



October 9, 2023

Dear Money Management Client:

The equally weighted S&P 500 and Dow Jones Industrial Average are negative on the year. Knowing that, the enclosed portfolio statements with very large money market (cash) balances should put a smile on your face! We started getting defensive in mid-August when it became clear that inflation would stay higher for longer, thereby forcing the Federal Reserve (FED) to keep interest rates higher for longer. Those higher rates are obviously having a negative impact on economic activity, but healthy employment trends are supportive to an economy where consumer spending accounts for about 70% of GDP. If that sounds confusing, that's because it is. Analysts are all over the place with their projections for economic activity and that's why our large money market balances make so much sense.

This past week's employment report did nothing to help with all the uncertainty. September's non-farm payrolls increased by 336,000 people, about twice the consensus estimate. That served up a nearly 1% drop in the stock market at the open, only to be reversed by a nearly 1% gain at the close. The initial reaction by investors was, "Oh no, employment is strong so the FED will need to keep raising rates". Only to be followed by, "Oops, that may be the high-water mark for employment this cycle and the FED could now pivot to dropping interest rates as the economy slows". Obviously, either outcome remains possible for the time being.

Earning 5% interest in essentially risk-free money markets allows us to be patient while the economy inevitably slows, and the stock market adjusts. The stock market is a discounting machine and all the selling during the past few weeks has brought valuations down and made them more reasonable. Some of us are expecting a slow-down and maybe even a recession at some point, and that's what is getting priced in. When you finally see the whites of the recession's eyes, stocks will have discounted the impact to corporate earnings and sellers will slowly but surely turn into buyers. That's how new bull markets begin.

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

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