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I hope you all had a chance to read my letter in the middle of the quarter. I basically said to stay the course and not make any knee jerk reactions to the recent market volatility. That advice still stands.

There is a lot of uncertainty still out there: The Russian invasion of Ukraine, China's zero-Covid policy and the affect that policy is having on the supply chain are all having an impact on the 40-year high inflation we are seeing. There was some good news in the Wall Street Journal this week in that we are starting to see a decline in raw material costs. Moreover, surplus inventories should put some downward pressure on general prices and these surpluses should also slow the demand for parts for new products over the next few months. Oil prices have declined to a point not seen since May. The price of oil has a direct impact on inflation; thus, we are all cheering for lower oil – except for Vladimir Putin who is depending upon higher oil prices to fund his terrible war in Ukraine. On a side note, the Russians just defaulted on their $100 million interest payment on their foreign debt for the first time since 1918. Russia still has $1 billion per day in revenue coming in through oil sales to China and India, so it won't impact them too badly. However, the default will affect Russia in the future when they try to issue more debt to the global community. Who will want to purchase their bonds after they defaulted? Anyway, I digress. Housing sales are also starting to stagnate. For a while there, I was starting to wonder if we learned anything from the housing crisis of 2008-2009. Higher mortgage rates are starting to slow demand for more housing. These are all signs that we may have reached peak inflation. On the demand side, services like eating out, travel and hotels are booming right now. In fact, I have never seen a shift in consumer spending as sharp as the shift we have seen from home products during Covid to airline and general travel expenditures post-Covid.

While the index returns have been poor over the past few months, there are some funds within our portfolios that are not dropping as much as the S&P 500. While the S&P 500 was down close to 20% in the first six months of the year, Primecap Odyssey Growth (POGRX), a large-cap growth fund (think technology and biotech) many of you own, is slightly beating the S&P 500 which is saying something about how that fund is managed (-19.52%). As a comparison, a pure growth index like the NASDAQ 100 is down close to 30% year-to-date. This result has placed POGRX in the top 7% of the growth funds in their category for the first half of 2022. Vanguard Dividend Growth (-11.02%, top 4% in its category), Vanguard Global Wellington (-10.86%, top 35%) and First Eagle Overseas (-10.18%, top 1%) are down close to half of what the S&P 500 is down. While being down half is still disappointing, this level of return is what I am hoping for with my managed/value funds during difficult markets. In the good times, we hope that these funds will be up 75% or more of an applicable index return. One more example is Berkshire Hathaway (BRK.B). BRK.B is down close to 8% so far this year, which is disappointing compared to positive returns earlier this year. However, Morningstar considers BRK.B to be undervalued by 33% as of this writing. It is during these time periods that I am thankful not to have all of my assets in index funds.

The Federal Reserve has noted that they plan on increasing the Federal Funds rate another 0.50 to 0.75% later this month. If you ask me, I want to take my medicine sooner rather than later. I hope they increase the rate by 0.75% this month. This will bring the overnight lending rate to 2.5%. If you have some cash sitting on the side for emergency purposes at your local bank or credit union, I would wait until at least three or four weeks before buying that next CD. The higher rates will eventually filter down to your money markets and CDs. That said, the returns you are receiving within these instruments pale in comparison to the current inflation rate. Over the long-term, we will need stocks to help outperform inflation, but for emergency funds a money market or a short-term CD make sense at the present time.

As for my personal investments, I put my family's money where my mouth is. I keep my overall debt as low as possible and I currently have my retirement assets at 100% equities. My wife, Karla, and I are averaging into the stock market every month just like many of you are with your retirement savings contributions. Due to this allocation, my year-to-date return is lower than most of your returns. I would encourage you to look at this time as an opportunity. Sure, things could go down further and stay down longer than we feel comfortable, but that means a steeper discount and more shares per dollar invested. Let me know if you have any questions regarding your portfolio and how it is positioned. In the meantime, hang tight. This time will pass – it always does.

If you have not stopped in to see us lately, please do not hesitate to contact me to schedule an appointment. Enclosed you will find your Portfolio Holdings, Performance Analysis and Position Performance reports as of June 30, and a quarterly Account Management Fee Statement. Please call us should you desire the most recent copy of our Form ADV Part 2A. In addition, do not forget to notify us should your investment objectives or personal financial situation change.

Best regards,

William A. Bullock