

Market vs Reality Disconnect

The markets have been on fire for a while now as averages approach all-time highs again for the first time in several years after taking a beating in 2022. When markets are rallying hard, and all is well, most stocks are participating in the rally. The saying goes, a rising tide floats all boats, and that's what we like to see. This time, we do not see that; the rising tide is only floating a few boats and not many, which is worth digging into and getting more granular data to see what it means for markets in the longer term.

Market breadth is a term we use to refer to how well all stocks are doing in a market, not just the biggest ones that represent the most considerable portion of indices today. In the 60s and 70s, we had a similar event where fifty stocks were leading the market for a few years at the end of that massive bull market run. When that market finally broke down, it was coined the nifty fifty market, and the market then went on to have a brutal bear market for the next ten years after the 73-74 bear market.

At that time, the global dominator companies were names like Avon, Anheuser-Busch, Black & Decker, Coke, Dow, Kodak, GE, Gillette, IBM, JC Penny, MMM, McDonald's, Merck, Pfizer, Phillip Morris, Proctor & Gamble, Schlumber, Sears, Squibb, Texas Instruments and Xerox. It's funny to think about this now: these companies are different from what we would call leaders. Some of these companies are tiny now, and some are bankrupt. So, to think this same outcome will be the fate of many of today's leading companies is hard to fathom but very much a reality.

When the breadth of the market wasn't healthy back then, and only fifty stocks led the advance while thousands floundered, it resulted in a ten-year bear market or a series of bear markets back to back that put the market in the same place ten years later. Now we've got a market led by seven stocks, often called the super seven today. Now, they dominate today in every way in their spaces, but won't forever and are all in bubble territory where one has to think about how much farther they can advance from here.

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Inflation/Deflation/Stagflation

We're in a highly inflationary environment today where the costs of goods and services are rising quickly, and people feel it everywhere. I don't know of much that is getting cheaper lately. We see massive price increases in groceries, housing, and healthcare. All around us, prices are aggressively going up.

Inflation is when prices rise, resulting from more money in the system, more demand for a limited supply of products, or some combination thereof. Many people think of inflation as the decline in purchasing power over time or the stealth tax as it's consistently around at varying rates.

Deflation is when prices go down, and we don't see deflation too much, but it appears occasionally. Deflation comes when there is too much of a product or service and no demand for it, or many times, after significant run-ups in inflation; we see deflationary times. Deflation often comes on the heels of a contraction in the supply of money or credit in the financial system, and it varies in levels just like inflation but in reverse.

Stagflation is a period in an economic cycle where you simultaneously see slow growth, high unemployment, and inflation. Stagflation is what we had in the 1970s, and policymakers have a tough time dealing with it. Many think we're going to have a period in front of us just like the 70s, and that may well be true; there is no simple way for policymakers to stop or fight stagflation, and it often follows extended periods of easy money when things were mispriced, and risk assets got out of hand.

We're not the only place in the world dealing with inflation today; let's look around the globe and see what inflation measures are as of January 22, 2024.

	Argentina: 211%
	Lebanon: 192%
	Venezuela: 190%
	Syria: 84.9%
	Türkiye: 64.77%
	Egypt: 33.7%
	Pakistan: 29.66%
	Nigeria: 28.92%
	Kazakhstan: 9.8%
	Bangladesh: 9.41%
	Russia: 7.4%
	Czechia: 6.9%
	Niger: 6.83%
	Kenya: 6.6%

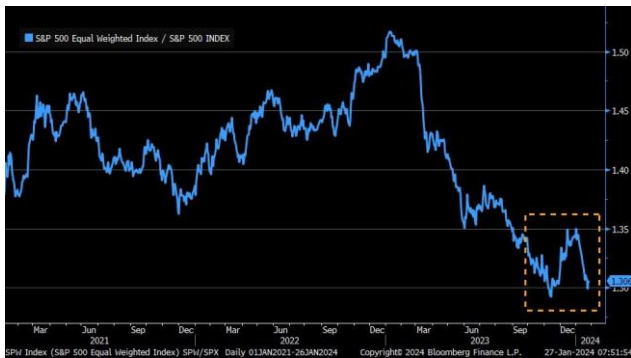
Continued page 3, Valuations Matter

Market Disconnect! (cont'd from page 1)

Now let's look at a cool graphic to show how concentrated the markets are against other periods in time that had the 70's lackluster outcomes. This chart shows us we're almost as bad as the great depression era, far worse than the dot com bubble. Thanks to BCCE for the chart!



With market indexes hitting near all-time highs, where would we be if we made markets equal weight? This chart from Bloomberg shows us the equal weight indexes, which paint a very different story of where the stock market is today. The equal-weight market index is at three-year lows and going lower, so the disruption brought on in today's market by the Super 7 stocks is unlike anything we've seen before.



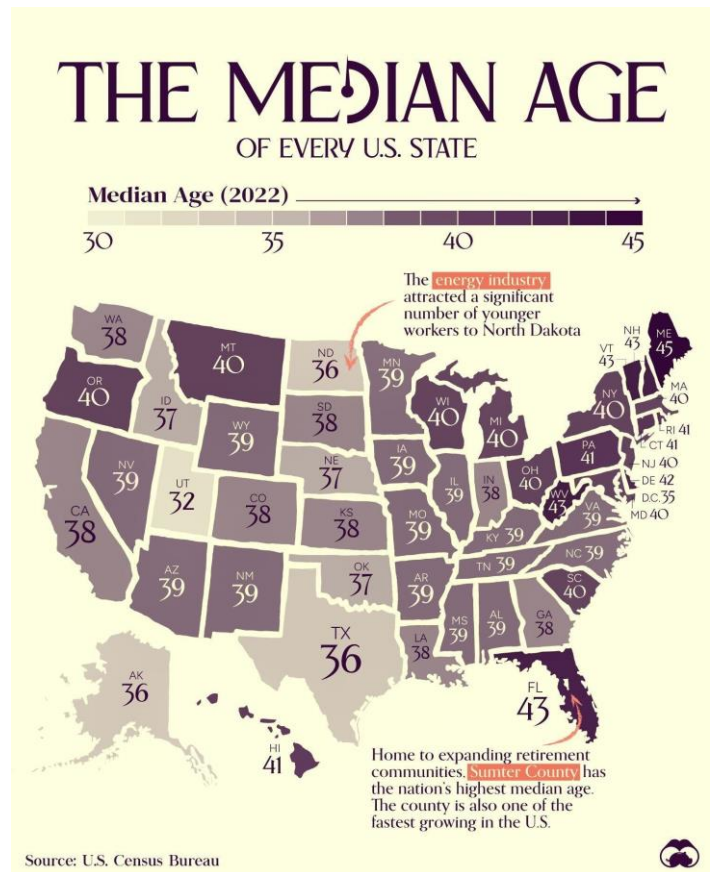
We're most likely in a phase of markets called a "blow-off top," where the riskiest of assets go vertical as people fear FOMO and buy blindly to participate in the party. Our concern as fiduciaries and value investors is what happens when the music stops. It'll be an interesting era, and we will always be cautious and good stewards of your capital, even when we have to go against the grain to avoid periods of mispriced risk and foolishness. Call or write to us anytime to discuss this; it's vital! Thanks to S & P for the chart.

Age of States

We're not talking about when the state was established in terms of the age of states but rather the age of the people living in each state. It is fun to see how the demographics of our country are split up. One of the youngest states is North Dakota, as the energy industry has attracted many young workers, which is obviously very physical work. Utah is the absolute youngest state, followed by DC and Texas. One of the oldest states is Florida, as many of our retirees have meandered south to the land of low taxes and fantastic weather, except for July and August.

Of course, many of the Floridians who moved down there in the 90s and 2000s are moving to TN, SC, and NC and are affectionately referred to as half-backs. These half-backs moved south from New England, NY, Michigan, etc., and have now moved halfway back to the north. After Florida, the oldest states are Vermont, New Hampshire, and Maine.

Here is an excellent graphic of this from the visual capitalist!



The median age for the US as a whole is 39, it'll pass 40 in the coming years. The northeast has the oldest population followed by West Virginia & Florida. The younger people are congregating in DC, Utah, Texas, and Alaska! Alaska? Yes!

Italy and Greece have a median age that exactly matches Maine's! 😊 Fun Facts!

Noteworthy News!!!

- Congratulations to Tom Cornish on his recent retirement!
- Our condolences to the Cornish/Kannenberg family on the passing of Nancy, a wonderful woman, mother, grandmother, wife, person and friend.
- Our condolences to the Carson family on the passing of Chris, a wonderful man, father, husband, uncle and friend.
- Our condolences to the Tobin family on the passing of Kathy, a wonderful woman, mother, wife, aunt and friend.
- Our condolences to the Beckman family on the passing of Penny (Penelope), a wonderful woman, wife, mother, friend and person.
- Our condolences to the Russo family on the passing of Paul, a wonderful man, husband, father, grandfather, person and friend.

Question & Answer

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

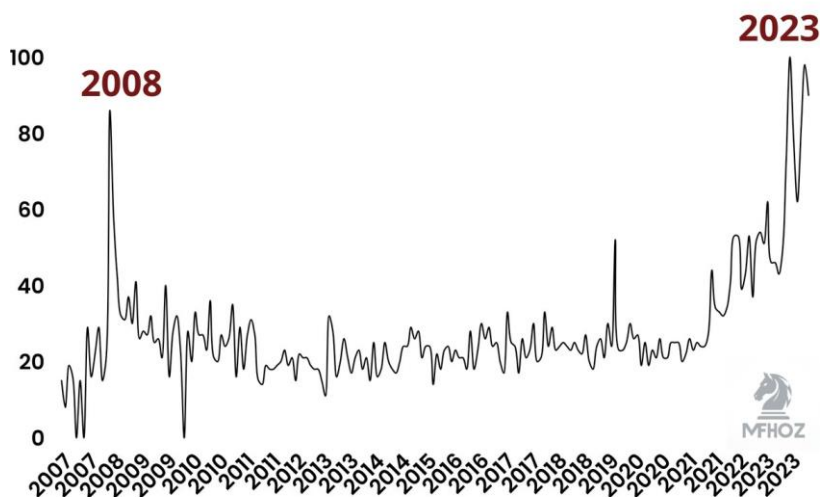
Q: What is a soft landing? There is so much talk on the news lately about this soft landing can you please define it?

Of course, a soft landing is what is referred to when an economy goes through the expansion cycle and lands softly after the Fed raises rates and the economy avoids a recession. Most of the time this isn't how it works, normally when the Fed puts the brakes on and raises rates the economy lands in a recession. Recessions are not bad, in fact they're a very normal part of the business cycle and they clean out the excesses of the prior economic cycle. There are so many excesses today we need a good recession to get people to focus on fiscal discipline and put things back in line to where the important things are not ignored or misused in any way.

The last time we saw as many people searching for soft landing was in 2008 when we experienced a very hard landing with the great recession. It was similar in 1999-2000 when the dot com bubble burst that was also a very hard landing. We had a soft landing in 1994 following the 1990 recession and a series of rate hikes.

Thanks to Google & MFHOZ for the chart!




































"SOFT LANDING SEARCHES"



Inflation/Deflation/Stagflation! (cont'd from page 1)

So, Argentina would be the most absurd example of inflation today. Someone from there told me they were making 100% on savings, but when inflation is at 211%, you're losing ½ of your money due to inflation. We don't seem so bad today looking around the globe and seeing how crazy it is. On the other end of the spectrum, we see Cameroon with deflation and four countries, including China, experiencing deflation. Time will tell if we know the stagflation of the 70s again, and it is a distinct possibility. We'll keep you updated on what we see that is actionable and pertinent as things unfold in real-time.

Thanks to World of Statistics for the chart!

 Poland: 6.2%
 India: 5.69%
 Austria: 5.6%
 South Africa: 5.5%
 Hungary: 5.5%
 Australia: 5.4%
 Ukraine: 5.1%
 Norway: 4.8%
 Mexico: 4.66%
 Brazil: 4.62%
 Ireland: 4.6%
 Sweden: 4.4%
 UK: 4.0%
 Philippines: 3.9%
 France: 3.7%
 Germany: 3.7%
 Singapore: 3.6%
 Canada: 3.4%
 USA: 3.4%
 UAE: 3.28%
 South Korea: 3.2%
 Spain: 3.1%
 Israel: 3.0%
 Indonesia: 2.61%
 Japan: 2.6%
 Switzerland: 1.7%
 Saudi Arabia: 1.5%
 Netherlands: 1.2%
 Denmark: 0.7%
 Italy: 0.59%
 China: -0.3%
 Thailand: -0.83%
 Seychelles: -2.71%
 Afghanistan: -9.1%
 Cameroon: -16.91%

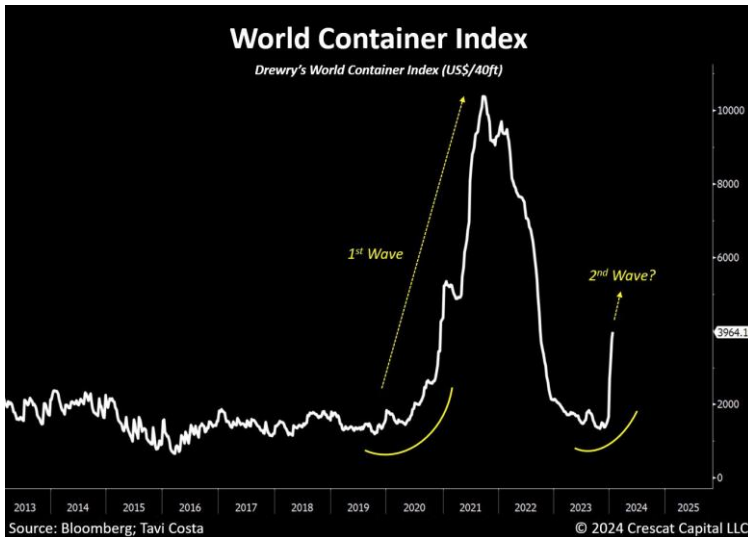
Money Quiz



This month's challenge is on new apartments. In 2022, we saw just over 300,000 apartments finished in America; how many were completed in 2023? The winner gets lunch on us at Chick-fil-A! 😊
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Shipping & Supply Chain

These were the reasons during COVID that everything was slow to get to you, and the prices were very high. Fast forward four years to today post-COVID, and we're not hearing much about this anymore. I think that may change and it may be in the news cycle very soon again. Here is the world container index and the costs associated with moving giant containers of anything worldwide. As we've discussed at length, inflation typically comes in waves, and we think we're about to see the next wave of inflation hit us soon. Thanks to Bloomberg for the chart.



The standard cost to ship a container across the world was around \$2,000 for many years before COVID-19; once that hit, it suddenly went to \$10,000.00. It finally came back down to \$2,000.00 for a while, and now it's suddenly doubled and appears to be moving higher with no slowdown in sight. What will this mean moving forward? The cost of everything will likely see a new wave of price increases as everything needs to be transported today. This is a massive argument to keep the production of our goods in the states. It costs more to produce here, but if the net cost after shipping is the same, we're better off keeping the jobs at home and not moving tens of thousands of miles instead of just making things here. This trend is gaining some traction. We see it in pharmaceuticals, and now they're doing a massive build of microchip plants nationwide.

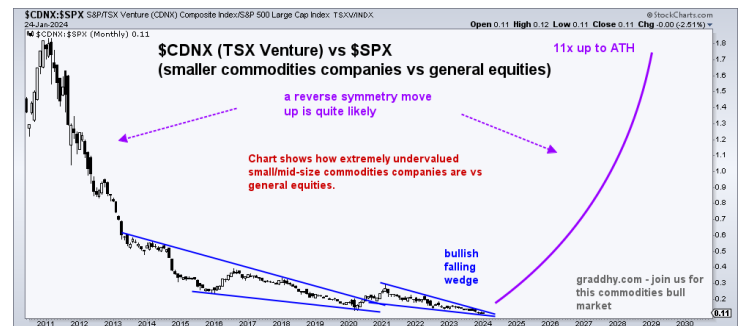
Northern Neighbors

In the large, quiet country to our north, the remarkable Canadians are bursting at the seams regarding opportunities. As they're a calm and peaceful people, we don't hear much from the Canadians. The last time I remember them in the news cycle was when the truckers were boycotting government takeover measures during the pandemic. That all went away, and we're back to normal.

As we dig deep into global markets to find value since there is limited value in America, the TSX (Toronto Stock Exchange) Venture index is looking very juicy. This index has been unloved for over a decade today; unloved and undervalued sectors fire me up.

The TSX Venture Index is a portion of the Toronto Stock Exchange that focuses primarily on minor commodity-related issues over other industries. The globally dominant S&P 500 has beaten this out-of-love sector in performance terms since 2011. In 2011, southern Europe seemed like it was all going bankrupt as Greece, Spain, Portugal, and Italy worked through their financial crisis. That event concluded with these countries (Portugal, Italy, Greece, and Spain) being called the PIGS. It is not a pleasant name, but it is somewhat properly deserved from government fiscal mismanagement.

If things revert to the mean, we may see a world where these TSX Venture firms grossly outperform the S&P 500 for years to come. If earnings matter and quality is essential, this is a genuine possible outcome. A picture is always worth a thousand words, so here it is in a graphic. The technical and global macro thesis both support a change in the leadership here, so we'll see how it shakes out.



Thanks to stockcharts.com and Graddy for the charts!

Inspirational Quotes

- We need time to dream, time to remember and time to reach the infinite, time to be. Gladys Taber
- Hope is being able to see that there is light despite all of the darkness, Desmond Tutu
- Tact is the art of making a point without making an enemy, Isaac Newton
- We may encounter many defeats but we must not be defeated, Maya Angelou
- Quiet the mind and the soul will speak, Ma Jaya Stai Bhagavati
- Every age, after all, must have it's own Aisling and dream of a better, kinder, happier shared world. Michal Higgins
- Education is not filling a bucket, but lighting a fire, W. B. Yeats
- Do not wait to strike until the iron is hot, but make it hot by striking, W. B. Yeats



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

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How do we influence our kids and grandkids to be great communicators in a world where they live on cell phones?

The handshake is a crucial ingredient all the youth should have; they should be able to look anyone in the eye, say hello or whatever pleasantries they wish, and provide a nice, firm handshake.

They need to learn body language and understand that more than half of communication comes from non-verbal communication. This isn't something they can garner from a cell phone.

Get them to be active listeners and listen more than they speak. Teach them activities to adapt this skill and constantly refer to the other party.

Basic manners of introducing people to others who enter a room, speaking the best way of each person you know, and helping build confidence in others.

Have them learn the art of storytelling, as people will listen to and remember storytelling more than simple facts.

Read with them; the more well-read they are, the better their vocabulary will be, and they'll be more able to converse and articulate well. If you're lucky, they may become a logophile.

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