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MARKET MUSINGS

JULY 05, 2022
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DEAR FAMILY, FRIENDS, AND FELLOW INVESTORS,

MUSING ON A BEAR MARKET

Stocks suffered their worst first half since 1970, and bond investors suffered their worst first-half performance since 1788 when George Washington was elected president. During extreme market movements, we believe investors should put on their contrarian thinking cap and ponder - Is it so bad, it's good?

Wandering through the desert on our trek to the land of milk and honey, we will be challenged, and we must summon our faith. For decades we have collected quotes from great investors and some non-investors, and when market turbulence churns, we find comfort in the words of Warren Buffett, Peter Lynch, John Templeton, and others. Their wisdom helps us find discipline and patience. For the past 200+ years, every US bear market decline proved temporary and was followed by milk, honey, and new record highs.

One of our favorite selections, which we've shared with clients many times over the past 30 years, is John Templeton's, "The four most dangerous words in investing are, 'This time it's different.'" Templeton reminds us that although the current headlines may seem unique, human behavior doesn't change. It's never different. Investing seems to be the only buying activity where humans are wired to run from lower prices. Successful investors don their contrarian hats and buy shares of quality business shares at low prices when the consensus thinks it's different.

We're unsure of Harry Truman's investing prowess, but he provided a treasure of quotes. One of our favorites is: "The only thing new in the world is the history you do not know." This inspires us to review the record of declines and subsequent rallies, where we learn, in contrarian fashion, that the most outstanding investor returns are initiated when headlines are the bleakest.

"I ran Magellan Fund for 13 years. During that time", said Peter Lynch, "there were nine times that the market was down sharply, and I had a perfect record lagging the market every time." A bit of self-deprecating humor mixed with wisdom. These short periods of underperformance didn't stop Lynch. Instead, he created a spectacular long-term, market-beating performance and became one of the all-time great fund managers.

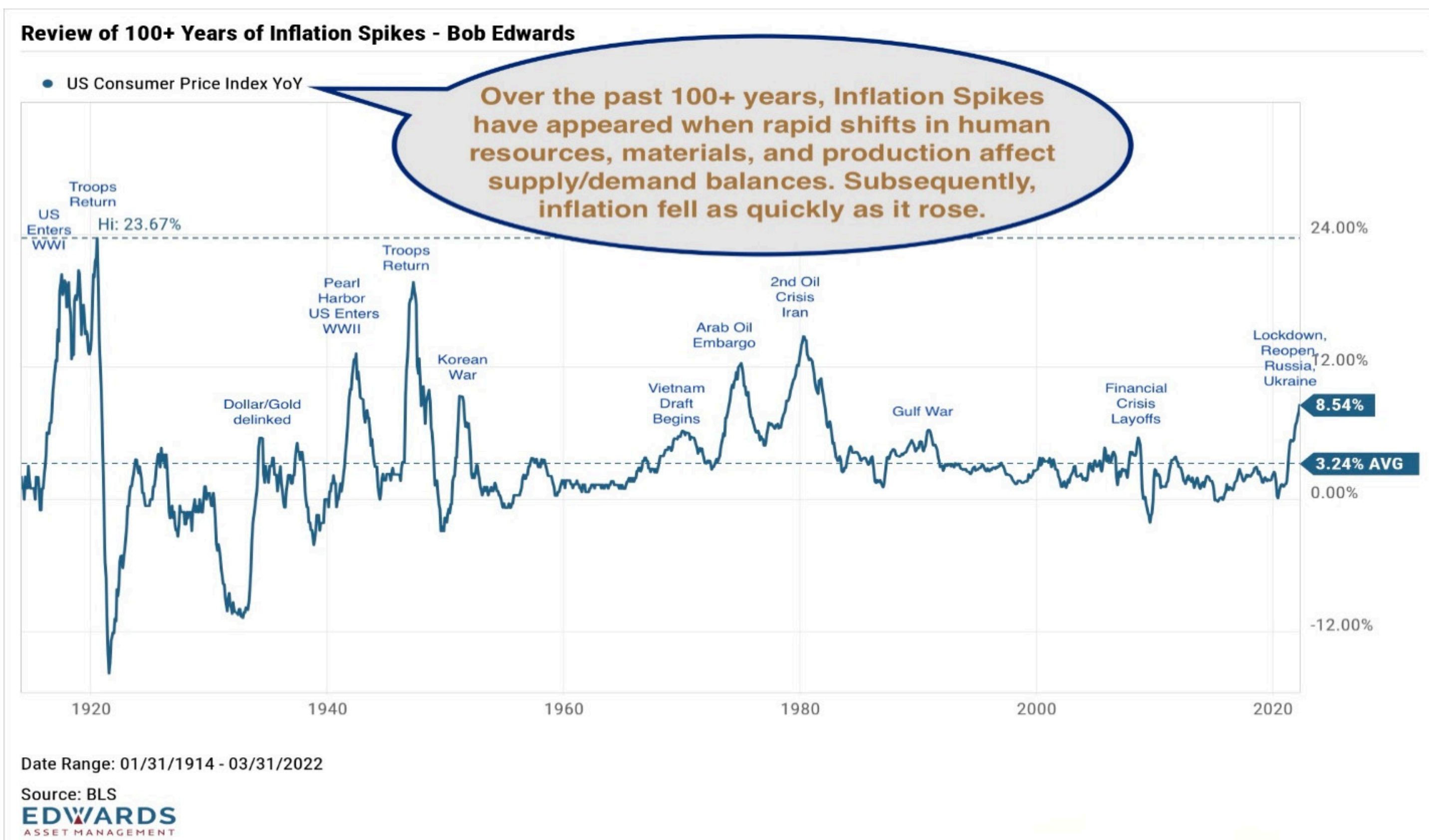
Warren Buffett's many fabulous quotes are an invaluable and generous gift to inspire investors. We encourage you to search the web to discover your favorite and don't hesitate to call and let us know what it is. Here are a few to inspire you:

"The immediate future is uncertain, and America has faced the unknown since 1776." - Warren Buffett
"If you cannot control your emotions, you cannot control your money." - Warren Buffett

MUSING ON THE MARKET OUTLOOK

We are leaning bullish for the second half of 2022 and into 2023. From the first half declines, we believe investors will buy growth. That's what they always do. And that's where the best returns will likely come from. A generational theme of technology is changing every industry, and Web 3.0, AI, self-driving, productivity, and the internet of everything will not be derailed by inflation, higher rates, or recession. Today's mega-cap blue chips produce revenue growing faster than inflation and the rest of the economy. So with lowered share prices, we think these durable growth companies with solid balance sheets are great portfolio investments for future compounding returns.

The fed has been battling inflation so far only with monetary policy. But if inflationary pressures begin to ease on their own, as is happening with raw commodity materials costs and finished goods where inventories are piling up, these are deflationary pressures. It's challenging to make a case for inflation accelerating from today's levels. With inflation peaking, the markets could be off to the races if we get any positive developments for Fed policy, corporate profits, or the war in Ukraine.



MUSING ON INFLATION IS CANCER

A pandemic and the subsequent policies of a sudden lockdown and rapid reopening caused supply and demand imbalances. As we adapt, the spikes decline similarly to how they rose. In the long run, monetary policy affects inflation with permanency, and it is a cancer created in Washington.

Our leaders paused the economy via a lockdown in response to a hundred-year pandemic. Sudden and extreme policy changes can cause short-term disruption to supply chains, leading to short-term inflation spikes in the economy. They papered over it with a sea of currency, the price being too much money chasing too few goods and services, the root of inflation.

The Covid crisis led to a policy response of the nation's fastest lockdown and subsequent reopening, creating an inflation spike. The nature of such supply/demand-based inflation spikes is that they are relatively short-term. Past spikes have been made by sudden war involvement (WWI, WWII, Korea). When Pearl Harbor was bombed on December 7, 1941, our participation in WWII began overnight. Troops were garnered from the nation's farms, shops, and factories and promptly deployed overseas, as were other resources such as food, energy, and steel production. This immediate disruption to supply/demand at home caused a sharp inflation spike, rising over 12% in just months. Then it fell in a similar action as the economy adapted and self-corrected. When the war ended and the troops returned, with pockets full of money, looking to see friends and family and move on with life, their rapid return surge of spending caused another brief disruption to supply/demand causing another short-lived inflation spike. Prices inflate quickly as the economic balance is disrupted, and prices decline similarly in a mirrored fashion as we adapt and self-correct and equilibrium returns [see

MUSING ON DO I HAVE TOO MUCH STOCK?

While the patient equity investor waits for the market's winter to end and spring to arrive, as is the historical reality, the 60/40 investor must ponder if they've given up too much for a safeguard that disappointed and pays income yields that will struggle to provide a living wage after inflation and taxes.

MUSING ON SHOULD INVESTORS SELL ON RECESSION NEWS?

We advise staying the course and offer for your consideration the historical average of US broad market returns in the periods that have followed the 12 recessions since WWII:

- 1 year... +21%,
- 3 years... +49%,
- 5 years... +94%,
- 10 years...+258%.

Patience and discipline are our sword and shield. Source: Bloomberg, First Trust, as of 5/11/2022. Call us if you want details.

Short-term public fear = Long term opportunity.

the 108 year Inflation Spike Chart we've prepared for you (page 3)].

As of this writing (7/5/2022), many commodity futures for energy, grains, and metals are down sharply from recent highs. Lower raw material costs should lead to lower producer and consumer prices. [see chart below]

Raw Material Prices Falling - Consumer Prices Soon

Commodity Future	Recent High Price	Recent High Date	7/5/22 Close	Decline From Recent High
Cotton (#2)	$133.79	May 17, 2021	$93.48	-30.1%
Wheat	$1285.00	May 17, 2022	$807.00	-37.2%
Corn	$766.25	May 15, 2022	$578.50	-24.5%
Soybeans	$1584.75	June 9, 2022	$1316.00	-17.0%
Silver	$26.65	April 18, 2022	$19.12	-28.3%
Copper (high)	$4.86	April 18, 2022	$3.42	-29.6%
WTI Crude	$120.88	June 14, 2022	$99.50	-17.7%
Gasoline	$4.12	June 6, 2022	$3.33	-19.2%
Natural Gas	$9.65	June 8, 2022	$5.52	-42.8%

Source Exchanges: ICE, COMEX, CBOT, GLOBEX

MUSING ON OUR 9TH BEAR MARKET

This is my ninth bear market with clients, and we plan on all of us surviving this one also. Seven of the nine bear markets ended quickly, and two lasted several years from the bottom. All proved temporary. Everyone we've ever known who sold in such markets justified the idea by imagining they would repurchase their shares at even lower prices. The sad results were that nearly all these well-intended market-timers permanently damaged their portfolios. Selling to relieve short-term market pain may result in the longest-lasting emotion of regret, or as we call it, "The Big Mistake."

MUSING ON HOW WE MAY GET IT ALL BACK

Market rallies from bottoms tend to be fuzzy mirror images of the decline. The first leg up is often as sudden and sharp as the last leg down. Look at the V-shaped example of the 34%+ plunge in 2020, 2009, etc. This is not a prediction but a historical observation.

MUSING ON TIME IN THE MARKET

Unless you're that highly accurate market timer, of which we can find none in history, then time in the market is more important than timing the market.

MUSING ON THE SELF-CORRECTING MARKET CYCLE

The US economic and capital systems are capable of remarkably recalibrating themselves. Evidence: High prices are the cure for high prices, and low prices are the cure for low prices.

MUSING ON DIVIDENDS

Being a manager of dividend portfolios for over 20 years, we have long known that quality, dividend-paying businesses, have increased their investor's dividend payouts faster than the inflation rate for decades. We were thrilled to see many dividend stocks again rise to the occasion and grow their dividend payouts faster than inflation could flare. Additionally, several of the largest banks increased their dividends by 11%-25% in the past weeks. That's meaningful, and when market confidence returns, as it always does, we expect share price increases to reflect and resemble those dividend jumps.

MUSING ON BUYBACKS

Buybacks are on pace for records. More money is now being returned to investors through buybacks than dividends, with a real possibility that buybacks could exceed $1T in 2022.

MUSINGS ON 10 BULLET POINTS

1. So bad, it's good.
2. Wandering through the desert to the land of milk and honey.
3. Words of wisdom from great investors can bolster our discipline and patience.
4. Mega cap growth shares are well-positioned at bargain prices.
5. Lower commodity futures for food, energy, and metals mean lower raw material costs and can tamp down on inflation.
6. Selling during temporary declines to stop the pain will likely result in permanent portfolio damage and long-lasting regret.
7. Patience and discipline are our sword and shield.
8. The US economy and markets tend toward self-correction.
9. Dividends and buybacks are growing faster than inflation and offer some inflation protection for today and tomorrow.
10. Market rallies from bottoms tend to be fuzzy mirror images of the pace and trajectory of the market decline.

No winter lasts forever. No inflation spike lasts forever. No war lasts forever, and no bear market lasts forever. Only change lasts forever, everything else ends, and something new arises. What follows winter is spring.

Thank you for your continued confidence. We are always here when you need us.

Sincerely your faithful advisor, friend, and fellow investor,

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