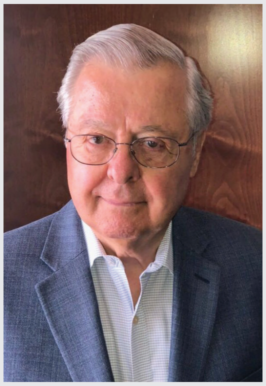
INTERIM ADVISORY REPORT | OCTOBER 4, 2022

The Horsch *Business Report*

Helping you grow your career, company, and economic wellbeing



LARRY HORSCH

INTRODUCTION

We are publishing an Interim Advisory *Report* solely on the U.S. stock market in view of the volatility of the stock markets in the U.S. and elsewhere. We believe that it may be time to take a deep breath and reflect on the basics of investing to assist in volatile times. Our regular bimonthly Horsch Business *Report* will be published on around November 1, 2022.

INVESTING

Overview

As we move into the last leg of a decline in the U.S. stock market, we begin to focus on the probable decline in earnings of companies caused by a likely recession. But in the process, we also focus on some additional issues:

- With the exception of the market correction in the middle of the pandemic, the U.S. stock market has had large gains since the Great Recession supported by very cheap money underwritten by the Federal Reserve. As the market rises over a long period, there are many young equity professionals who are inexperienced in down markets and somewhat baffled.
- In addressing the inflation issue too slowly, the Fed let the genie out of the bottle, which is causing workers to demand higher pay, and once the higher pay is in place the pay levels don't go down in a recession like commodities do, such as corn, copper, oil, etc. So, the Fed has had to be more aggressive by raising rates threequarters of a point several times.

- The Fed increased its balance sheet enormously by buying federal government and business loans to drive down interest rates and now must unload these assets, which drives interest rates upward, in addition to setting higher interest rates for loans to banks. In recent times, we have not seen the Fed's balance sheets grow so huge that it remains to be seen how the Fed can sell these assets without upsetting credit markets. Some deep thinkers are worried about this issue.
- We have not had a significant risk of a European war since WWII. The Russian invasion of Ukraine and the chaos it is causing with the loss of life, limb, and properties that have put Putin in a corner as he is losing the war. When dictators are cornered, they say such things as "being ready to use tactical nuclear weapons." In addition, the side effects of natural gas prices and availability in the EU is seen as an additional risk factor in the EU and the U.S. equity markets.

We accept all these gyrations in support of the free enterprise system in the U.S. and the business cycles that are part of that system. As humans we cheer for the upside of all of this, but periodically we must contend with the downside aspects of it.

For those who have paid attention to our November /December 2021 *Report* that cash could be the best liquid investment in 2022, despite inflation, you may have tweaked your portfolio a bit from a risk standpoint. Those of you who have owned passive investment funds that duplicate the market, or others who have stayed fully invested, had a rough ride and unfortunately may not have extra cash to invest in low stock prices ahead that may provide a great buying opportunity.

Warren Buffett has said that to be a successful investor you don't need to be a genius. You do have to have sufficient intelligence to address the issues of investing, but the bigger issue is you have to control your emotions. You have to become aggressive when good values appear in investing and cautious when the prices of equities are overvalued. This means, in shorthand, "you buy low and sell high," rather than the reverse, which is what happens when you don't control your emotions.

As the U.S. economy goes into a recession, investors create a wall of worry and get frustrated by all the bad things that are happening. This is similar to people looking out a rosy lens of their glasses when things go well and switching to looking out the grey lens of their glasses when things go badly and seeing nothing but gloom.

In the end, stock prices reflect the earning power of the companies involved and their outlook. At times, the prices overvalue their earnings power, which is what has happened before the markets decline in 2022. We may now approach prices that will undervalue companies, but we aren't there yet.

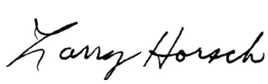
The issues involved in reviewing overvalued and undervalued securities from an investment perspective are not the only challenge. Another challenge is how to judge the timing of when the mispricing will change. Benjamin Graham, the godfather of modern security analysis and mentor of Warren Buffett, has said, with a twinkle in his eyes, "we don't know when the repricing will occur, but it always does." In our current situation in 2022, it happened suddenly after the November / December 2021 *Report*.

PARTING SHOT

Overview

We believe it is helpful from time to time to go back to the fundamentals of investing. While all of this is heavy lifting intellectually and emotionally, we believe it reflects reality to help you with your investment plans. As we move toward good value in U.S. equities, buying opportunities will appear that may not reappear for some time in the future.

Respectfully submitted,



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