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Good Afternoon,

The S&P 500 entered bear market territory today, declining 20% from a recent high. The NASDAQ, another popular index, is down almost 1/3 from a recent high. Other speculative stuff (ahem, cryptocurrencies) have declined anywhere from 50% to 90%. Bonds, as measured by the Bloomberg Barclay's Aggregate (the bond market), are down almost 11% from a recent high. And these declines are stated in nominal terms. If you include inflation, you must subtract another 3.5% (YTD inflation, running at an 8.3% annualized clip as of April). So, bonds are down almost 15% in real terms, S&P 500 nearly 24%, and so on…. When inflation was running at 1-2% for years, quoting returns in nominal (gross of inflation) or real (net of inflation) didn't matter as much. Today, I would encourage everyone to think about real returns.

Many will focus on the question ***why are markets down?*** Asking the question and looking for a clear, concise answer is only natural. In the financial world, people are paid to answer these questions. Turn on CNBC, Fox Business, or ask a professional and you'll get a litany of attempts to answer the question, why. We have our own thoughts on the subject, mostly centered around inflation running at 8-9%, triggering the Fed to raise rates to fight inflation (after all, it's the Fed's main objective). Inflation was potentially triggered by:

- A money bubble of $11 trillion of stimulus pumped into the economy from 2020-2022 that likely caused an asset bubble and excessive, unnatural demand for goods and services. If the bubble is painfully pricked (or is currently being pricked), the second- and third-order wealth effects will exacerbate the recession risks.
- Supply chain issues stemming from covid-related closures and stoppage, exacerbating inflationary pressures (think housing).
- Wage pressure and labor shortages as 2021 witnessed the U.S.'s slowest population growth since 1900, at 0.1% (source: US Census Bureau). Lower birth rates, more deaths, and less immigration are to blame. Less people to do more work caused by increased demand from the money bubble (which ignited excessive demand for everything) and limited by the supply shortage/chain issue. There are currently 5.6 million more job openings than there are unemployed people.

I've written a lengthy memo on inflation and plan to send out soon, but in this memo, I want to talk about the more important question of "What to do about falling prices?" Talk is cheap, but action, thoughtful and deliberate is valuable.

One can tell if he is speculating or investing by the simple reaction to falling prices. The deeper the decline, the clearer the answer. Speculators see falling prices as a reason to sell or at a minimum, concerning. Investors see lower prices as a reason to celebrate. If you own Dogecoin, and you see the price down 90% from a year ago (88% to be exact), are you excited to buy or sell? Alternatively, if your neighbor's house is worth $1m and she

puts it on the market for $120,000 (the same 88% decline as Dogecoin), are you excited to buy it or do you look at your own house with misery and sell? I promise I'll get to the point soon…..

First and foremost, we do not invest money without a long-term time horizon. Meaning we're not investing any capital today that will be needed to cover living expenses or outlays in the near-term. That's really important! Second, we only invest in assets that produce cash flow. Period! Our principle of "Thou shalt only invest in assets that produce cash flow" is tied with our vision statement (to honor God by helping and loving people) as our most important, guiding principle. It's strange to have a co-vision statement, but we can't decide which is more important as we can't love people and help if we're purchasing investments without cash flow! Why does this matter and how does it affect you?

- It matters because as the prices of assets fall, the cash flow yield (cash flow divided by the market price) increases. It doesn't take a CFA to understand why that's a good thing. Assuming you plan to own an asset for ten or twenty years and that asset will produce cash flow, buying at a 20% or 30% discount is wonderful because it increases your return.
- It affects you because we have cash (you have cash, that we manage). We have this cash because asset prices have been too high to be fully invested and bonds were not investable (so we held most of the bond-allocation in cash).

We will start to allocate some of this cash as attractive opportunities arise. In fact, we're starting to see some wonderful sales. We have even bought some 4% tax-free bonds! These bonds were yielding 1% a few months ago!

You can sleep well tonight knowing: lower prices are only bad if you're speculating – and we don't speculate; we will patiently deploy capital while never forgetting our tied for #1 principle of cash flow; and our capital is invested right alongside yours with complete alignment of interests.

Sincerely Yours,

John A. Barker, CFA

Respectfully submitted May 12th, 2022