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IO

InvestorsObserver

Workshop

InvestorsObserver Workshop

- Charts
- What Else is Happening?
- Hot Right Now
- Member-driven content: Questions, site demonstrations, etc.
    - Can prepare slides for questions submitted ahead of time: Mention “workshop”

S&P 500

S&P 500
One Year

NASDAQ

Nasdaq
One Year

Russell 2000

Russell 2000
One Year

S&P 500 vs. Equal Weight

One Year

Growth vs. Value

VTV vs. VUG One year

IO

Hot Right Now

- Energy
  - Thermal Coal
  - Oil & Gas Midstream
  - Oil & Gas E&P
- Utilities
  - Regulated Electric
  - Regulated Gas
  - Independent Power Producers
- Financial Services
  - Shell Companies
  - Banks - Regional
  - Financial Conglomerates
- Industrials
  - Infrastructure Operations
  - Airports & Air Services
  - Marine Shipping
- Consumer Defensive
  - Food Distribution
  - Confectioners
  - Discount Stores

What the Fed Said

- Rates will keep rising
  - Current projections look like another 75 basis points and then a “terminal rate” somewhere near 4.5%
  - Projections also show rates declining in 2024 and 2025
    - This is a signal that the Fed will raise rates past “neutral” and then go backwards
- Labor market still strong
  - Projections show increase in unemployment rate to still relatively low 4.4%
    - Not a lot of historical precedent for a 1% increase in unemployment without a recession
    - Powell said a reduction in job openings would also help
      - This points to trying to stop a wage-price spiral
- Choice ends up being:
  - Some people lose jobs
  - Everyone pays higher prices
- Powell was pretty a recession is not a hoped-for outcome, but a possible one
  - Stopping inflation is more important than avoiding a recession.

What Else is Going On?

- It’s Jay Powell’s market, we’re just (trying to) trade in it.
    - Inflation data and the Fed’s response are the big drivers right now
    - Higher rates mean lower multiples for stocks
        - DCF model divides expected future cash flows by a discount rate (cost of capital)
        - Tighter money means higher discount rate
            - Higher interest rates for debt
            - Lower multiples (more dilution) for equity
- Economic Data Generally Pretty Good
    - Housing Market is Broken
        - Low inventory has been a problem for a while
        - Higher rates likely mean fewer existing homes go on the market
        - Price collapse like 2008 seems pretty unlikely
            - Credit quality generally good
            - Low inventory, as opposed to oversupply
- Earnings around the corner
    - FedEx pre-announcement
        - Some factors may be specific to FedEx (Europe, Amazon)
    - More pre-announcements could be a sign of something bigger

Questions?

The Market is in a roil due to Inflation concerns, rising interest rates, fear of recession and adjusting to the Fed's response. Growth stocks have especially been hit as valuation/multiples are degraded by higher interest rate discounting of future earnings (reduction of net present value) in nominal dollars. BUT...if the labor market remains strong and demand were to remain strong shouldn't corporate earnings and stock prices experience similar inflation as consumer prices? At some point the dollar's diminished purchasing power will manifest in stock prices tracking with the inflated prices of goods. Of course demand could dry up due to affordability but at some point shouldn't prediction of negative impacts to demand give way to a recognition that the dollar is not as valuable as it used to be and company valuations should increase accordingly. a company in 2012 with a Market Cap of $1T was unheard of. in 2022 $2T is readily accepted, albeit still remarkable. – Stan

- This is mostly right
  - Talked months ago about how inflation can lead to *higher* margins
- Weakness in stocks is all about the Fed's response
  - Multiple discounting
    - Returns in other asset classes
    - Higher funding costs today for growth stocks
- 2012 to 2022 comp isn't really about inflation.
  - Inflation was pretty low in that period, value of $1 didn't get cut in half
    - Big companies got even bigger.

Questions?

I do have a question that came up as a result of a recent optimal covered call that comes out the in the daily email. The scenario was yesterday (9/13) when the market was down so far that by the time I got to read the email the share price had dropped so far that there was no longer an attractive profit. However, if I placed an order for a covered call for that same stock at a lower strike price for the same expiration date I could have achieved the original profit objective. My question is around how you determine the best strike price for a covered call and is it a safe strategy to execute this trade at a lower strike price as I described or are there hidden dangers there that I'm not aware of? – Todd

- This is pretty much the exact adjustment we would make.
    - Day in question, the whole market was down, so this is getting a similar position for a lower investment.
    - Make sure the individual stock isn't down for some reason specific to that stock
        - We try to avoid that kind of thing, but surprises happen.
- The dangers are mostly around the stock, and whether or not it recovers.

Questions?