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INSIGHTS & OBSERVATIONS

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YOUR GUIDE TO FINANCIAL MARKETS AND INVESTMENTS **June 2023**

Welcome back. Toward the end of last month America once again encountered its 'debt ceiling' and forged yet another messy agreement to allow more borrowing and spending. Again.

This circumstance has occurred many times in recent decades, and in theory the debt ceiling exists to limit politicians' spending. Lately, it hasn't worked well.

Across the developed world economies, COVID provided the ideal excuse to spend without limit or even much thought about any longer term consequences. Well after the pandemic was in retreat the spending kept going, and government debts rose sharply.

The recent debt ceiling tussle is no longer the real worry, as famed investor Stan Druckenmiller so aptly put it recently:

"All this focus on the debt ceiling instead of the future fiscal issue is like sitting on the beach at Santa Monica worrying about whether a 30-foot wave will damage the pier when you know there's a 200-foot tsunami just ten miles out."

Indeed. With today's now much higher interest rates all debtors face larger carrying costs on their loans and as mortgages renew, credit line costs adjust upward, and government borrowing costs rise, total interest expenses have grown considerably. Staying with the US – but most countries are at risk – the interest paid on US public debt is now greater than their defense spending, itself a category in which they've never been shy.

By country Japan is in the worst condition, then comes Italy and a few other European countries. Canada – which used to be quite prudent – abandoned that behaviour and has unfortunately ascended sharply on this list of national debtors. Should interest rates go higher in the next few years, we would expect to see more drama far surpassing the current debt ceiling squabble.

Stock markets have been very quiet in recent weeks and we've been closely watching the inflation and interest rate trends to gauge the economy. The widely predicted recession still hasn't happened and while it certainly could, the odds of this have fallen slightly since January when 'everyone' predicted this outcome. We'll see, but meanwhile we continue holding good cash reserves across our portfolios just in case nervous days return and more bargains are on offer once again.

Enjoy the start of summer and take care.

Philip

June's Articles

Recently a friend of mine asked me what things are important to look at when deciding which stock to buy. He is a successful business owner and has done well in a niche sector, and his curiosity was prompted after seeing a few high profile stocks surge this Spring.

As I started explaining the many factors which go into a purchase decision, the discussion expanded into a wide range of areas and influences we consider, including the mood of investors and where markets have gone in the preceding months. Much of this input comes down to sentiment, and how we all unconsciously assume market moves of the recent past are also what lies ahead.

People – including my successful friend – all have mental models which our brains use to predict the near future. This is how we can drive to work without remembering much about the trip, or why we perform routine tasks while daydreaming about other more interesting topics. We are often on autopilot mode.

Our brains do this to conserve energy to leave room for other jobs deemed more important to our survival, and this is critical to our success as a species. However the autopilot can also get us into trouble and doesn't work for some situations, notably including investing.

When markets fall it triggers fear which activates our 'flee' mode, prompting people to sell after prices have dropped. Conversely when stocks have been rising and hit new highs, we're tempted to join the party after its gone on for a long time, and we buy in at high prices.

In the essay below by **Ben Carlson**, we consider when to buy stocks based on doing the opposite of what our brains 'recommend'.

https://awealthofcommonsense.com/2023/05/the-best-time-to-buy-stocks/

Vitaly Katsenelson is CEO of a value-based investment firm in Denver and the author of books on investing. We've linked one of his short recent newsletters below which highlights the wisdom of the world's two best known value investors.

Warren Buffett and Charlie Munger have advanced the field of investing with their tested process for now 70+ years, and their annual meeting of Berkshire Hathaway has become the mecca of value investing.

Ultimately this approach boils down to hard work and particularly human nature, and how investors can learn to apply it when taking decisions both with their investments and even within their own lives. As Vitaly says, we as humans do not change despite everything else around us constantly changing, and we can use this reality when making investment decisions.

Munger especially likes to broaden out his advice and include ways we can deal with all types of people and the temptations of life. Now nearly 100, he has both the smarts and experience to back up his often insightful and candid observations.

https://www.linkedin.com/pulse/what-i-learned-from-oracle-omaha-charlie-munger-katsenelson-cfa

WHAT THEY SAID

"It's better to hang out with people better than you. Pick out associates whose behaviour is better than yours and you'll drift in that direction."

Warren Buffett