

Third Quarter 2022

Economic and Market Commentary

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Have you ever given any thought to where the concept of a calendar may have come from? Or who may have used it and for what? Some might be tempted to say the Mayans could have invented it. After all, they were master mathematicians who invented the zero, thousands of years before the Romans. Others might think the Sumerians would make a likely choice. Both cultures had developed sophisticated agrarian societies that incorporated irrigation, the breeding of livestock and row crop farming, all developments that helped advance civilization from the perils and uncertainties of surviving as hunter gatherers.

The tools at their disposal were observational. They charted the movement of the stars and planets and developed the early observatories that predicted with great accuracy the Spring and Fall equinoxes that would identify precisely when the amount of daylight and nighttime were exactly equal. Think of Stonehenge as a prime example of this technology obviously critical in determining the planting and harvesting seasons.

Archaeoastronomy

So far, it all makes sense. Calendars, or celestial measuring devices, were found to date back to 5000-6000 years ago. Agriculture promoted excess and dependable food sources, and populations grew from this. Here's where the wrench gets thrown into the works: modern "archaeoastronomy" has identified sites that predate the likes of Stonehenge by a good 5000 years. That means these "Stone Age Calendars" were being used in early Neolithic times when people ate what they killed. They were still hunter gatherers, late Stone Age people, yet for their own reasons, they recognized the importance of identifying seasonal change accurately. Was it to recognize the coming of dry seasons, wet seasons, wild vegetable growing or migratory habits of animals? Most archaeoastronomers think it was a combination of all of the above.

Call It the First Formal Time Measuring Device Known To Man

In a place called "Warren Field, way up in the Highlands of Scotland, British archaeologists discovered what is now considered the world's "oldest clock." Here, more than 10,000 years ago, when people were still hunter gatherers, hundreds of people worked together to form a series of stone markers (sunk into ground excavations) that tracked the first formal construction of time. Many say this was where "time itself was invented."

Using these markers to track the Lunar Year with great accuracy, even able to correct for seasonal drift. What an amazing accomplishment. Remember, these people's very survival rested between finding prey and starvation. They desperately needed to be able to note the seasons to be prepared for when the food supply would be passing through. Talk about "necessity being the mother of invention." Here we see for ourselves the importance of recognizing cycles that, if read properly, can lead to success and abundance, and if not read properly, to pain and loss.

Cycle

The word cycle has its derivation from the Greek word "kuklos," meaning circle. It morphed into late Latin as "cylus," and by late English, took on its current spelling. Simply put, a cycle is a series of events repeated in the same order. That's what our hunter gatherers were looking to predict with their earliest form of lunar calendaring: the cycle of migration. Why? So they could eat. Cycles come in all shapes and sizes (read that durations). Here are just a few examples of cycles we're all familiar with:

- The "Solar Cycle." For hundreds of years, it's been noted that every 11 years or so, the sun's activity, as measured in variations, produces a number of variations on the sun's surface known as "sunspots."
- The "Calvin Cycle." Here we have the chemical reaction where carbon is fixed into sugars that we know as "photosynthesis." It creates the food to make plants grow.
- "Cycle of Abuse." Social scientists coined the phrase almost 50 years ago to describe this pattern of behavior. Regrettably, like the seasons of the year, there are four of these cycles that repeat: building tension, an incident or abuse, reconciliation, then calm. Calm, until the tension builds yet again.

Let's end our discussion of natural cycles with one more example from the natural world before we move on:

The Water Cycle

Earth's water content has remained relatively constant for millions and millions of years. It's how that water is stored that makes a big difference. Earth's water is stored in three basic manners:

- Fresh Water. Think rivers, lakes, streams and ice caps.
- Salt Water. Think oceans, and where oceans meet rivers causing "brackish water."
- Vapor. Think evaporated water now in our fog and clouds.

Simply put, the streams flow into the rivers, the rivers flow into the oceans, and the warm air evaporates oceans and creates vapor. When done, it starts all over again.

So, when you hear about ocean levels rising, and the fact that in 50 years Bridgeway in Sausalito, California, will be under water, remember, we're not dealing with more water, just a different

kind of water. Melting ice caps create more salt water, and more salt water creates rising tides. Rising tides will lift all boats but, unfortunately, will flood Bridgeway as well.

Mr. Wizard

When I was a kid, I'd get up early on Saturday mornings to watch a show called "Mr. Wizard." The show was hosted by a most affable man in a lab coat who had a number of pre-teen assistants. I loved the show and watched it religiously. Together we'd make homemade volcanoes, ignited magnesium, and blasted off homemade rockets in our back yard. Now I want you to know that my definitions of the various natural cycles was not to pay homage to my early mentor Mr. Wizard. It was to serve as a prelude to the main substance of this commentary.

Let Me Bring It Home

Markets, economies and inflation also have their own cycles. Now although they don't always repeat themselves note for note, they most definitely reveal patterns that, if observed by savvy and knowledgeable investors, will reward them for their patience and foresight. No one said it better than Mark Twain: "History never repeats itself, but it does often rhyme." Exactly the point when reviewing today's state of affairs and putting them in historical perspective when viewing the current conditions of equity markets, global economies and inflation.

Market Cycles: Equity markets move in four distinct phases. Understanding where the market is during a particular cycle can make all the difference in the world between being a well-fed hunter gatherer and one with malnutrition. It's so important to remember that all life cycles are not the same. They can run the gambit from very, very short, like a June bug to an ancient old tortoise. But no matter what the cycle, they all traverse the same four stages. They rise, they peak, they dip, they bottom. When one cycle stops, the next begins.

Having spent the better part of my adult life in the area of finance, here's a brief summary of how I see the four phases playing out:

- **Phase One. "The Accumulation Phase."**

The press are touting doom and gloom. Investors are disgusted. At this point, valuations are actually attractive as smart money; experienced traders start moving in judiciously looking for well-run companies that have been fairly beaten up. Most of the uninitiated investors have given up, sold out and cashed in their chips. (They call this capitulation.)

- **Phase Two. "The Mark Up Phase."**

During this phase, analysts start seeing higher lows and higher highs. The press aren't so negative, and unemployment is rising (counter-intuitive, isn't it?). The average investor starts coming in (greed factor) as the professional investor starts taking some chips off the table. This is a dangerous time when people on the sidelines start pouring in because they "don't want to miss out." Now we are entering into the dreaded world of euphoria.

- **Phase Three. “The Mixed Sentiment Phase”**

Value investors who have been sitting on the sidelines still don't know if they want in or out. This proves to be a very emotional time in the market that includes lots of volatility and the personification of the fear and greed conundrum. Negative geopolitical news can dramatically and quickly see accelerated activity in the market just as we've seen in the past six months.

- **Phase Four. “The Mark Down Phase.”**

Now we enter the mark down phase. For many, the attitude has been, “I'll hold on until I'm back to what I paid for it.” Regrettably, in this group are the ones that get crushed. (The analogy I hear so often is that of the pirate, pockets full of gold, jumping off a sinking ship. Their hope is that they will be rescued before they sink. Their reality is that they usually go down like a rock. For a fascinating read, Google the S.S. Central America, a ship coming from Panama with hundreds of miners from the California gold fields. The ship floundered off the North Carolina Coast in 1857. While she's going down, dozens of first-hand accounts recorded miners emptying their pockets, tossing their money belts overboard making themselves as light as possible. Fortunately, few lives were lost relative to the tragedy. One would have to think that was due in large part to the common sense of the passengers.)

It's the “early innovators” during this phase that sense a bottom is near. (Remember, no sane person can call an absolute bottom.) It's these innovators who wind up buying quality companies at deep discounts who will enjoy the “next accumulation” phase along with the corresponding mark-ups.

Sometimes Instinct Naturally Takes Over

Now, in my case, that's not bad. As a writer, my instinct tells me not to overload my readers with my take on the economy and interest rates. (As a teaser to Part Two of this series, I will say that I think the economy is in far better shape than the American psyche right now.) Earnings season has just started this week, with better reportings than had been expected. A quarter does not an economy make, particularly with the amount of geo-political chaos going on around us.

As for interest rates: With mid-term elections merely days ahead, and my being a long-time follower of the “Presidential Cycle,” (which reflects how the four-year term of a presidency basically results in getting all the bad news out in years one and two so that the stone can be polished in years three and four when you are running for re-election or to keep your party in charge of the executive office), I give you a fact-check challenge: Next time you are having coffee or a drink with your favorite mortgage broker or realtor, ask them, “Are mortgage rates typically higher or lower than the past couple of years just before a presidential election?” I'll give you odds on that answer.

A Reminder

The world's a scary place right now, and those that do best are those that don't lose composure. Mark Twain's quote from earlier in the piece about history rhyming comes from my high school days. From my adult days (days some say I'm just entering into) is Ernest Hemingway's reminder that, "Courage is grace under pressure." For sure the world and all of us in it feel the pressure of these times. With that said, we must also remember that at the point of maximum pain also lies the point of maximum potential. As I said before, only a fool would try to call a market bottom. As of today's writing, the Dow was up some 800 points. For all I know, it could be down by 800 points tomorrow.

What I do know are two things that I hold near and dear:

1. The first is a Warren Buffet quote I heard 20+ years ago: "If a business does well, the stock will follow,"

and

2. The second is that over the last 95 years (how long accurate records have been kept on equity market activity), when a market bottoms, the average 12-month rebound is 47%. (If you're not in it, you simply don't participate.)

It would be remiss of me if I didn't share with you the fact that we have been paying keen attention to those companies with a greater value orientation of the past six months, and I do feel these will be the bedrock as we lay the foundation for the next market rotation.

Following age demographics health care is practically a no-brainer. Now, don't get me wrong; not all health care companies are created equal. Nor will they all make it. Our challenge is to identify those that will make it and that are well run.

Secondly—this may send up a red flag to some, and if it does, just give us a call and we will manage your portfolio accordingly—the reality is that fossil fuel is not dead yet. Most of us feel the pandemic, the war and the supply chain disruption has shown the world that it's not a matter of months or even a matter of years but one of decades before the transition from fossil fuel to electric can actually be made successfully. You need look no further than the gas pump for re-enforcement of this fact. Electric cars are great—my family owns one— but remember electricity is not an energy source.

Conclusion

The Putney Financial Group has now entered into its second quarter century of service. In our existence, we have shepherded our clients through the "Asian Flu" of 1996-1997 (total Asian market meltdown; the dot.com bubble of 2000/2001; the Bear Market of 2007-2009, when the S&P 500 declined 52%; and the "Flash Crash of 2010," when the Dow was down over one trillion dollars in one day. Along the way, we have weathered government shutdowns as well as credit downgrades in our sovereign debt (how embarrassing). And now we are helping our clients navigate their finances during the largest land war in Europe since 1945, the highest

inflation rates in almost 40 years, the aftermath of the deadliest global pandemic in more than 100 years, not to mention the most polarized societal environment since the Vietnam War.

Please remember that we always approach our charge with a glass half full mind set and are always working at 110% on your behalf. Until our next talk, stay safe and stay well.

As Always,

Ray Lent
RLL/dot
Enclosures