



October 4, 2022

Dear Money Management Client:

The carnage to stocks and bonds continued in the third quarter. Markets ended at two-year lows, with the S&P down 25% and the NASDAQ down 32% year to date (ytd). In spite of cash balances at 40% or more, the pain was severe in our core holdings of Apple, Microsoft and Alphabet down 22%, 30% and 33% ytd respectively. Even arguably one of the safest assets in the world, 20- year U.S. treasury bonds, ended down 29%.

Since quarter end, the very over-sold conditions have resulted in a fierce rally that significantly benefited the portfolios. Unfortunately, the hostile news flow and its impact on earnings continues. While it's likely most of the damage to stocks and bonds is behind us, there is really no reason for a bull market while inflation remains high and the Federal Reserve is raising interest rates and engaged in quantitative tightening. "Don't fight the Fed," because they will succeed in slowing the economy and bringing inflation down! Obviously, none of that is good for earnings and that is why the stock market has come down so much. It is all the same in the Eurozone, with annual rates of inflation at double digits.

For several years now, due to the Fed's previous highly accommodative monetary policies, many wonderful companies and their amazing businesses have been horribly over-valued. Bear markets like we are experiencing do a wonderful job of bringing those values back to earth. As I like to say, we are finally getting back to a point where there is plenty of meat on the bone. Patience is paramount at these junctures, but we look forward to making generational buys at some point in the not-too-distant future.

If you are watching your portfolio daily, you probably have a good idea how tempting it is to just sell everything. Many traders have tried to time the market, with little or no success. The best strategy in a bear market is to own companies with solid financials and great businesses, while maintaining plenty of cash to take advantage of mis-priced opportunities. We are doing just that.

As always, we remain committed to a conservative investment philosophy, which emphasizes the preservation of capital. If you have any questions or would like to discuss your portfolio, please do not hesitate to call.

Very truly yours,

Clay Campbell