



## "Mundus vult decipi, ergo decipiatur"

John M. Gustafson – 29 December 2022

*"Seldom, very seldom, does complete truth belong to any human disclosure; seldom can it happen that something is not a little disguised or a little mistaken."* - Jane Austen, Emma

2022 is ungracefully coming to the end much in the same fashion it has drunkenly lurched and twisted forward throughout the year. Nobody will be sad to see the ball drop on Saturday night.

However, it's not just the investment markets that have been terribly underwhelming, it is the continued assault on truth and reality we see growing daily. Technology and the internet were supposed to bring all the knowledge of history and the world to our fingertips, and it has. It has also become an unbelievable tool of division and disinformation that employers of these tactics throughout history, such as Sun Tzu and Adolph Hitler, couldn't even dream of.

Humans are wired to find thematic narratives and to solve problems as a group. Storytelling has been used to transfer knowledge throughout human history and it is partially why the great universities in history were compared using the volumes in their libraries. Now, we all hold those libraries in our hands and the narratives can be shaped into the messenger's desired tale. It has also all evolved so quickly that our brains seemingly can't keep up.

*"People trust their eyes above all else – but most people see what they wish to see, or what they believe they should see; not what is really there."* - Zoe Marriott, Shadows of the Moon

You can observe these negative narratives playing throughout 2022. One side of the aisle is working hard to convince everyone that that sky is falling and it's the end of the world as we know it, while the Pollyanna's on the other side continue to shout that all is well. As with most things in life – neither is fully correct.

A few of the basics where the economic truth is primarily counter to the media narrative...

We are not (yet) in a recession as I've outlined over-and-over. It may well become reality in 2023, and some companies are adjusting their sails ahead of the potential disruptions (mostly in tech & finance) but right now, consumers continue to spend and drive growth.

Just in the past few quarters, we have traveled from a place where everyone thought the Fed was behind the curve, to a Goldilocks situation, to recently believing they will raise rates so harshly that it will cause a recession – as if the financial media are Svengali's and the Fed Governors are foolish rubes looking at different data. Again, the truth is likely somewhere in the middle.

Take a drive down any interstate in America and you will immediately notice the number of semi trucks hauling goods to market. I can recall traveling south at the inception of this firm in the middle of 2009 and there was NOBODY on the road. Goods don't move en masse during a recession – period. Demand evaporates.

The border remains a problem but sadly nobody in either the Legislative nor the Executive branches seems interested in actually doing anything sensible about it. (A Senate amendment to the latest Omnibus bill proposed by wacky Sen. Sinema that actually took reasonable steps – and significantly funded – border protection, agents, holding facilities and immigration services was voted down by both sides.) And the reality remains, if we choke off all immigration regardless of source – which is what has happened over the past few years – we are doing irreparable harm to our own economy because we don't have enough organic labor to support increasing growth.

This is one thing that concerns me almost the most going forward. The inability to hire quality employees guarantees the inability to grow an otherwise successful business. And it also keeps significant wages from circulating in consumer pockets.

Finally, inflation... We spent over a decade watching anemic growth and well-below historic norms of inflation coming out of the Great Recession. A period so destructive that only the 1930's was worse. Then, just as things had begun to normalize (rates, growth, etc.) the global pandemic hit and shut everything down. The economy was kept alive by a firehose of liquidity that went too far. That caused an explosion of growth at a time when the supply chain couldn't keep up.

As predicted in these notes earlier this summer, those forces have now come more into balance and the pace of inflation has once again slowed. Year-over-year comparisons will become more difficult in the coming months as month-over-month comparisons have flattened for the last half of the year.

Does it hurt? Of course...Everything costs more. Is it going to burn the place to the ground? Unlikely... Especially if you are in the camp that believes the Fed is now going to keep their foot on the brakes indefinitely. Volker showed us that you can kill inflation with interest rates – it's much easier than artificially sparking growth over the long term.

*“When one with honeyed words but evil mind persuades the mob, great woes befall the state.” - Euripides, Orestes*

Another positive development going into 2023 is the fact that the lame duck House & Senate did pass a bill to keep the lights on for the foreseeable future – and also seemingly patched any potential holes in our system that were uncovered on January 6, 2021.

The recent elections were all about the negative economic messages as outlined above, but all the coming agenda seems to show is that the grievance circus is coming to town and there is unlikely to be any actual legislation passed – for anything. But that is how we raise money in politics and that – since the death of McCain / Feingold - is the mother's milk of American government.

In terms of economics and investments, that's not necessarily a bad thing. Gridlocked legislators may not do anything positive, but the usually better part is that they can't do anything economically negative either.

*"Falsehood flies, and truth comes limping after it, so that when men come to be undeceived, it is too late; the jest is over, and the tale hath had its effect."* - Jonathan Swift

It is in these present times I find myself turning away from any "opinion" media – which generally describes most of what is out there these days. I look at numbers, I try to track actual behavior vs what I'm being told is happening. For example, testimony under oath with the consequence of jail will always override any narrative on TV or in print.

Again, as stated in previous missives, this doesn't mean that things can't be spoken into existence, but when the actual results and numbers don't match the narrative, I generally stick with the numbers. (Both high and low)

For example, the year is sliding to a close in the same manner that the last quarter and the one before it did – with a window-dressing, sell-off. Short term traders who need to report positions at the end of the year like to clean things up to "prove" they didn't get caught wrong-footed like everyone else. (Despite the fact they report similar performance.) That is why I expect, just as we had the past couple of quarters, a healthy rally to begin the year. Can it be sustained more than a dead-cat bounce? Maybe, but that will depend quite a bit on the Fed and which narrative takes root and most affects our short-term behavior next year.

*"In the business world, the rearview mirror is always clearer than the windshield."* - Warren Buffett

Most of you reading this have been with me for at least a decade, many for over two (and one in particular just hit 30 years in October) and all of you should know by now that I'm a realist. This is the worst year in the markets since 2008 & 2009 and it is also not nearly that bad nor damaging to the future as that complete system failure was. Neither is it as bubbly of a problem as the end of the 1990's / early 2000's proved to be. And we survived both of those environments and came out ahead each time. (It is also why we always seem to hold more of a cash position than general investment principles would dictate.)

Like Warren Buffet and Charlie Munger, I believe that will be the case this time as well. 2022 was a very volatile and bifurcated year. Everything moved with historic swings – both up and down. We will be doing a full rebalance early in the year after evaluating what worked, what failed and if any significant changes need to be made to navigate the choppy seas. Stay tuned...

Thank you as always for your trust, friendship and your business. If you need anything, as always, I am merely a phone call or email away. Cheers to a more prosperous 2023!