July 18, 2023

Dear Fellow Investor:

Recession JUST AROUND THE CORNER! Inflation HIGHEST SINCE THE 1980S! Interest rates blasting off like a battery of Ukrainian HIMARS! Ukraine blasted off the face of the earth in the biggest war since 1945! China ready to gobble up Taiwan like a bag of Doritos! In 2024 it's looking like, gasp, Trump vs. Biden AGAIN!

These give the gist of 2023 headlines, and I think you'll agree, these are not headlines we expect to accompany a stock market up more than 15% since the beginning of the year. NASDAQ, the tech-heavy over-the-counter market, is up 32% year-to-date. It's as if the law of gravity had been repealed.

The accounts for which we are responsible trailed the broader markets but certainly participated in the move. Our accounts gained high-single-digit-to-low-double digit percentages in the first half of 2023. However, our success in avoiding debilitating losses last year, the bear market of 2022, means our accounts are now back to or ahead of where they were at the end of 2021; that is, we are back to all-time highs. (If you take withdrawals from your account, you might not see what I mean by glancing at the account total on recent statements. But, net of withdrawals, you're back to where you were before the bear market.)

The market averages, because they declined so much more than we did in 2022, are well below all-time highs. To the extent that we participate in any more advances, those advances represent new and pure profits for us, not recovering lost ground.

I like being in this position. And we own companies so cheaply priced versus their true worth that any move toward full price in our portfolios would mean significantly higher net worths for all of us. I like being in this position, too. I hope you like it, Fellow Investor!

Justin will fill you in with more, but I just wanted to get my five cents' worth in, emphasizing that while it hasn't been a particularly inspiring six months, we're coming out of it in excellent shape.

Thanks for sticking with us through all this, and I repeat, I think we're in excellent shape,

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"When asked what the stock market will do: It will fluctuate." –- **J.P. Morgan**

Dear Fellow Investor,

This letter marks at least the third time I have written to you in the past year to report that the period under review- a prior quarter, a prior year - was characterized by extraordinary volatility in the stock market. The first half of 2023 was no different.

Despite numerous recession calls from the major Wall Street firms, a Fed on a dramatic tightening policy, inflation, and a banking crisis, the S & P 500 finished the first half of the year up 15.50% while the NASDQ jumped 35%.

I am pleased to report that the portfolios for which we are responsible participated in the first quarter move, with our average account rising in the high-single-digit-to-low-double digit percentages. (Performance for new money that came in this year will differ).

The move up in markets comes against negative investor sentiment. Despite its rise, the S & P 500 is still **down** 9% from its all-time high, the NASDQ is **down** 15% from its all-time high, and the Average Americans portfolio is still **down** 15% from its all-time highs.

Investors are pessimistic as inflation and a market where they have not made money for almost two years has created a dour mood. Wall Street tends to take things to extremes. This in turn gives investors **recency bias**. "Recency bias is a cognitive bias that favors recent events over historic ones; a memory bias. Recency bias gives greater importance to the most recent event".

Investors extrapolate that a 25% decline in markets in 2022, a recession, inflation, will last forever, and the markets will not recover. This mars reality and causes people to forget that the S & P 500 **rises 84% of the time (!!).** You must believe and be optimistic about the US economy.

I am also pleased to report that due to the law of mathematics virtually all the accounts for which we are responsible closed the first half of the year at, just below, or above **their all-time highs** (!!), far outpacing the major averages over the last two years.

When the Fed began its tightening cycle in 2022, I wrote to you that the markets were entering a regime change. A new world where interest rates were rising meaningfully for the first time in decades and the process can be jarring as the markets adjust to the change. The bear market that ensued was the longest bear market since 1950 lasting 217 days. (Bear markets are considered over when the market rally's 20% off its low).

The 2021-22 burst of inflation was a shock, with consumer prices rising to above 9% in a matter of months. The move was parabolic. Just as quickly as inflation rose to its peak in June 2022, it has fallen every month for the last year. The peak in inflation roughly coincided with the bottom of the equity markets in the United States.

Despite Wall Street and the media's negativity, the economy has remained resilient. Why have things gone so well for the stock market?

A rapid decline in underlying inflation combined with an unemployment rate that is the same as it was when the fed began its tightening cycle has left corporate profits largely intact. Disruptions related to the pandemic have abated, allowing corporations to ship goods on time and at reasonable prices. For all the missteps the Fed might have made early on, it seems, as far as the market is concerned, to be on the right path.

Though the Federal Reserve has not stopped its tightening cycle, we do believe they are near the end, the stock market has resumed its natural course, which is up. The "natural" direction of the stock market is up because its fortunes ultimately depend on the fortunes of its underlying businesses, which in turn depend on the prosperity of their customers. Prosperity, with notable interruptions, has generally been on the rise since America was founded. (See attached chart of U.S. GDP).

America's resiliency is based on its ability to continue to innovate. The electrification of the world and the advancement of Artificial Intelligence requires massive capital investments, creating jobs, opportunities, and surging corporate profits. Throughout its history, America has rebirthed itself, creating value for investors and the world alike.

Last year during the market sell-off we took the opportunity to make a few new investments for you. Investments in businesses that we had been studying for decades but never got cheap enough.

"*We don't say, "It's cheap today, but it'll be cheaper in six months, so we'll wait. If it's cheap, we buy. If it gets cheaper and we conclude the thesis is still intact, we buy more. We're much more afraid of missing a bargain-priced opportunity than we are of starting to buy a good thing too early. No one really knows whether something will get cheaper in the days and weeks ahead – that's a matter of predicting investor psychology, which is somewhere between challenging and impossible. We feel we're much more likely to correctly gauge the value of individual assets*." –-**Howard Marks, Founder Oaktree Capital Management**

Other storms lie ahead; we just don't know what they are yet. We need to be ready for hurricanes, and I believe we are. The best line of defense and our best offense is the resiliency of the well capitalized, debt free American businesses in which we invest. That and a little patience put the odds on our side.

I thank you for the confidence you have placed in us, and we look forward to working with our best efforts on your behalf. Please feel free to reach out with any questions, comments, or concerns, or just to tell us about your summer.

Yours very truly,

Justin E. Deutsch