INVESTMENT VIEWS

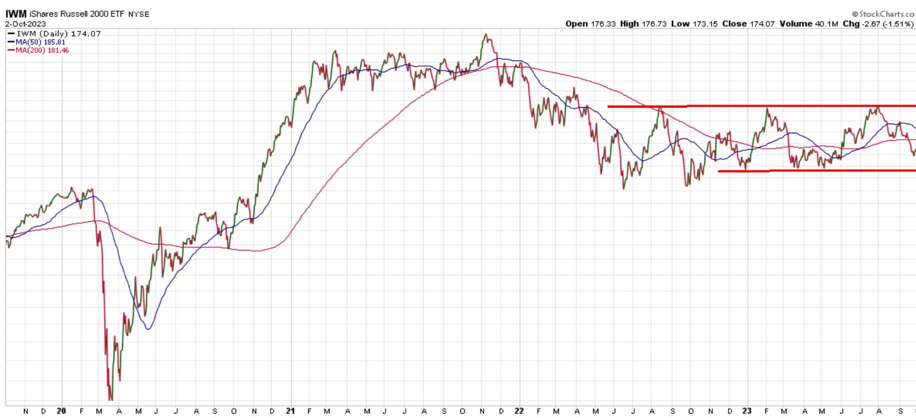
SEPTEMBER 30, 2023

TECHNICALLY *Speaking*

September Historically The Worst For The Market

Traditionally, September is the worst month of the year for the stock market. A good amount of this is likely due to many hedge funds and mutual funds having their fiscal year end in September. This contributes to lot of year end tax loss selling, thus a weak market. Right on cue the S&P 500 put in lower lows for nine consecutive days until finally printing a higher low on Thursday the 28th. This kind of action has happened only 13 times in the last 60 years. The most consecutive lower lowers we have seen in that time frame is 12 consecutive days, so this years result is right up there with the worst. On the positive side, since 1975, the market has been higher 3 months and 6 months later 100% of the time. The median return 3 months later was a positive 8% and 6 months later a positive 17%. On an even better note, the market 12 months later has had a median return of positive 22%.

The market is not going to be capable of such returns going forward unless more stocks start to participate. **The markets performance has been dominated by the "Magnificent 7 stocks" (Meta, Apple, Amazon, Google, Microsoft, Nvidia, Tesla). In 2023, these stocks have contributed +9.9% of the 10.6% the index has returned this year. The other 493 stocks in the S&P 500 are contributing just +0.7% of the gain in the index.** The Russell 200 Small Cap index is up just 1.4% in 2023 and has been underperforming the S&P dramatically since March 2021. After a 32% correction from late 2021 through June 2022, the Russell has basically gone sideways since then. As you can see in the chart above, the Russell has yet to make new highs this year and is closer to testing its recent lows. The failure of this index to breakout will also hold back the S&P from breaking out to new highs. However, a breakout for small caps can act as the leading indicator for a sustainable bull run in the S&P which can lead to the type of gains mentioned above.



OPPORTUNITY IN CHAOS

During these volatile times, it is important that investors are mentally prepared to take advantage of trouble, panic and confusion. Whether it is geopolitics, national politics, economic problems or financial panic, investors should be ready to look for opportunities in the midst of chaos.

With that idea in mind, we are watching the action in commodities including oil, natural gas, copper and other industrial metals, agricultural commodities and even gold and silver. Thes assets are volatile and are sensitive to economic growth expectations. While economic growth may be currently in question, we remain focused those ideas which we believe will create value for our investors over the long term.

NUCLEAR ENERGY UPDATE

Since we began writing about a nuclear energy renaissance a few years ago there has been major revival of interest among investors. Briefly, the nuclear energy sector went through a painful decade after the Fukashima disaster in 2011, causing many nuclear power plants to shut down across the world and very few new plants to be built in the western world. However, as governments continue to pursue the climate change agenda, many leaders realize that greatly reducing or eliminating carbon dioxide emissions can only be achieved using carbon free nuclear power.

This year has seen real excitement for nuclear energy return among investors. Starting with the price of uranium oxide, which has over tripled from a low of around $20 per pound to a recent close over $70. Uranium mining stocks, with Cameco being among the largest, have had a very strong run this year. Several other nuclear-related names are doing quite well with Centrus Energy and BWX Technologies each up over 30% YTD.

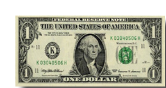
A recent positive development is Poland ordering 3 new massive reactors from Westinghouse, along with several small modular reactors to drastically reduce energy dependance on Russia. It is expected that such action will be repeated by other European nations as the continent moves away form Russian natural gas supplies.

A WORLD OF FIAT CURRENCY

For the past several decades the currencies of the world have been “fiat currencies.” Fiat, meaning “by declaration” are paper-based currencies that have no value other than what a government says they are worth. Even the US Dollar, once backed by gold, is now nothing more than paper and backed by confidence in the US Government itself.

Fiat currencies seem to work well for a while, however since the COVID-19 Pandemic left the world with huge government deficits and persistent inflation, many nations as well as citizens have been interested in more traditional currencies such as gold, silver and other metals. We observe that fiat currencies have been tried for thousands of years and are never successful in the long run. As the value of paper currencies diminish (as demonstrated by higher prices for labor and real goods) the allure of monetary metals will gain increasing attention from investors.

Paradoxically, the US Dollar may rise in value as fewer nations use it for trade as less trade means fewer US Dollars in global circulation, while trillions in global debt is denominated and serviced in our currency. Note, we are not forecasting an imminent decline in the US Dollar or any currency, but rather are calling attention to a longer-term theme that investors should be aware of.



HIGHER FOR LONGER

Now that the Federal Reserve has professed to keep interest rates higher for longer in their fight to maintain price stability, it appears that inflation will also live by that mantra. Employment numbers coming out this week continued to show historic strength. The latest reports show 204k workers filed for unemployment insurance last week, easily beating estimates of 214k and is the lowest amount of filers since January. On a rolling month over month basis, the numbers are some of the lowest we have seen in over 50 years. Even if the belief is these numbers are being misreported to some extent, they are still extremely strong. Employers do not want to get rid of workers as they have been tougher to come by and are also having to pay them more as workers have more leverage when the labor market is tight. While this is definitely a positive for the economy as unemployment remains low and wages elevated, it certainly means that inflation will remain sticky and interest rates will remain elevated.

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