Goldman Lancaster , Inc.
A Registered Investment Advisor

THE FOUNTAINHEAD(?)

HELPING BUSY PEOPLE MAKE SMART FINANCIAL DECISIONS

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Second Quarter Summary

That was undeniably a bad quarter! A global economy that was already vulnerable to inflation from excess stimulus and loose monetary policy, suffering supply chain disruptions and tight labor markets, came under more pressure when Russian aggression in Ukraine added sharply rising commodity prices to the mix. All of that, with a much more aggressive posture from global central banks, put renewed pressure on interest rates, hurting bond investors and tightening financial conditions. Add in the typical market challenges of a midterm election year and the third year of a bull market, and it's no surprise it's been a bumpy ride. U.S. fixed income markets generally declined as the Federal Reserve hiked rates by an unexpected 0.75% in response to inflation numbers higher than anything we've seen since the 80s. In addition to the negative impact of the rate increases, corporate bonds also struggled as credit quality weakened amidst rising costs and a potential pullback in demand. Turning to equities, U.S. large and small caps declined due to higher interest rates normalizing multiples and a feared slowdown in profit growth. The same was true in international markets, but fractionally less than in the US. It was the same negative story for almost every asset class making it difficult for investors with diversified portfolios, . (The benefits of diversification are muted when everything moves in the same direction.) But, there is a silver lining. As we enter the back half of 2022, the move higher in Treasury rates and the widening in credit spreads has led to some of the most attractive yield levels in recent history. Consider, that with the 2-year Treasury in the 3% range, it's now possible to earn more than a fraction of a percent on safe short-term money. And for equity investors, while stocks do warrant lower valuations based on higher interest rates and the troublesome inflation picture, the S&P 500 forward P/E ratio is now below its long-term average. While future earnings are uncertain, the market is undeniably more attractively priced today than it was 6 months ago when the index peaked.

2nd Quarter Summary

Total Return %

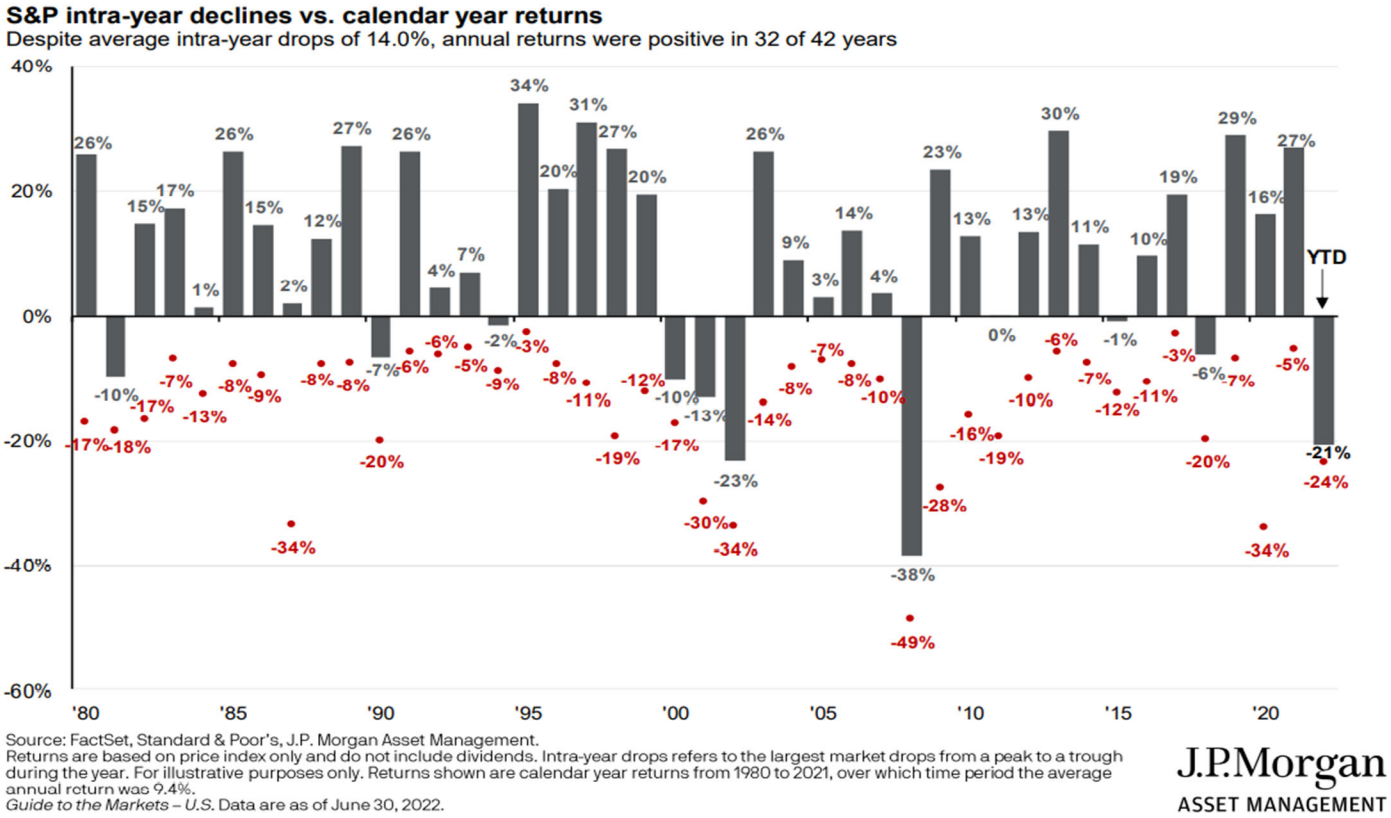
	3 month	12 month
S&P 500	-16.1	-10.6
Nasdaq Composite	-22.3	-23.4
Russell 2000	-17.2	-25.2
MSCI EAFE	-14.5	-17.8
MSCI Emerging Markets	-11.4	-25.3
Barclays U.S. Aggregate	-4.7	-10.3
Barclays High Yield	-9.8	-12.8

Treasury Bond Rates	6/30/22	3/31/21
2 year	2.92%	0.25%
10 year	2.98%	1.45%

Source: US Treasury, LPL Financial Research) Indices cannot be invested into directly. Past results are no guarantee of future performance

We seem to have had both an inflation scare and a growth scare last quarter. The first 2 weeks of June it was an inflation scare. The 10-year Treasury started the month at 2.85% and hit a peak of 3.48% on 6/14/22 as inflation fears were rampant. But then that morphed into a recession scare which saw the Treasury rally all the way back to 3.02% by month end. Quite a round trip and quite a shift in sentiment. LPL Financial Research places 50% odds of a recession within the next 18 months. More or less a coin flip, which seems reasonable given the Fed's spotty track record of fighting inflation without causing a recession. Yet, despite all the recession talk, domestic demand has remained robust and even accelerated this year. Consensus earnings growth estimates for 2020 remain in the 10% range. Revenues and earnings are booked in nominal terms and a strong, albeit moderating, nominal growth environment remains a positive backdrop for corporate earnings. Understandably, rising prices, slowing economic growth, and a challenging first half for both stocks and bonds have many investors on edge. And, fatigue from more than two years of COVID-19 measures doesn't make it any easier. But the markets are always forward looking, so it's important to remain focused on what lies ahead.

The Price of Admission



U.S. household net worth is $80 trillion higher today than it was ten years ago, which is astounding. But it's about $700 billion lower than it was three months ago, which is honestly nothing. Yet one of those figures creates ten times the headlines, ten times the attention, ten times the emotions, ten times the introspection. It has nothing to do with the level of wealth and everything to do with the trajectory. The problem is that an occasional downward path is inevitable in investing. Outside of fraud, it's completely unavoidable. The reason markets can go up a lot in the long run is because they make you pay the cost of admission with the potential for going down a lot in the short run. I've been thinking about this valuable lesson as headlines in the financial press and investor sentiment turn increasingly sour. This sentiment is easy to understand with the S&P 500 officially entering a bear market and many equity markets around the world in similar straits. Combine that with historically poor performance in traditional fixed income and the result is the worst YTD performance for the balanced portfolio since the 1960s. Undeniably, the economy and markets face important near-term challenges, including unrelenting inflation and coordinated central bank tightening that might eventually lead to a recession. I can't deny that a recession could happen, although I think we have a strong cushion of household savings and the high level of cash on corporate balance sheets. These two factors are primary reasons why there is still strength in the economy. Regardless, during challenging conditions, people seem to forget that economic cycles are just that—cyclical. And that cycles have their ups and downs. In the end, healthy economies grow, and markets generally move up and to the right over long periods. If greed is investors' worst enemy at the top of a market, fear is their worst enemy when markets are challenged. Betting against the strength of the US economic juggernaut always seems like a bad idea to me.

I Actually Read it Somewhere

Howard Marks

"In good times skepticism means recognizing the things that are too good to be true; that's something everyone knows. But in bad times, it requires sensing when things are too bad to be true. People have a hard time doing that. The things that terrify other people will probably terrify you too, but to be successful an investor has to be stalwart. After all, most of the time the world doesn't end, and if you invest when everyone else thinks it will, you're apt to get some bargains."

Kenneth Rogoff

"Just a short while ago, the Biden administration was using its executive powers to stunt the growth of US fossil-fuel production. Now it is championing higher output from foreign suppliers, even those – notably Saudi Arabia – that it had previously shunned on human-rights grounds. Unfortunately, being virtuous by limiting US oil production while at the same time soaking up output from other countries does not really do much for the environment."

Morgan Housel

Cornelius Vanderbilt left his heirs the inflation-adjusted equivalent of something like $300 billion. Within 50 years it was gone. In between sat three generations whose primary purpose was to compete on who could build the largest house and marry the bluest blood.

Matt Levine

"So when an association of big public-company CEOs gets together and declares that corporations should serve the community, take care of the environment, and be responsible to employees and customers, not just shareholders, that might be because the CEOs have thought it over and decided that employees and the environment are getting a raw deal, but it is also possible that the CEOs have thought it over and decided that shareholders are annoying."

Ray Dalio

"What I realized is nobody knows and nobody ever will. So I have to design an asset allocation that, even if I'm wrong, I'll still be okay."

Things That Probably Only Brad Cares About

The Little Princess is an intellectual, which means that my TV viewing contains a healthy dose of PBS. Consequently, we see a lot of gloomy British detective stories and police procedurals. The prelude to nearly every show is a very enticing ad for a Viking river cruise. It looks fantastic, and having never been on a cruise before, we decided to go with another couple on the Danube river in 2018. Unfortunately, that was a drought year so the romantic river cruise turned into a series of rather prosaic bus rides. The lack of water was an unfortunate act of nature. No one was at fault, but Maureen really didn't like Viking's response. (And she really didn't like the cruise director who's response to every issue was "Easy peezy, lemon sqeezy".) So, she went on the offensive and the end result was an $8,000 "credit" for each couple towards a future Viking cruise. The fact that I never wanted to go on another cruise was irrelevant. In her mind, we couldn't possibly "waste the credit". The end result was that we all decided to use our "credits" on an 11 day Alaskan cruise. At least, as my friend said, we knew there would be plenty of water! (I'm not sure the "credit" was much of an actual savings because it cost me a big chunk on top of that plus the "spirit package" and excursion fees.) I really didn't want to go, but at the time, the date was so far away that I just went along. And then COVID happened and there was always a valid reason to postpone. Ultimately, with no more reasons to delay, I found myself, albeit a little surly, on a 7 AM flight to Anchorage in late June. From there, we were bussed to Seward and then sailed south. The ship was smallish, new and didn't seem crowded at all. Very nice, actually. Our "stateroom" had a roomy balcony and was even big enough to hold the entire contents of Maureen's suitcase. (My clothes remained in the suitcase and under the bed for lack of other options.) Turns out, despite my usual reluctance to leave my bubble, the trip was enjoyable. Alaska is magnificent with snow covered mountains that plunge right down to the sea. The view from the ship was fantastic. We saw glaciers and whales and eagles galore. Seeing the bald eagle in its natural habitat and in great numbers is truly amaz-

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ing. The eagles and other raptors, especially the tiny owls, were the highlights for me. That and witnessing the Little Princess' daily determination to maximize the value of her "spirit package". After 10 days, the bartenders were all expert in the construction of an Aperol Spritz! We also vicariously experienced a little danger too. Sailing up to view the Hubbard Glacier, the ship in front of us hit an iceberg forcing them to make for Juneau at reduced speed and terminate the cruise. Thankfully, it wasn't us. Although, a Titanic reprise would have been the perfect ending for my last cruise "adventure".. In the end, while skeptical about the actual value of the $8,000 "credit", I'm not sorry to have experienced Alaska this way. I'm not doing it again. One time is enough. And absolutely no more cruises. As a coda, we also came home and tested positive for COVID a few days later. Two and a half years of masking, social distancing and innumerable hand washings and I ultimately get infected on a cruise that I never wanted in the first place! Those ships are a floating petri dish of germs.

We were so lucky on the weather, Not a drop of rain or day of cold weather. A representative day in Juneau by yet another glacial waterfall.

Business Philosophy

Our objective is to make working with us a pleasant as well as rewarding experience

..# We take our responsibilities seriously

..# We return calls promptly

..# We're nice when someone does call

..# We don't lie or mislead

..# We do what we say we're going to do.

..# We're knowledgeable and current in our discipline

..# We admit (infrequent) mistakes and do our best to right the wrong

..# We listen to suggestions and take them seriously

..# We work in your best interest in the most straightforward and transparent way possible

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