FREE

THE CLIENT LETTER

MONTHLY NEWSLETTER

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"If It's Bought Right, It's Half Sold"

-Cal Turner, Sr. Dollar General founder

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In 1993 I was lucky enough to be introduced to a few Dollar General executives who became clients – some have since become longtime friends. In those days, the home office was in Scottsville, KY, the stomping grounds for the beloved founder, Cal Turner, Sr.

Upon entering the home office, a framed quote hung in the entrance that said: "***IF ITS BOUGHT RIGHT, ITS HALF SOLD".*** This was a brilliant move because most of the outsiders coming through those doors were vendors seeking to sell their wares to a national retail chain. This quote put them on notice that they were about to be put through the ringer on pricing.

This quotation has pervasive application in most every purchase or investment - especially in a bear market. And yes, that is what we are in, a good old fashioned bear market.

First some background. Bear markets are generally defined as when stocks fall at least 20% from their highs. As of this writing the S&P 500 is down about -21% for the year. In fact, it is statistically the worst start of the year in the overall market since 1970. Of course, there have been worse six-month periods. During the 2008 financial crisis, for example, there were several six-month periods in which markets fell 30% or more - but none that fit neatly into the first two quarters of the year as this one has. Not gonna sugar coat it, it sucks.

But it's also the natural order of things. Markets enjoyed 3 consecutive years of positive returns in 2019, 2020 and 2021. During this time markets appreciated with unprecedented amounts of liquidity sloshing about the system. Folks, no tree grow to heaven. Now, in order to fight inflation, the Fed must remove that excess liquidity through interest rate hikes and balance sheet reduction. The fear for investors is that this will induce a recession, defined as two consecutive quarters of negative economic growth - something I believe is all but assured in order to bring inflation under control. But that's not the end of the world, it's simply called "the economic cycle" and has been around since the dawn of capitalism.

The question then becomes, how much should stock prices fall in order to accurately reflect a slowing economy? Historically markets have declined by an average of -30% ahead of a recession. With a loss of -21% currently, I feel like we have seen a good bit of the damage done already, just maybe not quite all of it. I would not be surprised to see one more leg down in order to shake out the riffraff and frighten away the short-term investor that doesn't necessarily belong in the market in my opinion.

This leads me back to the title of this missive. As stock prices (and the price of any investment asset for that matter) decline, the level of risk ***actually goes down, not up***. Remember, stock prices do not go to zero, they simply adjust to the perceived earnings environment in the immediate future. The lower the price an investor pays to purchase an investment, the less downside risk to which they are exposed. That's just math. If I buy XYZ stock at $100 and you buy it at $80, you have less downside risk than I do. Its that simple…***If it's bought right it's half sold.***

I have been through four recessions in my career and seven declines in the stock market of 20% or more. Each one of them felt terrible and each one of them turned out to be a good buying opportunity for the long-term investor. I feel like this one will be no different. Do I know precisely when the market will bottom? Of course not. D o I know how much more pain before we bounce off that bottom? Nope. But I can say with 100% certainty that the market will not stay where it is right now.

Personally, while I think there may be one more leg down, I also would not be surprised to see a nice rally in the fourth quarter as the market looks past the recession to possible Fed rate cuts and recovery. I've seen that playbook several times in my career, where markets look terrible mid-year but finish the year less terrible. For example, at the time of this writing, the market as measured by the S&P 500 is down about 21%. Yet according to S&P, only ***four*** times in the past 85 years has the market closed ***down*** 20% or more for the complete calendar year. In fact, in 1970, the last time the market had a six-month start as bad as this year, it actually closed ***up*** 4% by the end of the year. Of course, no one can predict where we will finish this year and past history is no guarantee of a repeat performance - but even if we finish down -10% for the year, that would still represent an +11% increase from where we are now. And as a trusted advisor that follows a fiduciary standard for many clients, I am hesitant to risk missing that bounce or recovery whenever it comes.

Statement values for the second quarter will look lousy, and a bear market will tempt you into acting irrationally. Don't let that happen. I contend proper diversification, a time horizon greater than a few quarters and conquering one's emotions are the best ways to ride out yet another market downturn. And if you have excess cash, I feel like this market will provide a great opportunity to invest at attractive prices. As well-known investor Shelby Cullom Davis once said: ***You make most of your money in a bear market you just don't realize it at the time***.

Cole's Comments

Hey folks, As soon as school ended, my family and I took off for a week in Hilton Head Island, SC. Pictured is my middle son, Cohen (5), at a local ice cream shop called "The Cinnamon Bear." While we weren't officially in a bear market at the end of May, now we are. Bear markets can be scary. Brick, Edie and my experience has taught us that maintaining a balanced all-weather portfolio and practicing a little patience (which can be tough) may be key to long-term investing success. According to a recent article from Capital Group: ***Since 1950, the average one-year return for the S & P 500 Index following a midterm election is 15%.*** So stay invested and focused on your long-term financial goals. As Brick mentions above, we may be seeing a good buying opportunity created right before us, so call us if you would like to discuss capitalizing on the opportunities the market may be giving us. Hope you're having a great summer so far!

As always, we thank you for your business, your friendship and the trust you place in us. Feel free to share this letter with anyone you feel may benefit. Edie, Cole and I are happy to answer any questions you may have. Until then, wishing you health and happiness.

Regards,

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