THE PIVOT: SUPPLY, DEMAND, INFLATION

Welcome to another edition of "**Ethel's Diamond Post.**" Our primary objective is to provide clients, family and friends a unique perspective on the capital markets and how they pertain to the investment portfolios we manage. After a stellar run-up this year, a significant pullback has been upon us since the last week of September. In case you hadn't noticed recently, today's investment environment is a whole new ballgame. In this environment, you cannot call the same old plays from the investment strategy playbook. The combination of pandemic-driven uncertainty, market volatility, and theoretical investing trends has culminated in an environment where behavioral biases are alive and well. These nerve-wracking developments might have you thinking "the sky is falling," but do not panic, for this too shall pass. However, the time has come for us to pivot from an economic lockdown mode to a thawing economy plagued with supply chain challenges, rising inflation, and political division.

If you look in the rearview mirror, the rush to cryptocurrencies, digital tokens, and unique acquisitions eventually lead to an inevitable pullback. We cannot forget that the S&P 500 lost 33 percent of its value in five weeks last year, wiping out the entire gain that the index had made one month after the 2016 election. The facts are the S&P 500 was down 0.98 percent from December 6, 2016, through March 23, 2020, a period of over three years. In essence, the bottom line is the stock market is highly cyclical. **VZD CAPITAL MANAGEMENT, LLC** has an advantage due to the hands-on monitoring of each portfolio's construction and rebalancing based on the client's standard of living, age, emotional risk level tolerance, and tax considerations. As most of you know, **VZD** does not believe in a cookie cutter approach or a one-size-fits-all model.

Today, the steep decline escalated with the rising concern surrounding the trade tensions between the United States and China. The S&P 500 lost 1.3 percent, and the NASDAQ evaporated 2.1 percent, with the technology sector being the biggest decliner, followed by the communication service companies. The energy sector and the news that Merck has applied for an emergency use authorization in the US and elsewhere for its experimental antiviral COVID-19 therapy pill, molnupiravir, are creating additional uncertainty. While Pfizer, BioNTech SE, and Moderna stocks have taken a hit, the need for their products remains great in America and across the borders. Even so, the number of unvaccinated people is still a problem considering the flu season is just around the corner. Plus, the Centers for Disease Control and Prevention (CDC) has approved using an extra dose of Pfizer's and BioNTech's for specific immunocompromised individuals, specifically for those who have had solid organ transplants or those over the age of 65.

Concerns over COVID-19 and the various variants continue to persist, especially with the winter months approaching. Several companies are working tirelessly to produce treatments to cut hospitalization and deaths by 50 percent, so this pandemic season is not over. Many employers have mandates for their employees to be vaccinated by a specific time or face termination if not. But, these types of therapeutics are the next big thing to help beat this pandemic.

This current sell-off allows us to transition into energy, industrials, and utilities. The world of investing offers many questions with no clear answers, but as your money manager, my role is to create a framework for decision-making. Buy and sell decisions are not made haphazardly. The primary consideration is the cash flow, revenue growth, profit margins, retail versus institutional ownership, price-earnings-growth, the beta number, and the company's intrinsic value. Ultimately, the price of a company determines the investment return. No one has a crystal ball, but the market never moves in tandem, therefore, some companies will perform better than others regardless of market conditions.

VZD knows every company that we hold. There is a reason we buy, double-down or altogether remove investments due to unforeseen circumstances that the current pandemic environment has created or revealed, especially as we transition into a "new" norm. Dollar-cost averaging is the most appropriate strategy to purchase new companies in turbulent times like these. We are taking a defensive stance by keeping a significant amount of assets in high investment grade preferred stocks and increasing the exposure to dividend-paying companies that meet our strict criteria for a bottom-up, growth-at-a-reasonable price strategy. Investing is a long-term process. Market conditions change, but we can separate the day-to-day market noise from facts. At the same time, I realized that we didn't get an advance notice that the market would evaporate five percent at the end of September. This sudden drop was a rude awaking to investors who got accustomed to the S&P 500 seemingly moving steadily higher every day. The last down month was January. Since then, the S&P 500 has gained 17 percent. Yet, the S&P 500 year-to-date return is 15.74 percent.

You might be thinking, should we flee the market in September, since historically it has been somewhat of a bust month? The S&P 500 is consistently and persistently likely to gain versus decline. Even so, I realize it is not easy to remember this when the market skids 2 percent or more on September 28, 2021. Plus, it does not help that every headline in the financial sector has a "doom and gloom" message versus reminding us that the stock market goes up and down, and that there are buying opportunities in those ebb and flows cycles.

As we advance, we are playing the adage "the best defense is a good offense" for the remainder of the year. A defensive stock has qualities that offer a robust approach given how they tend to hold up well in almost any market condition. The low beta stocks can be an attractive place to park some capital until the dust settles. For example, Costco is one of the best big-box retailers to own for the long-term, plus it's an outstanding dividend-paying stock. In addition, the real estate investment trust (REITS) stocks are great dividend-paying companies that have a solid capital appreciation aspect which fits in the total return category.

Inflation continues to grip the market. This cycle could last longer than expected – no one knows. While inflation doesn't tank stocks, higher interest rates can play havoc. The Federal Reserve is standing down on rates this year and probably most of next year, too. The interest rates might remain low until 2023, given all the uncertainty pressing upon the current economy.

We are also currently in a "wait and see" mode thanks to the drama in Washington. The stock market does not digest uncertainty well and believes in black and white answers. We are once again watching the drama as Congress passes a continuing resolution to avoid a government shutdown with only hours to spare. While the funding extends until December 3, we are, at that point, back at the drawing board again. Washington has a looming deadline to figure out the debt ceiling – to either raise or suspend it – and a decision must come to fruition.

The next catalyst that the markets will have to digest comes on Friday when all attention will be looking at the employment situation report. Personally, every retailer, restaurant, and various companies are understaffed so severely that many have shortened their hours. Plus, we are anxiously waiting to get the "411" on the third-quarter earnings season. We expect the economic growth to accelerate in the fourth quarter which could significantly lift your account balances. We don't panic because being in the investment arena for over 33 years has taught us to stay the course and pivot only when necessary.

We sent 2021 compliance correspondence that each client must sign and initial to update our records as soon as possible. If you haven't returned these forms, please feel free to contact us with any questions or concerns. Thank you for being so responsive to our annual updates to meet specific regulatory standards.

Ethel was featured in The Corporate Magazine as one of their top 2o21 Women Leaders. The accolades, honors, and rewards are partly due to our **VZD** family, friends, and cohorts. Plus, the Five Star Professional organization recognizes her as a 2022 Five Star Wealth Manager in the top 7 percent group within the Greater Kansas City Community.

Thank you again for the trust and confidence placed in us. Please know that we are committed to our clients, family, and community. We appreciate and value our extended members – always. Stay well, and I will continue to schedule portfolio reviews to discuss essential tax planning strategies.

With Gratitude,

Ethel J. Davis, CEO
Nikisha L. Johnson, Executive Mentoring Candidate