We can piece the puzzle together and make your money work for you!

Kids Corner

We see a fair number of adult children here where we deal with the parents or the grandparents. There is no magic age to start the process of giving your loved one's fiscal wisdom. Earlier the better as far as we're concerned. Our kids had to face economic reality at a very young age. The girls had checkbooks and an allowance at about age ten and they screwed some things up badly when they were young. Luckily those screw ups were with small amounts of money and never with anything over $100.00.

As they got older there were tough lessons learned, I can remember one weekend where one of them didn't have enough money for the school dance and we wouldn't bail them out. It was the worst day of their lives, and we were bad parents. She hated us and told us she was going to move out. I used the line Pop used with me as a kid and said, "I'll make you a sandwich for your trip, what kind of sandwich would you like?" and that just fired them up even more.

It was so hard not to laugh at that, but it was a powerful lesson tool in that they knew there were no bailouts of the current situation of not having enough money to go to the school dance. After that there were no money issues, so they learned to keep a lid on spending and live beneath their means. College presented a couple of challenges, worth a couple grand but they got through them and now we're off to the races with a healthy fiscal discipline.

If anyone you love or care about would benefit from receiving our newsletter, tell us who they are and they will be included on our mailing list. They'll certainly appreciate you thinking about them and having their best interests at heart!

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