November 28, 2022

Dear client,

Looking back at a century of stock and bond market history, I have concluded that the approach we are taking in managing your money is sound, productive, and rewarding over the long term. For those who have been my clients for a good deal of time, you know that I focus on the long term versus some others who trade-in-and-out of markets. The constant trading causes high turnover costs and more importantly, high taxes. I have always thought that if you choose a stock carefully and wisely, then the holding period should be almost forever. Of course, we have had our share of errors and mistakes in which we had to sell, sometimes quickly, after we bought a security. However, for us, this is rare. Over the time frame of 2002-2021, the stock market return, as measured by the S&P 500[1], was 9.5% while the Bloomberg U.S. Aggregate Bond Index[2] returned 4.3%. A 60% stock and 40% bond portfolio returned 7.4%.[3] In my opinion, a 60/40 portfolio, until this year, is less risky than all stock portfolios. I assume that this relationship will normalize in 2023. We have modified the stock/bond approach by adding gold and silver as portfolio protectors. Except for this year, gold usually acts as a hedge when geopolitical turmoil raises its head and when the dollar declines.[4] Some accounts are managed differently than a 60/40 portfolio depending on the objective that you have discussed with me.

Chart 1

Over the short term, the S&P 500 chart pattern (Chart 1) looks ugly, but bear markets such as the one we are going through are normal. However, the S&P 500 chart, as illustrated below, (Chart 2) shows a

different story. Over the long term, the stock market does fine. Of course, there have been bumps in the road along the way.

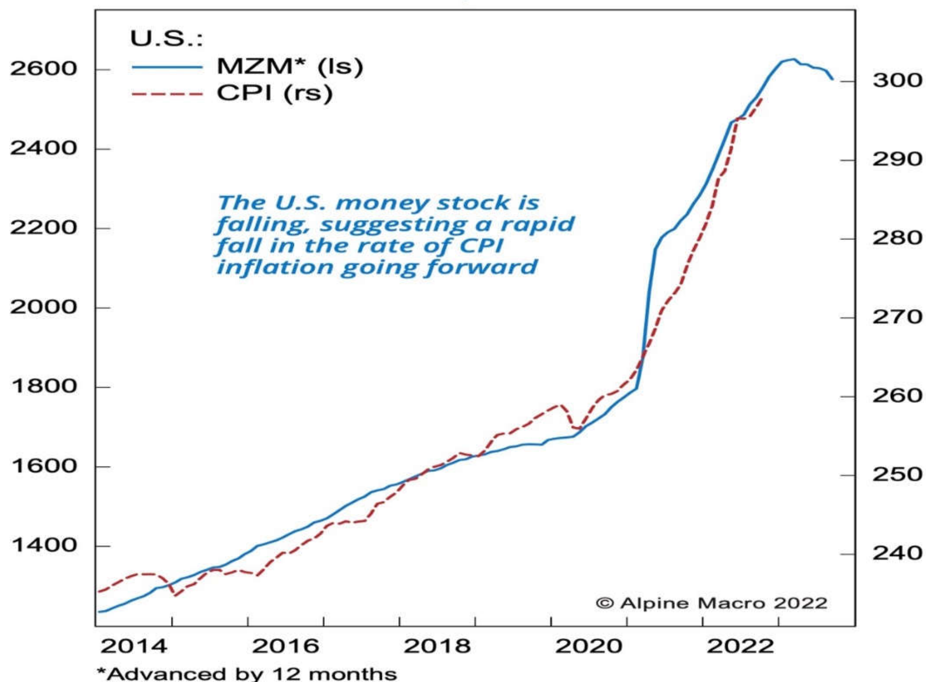
Chart 2

Today, much of the world has been engulfed in fire, as monetary authorities embarked on massive monetary expansion and government fiscal spending. China is the lone holdout with low inflation. Many thoughtful economists, including former Treasury Secretary Larry Summers, think that inflation may rest at 4% to 5% for the foreseeable future due to increased war, spending, deglobalization, supply chain issues, and the exploding government debts of China and the United States. Others believe that the Fed will not take the necessary steps to get inflation back down to 2% because of the lack of political willpower. In addition, others believe that the era of the savings glut that powered global economies in the 90's and 2000's is over. I disagree with all these viewpoints.

When assessing the money supply on the levels of inflation, there are two extremely important components: level and speed. These two concepts are related but fundamentally different. The quantity equation states that Consumer Price Index (CPI) levels will respond to changes in the money stock if the money supply is constant. When the central bank increases the amount of money stock, the economy will respond upwards causing inflation. Conversely, when the stock of money slows, declines, or levels off the inflation rate will cool. Therefore, it is not the actual amount of money stock in circulation that is important, but the speed in which it occurs. Chart 3 shows the massive amount of money put into circulation, but it also shows the speed is declining in 2022 as interest rates, quantitative tightening, and a strong dollar starts to bite. This means that the level of money growth

should decline even though the money stock is high. Although variables in the velocity and output could affect prices, it is certain if the Federal Reserve tightens enough, inflation will fall.

Chart 3



What are the market implications?

I don't think anything has changed since the pre-pandemic days of 2020. The old normal is still the same. With excessive savings starting to build in China, Europe, and Japan, there will be structural downward pressure on bond yields. If I am correct, then this means good news for bond prices.

Deglobalization is not inflationary as some would like to think. In fact, it is deflationary because it will affect corporate profits, capital spending and consumer demand. Throw in aging populations in Europe, Japan, United States and China, this is another blow to the deglobalization inflation thesis. Deglobalization is a slow process, but it is good for bonds.

The U.S. appears to be heading for a recession or growth slump. The over savings problem should reassert itself and the savings glut could resume. This should be good for stocks but especially for bonds.

For the first time in many years, we will be offsetting any capital gains with capital losses to ease your tax burden. In the past, we were reluctant to do this as I believed any losses in some stocks would recover in a short period of time. However, this year, we sold PayPal, part of NextEra, Sysco, and a few others that triggered large capital gains.[5] This does not apply to retirement or IRA accounts.

As part of our ongoing financial planning services, we now offer to our clients tax planning to help you preserve your accumulated wealth. This tax planning can be short term or long term. If you are interested, please contact me at your convenience.

Furthermore, I'm working on my third book, *Confessions of an Intelligent Investor*, that should be published by May of next year. I will keep you informed when it is off the press.

Please join me on December 15th at 6:30 p.m. for our upcoming conference call titled, "How much pain can an investor take."

When: Thursday, December 15, 2022, at 6:30 p.m.
Topic: BFSG Conference Call Hosted By Steven Yamshon

Please click here to join the Conference Call.

Or Telephone: 1 (720) 707- 2699
Webinar ID: 955 8799 7509
Passcode: 388235

International numbers available: click here

Wishing you the very best this holiday season and thank you very much for your confidence in me and my team, Katie, Nora, Robert, Xiaomei, and Arash.

Best regards,

Steve Yamshon
Managing Principal

Sources:

1. The S&P 500 Index is designed to be a leading indicator of U.S. equities and is commonly used as a proxy for the U.S. stock market.
2. The Bloomberg U.S. Aggregate Bond Index is a broad-based index used as a proxy for the U.S. bond market.
3. Source: Dalbar Inc, JP Morgan Asset Management. Guide to the Markets – U.S. Data are as of September 30, 2022. A balanced portfolio with 60% invested in S&P 500 Index and 40% invested in high-quality U.S. fixed income, represented by the Bloomberg U.S. Aggregate Index. The portfolio is rebalanced annually.
4. It should not be assumed that your BFSG account holdings correspond directly to a 60/40 portfolio and will vary depending on your investment strategy and objectives.
5. Capital gains/losses will vary depending on when you became a client and your holding period.

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Please Note: If you are a BFSG client, please remember to contact BFSG, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. BFSG shall continue to rely on the accuracy of the information that you have provided.