October 2021

Before I begin to tap on the keyboard and write these quarterly letters, I always pick up the last few letters to remind myself what I recently wrote. I don't want to appear ignorant of past comments, nor do I want to ignore a prognostication that proved to be incorrect. As I perused the last letter (July 2021), I was struck by how little had changed from an investment viewpoint, despite the torrent of news over the last three months. How could this be?

From a real-world economic perspective, we are seeing empty shelves in stores, prices rising for a host of items (especially commodities), and millions of jobs unfilled, leading to higher labor costs. In non-financial news, the COVID delta variant continues to be a problem, the crisis of the Afghanistan withdrawal shocked many, we have legislation that can't get passed, our taxes may be going up, and the debt ceiling crisis is back (now kicked down the road to December 3).

That's quite a list of turmoil, and it's merely a partial list. These items are very important to most Americans. But these things have less of a negative impact on the long-term value of stocks and bonds than you might think.

Let's address a few of these items. The COVID delta variant has been a big problem over the last three months. As I wrote last quarter, it appears to be more contagious, but less lethal, than the original variant. This doesn't mean it isn't very dangerous; it is! But it has proven to be manageable for the nation as a whole, given the arsenal of vaccines and treatments available. The result is that the early-reporting delta variant states saw their cases, hospitalizations, and deaths peak in late August. Nationally, cases, hospitalizations, and deaths appear to have crested in September. These peaks were lower than the COVID peaks we saw over the last winter. This is important from an economic perspective because the progress of the economy is inversely proportional to the lethality of COVID. As COVID recedes, and we expect that it will, the economy moves forward. This is good for jobs, incomes, corporate profits, and (ultimately) the stock market. This progress is not in a straight line, but it *is* moving forward.

We are certainly in an era of shortages and rising prices. This has logically led many to believe inflation will become a problem (especially those baby boomers, like me, who began our adult lives during the very high inflation years of the 1970s). Such shortages are common after a deep recession, such as the recent one. Production halts and truck driver shortages have played havoc with supply chains, particularly in a world of just-in-time inventory management. No one seems to carry just-in-*case* inventories anymore. Perhaps they will from now on. Empty parts bins and empty retail shelves are all part of the same story. While this is frustrating for all concerned, one must remember that demand exceeding pandemic-constrained supply isn't all bad. The key is that demand is there. We would have much more trouble if demand was tepid relative to supply. Our experience is

that such recession-induced supply problems work themselves out over time, usually in a year or two. I'd be surprised if this problem is still acute a year from now.

The labor situation is similar. There are millions of job openings not being filled. A major cause is that millions of older Americans have apparently decided to leave the labor force and retire. This has caused cascading labor dislocations and shortages everywhere. Is this bad? In some ways, yes. But it is a sign of economic strength, not weakness, that our economy is demanding more jobs than can be filled. The price of labor (wages) will eventually move up in response to the supply/demand imbalance. That may or may not produce higher inflation, but it is almost certain to produce higher incomes for those that are working, and higher incomes are good for consumer demand, the engine of our economy. In turn, that is good for American businesses and stock prices.

As for the government, an inability to pass laws has never been bad for stocks. Managers of businesses like the "rules of the game" to stay the same over time. We're in a mode right now where the bills we're likely to see come out of Congress are not expected to be as bad for business as was feared just a few months ago. Yes, Congress may raise taxes. There's no way to spin that as a positive for stocks and bonds, except (once again) that what is likely to emerge from Washington isn't as bad as we feared just a month or two ago.

In a nutshell, the world remains an unpredictable place, full of turmoil and tragedies, yet the overriding factor here in late 2021 is that the worldwide economy continues to emerge from the COVID-induced recession of 2020. In fact, last quarter, U.S. GDP *exceeded* peak GDP just prior to the recession. That means our economy is no longer in recovery but is now *in expansion*! I'll bet you didn't hear that on the news. Good news just doesn't sell. But it does register in the financial markets. We continue to be optimistic for the remainder of 2021 and 2022.

We appreciate your confidence in us.

Gratefully,

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CEO and Chief Investment Officer

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