

## Macro Cycles

Macro is long term and in our world investment cycles are very, very long. Many people get hung up on what is happening short term, as measured by days, weeks or months. We're taught to think out 5 years and see where the buys today can pay off in time. For many years as this global asset bubble has inflated, many things were unattractive, even with a 5 year time frame in mind. That is still the case for many asset classes including most domestic stocks, real estate, bonds, cars, etc.

A macro cycle can last from many years to many decades. We're about to begin a new cycle where the things that were unloved from the prior cycle will begin to get some love and do well. While this is happening, the darlings of the prior cycle will not get any love and in fact will likely feel a lot of pain moving forward. Here is the tech sector from 2002 to today. Our data from YCharts!



As you can see the tech sector has had a tremendous amount of love in the past 20 years. Now let's look back just a little bit from that starting point and I want you to see how that same sector did just prior to 2002, it's a very

**Continued page 2, Macro Cycles!**

### INSIDE THIS ISSUE

2. Most Stressed out Populations; Macro Cycles
3. Noteworthy News; Valuations Matter
4. \$ Quiz; Going Green; Banking Crisis # 2?
5. Inspirational Quotes; Kids Corner

## Valuations Matter

When people look at the values of things, they normally know exactly what they're buying and what prices they're willing to pay for those things. Think about when you go shopping to buy anything, you know what the prices are and price shop, looking for the best value for your money. Most people at least, those who are very wealthy just don't care and it isn't worth their time to shop they just buy what they want regardless of price. If you're at the grocery store most of us are blown away at the prices as they've climbed so much in the past couple of years. If prices are the same in the grocery store, the packaging may have shrunk, which is in effect raising prices when you pay the same price for less of an item.

In real estate, cars, clothing, almost any physical thing you buy you know the prices of it and the values, good or bad. If things are on sale most people will buy, if they're overpriced most people will not buy unless there is a pressing reason to buy now and not wait for a better deal down the road.

Bonds normally trade at a "par" value of \$1,000.00 each. Many bonds today trade at large premiums to the \$1,000.00 par, eighteen months ago the premiums were a lot higher and now that the Fed has raised rates so much some bonds represent great values today. Many are still way above par and that'll continue for some time.

Stocks normally trade at 15 times earnings and 18 months ago stocks were trading at 29 times CAPE earnings, now they're at 31 times CAPE earnings. No great deals there and eventually they'll get back to their averages.

With the big market loss we've seen in the past year plus we now see some assets that are attractive for the first time in many years. Tech tends to be unattractive today from a valuation perspective, but all of the excitement still seems to revolve around tech. Much of it will likely prove to be a temporary mania as it normally is. Here are how insane some valuations have become in the tech sector.

Company	Multiple of Earnings	Multiple of Sales
Amazon	292	2.4
Nvidia	215	40
Tesla	59	8.1
Netflix	42	5.5
Apple	30	7.4
Microsoft	36	12

These prices are sky high and make no sense whatsoever. It's just like 1999 all over again but for now people are elated and getting more elated by minute, until they aren't.

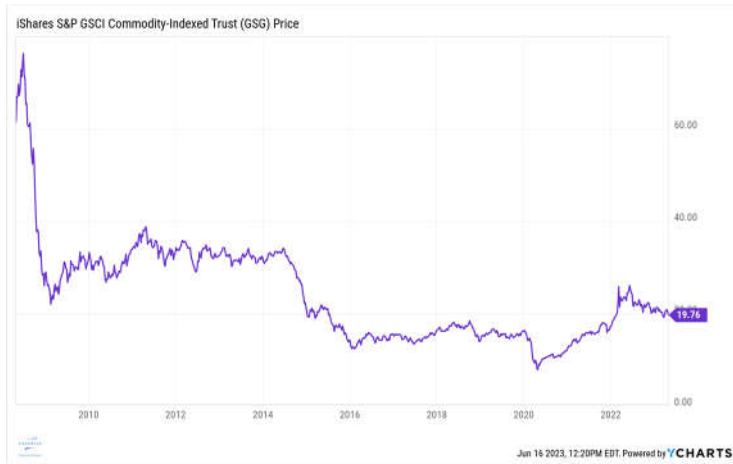
**Continued on page 3, Valuations Matter**

## Macro Cycles! (cont'd from page 1)

different outcome and it's not good or bad, it's just how the sector fared. This one is the same index, but from 01/01/2000 – 01/01/2002



One would accurately say from 2000 – 2002 this wasn't a good place to be, it cratered by almost 67%. Peak to trough the Nasdaq during that period was down 78%+. Now from the bottom in 02 – 2021 it was amazing. Now let's look at the commodity complex which has had a tough decade and is starting to turn the corner today. Our data via Ycharts.



It's interesting how the beat up commodity sector today looks very much like the beat up tech sector in 2002. As investors we're taught to buy low and sell high. In today's bubble asset world it's tough to find things to buy low. In 1999 – 2002 when the internet bubble was inflating it was pretty easy, just avoid tech and the rest of the world was normal and easy to find good values. Today it is the opposite, many things are grossly overvalued, this sector is by far the fattest macro pitch in markets today. It's not sexy and not many people are talking about it, but that is exactly when you want to get in, at low prices when it is off of the radar screens of the masses. A valid pair trade today would be long commodities and short tech. We'll see where this stands in a few years but stocks are not worth 200 times earnings and 10 times sales as many tech stocks are trading for today.

## The Most Stressed out Populations.

Let's look through the lens of the pharmacist to see how some major countries are for people in terms of stress, or perhaps happiness. The world of stats did an analysis of people's use of antidepressants and the findings are somewhat surprising.

Antidepressant users per 1,000 people:

- IN India: 9
- LV Latvia: 21
- RU Russia: 23
- KR South Korea: 27
- HU Hungary: 29
- LT Lithuania: 36
- CR Costa Rica: 39
- EE Estonia: 40
- IT Italy: 44
- NL Netherlands: 47
- SK Slovakia: 48
- TR Turkey: 48
- FR France: 54
- LU Luxembourg: 57
- IL Israel: 57
- BR Brazil: 58
- NO Norway: 61
- DE Germany: 62
- AT Austria: 63
- SI Slovenia: 63
- CZ Czechia: 65
- GR Greece: 70
- FI Finland: 81
- BE Belgium: 83
- DK Denmark: 84
- CL Chile: 90
- ES Spain: 92
- SE Sweden: 105
- GB UK: 108
- US USA: 110
- AU Australia: 122
- CA Canada: 130
- PT Portugal: 139
- IS Iceland: 161

A few observations here on this list. First it's sad that USA is so low on the list, we're a stressed out population that moves fast and pushes hard so maybe it shouldn't be surprising. The UK is right below us on the list one would think they're better off stress wise but apparently not. The Nordic countries I thought would fare far better but they too appear to have their stressors despite the youth of our country believing they have the perfect societies. The Russians are another large surprise, it seems as an outsider looking in that would be a very stressful place. Perhaps not, or perhaps they simply don't have access to the drugs like the rest of us do. Our neighbors to the north the Canadians are some of the most stressed out on the planet and I wonder why? The Icelandic people are the most stressed and it too is hard to fathom why, that is a beautiful country with beautiful people. I would suspect the economy and other issues override the sheer beauty of the countryside. Italy, India and Costa Rica are no surprises at all as low stress places to live. How many of these places have you visited? Share your stories with us we'd love to hear about them.

# Noteworthy News!!!

- Congratulations to John Rugh on his recent retirement!
- Our condolences to the Mozalak-Cheek families on the passing of Pat, a wonderful woman, wife, mother, grandmother, person and friend.

## Question & Answer

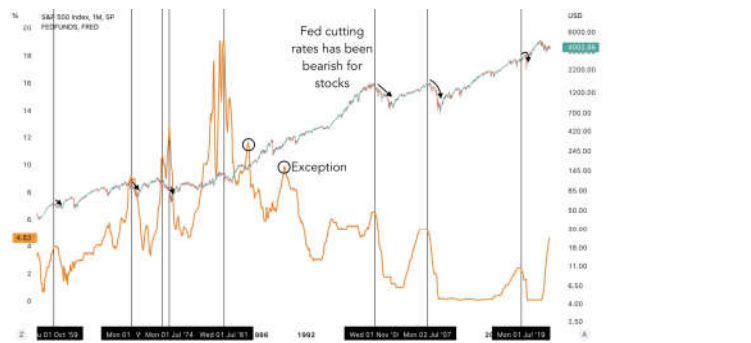
Ask any financial question you have and we'll address it here.

*Q: Once the Fed Starts cutting interest rates the danger to the stock market is over right?*

No, in fact it's the exact opposite most of the time. Markets typically get hit the hardest and feel the most damage only when the Fed starts cutting rates. Here we are in mid 2023 and the Fed is now talking maybe one or two more rate hikes then they begin cutting rates again. This could mean that the next few months may be somewhat stable and once they start cutting rates the volatility picks way up again.

Since a picture is worth one thousand words, here is that concept in a graphic. The black lines are when the Fed started cutting rates after a rate hiking cycle. As you can see it is exactly when the markets experience most of their declines. There were two exceptions to this, one in 1986 and another in 1988. The best analogies to today are the 70's and early 2000's when we had similar economic conditions.

We're coming off one of the biggest bull market runs of all time from the bottom in 2009 to the peak in 2021. Normally when markets skyrocket like that the next stage is a big bear market or at least a consolidation phase, where they just hang around and don't make much progress for years, sometimes decades. We call these markets flat markets and we do expect to see a flat market moving forward. Thanks to game of trades for the chart.

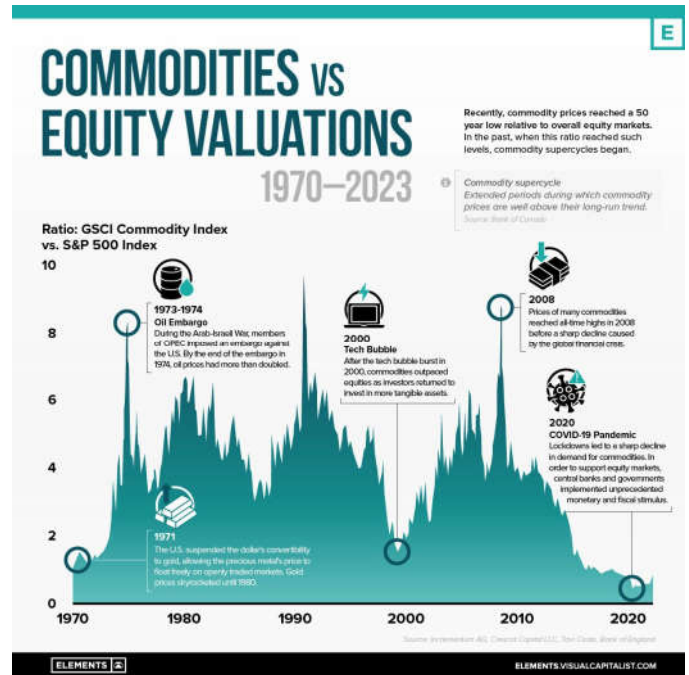


Household net worths are in serious decline as well today, if we look at the eras where this was happening and the Fed changed gears, we can paint a clear picture of the likely outcome here. Thanks to FRED (St. Louis Fed) for this chart! 😊



# Valuations Matter! (cont'd from page 1)

Now a sector that is flat out cheap is the commodity complex. Here is a great graphic showing the relationship between equities and commodities, it's at an all-time low. I can remember when the internet bubble was in full effect in 99 & 2000 we hid in commodities and not only prices didn't get hurt coming out of it, but did amazingly well. That opportunity is likely juicier today as the spread has gotten a lot fatter. This screams buy low and we have no clue how long it'll last but buying low and selling high makes sense for investors at all time. Thanks to Visual Capitalist for the chart.



One more graphic, thanks to Bloomberg, to show you how low inventories are of certain commodities should be compelling for anyone who can appreciate the supply and demand relationship. It's safe to say there will be continued demand for basic commodities into the future. With 8 billion of us on the planet it's a safe thing to think we all want to live better and enjoy the fruits of modern society. We're living in strange times, the world is backwards on many levels, here is an area that is very logical and mathematically sound yet nobody is thinking about it. We certainly are.



# Money Quiz



This month's challenge is retirement savings. Half of Americans don't have a retirement account, sad. The average social security benefit is \$1800 per month. What does the average American over 65 spend per month? Winner gets lunch on us at Chick-Fil-A! 😊 BTN:05:16:23:22

## Going Green

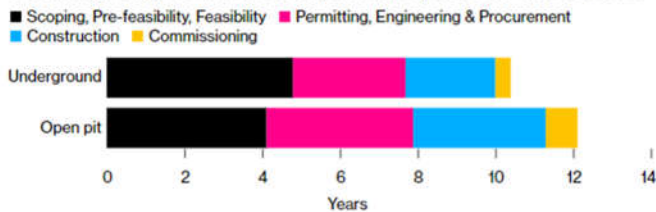
I love the idea of going green, we should all be behind this push. There needs to be an acknowledgement that we cannot do this in just a couple of years. The reality is it'll take decades, if not a century to really become a green society. We take for granted all of the things we have and use every day that are truly "dirty" in terms of how they're produced and mined.

Electric Vehicles are a prime example. I love them and they're wonderful, as a car nut there is no better acerating vehicle on the planet than an electric car. The manufacturing of an electric car and the necessary batteries causes a lot more emissions than a traditional internal combustion engine. The draw on electrical resources, such as copper, wire and all of the associated things necessary to make a large electric motor are serious. To get a lot of these resources, it's necessary to mine them from the earth and those mines are serious projects to say the least. Ironically, almost everything in a mining operation runs on Diesel fuel to extract the necessary commodities from Mother Earth for us to then turn them into EV's.

Copper demand is expected to triple if we do transition our vehicle fleet to an EV one in the coming years. I'm not sold on that just yet, they'll certainly be part of the automotive ecosystem and only time will tell just how much penetration they get across all of the world and all sectors. Thanks to CRU for the chart!

### Copper Mines Are Taking Longer

The average length of time to develop a new project is now over a decade

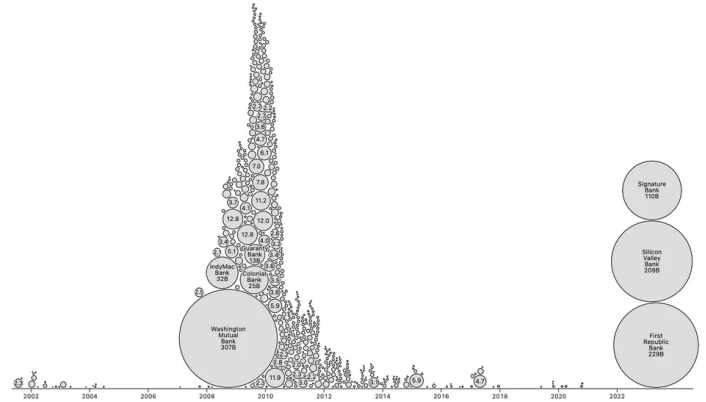


Source: CRU  
Based on mines that started-up in, and after, 2010

Some studies show EV's are pollution savers after 13,500 miles while others show it takes 435,000 miles. In time these studies should get more specific and accurate, can't wait to see the outcome.

# Banking Crisis # 2????

It's certainly possible and there are a lot of reasons for banks to be cautious today, and for consumers to choose their bank wisely. There have only been a few big bank failures thus far in 2023, but we expect more to come. The size of the failures are massive, yet people are not too worried about anything, yet. This graphic shows us the size of the banks that failed, both today and in the great financial crisis of 2008. Thanks to Chartbook for the image!



One would never think the few that have failed today are so large in relation to the 150+ that failed in the 2008 saga. There are many reasons why we have failures today, the first is with rates rising so quickly in the past year plus, the value of the banks assets, mostly bonds, have falled hard. When bank asset values go down, their balance sheets can fail stress tests. Banks have been rotten about not paying depositors any real interest, so clients are pulling money fast for better options, as they should. These massive runs on deposits have forced some banks to have to sell assets at a loss to satisfy withdrawals.

There have been some banks who have assets on their balance sheets they probably shouldn't have as well that's added to this problem. In the case of Silcon Valley, they had equity in many tech startups on their balacne sheet. When money was cheap that was fine, but as money began getting more expensive many of these startups went under, and with that so did the ratios necessary to remain healthy on the banks balance sheets. There are banks who hold crypto currencies on their balances sheets as well. Why or how that is legal I'll never know, banks should only hold safe and sound assets on their balance sheets. Even bonds, which are normally very safe, have taken 20% plus hits to their values with the dramatic rise in interest rates happening lately. Too much money printing for a decade has caused a lot of imbalances. There will be more to come!

## Inspirational Quotes

- Be kind, have Grace, Give Thanks & Speak Love, Author Unknown
- It is often the small steps, not the giant leaps, that bring about the most lasting change, Queen Elizabeth II
- Education is the most powerful weapon which you can use to change the world, Nelson Mandela
- There is always light. If only we're brave enough to see it. If only we're brave enough to be it. Amanda Gorman
- If you want to lift yourself up, lift someone else up. Booker T Washington
- I have learned not to allow rejection to move me. Cicely Tyson
- I scorched the earth with my talent and I let my light shine, Andre Leon Talley
- You're braver than you believe, stronger than you seem, and smarter than you think, A.A Milne



**We can piece the puzzle together and make your money work for you!**

## Kids Corner

Do you have kids or grandkids in the college age range? If so here are a few wonderful tidbits of wisdom to pass onto them so they can learn through others rather than having to experience the pain on their own.

- Own it, step up to the plate when you make a mistake, you'll get farther in life and everyone will respect you.
- Design your career, it's not just about passion but talents and self awareness. The world owes you nothing, how can you help the world?
- Drive safely, never drink and drive, text and drive never.
- Give and be benolent for the joy of seeing others smile
- Don't let tech own you, it's a tool spending your life posing for a picture that isn't your life is a waste of your time
- Don't post anything on social media you don't want gramma or your boss to see.
- Care about people, nurture relationships, never end them because of a disagreement. We all need to learn to live with varoius viewpoints
- Take care of your body and your brain. Use it or lose it and harmful chemicals that may seem like great fun today can cause relentless chaos later in life.

If anyone you love or care about would benefit from receiving our newsletter, tell us who they are and they will be included on our mailing list. They'll certainly appreciate you thinking about them and having their best interests at heart!

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