

Monthly Depth Report – September 2022

The Fed and the Stories Told by Financial Statements

Hi All, and welcome to our hundreds of new subscribers. This letter will reach more than 1,000 people for the first time, and we're excited to see the Deep Knowledge Investing community of curious and passionate investors growing.

The rest of second quarter earnings were announced last month, and with few exceptions, things were pretty much as expected. The big action in stock prices came at the end of the month when the market finally listened to Fed Chairman, Jerome Powell. Deep Knowledge Investing has been warning about understated and persistent inflation since [November of 2021](#) when Fed Governors were saying it was “transitory” and the market was expecting rate hikes totaling less than 1% starting in late 2022.

To Chairman Powell's credit, he has since acknowledged publicly that the Fed was late in recognizing the problem and late in starting to raise interest rates to bring inflation under control. Over the past couple of months, the market has tended to rise when Powell spoke, and we've [explained](#) it was because market participants were looking past coming rate hikes to a slowing of the economy followed by rate cuts. Basically, it's a version of “let's hurry up and get over the hangover so we can restart the party”.

We've had a different point of view. DKI has pointed out that stated inflation is still very high, real inflation is even higher, interest rates are still very low, and the Fed balance sheet is still \$9 trillion dollars. We've also noted that Chairman Powell in his remarks has made it explicitly clear for months that his first priority is getting inflation down, and that he's prepared to see

an increase in unemployment and a slowdown in the economy in order to do it. At a conference a week ago, Powell reiterated his message with exceptional clarity. The market finally got the message that more rate hikes were on the way and over the last week of the month, the S&P 500 fell by 5.8% and the NASDAQ fell by 6.5%. DKI subscribers were well-prepared for this.

Future events to watch include new employment data, the monthly CPI, and of course, the September Fed meeting. We'll keep you updated on what all of this means for your portfolio in real time.

Macro considerations including war, food shortages, and fuel prices continue to have an outsized impact on the market. Full credit to [Heather Heldman](#), Managing Partner of [Luminae Group](#) and member of the DKI Board of Advisors, for her unfortunate and [correct prediction](#) last March that the conflict in Ukraine would last longer than people thought at the time.

Last month, we featured three members of the DKI Board for a discussion on [Russia/Ukraine and the Implications for Our Relationship With Adversaries](#). Heather was joined by [Dr. John Lenczowski](#), Founder of the [Institute of World Politics](#) and President Reagan's National Security Advisor on the Soviet Union and [Lt. Colonel \(Ret.\) Jason Galui](#), a combat veteran who was an advisor to Presidents Obama and Trump, and is the Founder of [4 Liberty Consulting](#). If you want to better understand the most significant geopolitical event in the last two decades, please check out the video [here](#).

Throughout my life in finance, I've run into a lot of people who think looking at financial reports is just math-related drudgery. However, if you know what you're looking for, financial statements can tell deeply personal stories. Many years ago, I was starting a new hedge fund and my partner and I made the decision that we wouldn't own any individual stocks outside of

the fund. At the time, I owned a position in Atlantic Richfield that my dad had bought for me when I was a few months old.

In order to figure out the tax implications of selling the stock, I needed to determine the cost basis. The company was able to send me a statement showing that my dad had bought 19 shares for me shortly after I was born. I spent some time staring at the statement, and wondering why in the world my dad had bought 19 shares. 20 would have made sense as it's a round number. I would have understood 18 because in the Hebrew alphabet, the 18th letter is called chai which is also the word for "life". 19 made no sense to me.

Eventually, I noticed that 19 shares came to \$248 dollars and all of a sudden, I saw it clearly. My dad was just starting out in his career, and money was tight. He had \$250 dollars to put away for me. He didn't have more even if it was just a little more to get to a round 20 shares. All of a sudden, I pictured my dad at 27 years old sitting at his desk with a wife and baby at home. I saw the pressure and stress he must have been feeling trying to make everything work and hope he'd have a career that would allow him to care for his young family.

I called my dad, and asked him about the 19 shares of Atlantic Richfield. He told me he remembered the moment so clearly that he could picture where on his desk the stock purchase forms were. He told me that he only had the \$250, and that while he was happy about starting a family, he did feel a substantial amount of pressure at the time, and he was concerned about finances. Financial statements can tell incredible stories, and that's worth keeping in mind the next time we're researching a stock idea.

Last month, we announced a new partnership with AlphaSense. They're currently uploading content from the DKI blog and will be distributing our research to 1,500 buy-side financial firms

and 1,500 corporate clients including most of the S&P 500. This month begins our new partnership with [Toroso Investments](#) ([@leadlagreport](#) on Twitter). **If you're a financial advisor with more than \$50MM under management, please reach out to us so we can arrange for you to get a premium subscription to Deep Knowledge Investing at no cost to you through Toroso.**

I'm hoping all of you had a fantastic summer, and that this letter finds you in good health (personal and financial). I'm already starting to consider this winter's travel adventures, and expect they'll keep me thinking about investing in all kinds of creative ways.

If any of you have questions, concerns, or thoughts regarding issues we should address in a future depth report, please feel free to reach out to me at IR@DeepKnowledgeInvesting.com. If you think a friend, RIA, family office, or portfolio manager would be interested in this monthly commentary, please feel free to pass it on to them.

Thanks for being part of Deep Knowledge Investing,

Gary Brode

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