MONTAG

Viewpoints

FIRST QUARTER 2022

"Do me a favor and talk about the warm weather and the buds and the blossoms, but don't talk about the first robin of spring."

Sidney Harris/Cartoon Collections—Used by permission

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WELCOME — *Ned and John Montag*

Like the rest of the nation, as we emerge from the pandemic, we arrive somewhat changed. Much of this has to do with changes in other people, other places, and society in general. And of course much of it has to do with changes internally, from experiences we never anticipated. Bringing our "renewed" selves into a different world is both exciting and frightening, but we are reminded with the onset of springtime that this is how the world works. Renewal is a recurring and seasonal pattern, and we are grateful for another chance to make a difference in this world. Rest assured the people at MONTAG work every day to make such a difference, for clients and their families. And while we, too, have begun emerging into this very changed world, we recognize the goals of our clients have not really changed. Confidence in the future and financial security remain paramount. We are reminded of this all too much by the events of the last few years. But going the distance is what we do, and with springtime now blooming here in Atlanta, we are hard at work, as usual.

MARKET OBSERVATIONS — *Chris Guinther*

Let's begin by noting the turbulent 2022 first quarter's market numbers through 03/31, all three of which were negative:

	Q1 2022
S&P 500	–4.6%
DJIA	–4.1%
NASDAQ	–8.9%

With the Economy Strong, What are the Market indicators Saying?

The Economy is still strong and growing but the indicators we use to determine if stocks look attractive the next few years unfortunately are not.

Don't shoot the messenger, but our view of stocks is... meh. As we look back at the past 100 years of peaks and troughs in the markets, and evaluate key metric levels and trends that tend to signal good environments for stocks, we're seeing a mixed bag, which leaves us without much conviction. Can stocks rise from here, of course, but let's look at the bull and bear case to understand how much risk we should be taking right now.

Sentiment

Like they say, if everyone else is selling, you should be buying. The reverse holds true too. Right now, as we evaluate 'investor sentiment', which is a well understood contrarian indicator, it's mixed. Investors broadly speaking still have high allocations to equities, but they also have a high level of cash and bonds in absolute terms. Long term surveys of sentiment fell from very high levels at the end of the year to extreme pessimistic levels by the end of January and remained especially low when the war started in Ukraine. Sentiment broadly speaking though moved back to middling readings by late March. All these mixed messages on sentiment leaves us uninspired on this measure. Contrast this to the terrible sentiment in March of 2020 which was a much clearer "buy" signal. Sentiment has been an important determinant for understanding when opportunities exist, but when sentiment is at extreme levels we need to rely on a broader collection of indicators to give perspective to the current markets.

Earnings

The price you pay for a stream of earnings or dividends and interest of course matters too. While earnings have certainly been strong the past 2 years, and they are far higher than before the pandemic began, now, the price we're having to pay for stocks in terms of their P/E (Price to Earnings) ratio is

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MARKET OBSERVATIONS *continued from page 1*

still historically very high. In fact, the only time P/E's have been higher for the S&P 500 was back in the internet bubble period around 1999 and 2000. It's easy to understand that paying such high prices tends to mitigate investment returns.

Watching the Fed

Most investors know all too well the saying "Don't fight the Fed". Let's take a look at how this key metric looks today. The Fed sure came to the rescue in 2008, and then again to help get us through COVID. Now that we are past this crisis, the Federal Reserve is beginning to pull back stimulus. Everyone knows interest rates have been unnaturally low and need to rise, but also the FED is beginning to slow and eventually stop quantitative easing. Both FED changes combined are removing a big tailwind for earnings and has already stirred the markets volatility year-to-date. One thing to remember is that just as investors learn from history over time, so too does the FED. Hopefully, the FED doesn't withdraw too quickly and manages to stick the landing. Of everything going on in the markets, how well the FED handles inflation and reduces the stimulus is probably the most important thing to watch over the next 12 months.

Interest Rates

Interest rates have more impact than many people realize. Even though the average consumer in the U.S. has de-levered materially since the housing bust in 2008, interest rates will tend to impact the rate of growth and valuations for securities. The stock market will have notable downside risk if the FED has to raise rates in 2022 more than is already expected.

Inflation

Investors worried about systemic inflation should work with their advisor on ways to protect from downside risk and/or generate good returns in a rising inflation environment. We're on the fence right now as to whether or not inflation has already been priced into industries like materials, energy and defensive sectors like staples and utilities. Adjusting portfolios for or against inflation appears to be a riskier decision as those positions will certainly be volatile over the next 12 months. The best bet may be to play it down the middle and don't assume inflation will be hotter or cooler than is already anticipated in expectations for most any security.

Summary

There are always many moving parts when considering securities and the current investment landscape. Part of our job at MONTAG is looking at the weight of the evidence and managing the risk to individual securities as well as the markets as a whole. We are in uncertain times and the risks, although unique, also have similarities to historical events which we can use to gain perspective. We aim to minimize some of the noise by utilizing indicators and experience, not emotion, to make prudent decisions on behalf of our clients and their portfolios. Stay tuned... M

Chris Guinther is Senior Investment Strategist & Portfolio Manager

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The information provided is for illustration purposes only. It is not, and should not be regarded as "investment advice" or as a "recommendation" regarding a course of action to be taken.

GEOPOLITICS AND MARKETS — *Ned Montag, CEO*

It was another Vladimir, this one named Lenin, who said, *"There are decades where nothing happens, and there are weeks where decades happen."* He was referring to the Russian Revolution and World War I, long ago, but the quote seems to fit the chain of wild and shocking events of the past two years. Since March, 2020, we have witnessed a worldwide pandemic that, two years after its onset, still rages in many places outside the U.S.; videos showing the murder of U.S. citizens at the hands of rogue policemen and self-appointed neighborhood guardians; a rampant escalation in violent crime; a presidential election with widespread challenges alleging fraud and ultimately the defacing of the Capitol by an angry mob; and now the invasion of a sovereign state by Russia, whose aim is to restore an autocracy that fell 25 years ago.

The war in Ukraine, first and foremost, is a human catastrophe, pursued by an authoritarian despot. But it is also a challenge for business leaders and investors to understand, since Russia produces vast amounts of oil, refined gasoline, gold, nickel, fertilizer and coal, and since its neighbor Kazakhstan is the world's leading producer of uranium. If Putin remains in power, and the West curtails purchases of Russian raw materials, the world economy may suddenly fall short of these materials, with more inflation and pinched consumer budgets likely to follow. If inflation stays high and interest rates rise, the first quarter weakness in the stock market will likely compound.

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If we invest in companies that are nicely protected from competition and provide important products or services, we expect to do well over long periods

DID YOU KNOW?

Few beers are as quintessentially "American" as Budweiser. The lager was introduced in 1876 by Carl Conrad & Co. of St. Louis, Missouri, and Budweiser has become one of the largest-selling beers in the United States and is available in over 80 countries.

Budweiser is a filtered beer, available on draft and in bottles and cans, made with up to 30% rice in addition to the hops and barley malt used by all lagers.

Its familiar label is one of the most iconic of all time. Which of the following is Budweiser's slogan?

A. "Perfect Shot of Refreshment"

B. "Beer of Kings"

C. "Champagne of Beers"

D. "King of Beers"

(Answer on Page 4)

"The money vein runs through the heart."

- Tony Montag, Founder

EMOTION, MARKET VOLATILITY, and your PORTFOLIO MANAGER

Emotion is defined as a *"natural instinctive state of mind deriving from one's circumstances, mood, or relationships with others."* During these trying times in the world, emotions are energized in many ways and people are looking for ways to reconcile in their own brains on how to react to all of the data which is thrown at us day in and day out. It is only natural to have emotional highs and lows, but it's also important to have a way to look at things through a lens which will bring appropriate perspective. In many cases, people might need to seek professional help to act as a sentinel and help them to navigate the twisting roads ahead.

When looking at the world and the financial markets, big questions during these times include, "Am I OK, and how do I live with this volatility now that I am on a fixed income or in retirement?" As we accumulate wealth, the shock absorber in our brains allows for our emotions to stay in check for the most part and even look for opportunistic investments along the way. As we reach retirement, the shock absorbers tend to be a little more worn out and bumps in the road which seemed small, suddenly seem like potholes, which can cause us to veer off course.

The longer I am in this business, the more I have learned how important it is to have a professional portfolio manager in my corner to help nurture my relationship with money and wealth. Tony Montag, founder of our firm, has many interesting ways of evaluating people and their relationship with money and investing. The one that has stuck with me is a favorite saying of Tony's, *"The money vein runs through the heart."* This vein is very susceptible to emotion and when volatility picks up, the heart beats faster, our instincts push us into reactive mode, and then potentially we make choices which may not be in our best interest. Being mindful during these times will be a key to getting through accepting and understanding the volatility and chaos, thus avoiding the potholes in the road.

This chart below, which has been shown throughout the years, shows the emotional rollercoaster which people ride through the ups and downs of the markets. These are natural instincts which we all have and will tend to fall back on. Understanding the emotional lifecycle of investing will hopefully allow people to make rational decisions which are in the best interest of their investment portfolio, but emotion is a strong force.

Larry Mendel is VP of Sales

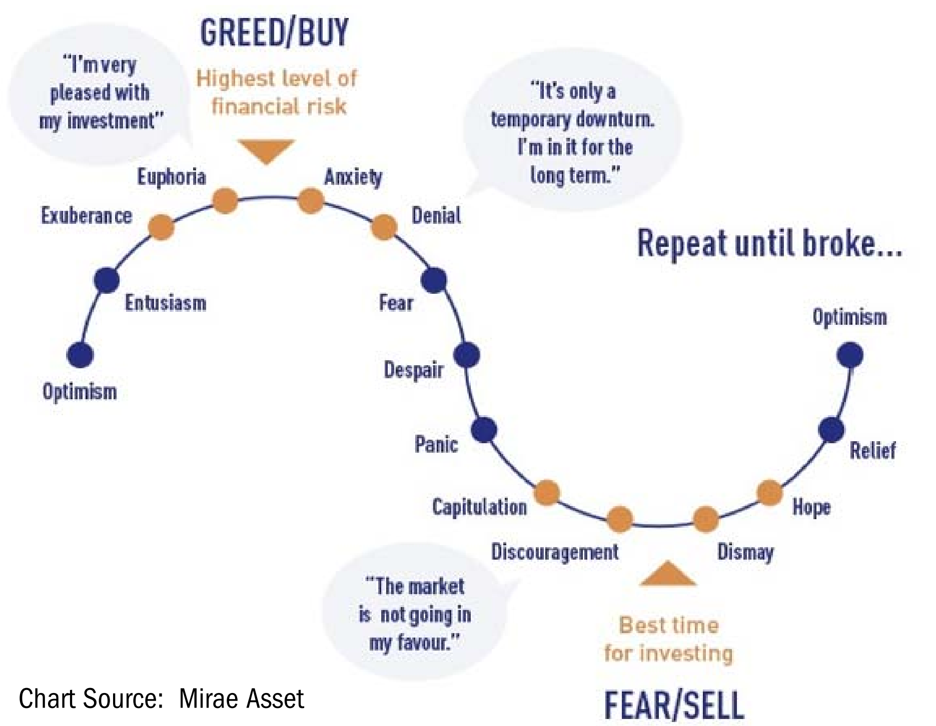

Chart Source: Mirae Asset

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GEOPOLITICS AND MARKETS *continued from page 2*

For hundreds of years, the U.S. and other nations have been integrating their economies into one global system through international trade, a trend greatly accelerated by the President Reagan's "free trade" policies in the 80s, policies sustained by subsequent presidents of both parties. Tariffs fell and trust in international partners grew. A global interdependency was built that will be both painful and chaotic to unwind. The West, mostly Europe, relies upon Russia for refined gasoline, natural gas, fertilizer, and many metals. If China becomes embroiled in Russia's conflict or supplies trading to support Russia, or if China acts against Taiwan militarily, the West may be at risk of losing access to the world's largest, critical semiconductor manufacturer, Taiwan Semiconductor. These displacements would be far more than inconvenient. Russian natural gas and gasoline could eventually be replaced with other sources, but replacing semiconductor production from Taiwan Semiconductor would take a great deal of investment and a decade to complete. (According to President Biden, 90% of the world's most advanced semiconductors are sold by Taiwan Semiconductor, a capability that China surely covets.) And a P.S. to environmentalists: any effort to sanction China for future misconduct would place the world's largest exports of rare earth materials at risk. Rare earths are used for motors and other high tech applications, including electric cars and renewable energy projects. You could say that the world has moved from unpredictable to ridiculously unpredictable.

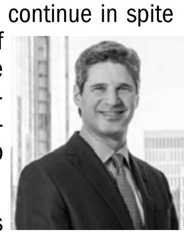
Given the increasing inability of anybody within or outside of Wall Street to predict the future, or even next week, in a world full of "unknown unknowns", how does an investor go about making prudent investments? One answer, the approach taken by legendary investor Warren Buffett, is to buy companies that are structurally advantaged and therefore somewhat shielded from decay by the normal forces of competition and innovation. For example (and this is NOT an investment recommendation, just an example), there are only four major railroads in the U.S. now. Given the effort to install them, there will be only four (or less) many years from now. When shipping or receiving large quantities of bulky and heavy materials, shipping by rail is the most common method. Freight tonnage changes from year to year based upon changes in demand, but all rail shipping will surely be doing more business in the future, not less. Another example are the credit cards companies, built and run on digital "rails" linking customers, retailers and banks to complete transactions. These networks are crucial to commerce. While Silicon Valley entrepreneurs are trying to peel off some of these network's revenues, the advantages maintained by the incumbents are daunting. Finally, for very conservative investors, your own power provider is probably a regulated monopoly. Although electric utilities require government permission to set rates, they are nevertheless largely (not completely) immune from competition. They usually provide a fairly low risk way of investing for moderate investment returns. Once again, these are not recommendations, but they do illustrate that some businesses feature very durable business models.

The key consideration for investors with the "structural advantage" approach is simply the price that you are willing to pay for this consistency. Some "unstoppables", largely in the tech sector, have already moved to price levels that recognize a great deal of future growth potential. In this spring's annual letter to Berkshire Hathaway shareholders, Buffett noted that Berkshire was holding cash in the amount of $144 billion (yes, billion). Buffett noted that Berkshire could be buying publicly traded stocks like you or I could, but he said that "*today …we find little that excites us.*" If investors pay too high a price, even great companies may not become great investments. Indeed, market tops are all about investors overpaying for popular stocks and market bottoms, the reverse.

At this writing, the S&P 500 Index has declined 4-5% in 2022. Pessimism is the fuel of future bull markets, and pessimism has been slowly building with all the world's problems on full display. The highly popular but unprofitable "unreality" stocks mentioned in the year end note have done far worse in Q1-2022, with many unprofitable, futuristic stocks generally relinquishing their extraordinary gains. Investors have also begun to spurn stocks associated with "the metaverse." Unprofitable companies have now become *very* unprofitable stocks.

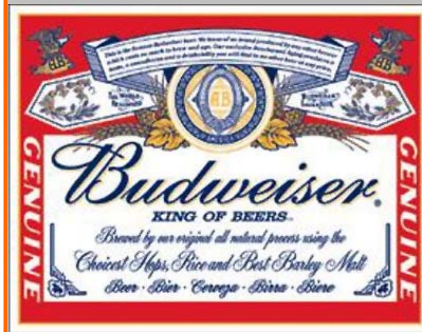
If the stock market is ever correctly priced, it is generally an accident and won't last. World economics and geopolitics are far too complex to call with any reasonable precision. Thus, the cycle of undervaluations (bottoms) followed by overvaluations (tops) and back again will continue in spite of anyone's hopes to tame it. If we invest in companies that are nicely protected from competition and provide important products or services, we expect to do well over long periods.

Thanks for trusting us with this important work. M



Ned Montag is CEO

DID YOU KNOW? *(from page 3)*



Answer: D. "King of Beers"

Since the 16th century, the beer from the Czech town of Budweis was known as *"The Beer of Kings."* Adolphus Busch had some fun with this and labeled his Budweiser as *"The King of Beers."*

Other notable advertising taglines include *"For all you do, this Bud's for you"* and *"When you've said Budweiser, you've said it all."*

Answers A and C are the slogans for Coors and Michelob beers, respectively. M

Source: coolmaterial.com

A PARTING THOUGHT

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