

## 2023 – Darkness and the Light

Darkness and the light. The title of this letter sounds like a Ken Follett novel, but it is fitting for where we find ourselves today. The news is unrelentingly dark, and one must really search for the light. The world seems to be on fire, politically and socially here at home, and in military and humanitarian ways across the globe. Of course, the news media is never shy about bringing the negativity to your television and computer screens 24 hours a day, which allows it to seep into our subconscious. As evidence of this, a quick google search on the phrase “tensions rising” yields 230,000 hits. But if you search the phrase “tensions falling” you get 3,700 hits. One of the cardinal rules of journalism is to report on rising tensions far more prominently than any improvement in anything, anywhere in the world.

One of the first big stories this year was the swift and spectacular fall from grace for Sam Bankman-Fried, who built a revolutionary cryptocurrency trading platform that turned out to not be new. It was the same scheme that was pioneered a century ago by Charles Ponzi. The only thing that was new were the celebrities lining up to promote FTX to the rest of us for handsome cash payments. (I just assume they were paid in dollars rather than crypto tokens, but I don’t actually know.) The collapse of this supposedly solid trading platform rippled through the banking industry, taking down a handful of medium sized banks that were overexposed in that area – one of which collapsed in nine hours – more a sprint from the bank than a run on it.

To bookend the year, one of the final stories was the just concluded U.N. Climate Change Conference, at which leaders from all over the world convened to brainstorm on climate measures. The focus, as in most years, was on fossil fuels and CO2 emissions. The controversial location chosen for the COP28 conference was the Dubai, United Arab Emirates. Hosting a global warming conference in a country heavily dependent on fossil fuels that shares a border with Saudi Arabia feels to me like hosting an AA meeting in a winery. But the story gets worse – 315 flights were recorded going to the conference on private aircraft, making this the highest carbon footprint ever for this annual gathering. Given that the Dubai International Airport is among the most connected in the world, one must wonder why more attendees could not have flown commercially. And considering that carbon emissions from one passenger on a private jet are more than 40 times greater than those from a passenger on a commercial flight – somewhat akin to carpooling in the sky – it all

seems hypocritical. And, as proof that the universe has a sense of humor, on December 4<sup>th</sup>, The Wall Street Journal reported that several of the private jets headed to the global warming conference were stuck frozen on a runway in Munich, where an early winter storm dumped 17 inches of snow in a short period of time.

Here at home, in Washington DC, the debate rages on about the border war between Ukraine and Russia and the border between Israel and Gaza, but there seems little willingness to address our own border with Mexico and the record 2.5 million illegal border crossings so far in 2023. However, Congress did hold hearings on UFOs and the Coast Guard's next decade, and discussed mandating electric vehicles, breaking loan contracts between lenders and student borrowers, and taxing not yet realized gains, which would be an unsustainable accounting nightmare for every American. Not to suggest that there was no work going on...I'm sure they got something done between hearings. However, a quick check of the website, LegiScan, shows 6,690 resolutions or bills that were introduced, but not passed.

Speaking of the people's business, this year, a Republican congressman was finally run out of town, having completely fabricated his résumé, and was caught spending campaign funds to pamper himself, while a Democratic senator was caught for the third time accepting money and gold from a foreign nation, presumably for influence peddling. As of this writing, he remains in office, and as incredible as it seems, he may even be re-elected. The two front runners for the highest office in the land both continue to be dogged by allegations of their families benefiting from their elected positions, and for most of us, there does not seem to be a good choice for the oval office in November 2024. Ah, politics.

All of this simply underscores why we do not own the countries, we own the companies. According to research from J.P. Morgan, roughly 80% of companies beat their earnings estimates for the last quarter, and Factset reports that operating earnings were up over 5%. Much more importantly for those of us that are longer term owners of the Great Companies of America, since 2016, overall profit margins have risen from 9.2% to 11.6%. During this period of time, earnings for the 500 largest companies in our country have grown from \$106, to an expected \$214 at year end. So, while the news during the last eight years has been off-the-chart negative, companies have doubled their profits. At the end of the day, we are owners of durable businesses that are continuing to improve over time, and in the long run, prices reflect that improvement. This is not reported to you often enough, in my opinion.

Aside from my frequent reminders that businesses are relentlessly guarding their profit motives, and constantly improving, there was ample good news in 2023 if one went looking for it. This year in science, researchers at the Imperial College London came up with electrified cement.

By spiking the cement with carbon black, it can store electricity. While still under development, if carbon black cement was used in the foundation of a standard home, it could store enough electricity to power an average household for a day. If the same approach were used to build roads, parking lots, or driveways, electrified concrete could store renewable power and deliver it to electric cars via inductive chargers. One approach being developed in Germany and the Netherlands is sending electricity to the underbellies of cars via copper coils embedded in the roadway, like how wireless chargers charge smartphones. The obvious impacts for electric vehicles in the future would be profound.

This year in the world of science, NASA announced that four astronauts will be the first people to launch on a journey toward the moon in decades, as part of the Artemis II mission around the Moon. NASA's Artemis program is the space agency's renewed bid to get astronauts back to the surface of the Moon, the last one being the final Apollo landing in 1972. For the first time in history, the space agency is relying on a lunar lander built by a privately owned company, SpaceX, to bring its astronauts down to the Moon's surface. The virtually unlimited budget of government being paired with the virtually unlimited innovation of private companies can only be viewed as good news.

There was also a breakthrough on a promising cell replacement therapy being developed in the fight against Parkinson's disease this year. This approach involves injecting new dopamine producing neurons into part of the brain to restimulate areas that are dormant. Researchers were also hard at work this year genetically modifying T-cells to fight several types of blood cancers, and the results look promising. And the use of Artificial Intelligence is now spreading into medicine. Central nervous system tumors are among the most lethal cancers, but cutting them out of patients is like walking a tightrope. Things can and often do change rapidly mid-surgery. As a result, Dutch researchers created an A.I. tool called Sturgeon that classifies changes in those tumors during surgery. Sturgeon has a 90% accuracy rate, meaning it will help doctors avoid costly mistakes during surgery and ultimately save lives. It appears to be like ChatGPT for brain surgeons.

In economic news this year, Swiss bank UBS released a report detailing falling global inequality. Much of the 19<sup>th</sup> and 20<sup>th</sup> centuries saw broad increases among the wealthiest, both countries and individuals. That is changing, and fast, they report. In a year like last year, when those of us with stock market exposure saw our wealth decline, global median wealth rose 3%. This year, both rich and median wealth measures were up, and since 2000, median wealth around the world has increased five-fold, a huge increase in less than a quarter of a century.

Here at home, the oft-predicted recession has yet to arrive, as consumers continue to power the economy forward. Forbes reports that Thanksgiving Day saw \$5.6 billion in spending, up 5% over last year. The following day, known as Black Friday, saw a 7.5% increase over last year with \$9.8 billion in sales nationwide. Not to be outdone, shoppers spent \$12.4 billion on Cyber Monday, an increase of 9.6% over last year's amount. Clearly, we are a nation that likes the convenience of buying from our computers, but more shoppers also visited brick and mortar stores during that long weekend. The National Retail Federation reported that over 118 million people in the U.S. spent money at brick-and-mortar stores during Black Friday Weekend.

Additionally, this year the private technology startup company, Hylio, introduced agricultural drones to our nation's heartland with significant interest from farmers. The 80-pound drones fly ten feet above onions, peaches, and tomatoes delivering a fine mist of fungicides or fertilizers with precision. The cost savings are enormous, and these "featherweight flying tractors" can also be used for seeding during planting season. Agrodrones are enabling small and medium sized farms to save on fuel costs and chemical usage, while making the soil healthier and more productive.

Technology is also infiltrating the fast-food industry, with most of the major chains using A.I. in some capacity for drive-through orders. Bloomberg reported that fast food analysts now expect that within three years there may well be employees filling that drive-through order, but none taking it. The chatbots will own that job, and I assume will do it more accurately, thus saving the franchise some money, and the consumer some aggravation.

At the intersection of pop culture and business, this year saw two record breaking financial headlines. Superstar baseball pitcher Shohei Ohtani struck a deal to be paid an eye popping \$700 million by the Los Angeles Dodgers over the next ten years. If he plays out his contract in full, he will be the highest paid player in the history of major league baseball. Taylor Swift did even better this year, selling more than 4.3 million tickets on her blockbuster Eras Tour, and grossing over \$1 billion in the process. Earning an average of more than \$17 million per show, it was the first music tour to ever break the ten-digit mark. But the impact of her tour, and the "Swifties" that follow her was bigger than just the gross receipts. The economic impact of each of her concerts is roughly equal to that of the Super Bowl, except that it happened 53 times in 20 cities over five months. Her six night sellout in Los Angeles created 3,300 jobs, and resulted in a \$160 million windfall for that municipality. And, once the tour broke the official record, Swift shared the wealth with everyone in her crew – wardrobe, dancers, sound techs, stagehands – giving out a combined \$5 million in bonus money. Bloomberg reported that GDP went up \$4.3 billion just because of her concert tour.

In the stock market, we are enjoying both a recovery year from the decline in 2022, and a recovery from the speedy selloff from August to October. That 10% drop occurred while reported earnings were coming in better than anticipated, and as is always the case, sooner or later prices follow earnings. While traders (and the news cycle) focus on each tick of inflation, or the Fed's next anticipated policy move, those of us with a timeline longer than the lifespan of a housefly focus on the bigger trend. Recent economic reports show better productivity numbers in our economy, improving unit labor costs and falling inflation and unemployment rates, with payrolls rising as America is adding to its workforce. Additionally, the duration of unemployment is falling, our domestic oil output is rising, and the cash on hand for businesses and individuals is rising. On this point, Investor's Business Daily reports that the 500 largest companies held \$2.6 trillion in cash at the end of the third quarter, and domestic money market balances for individual investors are approaching \$6 trillion as I write this. To me, that seems like enough dry powder to get through any potential slowing of the economy.

Of course, this year we lost many notable figures. In Hollywood, we said goodbye to legendary producer Norman Lear, gameshow host Bob Barker, and actors Raquel Welch, Ryan O'Neill, Matthew Perry, and Cindy Williams of Laverne & Shirley fame. The music world lost Jimmy Buffet, Tony Bennett, Tina Turner, Gordon Lightfoot, David Crosby, Harry Belafonte, and Gary Rossington, who was the last surviving member of the band, Lynyrd Skynyrd, and author of their iconic song, Sweet Home Alabama.

The sports world saw the departures of two of the most fearsome football players in history, Dick Butkus and Jim Brown, hockey legend Bobby Hull, the broadcast voice of The World Series, Tim McCarver, and the legendary Olympic gold medalist who changed the high jump forever, Dick Fosbury.

Groundbreaking Supreme Court Justice, Sandra Day O'Connor died this year, as did Gordon Moore, the co-founder of Intel credited with the theory that now bears his name – that processing speed doubles every two years, which became the yardstick for the semiconductor industry.

In the life-well-lived category, just one month shy of his 100<sup>th</sup> birthday, Charlie Munger died, having spent half a century as Warren Buffet's indispensable partner at Berkshire Hathaway. Two weeks before his death, he was still at work in his office. And in one of the 20<sup>th</sup> century's most unlikely lives, Heinz Alfred Kissinger lived to 100, having escaped Nazi persecution in Germany and moving to America as a teenager. After serving in the U.S. Army in World War II, and graduating summa cum laude from Harvard, he became a faculty member there, before being named

study director in nuclear weapons and foreign policy at the Council on Foreign Relations. Henry Kissinger went on to serve two Presidents as National Security Advisor and Secretary of State. And in the lesser-known-by-name category, this year saw the death of Astrud Gilberto, the whispery-voiced Brazilian singer of one of the most covered songs in music history, The Girl from Ipanema.

As it does each year, Merriam-Webster added words to the official dictionary, and 2023 saw a long overdue entry, as “information pollution” was officially added to the English language. Defined as the introduction of falsehood, bias, and sensationalism into a source of information, it applies across all of today’s news apparatus, especially to social media. Other notables from the 566 words that were added were “greenwashing,” defined as the act of promoting or affiliating a brand or campaign with environmentalism as to divert attention from policies and activities that are anti-environmentalist, and “mountweazel,” which is defined as a decoy entry in an encyclopedia or dictionary, secretly planted within the genuine entries to catch people in the act of copying content. I can assure you there are no mountweazels in this letter.

This year fans of blockbuster TV shows like Yellowstone and Game of Thrones were disappointed that new seasons, one of which is a sequel, did not arrive due to the writer’s and actor’s strikes. However, there are a seemingly endless number of fantastic shows on streaming services like Netflix, Amazon Prime, and Hulu, to name just a few – and with the Hollywood strike now over, more great content will be coming – meaning there is zero reason to watch cable news.

Earlier this year, I read a quote from former President Ronald Reagan that resonated with me, and I saved it for this letter. In a speech at the University of Notre Dame in May of 1981, he said, “This experiment in man’s relation to man is a few years into its third century. Saying that may make it sound quite old. But let’s look at it from another perspective. A few years ago, someone figured out that if you could condense the entire history of life on Earth into a motion picture that ran for 24 hours a day for 365 days, this idea that is the United States wouldn’t appear on the screen until 3.5 seconds before midnight on December 31<sup>st</sup>. And in those 3.5 seconds, not only would a new concept of society come into being, a golden hope for all mankind, but more than half the activity, economic activity in world history, would take place on this continent. Free to express their genius, individual Americans, men and women, in 3.5 seconds would perform such miracles of invention, construction, and production as the world had never seen.”

If you think about half of the economic activity in the history of the world occurring due to the creation of this country, it is logical to believe that America is owed a huge debt by all citizens of the planet. Building on the British concept of property rights, but doing so in the world’s first true democracy, allowed for patents to protect original ideas and inventions. This gave rise to the concepts that drove the Industrial Revolution, including the invention of maple syrup, the cotton

gin, the grain elevator, the airplane, the light bulb, the automobile assembly line, and the telephone. More recent America contributions to life as we know it today include television, the refrigerator, air conditioning, the microchip, the microwave, the personal computer, email, the internet, MRI machines, the list goes on... It would be hard to image modern life as we know it without America, and our contribution to the world. Maybe the news should report that.

The year 2023 reminded us all once again, that news headlines and real life do not always equate. If you saved each day's headlines all year long and looked back on them at year-end – a few things would become glaringly obvious. One, they were almost all negative. Two, many of them proved either incorrect, or fleeting. And three, if you allowed them to tilt your worldview towards pessimism, you missed the truly great things that happened. As I say all the time, optimism is the only worldview that squares with the facts. Paying too much attention to the daily news can lead to seeing the glass as half empty, and those that see the glass as half empty are missing everything.

Included in this letter are a few quotes from those who appear to consistently see that glass as half empty. In more than one case, as their predictions appeared to be wrong, the authors become more and more alarmist. Had you used these alarmist prognostications to make business decisions for your company, or portfolio decisions for your lifetime accumulation – you were not served well. Alarmism is dangerous, and across today's news apparatus, it borders on hysterical in an attempt to attract viewership, readership, or digital clicks. Legitimate opinions on important issues can change, timelines for those opinions can change, but the facts never do.

The most important fact that never changes is how fortunate I am to call each of you, my clients. I love what I do, and for whom I do it (all of you) – and the adage “if you love what you do, you'll never work a day in your life” is true for me. I firmly believe that, even in this dark news environment, we all have much to be thankful for, and so much to look forward to in the future. It bears repeating that I remain thankful for my relationship with you, and I look forward to continuing our journey together. I wish all of you the happiest of holiday seasons, and a happy and healthy new year.

*Investing involves risk and you may incur a profit or loss regardless of strategy selected. Every investor's situation is unique and you should consider your investment goals, risk tolerance and time horizon before making any investment. Prior to making an investment decision, please consult with your financial advisor about your individual situation. The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee that it is accurate or complete, it is not a statement of all available data necessary for making an investment decision, and it does not constitute a recommendation. Any opinions are those of Al Stratford and not necessarily those of Raymond James.*