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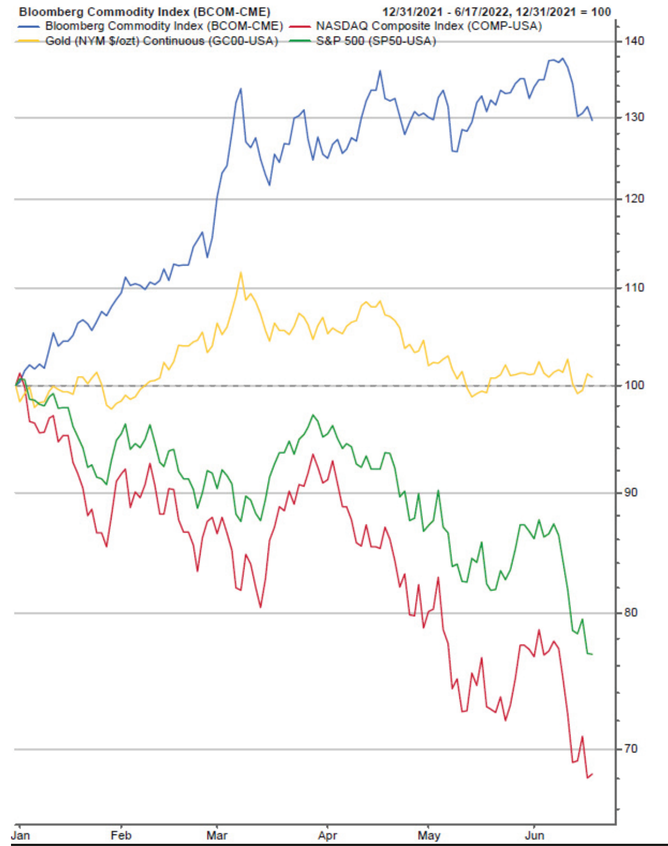
Well, That Was No Fun:

A few days after we publish our Semi-Annual Updates, the process begins all over again. I start writing down any and all possible ideas for the next issue. Investment subjects or current financial events that I think might be of interest to clients start building up over the ensuing months. When it comes time to write the next newsletter, I always have far too many ideas and must think hard about what subject is most relevant to the current market condition. Well, as you might imagine, this time I had absolutely no problem figuring out what clients would most want to hear about. **The Bear.**

We have been talking about safety and caution for the last two years. In fact, most of our writing has been devoted to warning about the many things that concern us. We worried about money printing. We worried about inflation. We worried about shortages in energy. We worried about the gambling-like environment that was rampant in much of the technology stocks. We worried that disincentivizing energy companies to invest over the last five years was going to cause major problems and much higher fuel prices. Well… the past six months have witnessed ALL of these worries explode on to the financial scene. Trust us when we say that these are NOT the types of things that we really WANTED to be right about or to write about. And while of course we took precautions against all of these issues - Bear markets always hurt. Our relatively recent non-standard investments into gold and commodities went a long way in mitigating some of the damage – as did our trepidation about the nosebleed prices of many speculative tech stocks. Not playing with fire helped… who'd a thunk?



***FactSet*[1]**

The chart above shows the dramatic difference between the performance of various markets so far this year. Every $100 invested in commodities (blue line) at the beginning of the year is now worth about $130, gold is a break even, and $100 in the NASDAQ stock index (red line) is down to about $68. The S&P 500 (green line), being heavily weighted towards technology is not faring much better.

Adding salt to these bear-claw wounds in the stock market is the historically bad beat down in the **bond** market. For the past 40 years, when the stock market "caught a cold," money would normally flow towards the safety of the government bond market. Thus, when the stock market went down, the bond market went up - mitigating some of the damage. So far in 2022, however, the bond market has dropped over 10%.

Once again, our defensive tactics over the past two years have made a big difference. Our fear of inflation, along with terribly low yields 18 months ago, caused us to be nervous about the potential for falling bond prices. We took some preemptive safety measures.

So why is all of this happening?
What's the big problem?

It seemed like everything was peachy six months ago. The technology stocks were on top of the world. Everything seemed like it was going up. What's the difference now?

Mr. Powell is the difference. The Federal Reserve Chairman, seeing that little was being done on the political front to combat inflation, realized that he and his committee were going to have to take more dramatic action. They were late to that conclusion, thinking that higher prices throughout the economy would be "transitory." They were not. Ultimately, Powell and company concluded that they were going to have to try to destroy demand. What?! Why the (fill in your favorite swear word) would somebody try to do that, you might ask? Well, as we've been writing about for the last two years now, inflation, once unleashed, can wreak havoc on investors and savers.

The Federal Reserve is tasked with only two things:

1 - Keeping employment strong

2 - Keeping inflation under control.

Post COVID, as the economy has opened back up, it seems like everyone that wants to be hired *has* been hired. The unemployment roster is pretty low, although you could argue that the Labor Force Participation Rate (the percentage of the country that is working or looking for work) is still not back to where it was before the pandemic. Ask any employer about how "easy" it is right now to find employees. Hint: It ain't (apologies to my 8th grade English teacher Mrs. Farnell, rest her soul).

So now that the Federal Reserve doesn't need to worry about employment, they can focus squarely on trying to put the inflation genie back into the bottle. It appears, however, that the genie has no intention of being re-confined.

There IS a "better" way to lower prices of course. That method would be to increase the supply of goods. Unfortunately, that is not what is happening in our world today. Like we spoke of in our January 2022 Update: In our attempt to green the world, we (the U.S. political class and ESG investors) have frowned upon investment in mining as well as oil and gas production (anything not considered "clean.") Further remember that much of the fertilizer used in food production is made with nitrogen - a derivative of natural gas.

A muted investment environment for mining and energy production over the last few years has left the developed world without enough fuel. Oil inventories are at dangerously low levels as the summer driving season approaches. To make matters worse, the fuel that we do use comes more and more from countries like Russia that are antagonistic with the "West." Europe is finding this out the hard way right now. Amazingly, the United States has recently reached out to Venezuela for help with our own energy crisis. The Washington Post reports:

The move is a notable shift in U.S. policy toward the authoritarian Maduro... [2]

Funny how human rights violations can be overlooked when the "pain" at the U.S. pump gets elevated.

Now add in Russia's invasion into Ukraine. Both countries are leading producers of wheat among other food stocks. Russia is a huge exporter of fuels and minerals. That conflict is severely crimping the global food supply and other resources such as natural gas to Europe. War by its very nature is highly inflatinary.

Trick question:
How much does a $20 million bridge cost?

Answer:
It depends on how many times
you blow up the bridge.

All of this simply adds to the inflation problems and puts further pressure on the Fed to decrease global demand for goods. So, the Federal Reserve starts raising interest rates and keeps raising interest rates until the pain is great enough that the consumer stops consuming. Until the pain is great enough that the investor class feels poorer and spends less. Until the pain is great enough to destroy demand. As interest rates rise and the economy slows, unemployment rates will naturally rise. Jobs will literally be destroyed by design – in order to reduce the amount of goods that the world can afford to consume. It seems absurd on the face of it but that's how it goes when the citizenry is flush with newly printed cash to buy stuff (demand), but the world is not making enough stuff (supply).

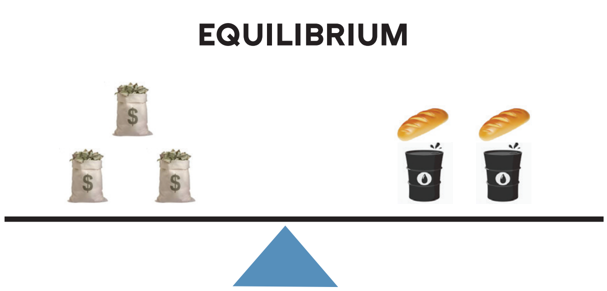
Some think the Fed has already done enough damage and will cause a recession if they have not already. Time will tell.

The worst thing that could happen would be that we get a conflux of negatives, like back in the 1970s. Let's say the economy slows BUT prices stay elevated anyway! It's called stagflation, and other than a depression it's probably one of the worst things that can happen to an economy. Think Jimmy Carter 2.0

Let's look at a simplified model:

In a normal economy (if there is such a thing), the supply of goods is robust and can keep up with the demand. On the other side of the scale is the supply of money, which in our "normal" economy is carefully balanced, and *excess* money printing is strictly taboo. Let's call this equilibrium.

In a messed-up inflationary economy, such as the one we now find ourselves, there is usually a production problem.



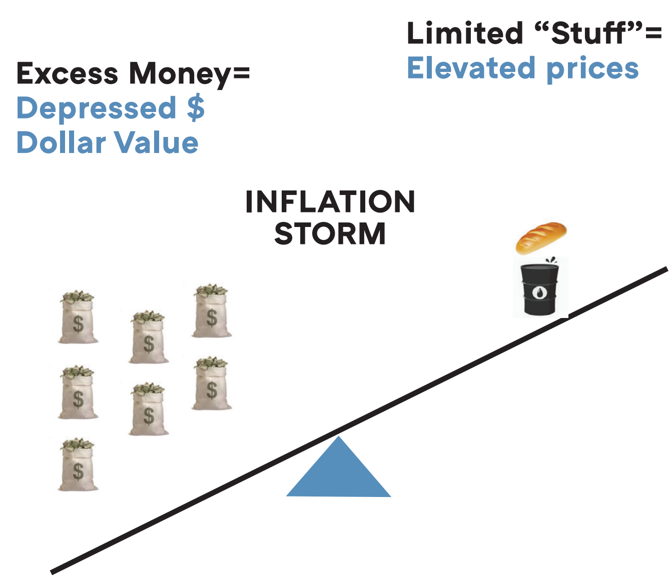
Something is reducing the supply of "stuff." Perhaps it's because the citizens have had free money given to them - making it much easier for them to spend. Perhaps it's because citizens have had free money given to them making it less necessary for them to make stuff (work). Perhaps it's both.

Now let's further complicate things and add some roadblocks for corporations. Perhaps corporations have been disincentivized from producing anything considered not "green" enough. Maybe there are problems such as bottlenecks at the ports and supply chain disruptions due to a pandemic. It could also be that Country X (Russia) is destroying Country Y's (Ukraine's) "stuff," such as this year's wheat crop. As these issues impact global supply, nations have a tendency to start hoarding commodities and other goods they think they may need. This just makes matters worse.

Meanwhile, on the other side of our scale, you have money that's been printed willy-nilly (a technical financial term). Printing excess dollars **reduces** the value of each dollar, whether they were printed for a good reason or not.

Let's call this messed-up model the perfect "inflation storm." Excess money and limited stuff.

The Federal Reserve does not like inflation. Stock investors really do not like inflation. Bond investors hate inflation.



What to do?

If the Fed can somehow kill demand for goods then producers' inventories will start to build back up. Increasing supply (plentiful stuff) lowers prices. The Federal Reserve can also start soaking up some of that excess money, basically erase it. They could raise interest rates and do something called quantitative tightening, which effectively pulls money out of the system (out of the economy). **This is exactly what is happening right now.**

These "tightening" tools of the Fed affect both sides of our teeter-totter on page three. Unfortunately, it does so at the cost of the economy and jobs. It also comes at the cost of the capital markets, both stocks and bonds.

Like we keep mentioning - stocks and bonds do **not** like rising interest rates. There are MANY reasons for this, but for now let's just say that higher interest rates eventually choke off economic growth. Again please check out the series of videos on Morgiawm.com/share-the-wealth.html explaining how rising interest rates damage the markets.

So, there it is. Our prime suspect for this bear market – *inflation.* How should investors deal with the problem? What should we do now?? It's been said that when life hands you lemons, you make lemonade. But what if life hands you manure? Or worse, what if life throws manure at the fan you are standing near?

Manure for Sale:

Back in January 2021 we wrote that many investors were effectively gambling with the more speculative stocks. "Speculative" because those firms were (and still *are*) making little to no corporate profits. Sure, they have very interesting products. Their "story" is good. But when times get tough, a corporate story is not nearly enough. Companies must demonstrate that they can deliver their products/services **while** reliably making money. But a lot of these newer corporations only have promises of *future* profits, while others have business-models that are a tad suspect. Dare we say BS (aka manure)?

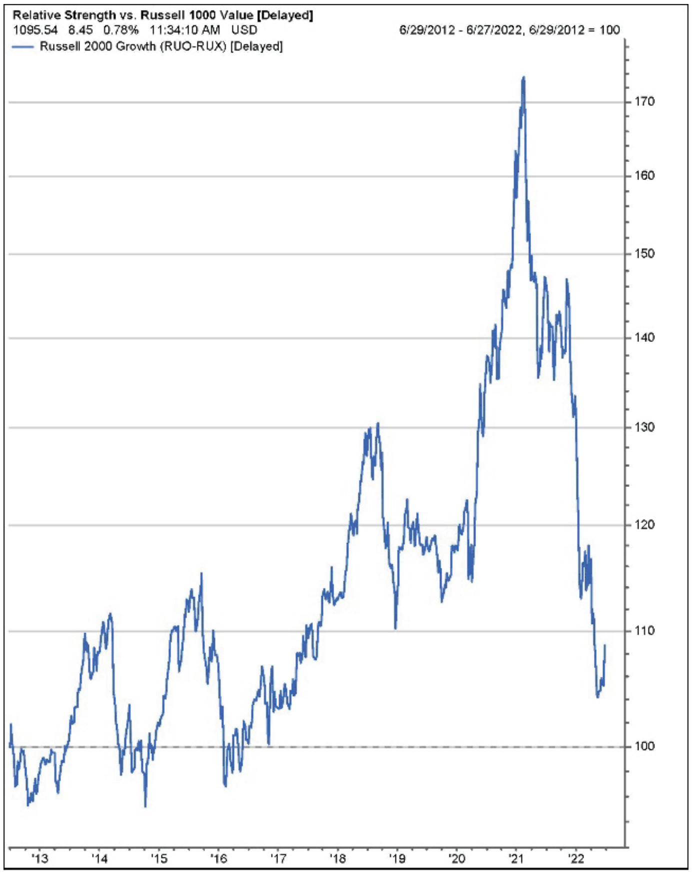
These speculative stocks had risen so much over the past few years, that too many younger/new investors believed that they had found their path to getting rich quick. Also, many older investors who should have known better, caught the gambling bug as well. The always dangerous "keeping-up-with-the-Joneses-effect" successfully nudged them into *speculating* when they should have been *investing.* They bought into the dream without needing much proof as to how reality would look upon awakening.

My, how things have changed in a few months! Look at the chart on page five. It graphs the **difference** in return between smaller *growth* stocks vs large *value* stocks. It is an imperfect, yet fairly good proxy for viewing the battle between what has been called the disruptive technology stocks and the more established (older) business sectors. Cloud computing versus oil exploration. Artificial intelligence versus copper mining. You get the point. To be fair, copper mining **was** a disruptive technology in its own right - back in the Bronze Age. **(see FactSet3 on page 5)**

Notice that the small growth stocks *had* massively outpaced the value stocks by 70% over a short period of years (100 went to over 170 during the years 2017 to 2021). The tables have completely turned recently with the advantage of disruptive tech stocks almost fully erased in a handful of months. The drop in the growth stocks is even worse than it appears in this chart – as the blue line is merely a comparison to another group of stocks that have also fallen! Last I looked, the small growth index was down about 40% from its highs.

Every generation must face its own bear market. It's a blessing if it happens to them when they're young and they can learn some valuable lessons about playing with fire **before** they have much money to lose.

In the 1920s the saying was that when the shoeshine boys were giving out stock tips, it was time to get the hell out of



FactSet[3]

the market. In the 1970s it was the same story but with the cab drivers playing the role of the alarm bell. Fifty years later, I found myself listening to a young relative last summer. He was giving me advice, and to be fair, asking my opinion on some of the speculative stocks. He and his friends were all "cashing in" on what looked to be "sure-things." It was a game to them – trading stocks and crypto coins on their cell phones. Then again, it's **always** fun and games *before* the stock market doles out a punishing life-lesson - which it most certainly did with many of those aggressive stocks and coins falling 75-80% in the past 12 months.

Circling back to manure...

Most of these disruptive technology stocks are down 70 or 80% from their recent highs and our bargain hunting mentality compels us to take a peek for some deals. It's likely that most of these companies will **not** really change the world as advertised - but some of them could. And at the right price, we might be convinced to go shopping. Heck, even manure is a good deal at the right price. Just ask your local farmer.

Please Don't Feed the Bears:

Knowing the cause of something is usually important when looking for strategies to deal with that something. History can also be a guide. What exactly should investors be doing to protect themselves? How should we handle this bear market in both stocks and bonds?

For the uninitiated, the term "bear" market refers to a dropping stock market - or *any* dropping market for that matter. There are a few theories as to where that moniker derived. I prefer the following, more visceral origin story: The terms "bear" and "bull" are thought to originate from the way in which each animal attacks its adversary. A bull will thrust its horns **up** into the air. A bear will swipe **down.**

So, as you can tell from the downward swiping claw marks on most investors faces – we are in a bear market right now. To be precise, the technical definition is a drop of 20% or greater. Fortunately, our stock accounts are holding up a fair amount better than that, for reasons we will touch on later.

Before we delve into our strategies, tactics, and techniques for getting ourselves through a typical bear market, we must first ask a much more basic question.

Why bother in the first place?

Why subject ourselves to the emotionally unsettling exercise of watching our profits (and for new investors – *principal*) decline? Also, why don't we just get out when things "look bad?"

For starters, we must remember that by the time things "look bad," quite a bit of damage has already been done. Most 5% drops in the stock market are followed by a fairly quick recovery. The same goes with 10% drops. If an investor sold every time one of those corrections happened, they would end up losing money consistently over time (not investing).

Once every few years we get a 25% drop in the market (we just experienced one). At each and every point in a drop, the odds are high that things will begin to recover. But, sometimes, it gets worse. Twice in my investment career and three times in my 56-year-old life, the stock market has gone down by 50%. It rarely ever gets worse than that – yet twice in the past 200 years the market has indeed fallen by more. It dropped 75% in the depression starting in 1837. It dropped a full 90% in the 1930s depression. As one might imagine, there were fortunes made for anybody that bought near the end of those depressions. As one might further imagine, very few investors had the nerve or the capital left to be a buyer when things got that frightening.

I am not exaggerating when I say that every 10% market drop I have experienced over my entire 34-year career has been accompanied by media stories that Armageddon is likely just around the corner! Of course, one of these days that might be true! But it does us no good to listen to the talking heads on television who are always predicting that the worst is yet to come. Our strategy cannot be based on media prognosticators, otherwise we would sell on every single hiccup. The media also uses a type of scare tactic during bull markets, putting the "F" in FOMO. "Fear of missing out" works well for ratings – as does Fear of losing out. But fear on either side of this spectrum does little good for investors' portfolios. Emotions must be left out of our financial decisions.

We believe that proper tactics and strategies should be based on as many facts as possible and not emotions. That said, the market is a very emotional beast in the short term. There is no getting around that. Investors need to learn to use that to their advantage, or at least prevent themselves from being used by it. Ironically, one year ago when investors should have been more cautious, some of the questions we were getting were quite different than they are today. The fear was of the FOMO variety and the questions were more along the lines of:

"Why don't we invest in more of these new technology companies?"

AND

"Shouldn't we get a little bit more aggressive?"

Our advice over both bull and bear markets is much the same. Stick to your game plan! Don't get distracted by the shiny objects (in bull markets) or the scary objects (in bear markets)!

These diversions are the inevitable and perpetual parts of the scenery for any long-term investor.

The direct answer to the "why invest" question is that being an owner in a corporation over time has proven to be one of the best ways to grow your wealth. One way to think about stock investing over the long haul is that you are aligning your saving and investment success with the innovation and ingenuity of some of the country's best thinkers. In the most basic sense, you are becoming an owner of productive assets. Owning a stock is owning a business.

Yeah, but...

We know. It's not fun when the cycle is on a downswing.

The benefits of stock investing do **not** come without a cost. If we could receive all the benefits of company ownership without ever having to be bored, nervous, frustrated, or even scared, well that would be dandy! Unfortunately, that's not how the real world works. Attempting to get higher returns almost always comes with roadblocks, perils, and pitfalls. Furthermore, I would like to make the distinction that those higher returns that we are searching for are not for the sake of greed - they're actually *needed.* We need them in order to combat the erosion that takes place in our savings as inflation steals away the fruits of our work effort.

At Morgia Wealth Management (MWM) we have a chart in our conference room of the stock market for the past 100 years. It shows a line rising nicely over time, albeit with some nasty drops along the way. Also on this chart are perhaps fifty labels of all the major bad things that have happened over the course of that time frame: The Great Depression, the attack on Pearl Harbor, the Arab oil embargo, 9/11, and numerous wars. Yet the market persisted in rising over time. This historical context is no different than we are going through today. The headlines are full of bad news. This is how it always plays out. We have to **expect** the media to contribute to and amplify the ups and the downs of the stock market.

We must also expect conflicting information. Last week we listened to one expert say that gold and silver are going to be the best and *only* good asset class in the next decade. The next day another market veteran postulated that we're going to have a sharp stock market rally (he actually said "melt-up") because the Fed will eventually have to go back to printing more money. One expert says to buy bonds while another says sell. Yet another thinks a depression is in store. Ray Dalio, who runs one of the largest hedge funds in the world has been saying "cash is trash" in recent interviews on the major financial news networks. That may be true but then what is everything else? Trashier?

What's a sane person to think? Too many investors simply latch on and anchor to the financial expert that best matches their feelings du jour. This is not a strategy. It is selectively listening to whoever is confirming your current emotions.

Even the legendary investor Warren Buffett himself cautions against guessing the market direction and the economic future. He simply says to be fearful when everybody is greedy and to be greedy when everybody else is fearful. If you follow that advice, you have a higher likelihood of buying things when they are cheap and selling them when they are expensive. There is a lot of merit to this simple rule.

We are not trying to guess the market direction, however, that is **NOT** the same thing as saying that we don't need to take precautions against a bear market. That is something we take **very** seriously and try to keep in mind through all phases of the market cycle. While it is true the long-run has been kind to stocks, it's also been true that certain shorter time frames have been quite damaging to investors' wallets.

Our plan MUST be flexible
and must be workable
in both bull and bear markets.

We have written ad nauseum about our risk control strategies. However, let's do a quick review for the sake of bear-market planning:

- Have a well-diversified asset allocation, with stocks, bonds, gold, cash, etc. in an appropriate mix for your personal situation.
- Buy stocks of companies that are generating excess cash flow and make sure not to pay too much for those stocks relative to that cash flow.
- Generally, avoid companies that have a lot of debt. They may have a tough time getting through the next recession.
- Avoid companies that have questionable accounting.
- Look for companies whose product is unique and defensible relative to that company's competition.
- Be especially careful when the Fed is raising interest rates (as they are now).
- Respect the power of herd mentality.

Those are the disciplines that we use constantly – regardless of the market environment. By practicing these strategies, an investor will be less inclined to get severely impacted during a normal downdraft in the market.

But what about when things get more severe?? Let's dig deeper on specific thoughts and tactics for bear markets.

Bear Market Rules:

Note: Many years ago, I wrote down what I call my bear market rules. They were meant strictly for my own use, and I have not shared them with clients before today. As you will see, I was a little bit harsh in my tone. Please don't mistake that attitude with a lack of empathy for what clients must go through during bear markets! My goal was to drive home, to myself, the importance of staying focused, disciplined, and careful during the tough times that bear markets inflict. I decided it would be more interesting and more "real" to keep the rules in their raw form and not "sugar coat" them for this newsletter. If you're reading this, it means that my partners did not veto my bright idea. Following each rule, I will elaborate a bit on how this bear code-of-conduct should be interpreted.

Bear Rule #1: Hoping or pretending a bear market won't show up is foolish. They will be with you every few years. So deal with it or don't invest.

I know, I know that was a little harsh. It is true, however. One of the first things we do when we speak to a new client is tell them to EXPECT bad markets. Down markets have always come around every few years and they always will. We tell clients to look at the actual dollars that they have invested in the stock market, chop that in half, and imagine how they would feel if their portfolio was hit that severely. We also tell them to imagine that when this does happen, the news media will not be holding your hand. In fact, they will be trying to shake you off course by parading every negative stock market personality that they can find in front of the camera. I've been through many bear markets and I've never seen it any other way.

It is also extremely difficult to NOT invest. Even if you hide your money under the mattress, you are still invested in the U.S. dollar, which has sadly dropped about 90% over the last 60 years. If a saver has any long run hope of preserving the true worth of their capital, they are going to have to come up with a plan to grow faster than inflation.

Bear Rule #2: You can't fight a bear with bull tactics. Nothing will be safe, although some stocks will be safer.

Don't fool yourself. In a bear market, pretty much nothing works well. You might think you can hide out in certain sectors that have more stable businesses such as food, health care, or utility stocks - you would be incorrect. Sure, for a while they might buck the downward trend, but eventually they usually get sucked into the carnage. In the past six months it went something like this: The overpriced, profitless technology stocks are crashing, but the energy stocks are doing great. So why not just go "hide out" in the energy stocks. That sounds like a good idea... until investors start worrying that the higher energy prices, are also exacerbating inflation. Higher inflation will eventually choke off the economy which will in turn, push energy prices down, and hurt those same energy stocks.

There exists something akin to contagion in a bear market. Investors look with suspicion at their stocks that have not yet fallen and start to worry that they might be next. They fret and wonder if they should sell those hold-out stocks before the "inevitable" happens and they fall too. Guess what? When everybody thinks something is inevitable - it becomes inevitable.

Next comes the margin calls. Some investors (foolishly in our view) think that a good way to augment their returns is to borrow money to invest - that's called margin. But when their portfolios drop a certain degree, the lender can **force** liquidations of their stocks, since those stocks are acting as collateral on their margin loan. In a case such as this, even if an investor does not want to sell, they must. That forced selling can push stocks down further and trigger more margin calls (more forced selling).

Eventually this circular domino effect runs its course and sets up some very nice bargains. But let's not get ahead of ourselves. At this point we need to be thinking defensively not offensively… yet.

Bear Rule #3: Don't be afraid to be chicken! Prevent damage by hiding in cash.

Our founder, Tony Morgia, has been known to quote the old phrase: *He who fights and runs away, comes back to fight another day.*

Most of our long-time clients understand our philosophy of not fighting the herd mentality. In Wall Street lingo, they say "don't fight the tape." If one of your stock investments is declining, one of two things are possible:

1. Your premise is wrong. You have made a mistake. You are wrong and you are losing money, in which case you should probably sell.
2. Your premise is correct, but nobody seems to care. Sellers are pushing the price down anyway. You are correct but you are still losing money, in which case you also should probably sell.

Either way, and for whatever reason, a dropping stock price should be respected, and a sell might be in order.

I know, I know, this doesn't sound like long-term investing. Don't get us wrong - we DO believe smart investors should have conviction in their beliefs regarding each of their investment positions. Certainly, you can't be a seller every time something goes a little bit wrong. Even our very best stocks over the last decade have had many periods where they lost money. So yes, patience should be exercised.

However…

Many times throughout the history of the stock market, there have been long time periods when it has been very difficult to make money. Although there are many stocks that we plan to just sit on and hold straight through the storm, there are others that are not of the same caliber. Some might be better off sold, at least temporarily. The objective is to hold the cash proceeds for later redeployment, hopefully at cheaper stock prices. Let me emphasize "hopefully," because it doesn't always work out that way.

This tactic will NOT be easy. Sure, our defensive cash levels are great when the market is dropping. Many days however, it can seem like a no-win situation. If the market goes down and we are correct for being cautious, the portfolios are still losing some money. If the market goes up, portfolios are making money, but not as much as they would if we were "all in." Damned if you do and damned if you don't. Such is life when we are in defensive mode.

Lastly, and quite importantly, there are many time periods (some of them measured in decades) where the bear markets that happen to strike are of the "Teddy" variety. A quick 20% hit and then it's back to the races. Our cash defensive tactics might unfortunately cost us a bit in such circumstances – while we must scramble to re-invest. Our tactics act like an insurance policy of sorts. They are designed for the nastier variety of bears – and they pay off handsomely during such sightings.

Caveat to Rule #3 – Warren Buffett would say don't hide at all! Buy stormproof stocks and then be fearless. Buy and HOLD. This is easier said than done, but it is hard to argue with the logic of one of the richest stock investors in the world.

At MWM we use both methods. Our highest quality long-term stocks will probably be held through the bear market. Anything less than that, we have no problem jettisoning with the philosophy that we can always buy them back later, if we preserve our capital during the downdraft. Our biggest worry is always the loss of capital. As such we will always try to err on the side of caution.

Bear Rule #4: The best bargains show up after the bear has mauled everyone. Prepare for a field day.

It has been jokingly said that the shortest time known to man is the time between when stock investors go from panic to greed. Of course, the problem is that no one knows when they are going to flip that switch.

Most of our best performing technology stocks were purchased in the aftermath of the 2008 financial crisis. During the Covid crash, oil prices were actually less than zero for a few days! The commodity investments we bought at that time have been fantastic – our position in mining stocks for instance has tripled since.

One of our clients, who happened to call in to the office near the low of the Covid bear market, decided to put some money into one of the steel stocks and one of the aluminum stocks, both of which had fallen more than 80%. Within two years, the steel investment was up 5-times his money, and the aluminum investment was up 12-fold. My point here is only to highlight the extreme bargains that usually develop during bear markets.

Bear Rule #5: Don't get trigger happy too soon. Stocks can go FAR lower than you would believe and take FAR longer to heal than you might imagine.

So, you've gathered up enough strength to look beyond the scary headlines, and you've stopped fixating on your dropping statement value for the moment. And now you think you see some bargains developing. Stop right there! This is a bear market remember. Don't come out of hiding too quickly – that's just what the bear expects you to do.

Defense first. Search out some possible opportunities and some possible bargain-buys from behind the safety of your cash position. But don't pull the trigger just yet.

History has shown that these markets can go down longer and further than you would think. We have found that if you wait until after a little bit of greed comes back into the market, you just might save yourself some pain. Yeah, you won't catch the rock bottom price, but that won't really matter. We want to be comfortable that the bear has gone into hibernation. Let a few squirrels start running around the forest floor. If they don't get eaten, that will be our signal that it's a little bit safer.

A lot of investment "squirrels" have already gotten taken out trying to buy some of the technology stocks that had dropped 30%. They thought that they were getting bargains. Surprise! The bear wasn't done yet. Those stocks are now down 80 or 90%. Patience, planning, and then purchase (in that order).

So, there you have it. Our template for dealing with bear markets.

One last thought on defense

We have something new to worry about. Our safe haven cash might not be as safe as it used to be according to many respected investment managers. For this reason, we have also been watching and considering gold as a substitute currency. If the U.S. and the rest of the world cannot get a handle on their spending and money printing, we may need to increase our position. We are noticing that many foreign countries, especially ones that are antagonistic to the U.S. such as Russia and China have been materially increasing their gold holdings over the last five years. A sea change may be afoot with some of the "safe" assets that we all have come to take for granted. The ultimate sad irony would be if investors ran for safety into something that was more dangerous!

As always, we will remain disciplined and careful.

I believe that [gold and silver] offer up the ultimate insurance - which is insurance against collective stupidity. And I feel a very strong need, personally, to be insured against collective stupidity.

I have been maintaining a lot of liquidity despite the fact that my U.S. dollar liquidity is costing me purchasing power on a quarterly basis. I believe that having cash or cash substitutes is something that you have to do despite the fact that it costs you.

— Rick Rule *(billionaire mining investor)*
in a Stansbury Research interview
April 11, 2022

Sincerely,

Michael Morgia, CIMA®
Managing Director, Partner

Tony Morgia
Managing Director, Partner

P.J. Banazek, CFP®
Managing Director, Partner

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1. FactSet Chart
2. Washington Post, 5/17/22, Biden administration begins easing restrictions on Venezuelan oil, Samantha Schmidt, Karen DeYoung and Anthony Faiola
3. FactSet Chart

The Morgia Team

Seated (left to right): John Johnson, Nico Morgia, Katrina Thompson, Shane Simser, Zachary Buskey, and Joseph Cosmo.

Standing: (left to right): Heather Clement, Frank Murphy, Tony Morgia, Kiersten Guthro, Michael Morgia, PJ Banazek, and Andrea Fiorentino.

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