Wenzel Analytics Inc

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Clients,

We are in the midst of geopolitical turmoil creating uncertainty and anxiety. Strategically, the United States is shifting the locus from military conflict to economic conflict. How that will play out remains to be seen; military confrontations have much more immediate and visible impacts than do economic confrontations. While there have been economic dislocations all around, they are less severe than the military devastations. And while the economic dislocations can impact asset prices and stocks, fortunately for our portfolios, the impact to date has been minimal. This is in line with historical precedent.

Short-term and Long-term

The past quarter marked the beginning of my 80th year. As we age, we spend more time reflecting, in part because we have more years to reflect upon and thus a broader historical range, plus more time to reflect. Ray Dalio in his excellent book *Principles for Dealing with the Changing World Order* and in his videos, comments on how we tend to take into account things that happened during our lifetimes but ignore patterns that have occurred repeatedly in the broader scope of history.

Beyond my own lifetime, I also take into account events and perspectives I heard from my parents and grandparents. Indeed, I once asked my uncle who is approaching his 100th birthday about the origin of his father's strong opinions about Woodrow Wilson, and he didn't know anything about it. I probably had more access to my grandfather's reflections of his later years than my uncle had during the years of daily urgencies characterizing families during childhood years. The point being, if you are a grandparent, those stories may have more impact than it would appear.

So my timeframe is changing. Twenty years ago when writing these reports I was more anxious about quarterly performance. I'm now giving more thought to the investment landscape ten or twenty years into the future. On every trade, the seller thinks it is time to sell and the buyer thinks it is time to buy the same security. While there are many possible dimensions to those respective decisions, differences in timeframe are a legitimate and significant differentiator.

To give some examples, a couple weeks ago I was on a ski trip to Big Sky. The wealth and prices were striking. Would you invest in a ski resort or company such as Vail if according to current climate projections, there may not be enough snow to ski down a mountain in twenty years? (It was already thin.) Would you invest in solar or wind when the intermittency and footprint make it impractical to ever supply the majority of our electricity, to say nothing of the environmental impacts of sourcing and later disposing of the materials? (Read *A Bright Future* by Joshua Goldstein.)

Precision fermentation can now produce from plant products and stainless steel tanks, foods that are hard to distinguish from the corresponding animal-based foods. This may eliminate eighty percent of the agricultural output now fed to animals. I've seen projections of an eighty percent decline in the price of land. Would you buy John Deere? Long-term investors looking at ESG ratings may be right about the long-term future of fossil fuels, but very wrong about the short-term prices they are precipitating.

The chart on the next page is from a presentation given by Rob Arnott of Research Affiliates at a recent online Money Show. To understand the chart, the green line which extends over the full timeframe of the chart reflects annualized earnings yield of stocks in the S&P 500 (almost all of the U.S. stock market).

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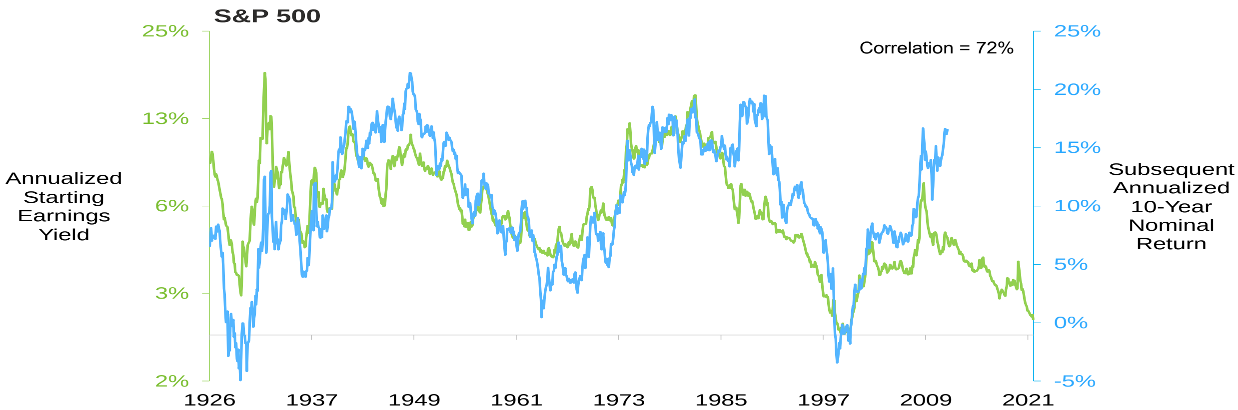
The blue line which ends ten years ago shows stock market prices ten years later. Notice how closely the lines correspond to each other. The takeaway: there is a ten-year lag in stock market prices following stock market earnings. (Picture taking the blue line and sliding it back or to the left ten years.)

If this pattern continues, expect nominal (before inflation) equity returns decreasing over the next ten years to about 2%. How do we cope with that? I'd suggest by adjusting expectations, diversifying, buying value, international and high dividend/interest-bearing securities.

Historical Equity Returns

Starting earnings yield have been highly predictive of subsequent 10-year annualized returns*



Another significant insight from the same presentation relates to bubble tops which can fall precipitously. Often, we don't know when we are in a bubble, although parabolic upward charts are a signal, as are excessive Price/Earnings ratios. Far less risky and more profitable are bubble bottoms characterized by low Price/Earnings ratios. Individual stocks can continue down into bankruptcy, but an industry or sector will revive as they are indispensable parts of our economy. Thus, invest in value rather than growth hyping unrealistic story stocks.

Value outperformed growth most of the time from the sixties through 2006 by a significant margin. In a rare occurrence over the next several years, growth then outperformed value until last fall. This is exemplified by nine of the ten largest market cap stocks in the world now being tech stocks. Tesla would have to grow twenty-five-fold to justify its price compared to Amazon which grew fourteen-fold over a similar time period. Typically, eight out of ten of the largest market-cap stocks are not on the list ten years later.

I have been selling our Louis Navellier growth portfolios and buying fundamentally scored value stocks, plus international stocks or funds which are similarly undervalued. And I've been looking more to the longer term.

Sincerely,

Lee