

Quarterly Investment Trends

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THIS ISSUE:

- Yogi Berra
- Will History Repeat Itself?
- Is the debt or deficits really our problem?
- World's reserve currency \$ in jeopardy?

IMPORTANT DATES:

- * 05/14 Mother's Day
- * 05/29 Memorial Day
Markets/Banks Closed
- *06/18 Father's Day
- *06/19 Juneteenth
Markets/Banks Closed
- *07/04 Independence Day
Markets/Banks Closed



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Yogi Berra was a catcher for the New York Yankees. He played 19 seasons in the MLB. He was an 18 time All-Star and won 10 World Series championships – more than any other player in MLB history.¹ Yogi also managed and coached the Yankees and Mets. He came to be known as much for his *Yogi-isms*² as his play on the field.

I watched my 5-year-old grandson play his first T-ball game this past Saturday. Yogi said, “*Little League baseball is a very good thing because it keeps parents off the streets.*”

One Yogi - ism seems to apply to the stock market - “*You can observe a lot by watching.*” In the long run, returns in the stock market are driven by fundamentals. But often, in the short/intermediate term, the market reacts emotionally – to fear, hope, and greed.

Ultimately, in the long run, a stock's earnings will reflect its price. Earnings seasons moved into full swing beginning Monday, April 17. The stock market is near its highs for the year, so we may see short-term reactions to the earnings reports. Mainly, Bank earnings will be worth watching.

WILL HISTORY REPEAT ITSELF?

We are often asked what is our prediction for the stock market? The answer is that the stock market is unpredictable. No one knows what the market will do, especially on a short-term basis.

However, over the last 50 years, April has been the best month of the year for the Dow Jones industrial average (DJIA), with the index averaging a gain of 2.1% during the month with positive returns two-thirds of the time.

Also, since World War II, when the S&P 500 posted a gain in the first quarter, it has averaged the rest of the year with an increase of 8.9%. When the S&P 500 was down in the first quarter, the rest of the year's gain was only 2.6%. In the ten years that the first quarter gain followed a down year, the average rest of the year gain was 15.9%, with positive returns every time. (Source: Bespoke)

OIL & GAS

JP Morgan's Global High Yield and Leverage Finance Conference was held March 7 – 8, 2023. A report by USA Compression highlights what almost everyone knows, except for the Biden Administration, John Kerry, and Al Gore.

The transition to electric vehicles and elimination of carbon fuels is not currently feasible, as highlighted by the following points:

Batteries

- Inadequate supply of affordable raw materials, i.e. Lithium
- Mining and refining of raw materials highly concentrated in specific countries with geopolitical risks
- Raw material prices have been soaring

Electronics

- Electric vehicles need 2X as many semiconductor chips as internal combustion vehicles.
- Charging Stations –
 - * By 2030, a highway gas station for passenger vehicles will require as much power as a professional sports stadium (5 MW)
 - * By 2035, a big truck stop will require as much power as a small town (20 MW)
 - * Building a 5 MW grid connection can take ten years and cost tens of millions of dollars

Coal

- Coal emissions increased 57% from 2005 to 2019 internationally
- Nearly 2X the coal capacity retired by the US since 2005 is currently permitted or under construction internationally

Natural Gas

- Coal to natural gas switching results in a 57% reduction in CO2 emissions
- Switching to natural gas from the US industrial sector from 2005 to 2021 accounts for a higher proportion of emissions reductions in the switch to renewable energy

Given this environment, we believe the oil/gas/energy sectors provide good opportunities for investment.



IS THE DEBT OR DEFICITS REALLY OUR PROBLEM?

According to the US debt clock, the national debt is \$31.7 trillion. By the way, how much \$1 trillion is? Let's put it this way. If you spent \$1 million daily, it would take 2,738 years to reach \$1 trillion.³

But the real root of the problem is government overspending and money printing. Even with this enormous debt of \$31.7 trillion, the private sector could produce our way out of the debt problem. But the government would have to reduce spending dramatically for that to occur.

I love Ronald Reagan's quote: "The difference in spending habits between government and a drunken sailor is, at least a drunken sailor spends his own money." Far too often, politicians spend money simply to win favor with constituents.

The Federal Reserve has raised interest rates nine times since the beginning of 2022. The Fed funds rate is 4.75% – 5%.⁴ Each time they raise the interest rate, the net interest on our debt increases. Income tax rates will inevitably rise unless Congress cuts spending, which would mean cutting entitlement programs such as Social Security, Medicare, Medicaid, and other healthcare programs.

*“The
greatest
homage we
can pay to
truth is to
use it.
-Charles
Dickens*

WORLD'S RESERVE CURRENCY \$ - IN JEOPARDY?

History is replete with examples of the fall of empires - The Persian Empire, the Mongol Empire, the Ottoman Empire, the Russian Empire, and the British Empire. The United Kingdom saw the pound lose its reserve currency status.

Mankind has a way of repeating its mistakes; therefore, history repeats itself. So anyone who says or thinks the US and the dollar cannot face the same fate is fooling themselves.

Vladimir Lenin said the best way to destroy capitalism is to destroy its currency. The dollar has been the world's reserve currency since the 1944 Breton Woods accord. China has a 10-year plan to remove the dollar as the world's currency.

No nation's currency remains the world's reserve currency forever. The benefit is that we can print our own money, other countries will buy our debt, we can run large trade deficits, and build Our military. The reserve currency is the number one source of American power today.

Brazil, Russia, China, Saudi Arabia, and others are attempting to devise an alternative to replace the dollar in foreign trade, supporting China's crusade against US global dominance.⁵ But will they succeed? The US has something these other countries do not. The Constitution, the rule of law, and private property rights, especially those given to inventors through patents, democracy, and free elections, are what make America different from the country seeking to replace the dominance of America.

That said, we are clearly on a slippery slope today. If Congress continues to overspend and print money, stifle entrepreneurship with higher taxes and regulations, then the dollar's standing will diminish.⁶

Federal government spending has hit a recent all-time high of 25% of GDP in the past three years, and state and local spending is nearly 20%. Therefore, combined, government controls 45% of US output.

As Milton Friedman said, "If you put the federal government in charge of the Sahara Desert, in 5 years there'd be a shortage of sand." In 2007, the Fed's balance sheet was only 5% of GDP. Today it is more than 30%.⁶

For the dollar to be replaced as the world's reserve currency, it would have to be a currency managed by a country with better policies than ours. It could happen. If we limit government spending, keep tax rates low, and return to a fiscally responsible monetary policy, our reserve currency status should be more secure.

Stock Index Performance

DOW JONES

YTD	2022	5yr
2.84%	-6.86%	9.17%

S&P 500

YTD	2022	5yr
8.29%	-18.13%	11.18%

NASDAQ 100

YTD	2022	5yr
19.87%	-32.38%	15.59%

Source: Bloomberg. Returns are total returns. 5-yr. return is an average annual. One-week, YTD, 12-mo. and 5-yr. performance returns calculated through 04/14/23. An index cannot be purchased directly by investors. Past performance is no guarantee of future results.

Bond Index Performance

U.S. Treasury: Intermediate

YTD	2022	5yr
2.34%	-7.77%	1.13%

U.S. Corporate High Yield

YTD	2022	5yr
4.44%	-11.19%	3.16%

Municipal Bond: Long Bond (22+)

YTD	2022	5yr
5.93%	-15.58%	1.91%

Source: Bloomberg Barclays. Returns are total returns. 5-yr. return is an average annual. One-week, YTD, 12-mo. and 5-yr. performance returns calculated through 04/14/23. An index cannot be purchased directly by investors. Past performance is no guarantee of future results.

1 pinstripealley.com

2 parade.com

3 <https://www.quora.com/How-long-would-it-take-to-spend-a-trillion-dollars-at-1-million-dollars-a-day>

4 <https://www.forbes.com/advisor/investing/fed-funds-rate-history/>

5 news.yahoo.com

6 Monday Morning Outlook April 10, 22



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