Special Report

MONEY

Some historians write that the 1970's was Britain's gloomiest period since WWII. As so often happens, pop culture reflects the mood of the times. In 1973, the Progressive Rock band Pink Floyd released their highly acclaimed "The Dark Side of the Moon" album. On that album was the timeless song ...Money. This iconic song begins with that all too familiar sound of a cash register.

Money (The important lines only)
Get away
You get a good job with more pay and you're okay
Money
It's a gas
Grab that cash with both hands and make a stash

New car, caviar, four star, daydream
Think I'll buy me a football team

I'm alright, Jack, keep your hands off of my stack

Don't give me that do goody good BS

I'm in the high-fidelity first-class traveling set
And I think I need a Lear jet

It's a crime
Share it fairly, but don't take a slice of my pie
Money
Is the root of all evil today

But if you ask for a rise
It's no surprise that they're giving none away

Shameless Promotion

Patriot Asset Advisors presents the Money Minute with Mike Cornell, Monday's at 5:10pm. Each week, we briefly chat about celebrities and money issues on KOOL 101.7. Tune in to hear how your favorite rock stars handle money.

INFLATION! It is back and here to stay. It appears that we have progressed into the next phase and that is wage inflation. With ultra-low unemployment and a higher cost of living, labor unions have decided to make a stand. We have witnessed small scale strikes at a few Starbucks locations to major strikes with the UAW. Strikes and new contracts will continue to put pressure on companies, the fight for employees and the cycle of wage increases may persist.

Just think of what we have seen in recent months:

- Strikes with Rail workers, SAG (Hollywood Actors & Writers), UPS, UAW and many small unions that have went under reported
- Huge contracts with higher wages without a strike include American Airlines, United Air, Delta, and many others.

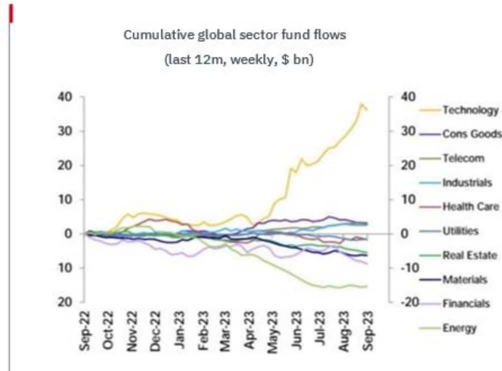
The residential real estate market is essentially frozen. Inventory is extremely tight as those with a 3-4% mortgage are not selling. With interest rates approaching 8% and banks tightening their lending standards, many would-be home buyers are priced out of the market.

The Markets through September

The S&P 500 and NASDAQ market returns have shown eye-glazing numbers. Some investors may be left with the impression that the stocks made significant strides and they were left behind. These indexes sold off sharply in 2022 because of inflation and the Feds aggressive rate hikes. A SMALL HANDFULL (7 companies) have experienced a major price appreciation this year. We would suggest that much of the

gain resulted from the Fed making accommodations, following the spring Banking crisis bringing out the gamblers in the hedge fund world. Most stocks didn't experience the love.

Global sector fund flows



The chart from the BearTrapsReport shows the flow of global investment dollars over the past 12 months. You can clearly see the speculation in a few technology names versus the broader market. Other than technology, the only industries with positive capital flow: Consumer Goods, Telecom, and Industrials.

As diversified investors with Patriot Asset Advisors, you own a piece of the technology action. However, we believe in investment discipline and choose not to gamble with client money. Several technology stocks have been overpriced (in our humble opinion) for a few years. Higher interest rates will likely slow the economy and increase the cost of capital for ALL companies, including technology. Thus, the valuations of the giants will suffer, bringing their stock price back in-line with the market. Watch out below when the air comes out of the balloon.

We know that it can be frustrating to see the indexes appreciate dramatically and feel like you are missing out. So, please allow us to put things into perspective (Data from MarketWatch):

- Dow Jones Industrial Average YTD thru September '23 1.09%
- Even Weighted S&P 500 YTD (All 500 stock have equal wt in index) 0.27%

It is only human nature to want a "piece of the action". We want to provide a word of caution as to what that "action" may look like. Ponder this: an investor retires in the Summer of 2021. Interest rates are 0.25%, so he decides to put his $1 million dollar nest-egg into the stock market looking for a higher return. He watches the value drop 20-40% in 2022. Chooses to wait the market out for a bit. He is now back to even, and interest rates are now 5%. Does he leave all the money in the stock market? Some will and some won't. With interest rates at 5%, you can bet some folks will take at least some money out of the stock market.

Let's rewind the clock back to late 1990's. The stock market was littered full of Brand-New investments in this modern invention...The Internet. Anything with a Dot-Com was golden. If you remember, everybody was worried that the world power grid would stop because software programmers may not have programed for the new millennium...Y2K. Wall Street was busy developing investments to sell to the masses. Dot-Com mania was everywhere. You can research these names to see the reminisce for yourself:

• Janus Twenty Fund	• Marsico Focus Fund (1999 Version)
• Munder NetNet	• MFS Emerging Growth
• Alliance Premier Growth	• Monument Internet Fund
• Federated Communication & Tech	• Putnam OTC Emerging Growth

These funds were Wall Street creations that sucked in millions of hard earned dollars over a few short years. Now they are buried in the history books along with investor capital.

Wall Street firms are not in the Philanthropy business; they are For-Profit entities. They will develop and market whatever investors will purchase.

Don't Be the Stooge. Take a look at this CNBC article from 2013. It chronicles the aftermath of the Dot-Com melt-down a decade after it ended in 2003.

CNBC Nov 26, 2013

The tech wreck's huge toll on fund investors (perspective more than a Decade after the crash)

The tech wreck began on March 10, 2000, when the tech-laden Nasdaq composite index hit its all-time record of 5048.62. By the end of the bear market, the Nazz had fallen to 1114.11 **— a 78% decline**. But fund investors were hit even harder.

How much? Currently, there are 159 technology funds, assuming you count each share class as a separate fund. Those funds are down 20.7% since 2000 (NOTE: still down after 13 years). In contrast, funds that track the Standard & Poor's 500 stock index have gained an average 46.2%. The technology wreck, which ran from March 10, 2000, to October 9, 2002, **ripped 80% from the average tech fund**, vs. 43.1% for the average S&P 500 index fund.

But wait. It gets worse. Most of the funds that were available to investors in 1998 through 2002 are gone — liquidated outright or merged into other funds. Counting each share class separately, **602 tech funds been merged or liquidated since 2000, according to Lipper, which tracks the funds.** In other worlds, for every fund that survived the tech wreck, nearly four are singing with the Choir Invisible.

A few examples:

• The de Leon Internet 100 Fund lived from September 1999 through October 2000, when it was liquidated, meaning all its stocks were sold and the proceeds divvied up among shareholders. The fund gained 76% in the fourth quarter of 1999, but fell 47% in 2000 before it folded.

• The Zero Gravity Internet Fund, which began life as the E-Harmon Internet Fund, liquidated in 2001. The fund lost 40% since inception.

• The Munder NetNet Fund gained 176% in 1999, which attracted more than $1 billion in assets. The fund then dropped 90% in the following three years before it was merged out of existence.

We are beginning to see cracks in many parts of the economy. The saving rate for US citizens has gone back to pre-pandemic levels. The Covid distributions fortressed the bank accounts of many Americans. That cushion is gone. You can see the results in many places:

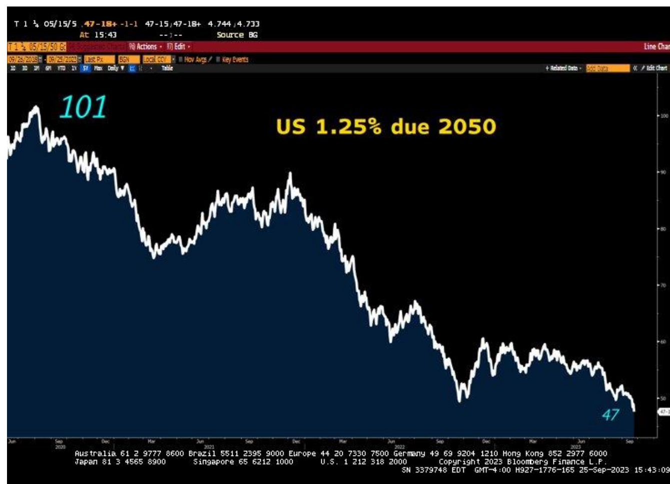
- Credit card balances are climbing.
- Delinquencies are the highest in 10 years, per the St Louis Fed.
- Auto loan defaults are high and rising. Highest - since '08-'09 (Washington Post)
- Return of Student Loan payments will pressure the economy further.

Some industry GIANTS are beginning to sound the alarm bell on the interest rate (bond market). Jamie Dimon (CEO @ JP Morgan) in a Times of India article: "hopes and prays there is a soft landing" for the U.S. economy, an uncertain macroeconomic backdrop and a deepening government deficit means "no one knows" where America is headed.

"I would be cautious," he said. "I think we are feeling pretty good because of all the monetary and fiscal stimulus, but it may be a little more of a sugar high." He added that deficits "can't continue forever," and as policymakers continued to face this alongside an array of other serious issues—including the war in Ukraine and volatility in oil and gas markets—interest rates may need to go up even more than anticipated.

Bill Gross (the so call Bond King of PIMCO Total Return fame) and Bill Ackman (Pershing Square Capital CEO) both speculate that higher bond yields are around the corner. As we have previously shared, 2022 was the worst bond year since 1788. Bonds have been a great investment since Reagan. Rates have fallen from double digits to low single digits. Since declining yield in bonds means that prices increase (adding capital gain for investors), it has been a pretty good ride.

The ride has ended, and it may end very badly for those who persist in owning bonds with long maturity dates. Look at this chart: this 30 year government issued bond was sold 3 years ago into the market. At “PAR” it would have been $1000 bond with a yield of 1.25%. The owner receives $12.50 of annual income. According to the BearTrapsReport, that bond is available on the market for $470 per bond. Yes, that is a 53% decline in value…OUCH!



The reason for the steep discount….newly issued bonds are yielding north of 4.8%. To entice someone to purchase a gov’t bond yielding 1.25% in a 4.8% world, the price has to be discounted.

Our Federal Reserve owns 19% of the issued bonds.. a 7 billion dollar loss (on paper) for this one issue. Consider how many “quality investments” like this bond are on the books at the Fed, banks, insurance companies, pension funds and foreign governments.

WARNING…This type of bond (in conjunction with Commercial Real Estate) represents the problems small regional banks are fighting with this rapidly increasing interest rate environment. The problems we saw in April ’23, may pale to those we face in the coming months, if rates continue to march higher.

Higher interest rates could create all types of unintended consequences. Yes, it may tamp down inflation, at some point, but what will it cost? The higher cost of borrowing for individuals will curb the appetite to spend beyond the necessities. Borrowing cost for corporate America will be no bargain either. Higher cost will eventually lead to a lower stock price for companies and reduce output.

Tighten your belts and keep your hands and feet inside of the car at all times. IF THE BILL’S (Gross & Ackman) ARE CORRECT, you will want to own more commodity type investments, consumer staples and companies trading at a good value while keeping your bonds allocated to shorter maturities.

Some may think about taking their money out of investments and putting it under the mattress. Yes, you will have that money (short of theft or fire), but inflation will rob you of your purchasing power. The markets have been through challenging times before. We, the advisors of Patriot Asset Advisors, have helped hundreds of clients navigate challenging times in the past. We are in a much better place to do that today by providing Independent Unbiased Advice.

We have assembled some of the brightest people in the business to provide timely council. In a world where advice is often clouded by corporate interest rather than serving the client, we choose to be a fiduciary firm. WE PUT YOU FIRST. We do tremendous amounts of research to manage money and inform our clients of events that may significantly impact their investments and retirements.

The high-fidelity first-class traveling set may be doing just fine in their Lear Jets, the rest of us had better be mindful of our own stack of cash.

If you have questions about your portfolio or need a second opinion, we are a phone call away!

Stay tuned for our next report which will likely be about energy unless something breaks in the economy.