Pittenger & Anderson, Inc.
REGISTERED INVESTMENT ADVISOR

P&A's Quarterly Letter

Quarter 2- June 30, 2022

Dear Friends and Clients,

The "R" word…

Economic activity does not progress in a straight line, moving from lower left to upper right across the dual axis of an " X vs Y" graph. It does, however, move from lower left to upper right in a random manner. These movements are generally divided into two categories…..expansion and recession. According to Investopedia, economic expansion is the dominant US economic condition featuring an upward trend in the business cycle characterized by growth in production and employment. This in turn creates an increase in the spendable income of households and businesses. Using the same source, recession is defined as a period of declining economic activity across the entire economy, resulting in a contraction of spendable income which can last for several months.

Our government has adopted the work of the National Bureau of Economic Research (an American nonprofit) to track, define and quantify the economic cycle. Simplistically, the economic cycle travels across time in an orderly fashion: expansion, recession…. expansion, recession….expansion, recession…you get it…cyclicality at its best. NBER does not tell us how long any of these economic periods will last, when they will begin or end. Instead, the Bureau measures each cycle from peak to trough and tell us in arears when an expansion gives way to a recession as well as when a recession ends…starting the next expansion. These edifications can occur months or even years after the events took place. Although it would be nice to know these things in advance, that does not fall within the domain of the NBER. Instead, there are legions of pundits and talking heads that firefly around each head fake in the cycle trying to predict future economic events. Compare this scenario to the TV weatherman who sweats through his sport coat trying to predict when and where the next line of tornados will touch down. Most will agree, it would be nice to know these things in advance. However, a lot of us are content to own houses, barns and buildings that are strong enough to withstand those events (think 3 little pigs.)

How much time do we spend doing what?

American investors are pre-occupied with believing they can sell prior to the next negative and re-invest prior to the next positive. Being able to do so would require more moves than a bowl full of Jell-O. Expansions don't concern most of us, they are victories and a lot like the yellow brick road. No one knows where it came from, and no one knows where it's going…all you have to do is follow it. My suggestion is that expansion is the normal state of economic affairs. Since it generates higher incomes and greater net worth, people become comfortable with it quickly. The NBER does help us a bit by quantifying the average expansion to be 48–60 months. Try to land a man on the moon using data with that kind of precision. If you are interested, you can Google NBER and find lots of charts and graphs on this subject. Their take on recessions is shorter than expansions, 11 months on average with one per decade. If you divide 11 by 48 you will find we spend 23% of our time in recession, leaving 77% of our time for expansion…maybe more.

Our most recent expansion lasted 128 months, beginning in June of 2009 and ending in April of 2020. We were fully invested on both dates, meaning I plead guilty to those who say we stayed too long but equally unabashed about 100% participation in a rally that lasted almost 11 years…not bad for a kid. It is pretty clear that most pundits as well as the NBER Business Cycle Dating Committee tells us that expansion is the normal economic state of affairs. The most recent recession began in December of 2007 and ran through June of 2009….18 months. We might be in one right now and if so we could easily be halfway through it. Since trying to predict this stuff can drive you nuts, we spend very little time trying. As you all should know by now, we are bottoms up stock pickers and try to build portfolios from best of class securities. Recessions are tough and we know they're coming. I am often reminded of a line written by Sylvester Stallone from the movie Rocky, "Wow! Did you see him hit me…he can really hit." Knowing recession hurts, we also know they are comparatively short. Instead of being afraid of recession, we want to welcome expansion.

A catastrophe is a terrible thing to waste, same could be said about a recession. During initial contact with clients we always project our actions when markets turn sour. One of the portfolio management techniques we have used over the years is "loss trading," selling securities at a loss and replacing them with assets of similar or greater volatility. When executed correctly the process generates a loan from the IRS in the amount of taxes you don't have to pay for as long as you keep the trade on. When we left Dean Witter, commissions could easily reach several hundred dollars on transactions like this…today they are zero. Most of you have already seen activity like this in your accounts; if you would like to discuss please call. Another of my favorite remedies has always been to take profits from time-to-time and use those dollars to buy "use" assets. A new boat has always been my best example. I love to fish and when I have a pole in my hand I am at peace with the world. Tasting the fruits of your labor always seems to feel beneficial. Make sure you use your money from time to time. Gifts to children, relatives and philanthropies also have a soothing affect. When you feel better about your investments you can stay put longer. Long term is the only term. Good advice delivered too late? Probably not. Once the current recession ends there will be an expansion. Once the expansion ends there will be another recession. If you are a P&A client, you are a likely a high-net-worth investor, probably in the middle of a recession… your position is envious.

Current markets…

With my first job at the First National Bank came a walk from the employee parking lot to the 10th floor with the investment guys from our trust department. I didn't really know what a trust department did at the time, but the conversations were interesting and surrounded what I did for a living (I wasn't too sure about that either.) These guys were intensely top down, the opposite of our present-day bottoms up. They tried to figure out what the economy was going to do and then buy securities that would benefit from that proforma, most trust departments seem to behave that way. The chatter was all over cycles, expansions, recessions, interest rates and the Fed. I did learn quite a bit. One of those factoids was the traditional definition of recession… two successive quarters of declining GDP. Interestingly enough, this description is still in use and represents a pretty good sketch of a recession. If you hold this litmus test up against the current economy, it will tell you that we could easily be halfway through a two-quarter period of decline right now. Real (inflation adjusted) GDP for the first quarter was (-1.60%). The first estimate of Real GDP is offered by the BEA (Burea of Economic Analysis), and is then revised a second and third time. They now know the third estimate for Q12022 weighs in at (-1.60%) and was released on 6/29/22, one day before the second quarter ended. If current events follow that same cycle, I would expect the third revision of the 2Q2022 GDP to be available around 9/29/22. As you can tell, there is a lot of slack in this process….I recommend you buy a new boat.

Reprinted from our 4/09/22 letter… first time I have done this, but it is well deserved.

Dan and I have been writing financial plans for clients since the mid-1990's. Our skill sets in this field are now pale by comparison to P&A partners and staff… their ownership of these skills date from 1998. In addition to executing financial plans, they do social security evaluations, Medicare D analysis, DAF construction, fund transfers, portfolio analysis and… surprising no one…recruiting new clients and building portfolios. Another way to put it is…they are now doing the heavy lifting and then some.

Virtually every week one of our clients visits the office or calls on the phone and commends a staff member.

"Thank you, I will be happy to deliver the compliment."

I can't say enough nice things about the people I work with. I tell new clients, and old alike…" it's your job to get as much work out of us as you can." Believe me, it's easy to do. If you can't negotiate a Schwab website or the P&A portal, our staff will take you by the hand and lead you through the process. We assume you don't like forms and fill them out for you. When you lose your password, we will point you in the direction to find it (drat!) When you can't remember how to move money, we will teach you again, and again, and again… Too much cash, we'll invest it. Need more spending money, we'll generate it. If you never want to learn how to do any of this stuff our staff will do it for you. This is how money should work.

James S. Pittenger Jr. CFP®
Chairman/CEO