Accelerate
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Dear Investor,

The music has stopped with the S&P 500 set for the worst start to the year since 1970. Unfortunately, equities and bond markets have moved in unison, further placing stress on investor portfolios. The expected “hedge” of bonds has not worked this year as the U.S. Government/Credit Fixed Income Index is down 11.54% year to date. The bond sell-off has been highly correlated to equities, and the fixed income market has not provided the opportunity for timely rebalancing of fresh capital to be allocated towards equity markets. When both stocks and bonds are correlated and trending down, it becomes challenging for professional money managers to free up capital and allocate to the securities they love.

The Federal Reserve has provided the catalyst for the current bear market in equities by raising interest rates to help cool the economy and bring down inflation. The theory is that when interest rates rise, the economy will have fewer borrowers, resulting in banks slowing down lending. With less money in circulation, you will see a decrease of investment in the economy and an increase in unemployment. The diminished money supply will reduce an individual’s purchasing power, slow the rate of price increases and bring inflation back down to the desired rate of 2%.

According to StatsCan, CPI rose by +1.4% in May, representing an annualized pace of +7.7%, the fastest since January 1983. With this in mind, Central banks have their work cut out for them as the cost of living continues to soar. In addition, consumers are certainly feeling inflationary pressures and increased borrowing costs as spending on gasoline and food has rocketed higher while overall retail sales fell for May. Over the past year, gasoline prices jumped 43.2%, and prices at food and drinking establishments increased 17.5%. Although the consumer appears to be well capitalized by historical standards, the diligent investor will be watching the health of the consumer closely, as this makes up nearly 70% of the economy’s output. If consumer sentiment starts turning negative, corporate earnings will be under stress; resulting in a decline in both corporate earnings and stock prices.

Some may think this is complete market despair. The enterprising investor, however, will see the silver lining in the current state of the markets. Investors in Standard Wealth have seen the addition of Alphabet into the portfolio as the recent market draw down has allowed us the opportunity to own part of this incredible business at a fair price. With Google owning 85% of the global market share, this technology giant has a robust platform

which dominates the search engine space. Alphabet is a money-making machine with 56% gross margins and is on pace to grow earnings in 2022 by 17%. A recently announced $70 billion buyback will retire nearly 5% of the shares outstanding and provide a tailwind for shares to grind higher. Of course, any investment has risks to be monitored and considered, however, we feel this is an exceptionally well-run business that we were able to buy at a fair price.

"In investing, what is comfortable is rarely profitable."
Robert Arnott

During the recent market sell off, we have also added to current portfolio positions of Royal Bank of Canada, Canadian Imperial Bank of Commerce, Bank of Nova Scotia, JPMorgan and Cisco Systems. All of these companies experienced a share price decline in Q2 and we were able to add to these names without selling one share by raising cash in the Standard Wealth portfolio. These companies all possess high barriers to entry from new players as each bank has large competitive moats through favorable regulations or high switching costs.

"The key to investing is not assessing how much an industry is going to affect society, or how much it will grow, but rather determining the competitive advantage of any given company and, above all, the durability of that advantage."
Warren Buffett

Our ability to access fresh capital during times of market weakness is one of our competitive advantages in a highly efficient market of buyers and sellers. When the market mood turns sour, we stay laser focused to identify great businesses that are now on sale.

Looking forward, we see a challenging market for fixed income investors as rising rates will continue to send bond prices tumbling. Investors should stay away from this asset class if possible. Having flexible asset allocation and access to capital in this market will provide excellent opportunities for those that are agnostic to asset classes and sufficiently diversified beyond just stocks and bonds. Yale's endowment is over 50% alternative exposures as they seek to reduce volatility and provide investor performance in all market cycles. Our recommendation would be to increase exposure to alternatives strategies to help reduce volatility and provide better investor outcomes. For equity investors allocating to companies with sustainable competitive advantages, they will be well served in this market to be extra selective when identifying businesses that are on sale with proven management teams that can perform well during all market environments.

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As of June 30, 2022, the Standard Wealth strategy has a dividend yield of 4.5%, with a current portfolio price to earnings ratio of 11.2. In addition, the strategy has a trailing twelve-month return of -6.70%.

I am looking forward to a great summer and wish all investors the best of luck as we navigate a rising rate environment.

Best Regards,

Fred H Mannix

Fund Performance

Standard Wealth Returns (from Feb 29, 2020)		
2020 (Feb 29 - Dec 31)	**16.1%**	holding pd
2021	**41.2%**	holding pd
2022 YTD	**-11.1%**	holding pd
1 Yr	**-6.7%**	holding pd
3 Yr	**n/a**	annualized
5 Yr	**n/a**	annualized
Since Inception Feb 29, 2020	**16.3%**	annualized

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