

March 28, 2022

Hello Friends,

I've really struggled with this letter. I've been adding, deleting, and revising for about a month and am unable to formulate an opinion on the market. On one morning, I'll start the day worried about nuclear Armageddon and the next day I'll be convinced that we are in the golden era of mankind with unlimited creativity and innovation. Perhaps I'll have better clarity next quarter, but with this letter I'm going to try and lay it all out straddling both sides.

For the past year, during periods of market strength I was adding short positions on the Dow (symbol DOG), short S&P 500 (symbol SH), and short NASDAQ (symbol PSQ). As a reminder, short positions go up when the market goes down. I've successfully traded out of those short positions in February and March for a few modest profits. However, those profits were not enough to offset the sharp decline in several of the stocks that comprise many of the portfolios that I manage. At this writing, I have no short positions and am inclined to allow the market volatility to play out for the remainder of the year without any new short positions.

According to my Stock Market Almanac source, the Dow has dropped about 20% on average from its post-election year high (2021) to its subsequent low in the following midterm year (2022). The Dow's 2021 high was 36,952 and 20% lower from there would put the Dow at about 29,500. The Dow finished on this date at 34,955.89 which would suggest that there could be more downside ahead if the historical trend holds true. The other side of that trend is that the Dow has advanced over 40% from the midterm election year low to the following pre-election year high. If that scenario plays out, the Dow could trade to 40,000 sometime next year. As of this date, the 2022 intraday low for the Dow was 32,272 on 2/24/22.

I'm prepared for a challenging year, but I also prefer to continue to own most, if not all my existing positions through a period of a market decline. On those inevitable ugly days, I intend to accumulate more shares of my favorite stocks. For what it's worth, April is the best performing Dow month going back to 1950, which happens to be the year I was born. That's a good starting point.

The biggest headwind facing the market is inflation and the Fed's commitment to raise interest rates. The first rate hike happened on 3/16 and the forecast is for another six rate hikes at each of the upcoming Fed meetings. Higher interest rates, and higher inflation is not favorable for equity and bond markets. This would suggest caution and the only asset class that usually performs well in this environment is cash.

Without a doubt, society is being transformed in a massive way. I've identified four themes including Artificial Intelligence, Metaverse, Blockchain and Cloud Computing. I'm old, and sometimes I have a difficult time understanding it all. I've asked my grandkids to explain the Metaverse and Blockchain and I still don't get it. But I understand with perfect clarity how to enter an order, and these are the investment themes that I want to have some exposure. I've attached a brief shopping list including twelve different stocks that fit into one or more of those themes. There are hundreds of other choices, but I can't own them all. A year from now, I'll report back on 4/1/2023 and provide the rate of return on each stock relative to the market averages. All of those stocks can be risky and volatile, and I'll continue to balance that risk with a blend of other more conservative choices.

On a side note, I manage each account on an individual basis. I have no model portfolios and I do not implement a one size fits all portfolio strategy. I spend a lot of time at this and am giving everyone my very best effort. For whatever reason, the number of accounts that Jessica and I manage has doubled and our assets under management has tripled since getting out from underneath Big Brother in 2013 and all their nuisance fees. We are extremely grateful for the trust and confidence that you have placed with us, and we continue to do our best not to disappoint. If we have not had a recent conversation about your risk tolerance and investment objectives, please call or email at your earliest convenience. Thank you.

Sincerely,
Jim Aljian



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