



Streetlight Confidential

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When the Power Grid Goes Down The Scalable Energy Storage Solution That's About to Take the Market By Storm



-by Bob Byrne

More than 100 people tragically lost their lives in Florida because of Hurricane Ian during the last week of September. More than 2.6 million people were without power by Thursday afternoon, with at least three counties reporting near complete blackouts and 10 showing that more than 50% of customers were in the dark, according to PowerOutage.us.

Cuba completely lost power thanks to Ian.

Hurricane Fiona did the same to Puerto Rico less than two weeks earlier.

Extreme weather events like hurricanes and blizzards are on the rise. Any one of us could find ourselves stuck at home in sweltering or freezing temperatures without power.

The grid, for most Americans, works... most of the time.

As I write this, the lights in my office shine bright, my computer's cooling fan spins, and the smell of the coffee brewing in my kitchen fills the entire house. And tomorrow morning I expect things to be the same.

So we are prone to believe the lights will come on again tomorrow just as they did today. But sometimes, for some people they don't.

And when they don't, it's like being plunged into the 19th century in an instant.

Believe it or not, there are more power outages in the United States than any other developed nation in the world. These power outages can lead to life-threatening situations like the ones we've seen arise from Hurricane Fiona and Hurricane Ian.



Grid failures, power outages and brownouts have become more and more common. And Americans across the country are taking notice and deciding to do something about it.

The Bad News About the Grid

Horrible weather events aside, there's an emerging megatrend in the number of Americans actively searching for a way to achieve energy security. And thanks to a dire assessment by the **North American Electric Reliability Corp (NERC)** in May 2022 regarding the state of the US power grid, folks looking to secure their energy away from the grid are as motivated as ever to find an alternative energy storage solution.

The North American Electric Reliability Corporation (NERC) isn't a political action committee, they aren't

interested in selling you a wind turbine, and they're not here to repair the out-of-date electric grid.

NERC is a not-for-profit international regulatory authority whose goal is to "assure the effective and efficient reduction of risks to the reliability and security of the electric grid."

In simpler terms, the NERC is here to ensure the lights turn on when you flip a switch.

Unfortunately, when the folks at NERC issued their 2022 Summer Reliability Assessment in May, we learned that places in the Midwest, California, and Texas might not have enough power as temperatures rise and residents power up their air conditioners.

According to Laura Benshoff of the independent and nonprofit media organization NPR, much of the country west of Ohio will experience blackouts this summer due to the dilapidated condition of the nation's electric grid.

John Moura, who works with NERC, added this:

"Things do not look good. The grid operator may not have enough energy to meet normal summer peak demand in the Midwest, where the picture looks the worst, especially in Illinois, Indiana, Missouri, and Michigan."

John called NERC's Summer Reliability Assessment a very sobering report, with clear signs that risks are spreading.

Todd Hillman, Vice President of the Midwest grid operator, echoed John's sentiment by comparing the current grid situation to driving with just a tiny bit of gas in your tank.

I won't outline all the risks highlighted by NERC's reliability report, but I think you get the point.

Wide distribution of electricity could be argued to be the single greatest wealth-building invention of all time.

Here's the Opportunity

According to Goldman Sachs, transitioning to renewable energy infrastructure on a country-wide scale will require investment over the next 18 years of around \$16 trillion.

If you asked US Energy Secretary Jennifer Granholm, that estimate shoots up to \$23 trillion.

And if you tap the folks at McKinsey & Company, whose job it is to advise companies on matters like this, they believe the US is looking at an investment of an eye-popping \$225 trillion between now and 2050.

It's clear the current power grid and infrastructure needs an overhaul. And today's political push is to replace our current energy infrastructure with a green, renewable alternative.

If you've read anything I've written before, you know where I stand on the topic of this political energy agenda. But if renewable energy is to become the future of our country (or even part of it), it's absolutely essential that there is a way to store it. (And even if it doesn't, reinforcing the grid by backing up the ability to deliver power on demand, is an essential goal.)

Fortunately, there's a company offering a solution to the power problem in the United States.

First, the bad news. It's a private company without an open offering; however, I expect that to change very soon. But my research indicates the company will be raising money soon in the private markets.

Introducing Paladin Power...

It's a small company that makes an innovative energy storage system (ESS).

If you're unfamiliar with the term energy storage solution (ESS), it's just a fancy name for a system

that efficiently stores energy. Think of it like a battery. But in this case, we're talking about a lot of batteries — something powerful enough to run all the circuits in your house.

If we wanted to geek out on the engineering behind what's required to create an effective ESS capable of powering the average American household, we could discuss C-Ratings, locker rotor amps (LRA), and discharge rates.

But that's overcomplicating a straightforward dilemma.

In short: an ESS is a device that can store power to supply electrical energy at a later time.

All you need to understand about an ESS is that it needs to be powerful enough to run all the circuits in the average American's home, competitively priced to what's already on the market, and easy enough to install so that three guys aren't stuck at your house for a week connecting an endless web of batteries and wires.

Not only do Paladin's batteries give businesses and homeowners a backup source of power during a blackout... But it can power an entire home for days — even without being connected to the grid.

Unlike most typical solar-powered batteries which invariably come up short of everyday needs if it's cloudy outside or during the night. (Power levels drop in the winter as well.)

And the worst part is, even fully charged, they don't provide enough capacity to run your entire house.

The Tesla Powerwall, the most popular solar ESS on the market, is a prime example.

It's a battery pack that connects to your home grid and draws power from solar panels. Unfortunately, it's not a great option for a whole home power back-up system.



During a blackout, the Powerwall provides enough power to run the lights and some small appliances in a modest-size home. But it gets overworked by HVAC units and larger appliances like washers and dryers.

That means when there is a blackout like the one in Florida or Puerto Rico, owners can't power their entire house. Heck, they may not be able to power anything in their house.

Homeowners need their lights, HVAC, water heaters, and ovens to work! A partial solution, like the Powerwall, is simply a giant waste of time and money.

You could link multiple Powerwalls in an attempt to store enough energy to power your entire house but that requires a lot of space and creates a major fire hazard.

You see, each Powerwall is roughly two-and-a-half feet wide and almost four feet high. You'd need a 40-

foot long wall to install enough Powerwalls to run your entire house.

Even if you had the space to install dozens of Powerwalls, Tesla says you can't.

Installing more than 10 of them together creates a fire hazard and would violate federal fire safety codes.

Paladin Power solves this problem. They offer a compact battery that can power an entire residential home for up to 36 hours.

And unlike a Powerwall, it's small enough to fit it in a utility closet.

Your Personal Electric Grid

Paladin Power's proprietary energy storage solution is called Stackbatt. And Stackbatt's advantages over other ESS products have set Paladin Power on a path

to becoming the leading player in the global \$211 billion energy storage systems market.

Advantage #1: They're Assembled in America

CEO Ted Thomas began conceptualizing Paladin Power shortly before Covid sent global supply chains into complete disarray. While few American businesses remain closed due to the pandemic, global supply chains are still recovering.

Building a business around a dysfunctional global supply chain is nearly impossible, and an inability to secure components is plaguing many of Paladin's competitors.

That's their first big advantage — the company assembles the Stackbatt ESS in America. And within one year, Paladin expects to *manufacture every component of the Stackbatt system in the USA.*

This Made in America approach is just one of the reasons why consumers trying to free themselves of the failing electric grid are turning to Paladin and why this company has an enormous backlog of orders for the Stackbatt system (more on this backlog in a minute).

Advantage #2: Installation is Super Easy

Having never installed an ESS system myself, I called Kirk Lessley, the general manager of Solar Pros in Southern California, to get the full rundown of what's involved in implementing an energy storage system.

Kirk walked me through the installation process for a typical energy storage system from Tesla, and then compared the process to the one required for the Stackbatt.

According to Kirk, installing a typical ESS from any one of the industry leaders requires between three and four men. And install times can take a week or longer.

That's three or four installers 5 days - or more - to complete an installation.

I did a little digging and discovered that the first Tesla Powerwall system weighed in at 214 pounds. The second generation unit weighs more than 250!

Considering that these systems are often mounted high off the floor on a wall, you understand why several grown men are required to complete installation.

When I asked Kirk about the Paladin Power system, he said the following (my emphasis)...

*"Just one of my installers can deliver, wire, and fully install between **three and five Stackbatt systems** in a single day."*

The Stackbatt system is delivered in a self-contained, rectangular box and can be moved from the bed of a truck into a utility room by a single man. From there, the ESS has only two connections — out-to-load and in-from-grid.

If you ran a solar installation company, which would you choose to install?

Kirk summed up his opinion of the Paladin system like this...

"The Stackbatt system is not only better built and more powerful than other systems on the market, but because it's so easy to install, contractors recommend the Paladin ESS over other systems because they aren't tying up three or four men for a week or more at a single job site."

And here's the kicker, Kirk was so impressed with Paladin Stackbatt ESS that after purchasing and testing a unit, he immediately contacted the company and asked to become an investor in the company.

Remember, Kirk is an insider in the ESS industry. He has a first-hand understanding of all the energy storage solutions produced by the industry's leading companies. The fact that he decided to invest his own money in Paladin after testing the product is as big an endorsement of the company and its product as you can ask for.

Advantage #3: They're Scalable To Any Size

The Stackbatt system is 100% scalable, making it the perfect solution for consumers and businesses that require additional energy storage.

Take a look at the image below and you'll see what I mean. When you open the two panels on the Stackbatt, you see components on top and on the bottom. The space on the top houses the inverters,



and the ones on the bottom hold the advanced lithium batteries. You can increase the capacity of your system by simply stacking additional inverters and batteries in your Stackbatt unit.

And because there's no wiring required for adding additional capacity, increasing the number of batteries in your Stackbatt is as simple as stacking legos on top of each other.

Literally, it's a plug and play system.

The bottom line is the team at Paladin Power have revolutionized the energy storage solutions market with their launch of the Stackbatt ESS. And with the support and endorsement of installers and general contractors, Paladin has a clear path to industry domination.

Let's meet the team.

The Right Team for the Job

As important as access to capital is to the growth and success of a company, it's impossible to overstate how crucial it is to have a top-notch team running the day-to-day operation.

While delivering his comments to Berkshire Hathaway investors in his company's 1994 annual shareholder meeting, The Oracle of Omaha, Warren Buffett said this about a company's management team:

"I think you judge management by two yardsticks. Look at what they (the team) have accomplished, considering what the hand was that they were dealt when they took over compared to what is going on in the industry. And second, you want to figure out how well they (management) treat their shareholders."

Put another way, determine how well the CEO and management team allocate money and manage day-

to-day operations. And from there, how well the CEO treats their shareholders.



Ted W. Thomas is the CEO and Founder of Paladin Power Inc.

After spending several years developing successful real estate projects ranging from single-family housing developments, speculative and custom construction projects, and apartments within the greater Seattle downtown area, Ted spent nearly a decade as a senior loan officer.

From there, he created Home Energy USA to facilitate the distribution and marketing of advanced renewable energy products, such as solar, wind, and advanced lithium batteries, to dealers and the public.

Ted moved on from Home Energy USA in 2019 to create what is now known as Paladin Power. And with his unique expertise in lithium battery chemistry, advanced bussing systems, and stackable inverters, Ted successfully created a turn-key energy storage solution capable of powering an entire home or business.



Chief Strategy Officer **Derek Cahill** is the founder and CEO of GoBig, a consulting firm working with Fortune 1000 and startup companies on operational efficiencies in the areas of capital markets strategies, technology transformation, and product marketing.



Chief Financial Officer **Jinhong Zhang** has two decades of experience as a financial expert and in

leadership positions such as president, CFO, and financial director in large and small organizations.

The bottom line is this battery is a game-changer. Paladin recently raised \$5 million at a \$25 million valuation but the company already holds letters of intent for the purchase of over 3,000 electric storage systems.

At an average price of just over \$30,000 per system that equates to \$100 million in future revenue!

In 2020, the residential battery market was valued at \$9.9 billion. And it's expected to grow at a rate of 17.6% over the next five years to \$29.6 billion.

That's a 3x in market size by 2027.

And that doesn't include demand from abroad. Countries like Germany, India, and China expect to see a large uptick in demand for home batteries for similar reasons as the United States.

Additionally, the federal government is spending billions to fix the infrastructure problem in the US.

The Stackbatt has a clear advantage over its competitors. Not only does it provide sufficient backup power if the power grid fails... It also allows you to reduce your energy costs through renewable, clean energy sources.

It's developed an innovative battery storage solution riding a multi-trillion trend. And it has letters of intent from ready and willing buyers. Once production kicks off, Paladin will see sales immediately.

I believe this will be a billion company in the next five years, so when the next opportunity arises for you to get a piece of Paladin, sit down with your financial professional and decide whether you think the potential of this company is as big as I do.

Disclosure: I currently own shares of Paladin Power Inc.

Industry Update: A Bear Market Bargain Hunt

As Valuations Get Cheaper, These Companies Are Worth A Look



-by Bob Byrne

It was a short-lived reprieve.

For four glorious trading days in September, everyone was making money again. From September 6 to September 12, the SP 500 rallied 233 index points — nearly 6%.

And then reality smacked the market in the face.

At 8:30 AM eastern time the Bureau of Labor Statistics reported that consumer prices had increased another 8.3% year-over-year.

Later that afternoon, after the market did its impression of Thelma and Louise...



...the administration stepped up to the mic for a garden party to celebrate the fact that inflation had all but disappeared — a mere .1% this month vs “zero inflation” the previous month. (This despite the fact that core prices — excluding food and energy — were up a *staggering* .6% *month-over-month* indicating inflation pressures were far more wide-spread.)

Stocks have not shared that jubilation. As I’m writing, nine of the last eleven sessions have been sharply lower. The market is down 12% from that last high on September 12.

Lotta red numbers everywhere.

But all isn’t lost. There are sectors worth looking at that revolve around the forced investments in green energy.

I realize that I haven’t been the biggest proponent of the green energy revolution. And frankly I’m not advocating an “all in” position.

But there are companies related to the green industry that are cheap by any standard and deserve a serious look.

Here are three specific areas it might be time to put on your radar...

Solar Sidecars...

When people think “solar” investments, they tend to think of photovoltaic solar panels. Solar panel companies are fine as far as investments go. But if you are looking for a segment of the industry that has some bigger potential, I believe you need to look to the companies that solve what is considered to be solar’s biggest drawback...

It’s actually one of the biggest criticisms of the whole green movement — that “renewable” energy is simply not reliable. And the reason it’s not is because we don’t have the technology to store the energy that these sources produce. So that our lives can still be powered when the wind’s not blowing and the sun’s not shining.

That’s why I like the *solar storage* industry better.

“But if you are looking for a segment of the industry that has some bigger potential, I believe you need to look to the companies that solve what is considered to be solar’s biggest drawback...”

Like I mentioned in my opening article, the most popular name in this area is Tesla’s Powerwall. But name recognition aside, Tesla really can’t measure up to some of the other players in this niche. Here’s why...

Energy use is measured in either Kilowatt or Megawatt Hours (Kw/H or Mw/H). The average family home uses somewhere in the range of 20 to 30 Kw/H per day. The newest Tesla Powerwalls can only store up to 14 Kw/H per unit — when *fully charged*. If you were serious about powering your whole home using Tesla’s solution as your source, you’d need to install multiple units just to power your home for a day. Not ideal.

There are, in my view, other companies that are a significant improvement on that.

If you are interested in a large-cap player in the market, **Enphase Energy Inc. (ENPH)** is worth looking at. The company has a market cap of \$38.9 billion. They earned \$1.7 billion in revenue and \$203 million in net income over the previous 12 months. Its valuation metrics are a little rich compared to the other names on this list, but not overvalued by any means.

A slightly smaller company to consider is **SolarEdge Technologies (SEDG)**. SEDG has a market cap of \$14 billion on \$2.5 billion in revenue and \$142 million in profits. Its valuation measures look

attractive as well. Earnings are smack middle of its range while its price-to-sales ratio has gotten even cheaper.

Lithium Miners...

And if we’re talking about battery technology, we’ve got to talk about lithium.

Lithium’s a soft, silvery-white alkali metal. It’s the lightest metal in the periodic table of elements. But it’s also one of the most reactive, meaning it easily sheds electrons and forms positive ions when it comes in contact with another substance. Put a piece of lithium in water, not only will it float, it’ll burst into flames.

It has a high level of conductivity — electrons can flow across it with little resistance — and an extremely high energy density which means you can pack more electrons into a lighter, smaller space.

Today, lithium is recognized as the best material for making powerful lightweight rechargeable batteries.

But lithium is not only used for batteries. Lithium is also used in the production of glass and ceramic products to enhance their hardness and resistance to thermal expansion.

It’s combined to produce alloys that are lighter and stronger than their combined metals alone. For example, aluminum-lithium alloys are used to produce airplanes, bike frames and high-speed trains. Magnesium-lithium alloys are used to make armor plating!

Lithium chloride is used in air conditioning and industrial drying systems to absorb moisture in the air. Lithium stearate is used as an all-purpose and high-temperature lubricant. Lithium hydride is used to store hydrogen for use as a fuel.

And if all that wasn’t enough, lithium plays a key role in our national defense. According to National Defense Magazine:

Just about every piece of man-portable electronic equipment crucial to the success of U.S. warfighters on the battlefield is powered by some form of lithium battery. The reliance on them is expected to grow exponentially as the next generation of weapons...

But the growth in battery production will be the major driving factor when it comes to demand for this “white gold.”



Here are a couple lithium miners to consider...

Albemarle Corp (ALB) is one of the biggest players in the lithium industry with a nearly \$32 billion market cap. Over the previous 12 months they earned \$264 million on \$4.3 billion in revenue. Their valuation metrics have come off previous highs so they’re looking much more affordable at the moment. They also have mining rights in Salar de Atacama, one of the largest lithium deposits in Chile.

Another player to consider is **Livent Corp (LTHM)**. Over the past 12 months they \$108 million in income on \$588 million in sales. They have lithium manufacturing presences around the world as well as sizable mining rights in Argentina. Recent quarterly earnings reports have been solid which has put a bid in the stock — and they’re still fairly priced.

And Finally... Tesla

In recent years, **Tesla (TSLA)** has been one of the most overvalued, overhyped stocks in the market. Cathie Wood got famous (and infamous) on the back of Elon Musk’s EV dream.

But these days it’s looking a little more reasonable. Share price has dropped over 50% from its \$410 high in November 2021. Since the bottom in May, the stock has begun a small rally and appears to be weathering the current beating pretty well.

But not only that, most of the valuation measures have moved to more reasonable levels as well. Price-to-sales have dropped by nearly half while price earnings have fallen by nearly two-thirds.

Those valuations are still pretty ridiculous when you compare them to other mere car manufacturers, but...

Tesla is not a mere car company. Tesla is actually a *software company*.



Their real product is the auto-drive software that will someday make everyone a passenger in their own cars. And when you think about the value of a product that can make self-driving taxis and 18-wheelers a reality, you get how they could quickly grow into their valuation a la Amazon.

I’m not saying it’s around the corner. (I certainly wouldn’t want to be on the road with a self-driving Tesla semi today.) But as an investment in the future, Tesla is much more fairly priced today.

The Last Word...

A Selloff Only an Algorithm Could Love



-by Bob Byrne

The market was having a pretty good day.

That is until Fed Chair Jerome Powell took the podium. Once he started talking, it tanked dropping a full percent on the day. But then it rallied back to new highs. And then broke back lower on the day... before rebounding still higher again.

Digesting his comments was like trying to swallow a chorizo and broken glass burrito.

By the close of trade, the stomach churning-volatility culminated in a crushing selloff that only an algorithm could love.

S&P 500 (5 Min Chart)



Source: BarChart.com

Chairman Jay basically confirmed what the market had expected — the FOMC was raising its target range 75 basis points. A raise which took the Fed's target rate to — by today's standards — a dizzying 3.25%.

Lately the FOMC has been trying to paint themselves as super-hawks when it comes to the current round of inflation. Basically reiterating what he's said in earlier FOMC statements:

Price stability is the responsibility of the Federal Reserve and serves as the bedrock of our economy. Without price stability, the economy does not work for anyone. In particular, without price stability, we will not achieve a sustained period of strong labor market conditions that benefit all.

So it wasn't so much the 75 point move they announced that shook the market. It was the admonishment that "we ain't done yet."

Which Led to the Usual Round of Questions

Roughly half of the questions from the press revolved around "how long" — as in how long before the Fed stops hiking.

I wonder if you could give us a little detail around how you'll know when to slow down these rate increases and how you'll eventually know when to stop.

...can you envision a time when there's a pause to kind of look at what has been wrought in the economy from the rate increases?

You said not too long ago in describing the policy destination, there's still a way to go, but I imagine you have to have some idea about how you're thinking about your destination, whether it's a stopping point or a pausing point. And so I was wondering if you could discuss how you are thinking about, as the data come in, where that destination is...

...given that the data you look at is backward looking, and the lags in your policy are forward looking and you don't know what they are, how will you know, or will you know, if you've gone too far?

So you had said that Americans and businesses need to feel some economic pain as we go forward. How long from here should Americans be prepared for that economic pain?

(Of course, nobody asked the question I've been waiting for, "Mr Chairman, how do you square your efforts against the massively expansionary fiscal policy money giveaways of the Biden administration. Don't their massive spending programs seem to be directly at odds with what you and the rest of the board are trying to accomplish?" I guess I'll have to keep on waiting...)

The Chairman, as usual, answered without answering.

During the Q&A he did, however, make a couple points worth noting...

A Moment of Transparency...

Point number one... I've been writing that the only way for the Fed to stem this supply-driven inflation with the monetary tools they have is to push the economy over the recessionary cliff and kill demand.

That would take the "soft landing" story out of the picture. Powell was surprisingly straightforward in his explanation...

So how do we get rid of inflation? And as I mentioned, it would be nice if there were a way to just wish it away but there isn't. We have to get supply and demand back into alignment and the way we do that is by slowing the economy. Hopefully we do that by slowing the economy and we see some softening of labor market conditions, and we see a big contribution from supply side improvements and things like that. But none of that is guaranteed.

So choke off demand and hopefully "see a big contribution from supply side improvements..." In other words the path to their goal is by slowing the economy.

Real = Restrictive

The other point he made ("implied" is probably a better word) that was worth noting is how high he thought rates needed to go.

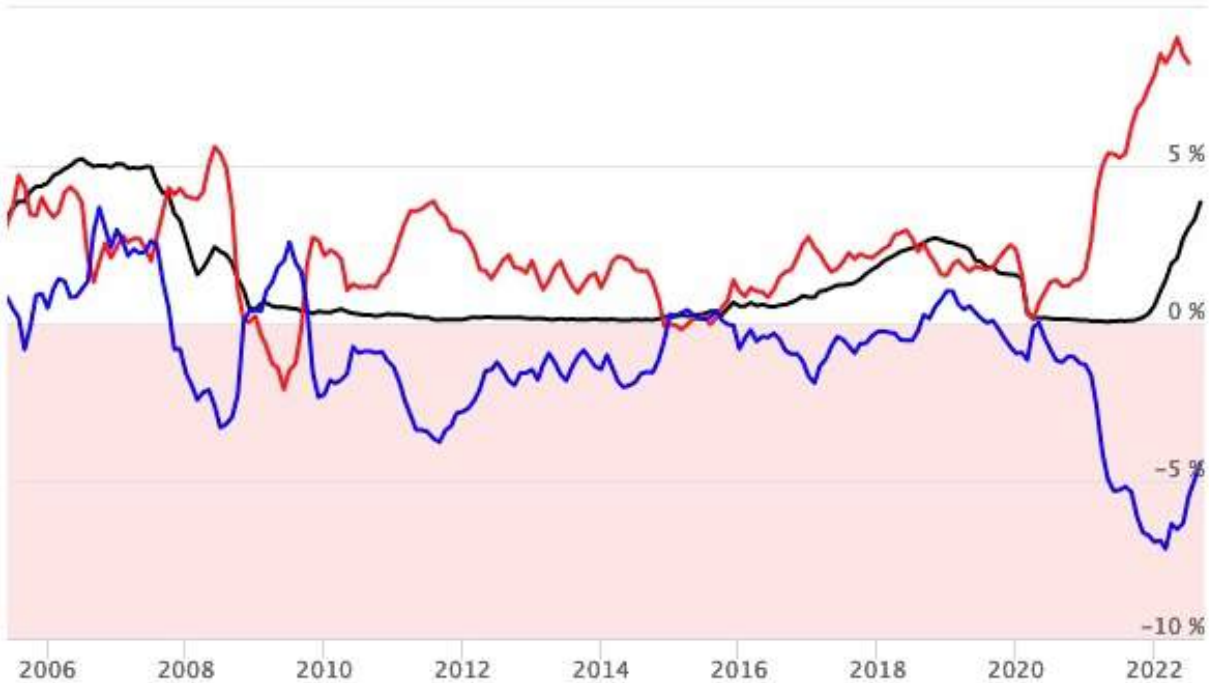
In past statements, the chairman had said the need was to move rates to a "restrictive" level. He used the word eleven times in this past month's statement. Of course he never came out and said what a "restrictive" level might be.

We may have gotten a clue from this past meeting's minutes. Because he tiptoed into an area he hadn't in previous statements...

And you see this I think in the Committee forecast, you want to be at a place where real rates are positive across the entire yield curve.

This, I believe, coming from the Fed Chairman is a good thing. We haven't seen meaningfully positive real interest rates since mid-2009.

Nominal v Real Interest Rates v Inflation



Source: longtermtrends.net

But while it is an important statement, it's also a pretty subjective one. That's because it's based on where the Fed *thinks* inflation will be in one and two years forward.

And a look at the Summary of Economic Projections (SEP) lays out those best guesses:

FOMC SEP September 2022

Variable	Median ¹				
	2022	2023	2024	2025	Longer run
Change in real GDP	0.2	1.2	1.7	1.8	1.8
June projection	1.7	1.7	1.9		1.8
Unemployment rate	3.8	4.4	4.4	4.3	4.0
June projection	3.7	3.9	4.1		4.0
PCE inflation	5.4	2.8	2.3	2.0	2.0
June projection	5.2	2.6	2.2		2.0
Core PCE inflation ⁴	4.5	3.1	2.3	2.1	
June projection	4.3	2.7	2.3		
Memo: Projected appropriate policy path					
Federal funds rate	4.4	4.6	3.9	2.9	2.5
June projection	3.4	3.8	3.4		2.5

You can see their median estimates for inflation in 2022 come in at 5.4% and 4.5% for the headline and core numbers respectively. (FYI, these numbers were 6.3% and 4.6% in July.) Their median target for the funds rate is 4.4%

Going into 2023, they see interest rates nudging up to 4.6% while headline and core inflation drop to 2.8% and 3.1%. That would roughly imply a positive real interest rate of 1.5%. That 1% real rate estimate carries out into 2024 and beyond.

But that level of real rates is also based on the assumption that inflation will come down to 2.8% and 3.1%. That's a big "if."

A year ago, at the September 2021 FOMC meeting, they had forecast inflation for 2022 at 2.2% so their forecasting track record isn't what you'd call rock solid.

(Take a look at their year-ago predictions on the next page...)

FOMC SEP September 2021

Percent

Variable	Median ¹				
	2021	2022	2023	2024	Longer run
Change in real GDP	5.9	3.8	2.5	2.0	1.8
June projection	7.0	3.3	2.4		1.8
Unemployment rate	4.8	3.8	3.5	3.5	4.0
June projection	4.5	3.8	3.5		4.0
PCE inflation	4.2	2.2	2.2	2.1	2.0
June projection	3.4	2.1	2.2		2.0
Core PCE inflation ⁴	3.7	2.3	2.2	2.1	
June projection	3.0	2.1	2.1		
Memo: Projected appropriate policy path					
Federal funds rate	0.1	0.3	1.0	1.8	2.5
June projection	0.1	0.1	0.6		2.5

Another historical tidbit I'm sure they're trying to avoid is the fact that last time we experienced [this same type of supply-driven inflation](#):

Back through the 70s and early 80s, inflation hit peaks of 12% and 15%. Over the course

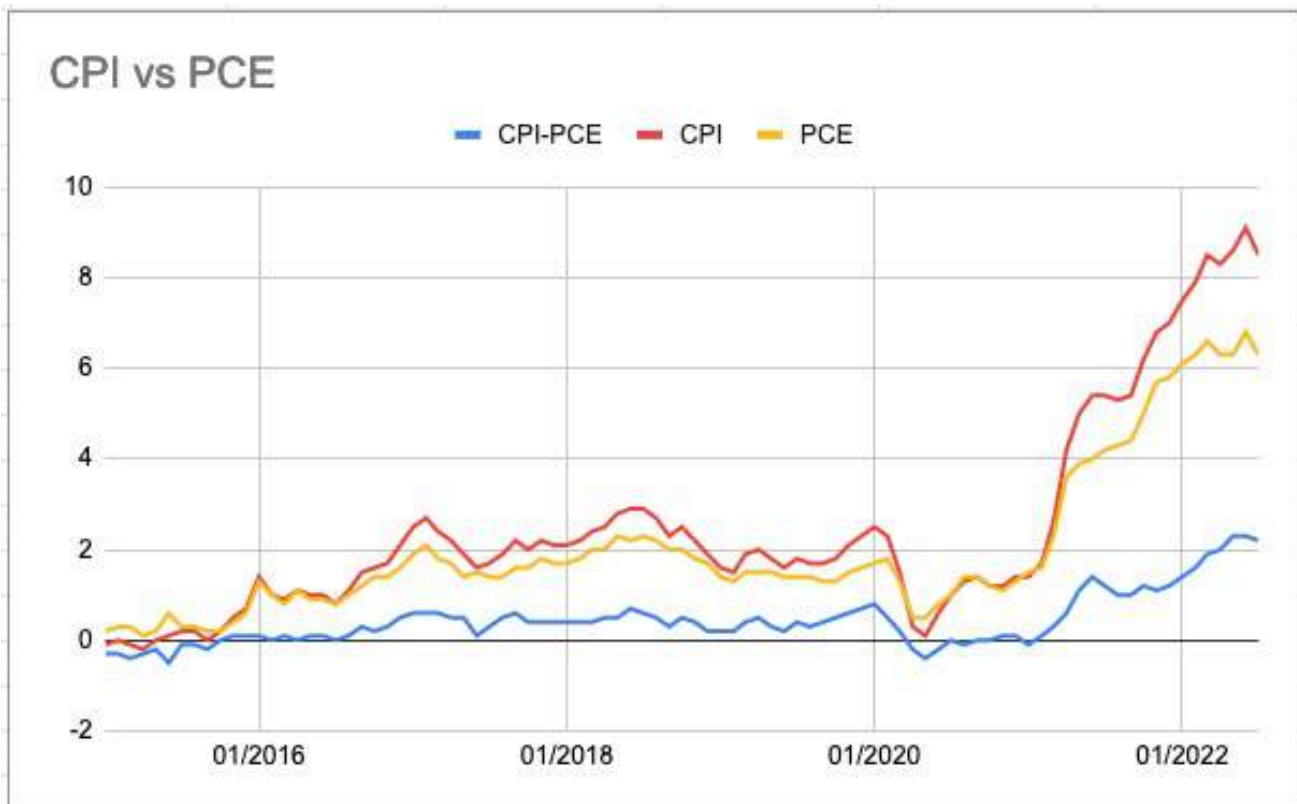
of the entire decade between 1973 and 1983 inflation averaged 9% every year!

One more thing to keep in mind is that the Fed's "preferred" measure of inflation is a more recent index known as PCE inflation — not the more commonly known CPI. I've written about [the differences in the calculation methods](#) between the two. The bottom line is that the PCE measure generally trends lower than CPI. (See the chart at the bottom of the page.) So where the Fed is concerned, inflation numbers are closer to their targets than most people might think.

So Where Are We Going?

So the chairman thinks 4-5% is restrictive. Frankly, I'd call that level neutral at best.

One reason is that the ratio of bond yields to stocks shows that bonds are way cheap relative to stocks. As I'm writing this, the earnings yield on the SP500 is currently around 4.4% while bond yields are at



around 3.8%. So either stocks need to keep falling or rates need to keep rising.

Back in the 90s, bond yields traded between 6% and 7.5% while Fed Funds ranged between 3% and 6%.

My take is the Fed will follow through on their current plans pushing rates to 4-4.5% by the end of 2022 or early 2023. Then I'd expect a pause for one or two meetings giving inflation three to six months to see whether there's any meaningful slow down in rising price levels.

But even then, I don't think they'll be done. Based on historical levels that so many traders today have forgotten about, I'd be looking for a 6% target before this is all over.

We'll keep watching...

And Now A Look at the Streetlight Portfolio...

Sometimes it's hard to comment on the obvious.

Since the high of August 16, a four-day rally in mid-September notwithstanding, the trend of the market has been down hard.

Even the stocks that had been showing some strength last month collapsed.

There has been a lot that's pumping uncertainty into the global economy.

We're in the middle of an energy crunch (potentially turning into a crisis) that's threatening higher energy prices as winter approaches.

On top of that, inflation has remained stubbornly

high — last month's numbers showed how widespread it had become with core CPI jumping .6% month-over-month — and the Fed has remained stubbornly hawkish. Nothing for an asset market dependent on cheap money to rally around.

The government is still passing spending bills that fly in the face of all the Fed's efforts. And where bills aren't being passed, the president is signing executive orders that threaten to pump hundreds of billions more into the economy.

And we're rolling into what promises to be a wild midterm election.

That, however, may be the good news.

For the last 70-plus years, stocks have come under significant pressure during midterm election years — only to be followed by substantial rallies.

So far this year, the S&P 500 has pulled back 26% from high to low — more than most pullbacks in previous years. Whether the trend holds and the 2023 post-midterm rally materializes, only time will tell. But it certainly is a positive in all the bad news...

Midterm Years See A Large Pullback, But Returns A Year Later Are Great			
S&P 500 Index Pullbacks During A Midterm Year			
Year	Date of Low	S&P 500 Index Return	
		Intra-Year Pullback	Return Year Later
1950	7/17/1950	-14.0%	30.9%
1954	8/31/1954	-4.4%	43.9%
1958	2/25/1958	-4.4%	36.3%
1962	6/26/1962	-26.4%	32.7%
1966	10/7/1966	-22.2%	33.2%
1970	5/26/1970	-25.9%	44.5%
1974	10/3/1974	-37.6%	34.6%
1978	11/14/1978	-13.6%	11.3%
1982	8/12/1982	-16.6%	57.7%
1986	9/29/1986	-9.4%	40.6%
1990	10/11/1990	-19.9%	28.8%
1994	4/4/1994	-8.9%	14.3%
1998	8/31/1998	-19.3%	37.9%
2002	10/9/2002	-33.8%	33.7%
2006	6/13/2006	-7.7%	24.5%
2010	7/2/2010	-16.0%	31.0%
2014	10/15/2014	-7.4%	8.7%
2018	12/24/2018	-19.8%	37.10%
Average		-17.1%	32.3%
Median		-16.3%	33.5%

Source: LPL Research, FactSet 01/10/2022
 All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.
 The modern design of the S&P 500 Index was first launched in 1957. Performance before then incorporates the performance of its predecessor index, the S&P 90.

Symbol	Name	Comments	Entry Date	Entry Price	Current Price	Annual Dividend	Percent Gain
FPI	Farmland Partners, Inc	Buy shares of Farmland Partners, (FPI) up to \$18 per share	9/2/2022	\$14.22	\$12.61	1.68%	-11.3%
VOO	The Vanguard S&P 500 ETF	Bear market portfolio: 20% position per the July 2022 Issue	7/5/2022	\$351.06	\$336.98	1.60%	-4.0%
JIR	iShares Core S&P Small-Cap ETF	Bear market portfolio: 20% position per the July 2022 Issue	7/5/2022	\$93.35	\$89.39	1.89%	-4.2%
VTV	The Vanguard Value ETF	Bear market portfolio: 20% position per the July 2022 Issue	7/5/2022	\$131.74	\$126.78	2.48%	-3.8%
IJS	iShares S&P Small-Cap 600 Value ETF	Bear market portfolio: 20% position per the July 2022 Issue	7/5/2022	\$89.52	\$84.57	1.79%	-5.5%
SCZ	iShares MSCI EAFE Small-Cap Index ETF	Bear market portfolio: 10% position per the July 2022 Issue	7/5/2022	\$53.43	\$49.64	4.72%	-7.1%
VEA	The Vanguard FTSE Developed Markets ETF	Bear market portfolio: 10% position per the July 2022 Issue	7/5/2022	\$40.01	\$37.17	3.89%	-7.1%
DOCN	DigitalOcean Holdings Inc.	Buy a half position up to \$60, reserving capital to purchase the remainder of your position on a dip.	6/2/2022	\$49.31	\$37.01	N/A	-24.9%
ONDS	Ondas Holdings Inc.	Buy a full position up to \$8.75	6/2/2022	\$7.55	\$3.65	N/A	-51.7%
WONDF	Wonderfi Technologies Inc.	Buy a half position up to \$0.60, reserving capital to add to the position on a pullback.	6/2/2022	\$0.45	\$0.31	N/A	-31.1%
VMAR	Vision Marine Technologies Inc.	Buy shares of VMAR up to \$5.45 as a speculative investment in the growth of electric powertrains in the boating industry. UP/DATE August 2022: Buy up to price was raised to \$6.50.	5/2/2022	\$4.27	\$5.06	N/A	18.5%
U	Unity Software	Buy a 25% starter position between \$95 and \$99. Then scale into the remainder of the position adding another 25% every 15% to 20% down. †	2/3/2022	\$77.27	\$33.94	N/A	-56.1%
EPD	Enterprise Products Partners, L.P.	Buy shares of EPD up to \$23.00 as an income-generating investment.	12/1/2021	\$21.20	\$24.17	\$1.86	14.0%
ARKX	ARK Space Exploration & Innovation ETF	Buy shares of ARKX up to \$22.00	11/1/2021	\$20.48	\$12.70	N/A	-38.0%
MSOS	AdvisorShares Pure US Cannabis ETF	Buy shares of MSOS at market up to \$33. Be prepared to add to your position on a dip to \$27 ††	10/5/2021	\$28.95	\$9.29	N/A	-67.9%
GENI	Genius Sports Group	Buy shares of GENI up to \$22.50	10/5/2021	\$16.99	\$3.72	N/A	-78.1%
JD	JD.Com	Buy shares of JD.com (JD) up to \$80 per share	8/30/2021	\$76.69	\$49.52	N/A	-35.4%
CZR	Cesars Entertainment	Buy shares of CZR up to \$101.75	8/6/2021	\$90.50	\$34.15	N/A	-62.3%

Current Prices as of 10/03/2022

Price Notes:

Entry prices are closing prices the day the issue is published.

† Per our entry instructions a 25% position was initially purchased at \$96.99 on 2/3, then another on 3/7 at \$82.45, another on 4/27 at \$71.10, and a final on 5/6 at \$59.55 giving us an average entry price of \$77.27.

†† Adding an equal weight position at \$27 on 10/27 gives us an average entry price of \$28.95