The Chance Financial Quarterly

This is the first of what I hope will be a series of quarterly newsletters designed for non-financial folks. The *Chance Financial Quarterly* (*CFQ*) will have two parts. The first is called *Making Sense of the Market and Economy*. It'll review what's going on, with an attempt to filter out things that are so much less important than the financial media would have you believe, so as to focus on what really matters. In this issue, it'll talk about the dreaded 2022 performance, with an eye toward 2023. The second, which is called *A Teaching Moment*, is a short description of an important financial topic. This issue's topic is cryptocurrencies. Admit it. You don't know what Bitcoin is, so why not learn in the next few minutes?

Making Sense of the Market and Economy

Every January I do a comprehensive review of my own investments. The reviews of 2019, 2020, and 2021 were happy events. The 2022 review wasn't. It was a terrible year. It took Joe Biden about a year to screw things up. After four decades of minimal inflation, prices rose in 2022 by 6.45%. No wonder my second-youngest grandson is always talking about Biden and his inflation and how he can't have the Legos he wants. The last time we had inflation higher than that, my younger daughter (now 41) was born.

The stock market as a whole dropped 19.6%. I tend to keep most of my money in large stocks (e.g., the S&P 500), which fell a bit less, 18.23%. Medium -sized stocks, called Mid-cap, fell 18.8%, and the riskier smaller stocks amazingly dropped a bit less, 17.72%. Non-US stocks did a bit better, losing only 16.05%. That was surprising. They usually suck worse than US-stocks.

When stocks look bad, people often turn to bonds, particularly US government bonds. Performance was still lousy, but not nearly as bad as stocks, Short-term treasuries lost 4.71%, while intermediate-term treasuries fell 10.43%, and long-term treasuries dropped 29.58%. Ouch! That's a good reminder that interest rate increases crush bonds, particularly longer term, and just because the U. S. government backs these bonds, it doesn't mean you can't lose money when rates go up. It just means they won't default on interest or principal.

Think you can beat inflation? The U. S. Treasury offers bonds called Inflation-Protected. Their interest rates adjust according to the inflation rate. You'd think that would help. Last year, these fell 12.02%. Yes, the rates that determine their periodic interest payments adjusted upwards to compensate for Bidenflation, but overall interest rate movements still crushed these bonds.

What about real estate? One way to buy securities that perform based on real estate prices is through Real Estate Investment Trusts. You can buy mutual funds that hold these. They fell 26.30%.

Crypto? See my explanation of crypto below. Bitcoin fell 64.21% and the other leading coin, Ethereum, dropped 67.5%.

Gold was fairly flat, falling 0.77%. I guess that was better than losing as much as just about every other investment, but don't get hooked on gold. It can be quite addictive, and betting on it is betting against the US economy, which is still quite strong and will surely do well over the long run.

Who made money? Investors in commodities, which includes oil and a lot of things we eat and wear, earned 24.08%, thanks to the Bidenflation. There are ways to invest in commodities but they are pretty volatile, and I wouldn't recommend it unless you have a strong stomach. If you want to make an oil bet, you can buy stocks, mutual funds, or exchange-traded funds that hold oil stocks.

But don't panic. Let's put things in perspective. The stock market rose 30.65% in 2019, 20.87% in 2020, and 25.59% in 2021. So, let's say you put $1 in stocks at the end of 2018. Here's what iwt would have grown to at the end of each of the next three years.

2019	$1.31
2020	$1.58
2021	$1.98

This is an astounding rate of growth, far beyond anything reasonable in the long run. We almost certainly did not deserve those kinds of returns. And keep in mind, we had Covid, lockdowns, and all the other horrific policies of the infamous Doctor F. And now, at the end of 2022, that dollar is at $1.59. You lost about two years worth of value. That's a good reason not to feel sick when you see how bad your statements look.

If you're like me, you think more long-term. The American economy, even mostly driven by woke companies, is a far more powerful force than any policy ordered by some politician from Delaware, who seems to have documents stashed everywhere.

The market has even done some recovery of late, so don't worry too much about your money, You have a lot more now than you did a few years ago, even with 2022. And it's probably more than you deserve.

What about the economy in general. You hear a lot about GDP (Gross Domestic Product),an attempt to measure economic output, but understand one thing: *GDP is overrated*. It's a measure that was constructed 100 or so years ago, and it was designed for a mostly manufacturing economy in a global environment of fairly limited foreign trade. It does not come close to measuring the value of brainpower and technology, except to the extent that a small amount of manufacturing is done, mostly in China, to create our technological marvels. Economists define a recession as two consecutive quarters of a decline in Real GDP (inflation-adjusted). We got that in the first and second quarters of 2022, so we were officially in a recession. And then GDP rose nicely in the third quarter. Frankly, I pay little attention to GDP.

Worried about the national debt? Reckless government spending is indeed a cause for alarm. We now have $31 trillion of debt, a number only an astronomer can fully appreciate. But everyone seems to forget the size of our economy. Every year Credit Suisse publishes a report that estimates the total wealth of every country. Its 2022 report pegs US total wealth at $146 trillion as of late 2021. Of course, that number is down a bit now, as it hasn't reflected the stock market decline, but push it down 20% or so and you still get about $117 trillion. And, by the way, only about $8 trillion of that debt is actually held by non-American entities. So, $117 trillion of wealth and about $8 trillion of debt we don't owe to ourselves. That is a much clearer picture of the truth. I abhor wasteful government spending as much as anyone and government borrowing can drive up interest rates for the private sector, but don't let anyone tell you this nation is bankrupt.

Finally, I'm sure you want to know where the market and economy are headed. Of course, I don't know, and you should take that as me being honest, unlike most other market commentators. But I'm not pessimistic. We'll get past this train wreck of an economy, because América is strong,. We've survived every disastrous economic policy our governments – Democrat and Republican – have ever inflicted on us. We'll get past this one.

A Teaching Moment: Tales from the Crypto

What is Crypto? The word typically means *not real*, such as in cryptozoology, the study of such creatures as Bigfoot. Now the word virtually never means anything but the world of a group of several thousand mysterious currencies. The main ones you've heard about are Bitcoin and Ethereum.

These currencies are created by an issuer who distributes them to people who solve certain mathematical problems. This process is called mining. These problems have little to no practical relevance. That's why there is nothing behind crypto that has any real value. At least with gold you can make jewelry and fill teeth. And it's cool to look at and hold. I got some I picked up in Alaska. It's amazingly heavy.

Cryptocurrencies trade between people foolish enough to buy and sell something that has no use whatsoever. In some ways they're like collectibles, take comic books, for example. But comic books do have some entertainment value. So do baseball cards, art, and various other things that people like to collect. Their values fluctuate based on how badly someone wants them. That's a pretty flimsy reason to put your money in them. It's called *The Greater Fool Theory*. You buy them because you think someone dumber than you will buy them later and push up the price. Although the supply of fools is far from exhausted, it's a risky bet that they'll keep coming out of the woodwork after you bought. And just remember, you were someone else's fool.

Some people think there is one very attractive feature of cryptocurrencies. Governments do a pretty good job of destroying the values of their currencies, but they can't touch crypto. But who needs government to destroy the values of cryptocurrencies? People do a pretty good job of that without any help. And if it were really true that crypto was a safe haven when governments destroy value, why would Bitcoin fall more than 60%, while the government destroyed the value of the dollar by less than 7%.

And if you need another reason to avoid crypto, I'll just give you one word: FTX. (Ok, it's really not a word.) This crypto exchange went bankrupt a few months ago because its 30-year old founder and CEO was running a giant con game. No telling how many more of those are out there. An industry in which criminals know that stupid people are gaga over it is an invitation for creative fraudsters to come out.

One good thing, however, came out of the crypto industry. That is a record-keeping system called blockchain. Without getting into it, as it would take a long time to explain, blockchain is a way of keeping track of who owns what that is much better than the methods used for other assets. I predict Blockchain will become the standard record-keeping system for the financial world someday.

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