INVESTMENT VIEWS

OCTOBER 31, 2023

CRISIS IS THE NEW NORMAL

It seems as though our world is now constantly in crisis. Daily headlines from the media feed us stories of tension, conflict, war, and other alarming issues. Indeed, there is a growing climate, both in our daily lives and as investors, of crisis. This is a theme that we have been focused on for a few years now and believe will continue for several more years.

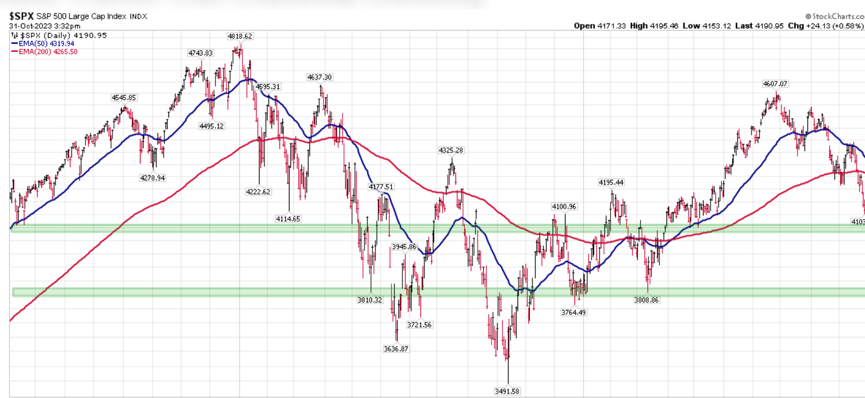
Some of the concerns that we regularly discuss in our newsletters include:

- Potential fiscal and debt crisis for US Government
- Banking problems related to interest rates
- Energy shortages – including oil natural gas and electricity
- Food shortages or higher prices for food (depending on which country you live in)
- Geopolitical tensions and potential war scenarios
- Domestic political tensions

Implications for investments include the expectation of continued market volatility, a break in the correlation of stock sectors and even among individual stocks (a stock pickers market), a thoughtful and creative diversification plan, certain caution and certain bravery. In historical terms, this is not anything we as a society has not been through in the past, and surely this time of crisis will be resolved and we will move forward into good times again. In the meantime, investors should adopt an attitude, a mentality of seeking the best, seeking opportunity amidst the ebb and flow of turmoil.

TECHNICALLY *Speaking*

October Action Turns The Outlook Gloomy



With the S&P now below its downward sloping key moving average and making lower highs and lower lows, it is going to take some time to digest this correction. A general rule of thumb is that nothing good happens below the 200-day moving average. Another rule is that downward sloping averages tend to be strong resistance. With the market in distribution mode, we might need to prepare for some "scary" downside targets for the market. The first target might actually be refreshing as we are nearly there and that is the 4050 level. This corresponds nicely with a 50% correction of the rise from the 2022 lows to the peak in July of this year. The next targets are not as rosy near the 3800 level and are at the 62% correction. This also is the lows hit several times in mid 2022 and early 2023 which should be solid support. If there market were to get this low this should be a solid area for a very sustainable bounce as this kind of sell-off would likely accompany more healthy breadth as money rotates out of mega cap stocks.

GOLD AND SILVER ARE PRECIOUS AGAIN

2023 is turning out to be another tumultuous year for many areas of the stock market. In contrast, gold and silver have fared well this year, with gold being up over 10% so far and silver holding in at about unchanged. Many investors had questioned gold as an inflation hedge as it initially fared poorly as interest rates pushed higher (real interest rates and gold prices are usually inversely correlated). However, it appears that investors are coming to grips with the new reality of the world that we live in.

We have written on numerous occasions about the growing crisis environment that we are finding ourselves in. Gold and silver are both known to have a long history as money, or as investments to protect against uncertainty. They fill a unique role in being relatively scarce, universally accepted, and easily divided and transportable. Both seem to be taking on those roles again as uncertainty grows not only here in the United States, but also in many other areas of the globe. As we write, gold is attempting to close October above $2,000 per ounce.

NEWMONT

Rising From The Rubble

As one of the largest gold miners in the world, Newmont Mining (NEM) has put in a horrific performance for investors over the past few years, declining 57% from its high in early 2022. Don't count this miner out yet – NEM will soon close an attractive acquisition of Newcrest Mining, adding numerous Tier 1 (low cost) mining properties to its portfolio. With a strong balance sheet and a large portfolio of non-core mines to possibly divest, NEM is well positioned for a turnaround as gold prices move higher.

PAYPAL

More Pain Ahead

We recently added Paypal (PYPL) to our portfolios after a breathtaking decline of over 80% from its high in late 2021. The stock looked attractive by many different metrics and certain indicators supported the idea that the painful decline was over. Recent further weakness is now suggesting that the selling may not be done yet and PYPL prices may reach lower lows. However, this is very likely to be a case of capitulation, where the very last legacy investors are so demoralized that they do not care about value or fundamentals and just want the pain to be over. We see this as another opportunity.

INTEREST RATE OUTLOOK

We wrote last month about the Fed proclaiming that expectations should be for rates to stay higher for longer. Another Fed meeting is coming up and the expectations are for the Fed to stand pat, but rates will likely remain stubbornly high. A stronger than expected economy in the is part, but another part is the aggressive borrowing forecast by the Treasury to fund federal spending which is causing a supply to exceed demand for bonds. Weaker demand from overseas is exacerbating this as well. To bridge this gap, the term premium is needed to stay high to entice people to buy linger dated treasuries. Economic strength and higher term premiums are causing the yield curve to un-invert (longer dated yields moving higher than shorter yields), something that is usually accomplished when the Fed cutting rates due to recession. It is possible that this "fixing" of the yield curve will lead to the soft landing the Fed (and investors) have been hoping for. Interest rate forecasting models are calling for a peak in rates soon and then falling in 2024-2025 with a resumption in rising rates in 2026-2027.

& Associates

MH & Associates Securities Management Corporation
2888 Loker Avenue East, Suite 318 • Carlsbad, CA 92010
23901 Calabasas Road, Suite 2005 • Calabasas, CA 91302
(626) 440-9694 • www.mhinvestments.net