October 10, 2023

Dear Client,

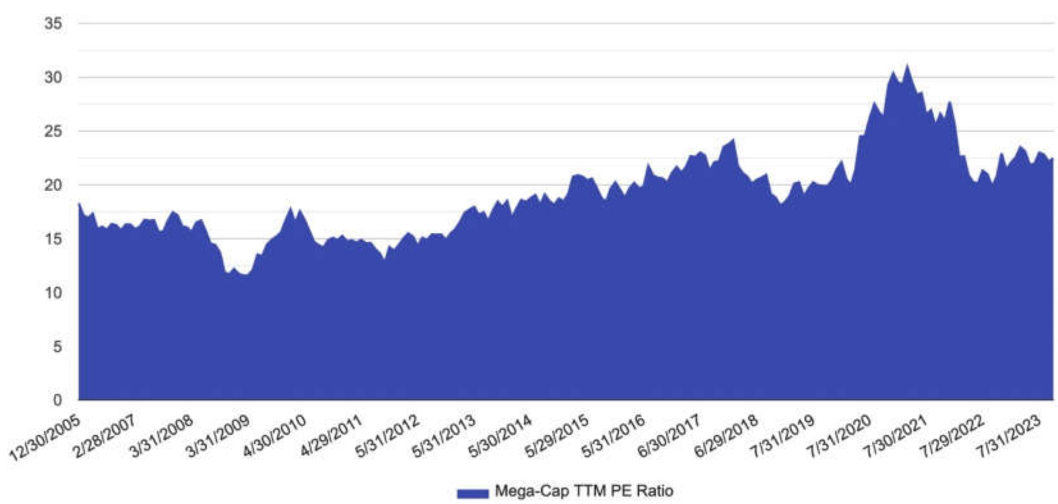
Re: **<u>October Conference Call on Thursday, October 19, 2023 at 6:30 PM</u>**

In the past month or so, I have sifted through mounds of financial data to fully understand the economic environment that we are in. When looking at present and past historical data, there are so many variables that can affect one another, it makes analyzing a big chore. However, with the help of some economic models that I have developed over the past several years, I have sifted through the data and have some concrete conclusions that will help me navigate the portfolios.

Last year was a toxic brew of higher interest rates, a strong US Dollar and myopic government policies that drove the major stock indices. Except for residential real estate, no asset class was spared. Bonds were sharply down as well as stocks and gold. Now it appears that residential real estate is starting to show some cracks. It hasn't been since the 1970's and early 1980's that bonds and stocks declined simultaneously. Even with our balanced approach, we were not spared from some of the pain.

For the entire year, I have said that I don't like stocks, but love bonds. Furthermore, I also said if I can get 5% to 6% interest on a bond, why not? Why take the risk in stocks and for a few that we bought in the spring, we believe we have minimized risk by buying them at a discount to fair value. I still think that the market is overvalued, especially the 7 darlings that are driving the performance of the S&P 500[1] (Please see Chart 1). If we look at the equally weighted S&P 500 or the Dow Jones Industrial Average[2] (DJIA), they are flat or slightly negative for the year. To me, the stock market seems vulnerable.

Chart 1



Current Mega-Cap TTM PE Ratio: **22.48**
Average Mega-Cap TTM PE Ratio: **19.08**
Over (Under) Valuation: **17.8%**
Historical High Mega-Cap TTM PE Ratio: **31.84 - 4/9/2021**
Historical Low Mega-Cap TTM PE Ratio: **10.73 - 11/20/2008**
Percentage of Time Mega-Cap Stocks Have Been Cheaper: **82.3%**

Source: Trading Economics, Validea and Steve Yamshon

This year, we have taken a cautious approach, and we are glad we did. It seems that the stock market has hit an air pocket and bond yields are poised to move higher as the bond vigilantes demand a higher bond risk premium. A combination of an appreciating US Dollar, climbing bond yields, rising oil prices, and a strong labor movement, in my opinion, make the stock market a very vulnerable place to be.

The stock market got ahead of itself by falsely believing that the US Federal Reserve would not tighten as much as they have, or that they may lower interest rates. Neither has come to pass and the Federal Reserve will most likely remain hawkish until consolidated economic growth slows.

A major rise in bond yields, in the past, has usually heralded in a financial accident. I spoke of this last year when the United Kingdom Pension Scheme had problems and again, I repeated my mantra that any time there is a significant rise in interest rates, a financial accident typically occurs. Sure enough, Signature Bank, First Republic, and Silicon Valley Bank all failed this spring. When we consider that a financial accident could occur, it may cause some damage to the securities markets. (Please see chart 2).

Chart 2

Source: BCA

We have been cautious all year and we remain so.

Please tune in to Live at BFSG each Thursday mornings for our latest thinking. We will be hosting a conference call on **Thursday, October 19th at 6:30 pm**.

When: Thursday, October 19th, at 6:30 p.m. (PST)
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

On a final note, UCLA asked me to give an economic lecture on the new world finance order to the House of Representatives for the country of Indonesia on November 1st, 2023. This is quite an honor to be asked to do so and I'm very excited to share this announcement with you!

All the best,

Steven Yamshon, PhD
Managing Principal

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 Dow Jones Industrial Average (DJIA) is a stock market index of 30 prominent companies listed on stock exchanges in the U.S. The DJIA is one of the oldest and most commonly followed equity indexes.

restrictions to our investment advisory services. BFSG shall continue to rely on the accuracy of the information that you have provided.