

THE FOUNTAINHEAD(?)

HELPING BUSY PEOPLE MAKE SMART FINANCIAL DECISIONS

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Third Quarter Summary

The S&P 500 ended the 3rd quarter in barely positive territory. That was strictly a blue-chip phenomena as all of the other major equity indices were negative. The quarter was an ongoing tug-of-war between an improving economy and progress in the fight against COVID-19 amidst concerns over inflation and lower levels of Federal Reserve accommodation. The worried narrative won out, with the S&P 500 declining for the worst monthly performance since the pandemic-driven sell-off in March 2020. Of course, a bad September really isn't news. Historically, it has been one of the worst months for equity markets and this year was no exception. After reaching a record high, the selling picked up on September 17th, as a long struggling and highly indebted Chinese property developer named Evergrande warned that it would likely default on its upcoming debt payments. The market swiftly dropped 2%, even though any domestic contagion from Evergrande was unlikely. From there, September closed with a whimper, down a total of 5.1%, disappointing those hoping the seven-month stretch of positive performance for the S&P 500 would make it to eight. There were no shortage of risks conspiring to bring the market down a notch; including ongoing debt ceiling negotiations, fiscal and monetary policy uncertainty, global supply chain bottlenecks, slowing economic and earnings growth projections and ongoing inflation fears. Under the surface, about 90% of the S&P 500 and NASDAQ constituents have had at least a 10% correction from their highs. For the Russell 2000, it's a loftier 98% with nearly every small cap stock in that index at least a 10% lower than the previous 2021 highs. In fixed income markets, Treasury interest rates rose and spreads on

lower quality bonds widened, but not hugely.

Despite the angst and drama about a "post-pandemic economic and inflation landscape" this feels very much like garden variety equity market volatility. There are more questions about fiscal and monetary policy than there are answers. Risk has undoubtedly risen for investors. It would not surprise me to see continued bouts of volatility and corrective phases. However, ignoring the current narrative and looking solely at the facts, things look pretty good. The unemployment rate has fallen below 5%. The value of homes, the largest asset for most families, has continued rising. The S&P 500 is more than 30 percent higher than it was before the pandemic. And the federal government, across both the Trump and Biden administrations, has pumped trillions of dollars into the economy, much of it through checks sent directly to people. As a result, personal incomes, and not just for the "rich" have surged. That's a huge positive. Absent an "unknown unknown" problem, the future looks reasonably rosy to me.



3rd Quarter Summary

Total Return %

	<u>3 month</u>	<u>12 month</u>
S&P 500	+0.6	+30.0
Nasdaq Composite	-0.2	+30.3
Russell 2000	-4.4	+47.7
MSCI EAFE	-0.4	+25.7
MSCI Emerging Markets	-8.1	+18.2
Barclays U.S. Aggregate	+0.0	-0.9
Barclays High Yield	+0.9	+11.3

<u>Treasury Bond Rates</u>	<u>9/30/21</u>	<u>9/30/20</u>
2 year	0.28%	0.13%
10 year	1.52%	0.69%



Capitalism vs Socialism

Good vs Not Very Good

Over the years, the size and power of our government has undeniably grown. When the CDC, a health agency, can unilaterally impose a moratorium on evictions (in violation of property-owners rights), the U.S. has moved a long way from its historic roots. If, after passing \$5 trillion in emergency pandemic spending, the government can be talking about \$4.5 trillion more, we have entered new territory. The recent history of the world has been a battle between two competing ideologies about how resources should be allocated: Capitalism and Socialism. Capitalism distributes resources to the most productive use through markets and competition. The same competitive environment and pursuit of self-interest acts as a constraint on abuses. In the 18th century, Adam Smith wrote about the invisible hand as a metaphor for the unseen forces that move the free market economy. Through individual self-interest and freedom of production and consumption, the best interests of society, as a whole, are fulfilled. In order to accumulate resources in a capitalist system, you must provide goods or services that someone else wants to buy. If your cost of production is greater than what the market is willing to pay, you lose. Or, if a competitor can provide the equivalent or better for a lower price, you lose again. As a result, while it may be true that some people in a capitalist system become extremely wealthy, they do it by creating goods or services that people want and in a way that competitors have a difficult time copying. Under Socialism, on the other hand, politicians and bureaucrats make the economic decisions for everyone. They tax individuals who have been able to create income and wealth and then transfer those resources to their favored causes or group, often while shutting down competition. The winners then become, not the most productive, but the ones with the most political influence. Socialism is the road to stagnation because it stifles innovation and incentives. Just to be clear, Capitalism does not mean zero government and it does not mean anarchy. There are things that government can do that benefit all citizens without redistributing wealth or income. Public safety, electrical grids, courts, sanitation, and national defense, for example. The government ensuring safety and property rights generates huge benefits. (No one has built a big manufacturing plant in Afghanistan.) Socialism presumes that government can allocate resources better than the private sector. What actually happens is that government creates monopolies in order to defend power. In the end, because the government doesn't create wealth, it only redistributes it, the bigger it gets relative to the private sector, the harder it is to create more wealth in an economy. During the 20-years ending in the year 2000, non-defense, non-interest government spending averaged 13% of GDP, while U.S. real GDP grew an average of almost 3.5% per year. In the past twenty years (2000-2020) non-defense, non-interest government spending averaged 16% of the economy, while U.S. real GDP grew just 1.8% per year. My conclusion? The bigger the government gets, the slower the economy grows. So far, the U.S. private sector has still been able to grow, increase profits, and continue to lift wealth and incomes, although at a slower pace. I believe that's because of the power of entrepreneurs and the new technologies they create. Eventually, this may not be the case. The spending, regulatory mandates and tax hikes that are being proposed right now could put a severe crimp on our future growth potential. Smothering capitalism has a cost.



I Actually Read it Somewhere

Sam Harris

“There are at least a billion people on earth at this moment who would consider their prayers answered if they could trade places with you.”

Brian Wesbury on Chinese growth

The best prescription for unprecedented productivity gains is simple.

1. Do nothing for thousands of years.
2. Then borrow everyone else's technology.

Bloomberg 9/19/21

According to a poll by the Public Religion Research Institute, 15% of Americans agree that “the government, media and financial worlds in the U.S. are controlled by a group of Satan-worshipping pedophiles who run a global child sex trafficking operation.”

Tyler Cowen

Woke and wokeism are a way to keep people engaged. To be clear, I think there are better alternatives to woke on the relevant margins. But simply asking the question is to realize the costs of woke are not as high as they might seem. The relevant comparison is not “woke vs. what I believe to be best,” but rather, “woke vs. a lot of the other crazy stuff people are going to believe if they weren’t woke.”

Maureen Dowd on A.O.C. at the Met Gala

“If A.O.C. wanted to get glammed up and pal around with the ruling class at an event that’s the antithesis of all she believes in, a gala that makes every thoughtful American feel like Robespierre, she should have just gone for it.”

By the Numbers-8/23/21

The US spent \$2.26 trillion during its 20-year presence in Afghanistan fighting the Taliban, rebuilding the Afghan government and training the Afghan military.

Things That Probably Only Brad Cares About

Most years, I attend Maureen’s annual family saturnalia in Lake Tahoe. I’m a relatively recent addition, but for the extended family and friends, it’s been happening every summer since her mom was a little girl driving up with the family in a Model T. That is history! They stay at Meeks Bay, a very scenic spot on the west side of the lake. It’s a lakeside resort poorly run by the Washoe tribe with dumpy, semi-clean WPA chic cabins with epically poor service in almost every aspect. It drives the Little Princess and her sister, who do all of the organizing, crazy. Regardless, every year they come back. Honestly, they deal with all the hassles and I just lay around and read a lot of books. Normally, it’s a very placid environment, but this year included a bit of excitement. Around 3AM one morning we woke to a terrible crashing noise. I went to investigate only to see a giant bear with blazing red eyes and gore dripping from its fangs, having torn out the screen, climbing through the window. It’s amazing how quickly your brain can process info when charged with adrenaline. My first thought was that, if it comes down to a footrace to get away from the bear, I only need to outrun the Little Princess. I quickly realized that if I ran, I would be shunned by her family, my family and all of our mutual friends. So, given the high social cost, I decided that running could only be a last resort. I then thought to retreat back to the bedroom, but the door was so flimsy it wouldn’t deter a hungry senior citizen in line for an early bird special, let alone a ravaging bear bent on a meal of human flesh. I quickly decided confrontation was my best course of action, so like a modern day Beowulf, I charged into the living room and yelled “Get the (blank) out of here you (blank) (blanker)”. Whether surprised or just offended by my language, the bear retreated. So that’s how I defeated a rampaging bear in Lake Tahoe and the Little Princess and I lived happily ever after.



Marauding bears combined with a lack of service, cleanliness and amenities aside, it's a beautiful and peaceful spot.

Thank You !!

Special thanks to the following people for referring their friends, family and associates

Michael Milenski & John McGee

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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