Streetlight Confidential

Inside This Issue:

The Big Prediction Issue!

The Fed's Big Finale, Key Sectors to Watch, Playing the Energy Revolution and More…

-by Bob Byrne

The year is nearly over and I bet you'd struggle to find five people on Wall Street or Main Street that will be sad to see 2022 in the rearview mirror. And that sentiment isn't only because it's been a challenging year for investors.

From soaring energy prices and runaway food inflation to an increasingly divided government and crummy stock market returns, 2022 hasn't been a cakewalk.

I've written about stocks, the economy, and politics for nearly 15 years. And my hands-down favorite article to write is this one — "Predictions for the New Year." But before I begin, you need to understand how I view predictions.

When I started trading in the late-1990s, the traders on the floor would dutifully absorb brokerage notes — paying particular attention to which stocks were upgraded and downgraded and how dramatic the accompanying price targets were.

It took me about six months to realize that most analysts were either full of crap or horrendous guessers. Either way, I saw firsthand — and with my money on the line — that listening to Wall Street strategists was a sucker's game.

Upgrades, downgrades, and updated price targets don't sound as sexy as end-of-year predictions, but that's what they are.

So, if Wall Street strategists are terrible at guessing which stocks should be upgraded or downgraded and even worse at assigning a reasonable price target, why should you care what these analysts think will happen in the coming year? Short answer…

You shouldn't!

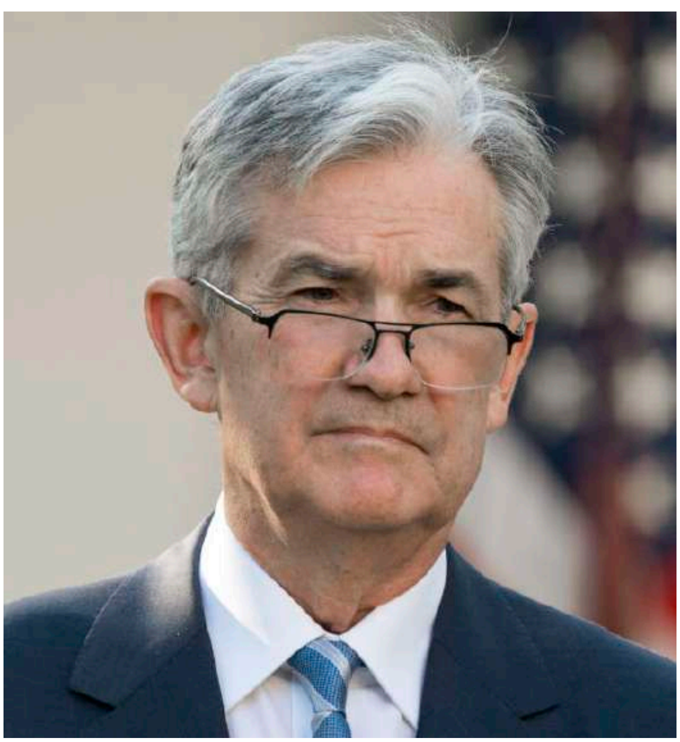
Despite what most mainstream financial media would have you believe, predictions aren't meant to be guarantees or recommendations. I view end-of-year predictions as a form of *active journaling*.

I analyze the business environment, the economy's performance, the political climate, and current stock market trends. I also make reasonable guesses at how existing trends and patterns will continue, end, or bend.

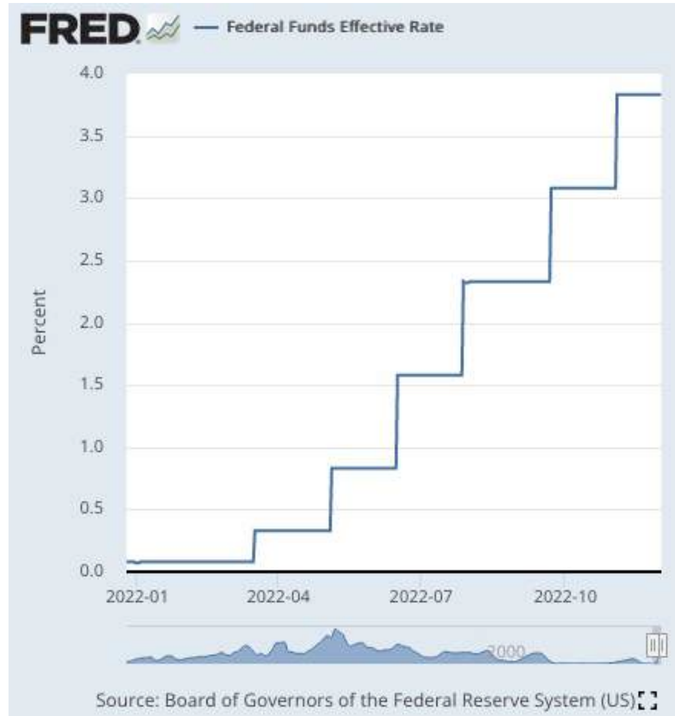
Whether you're making or reading them, predictions are meant to make us think outside the box. So, without further ado, let's jump into what I believe is in store for 2023!

The Fed's Dilemma: Crush Inflation or Push the Economy into Recession

The Fed's been hiking rates since the spring, so the fact that Fed Chairman Jerome Powell wants to reduce inflation and slow the economy isn't new news.



Federal Funds Rate



Source: [Federal Reserve Bank of St. Louis]

However, with four 75 basis point rate hikes under our belt in a short timeframe, we have yet to determine how impactful those hikes will be.

While the folks on CNBC won't devote much time to explaining how interest rate hikes actually work, the ugly truth is they can take many months to filter through the economy and have their intended impact.

With the Fed hiking rates by an incredible 375 basis points year-to-date and another 50 basis points likely to come in mid-December, we have yet to see the full impact of this jump in borrowing and financing costs.

As we close the book on 2022 and begin planning for 2023, I expect the Fed to raise by 50 basis points in mid-December and another 25 basis points on February 1, 2023. And if I'm wrong about that 25 basis point on February 1, it'll likely be because the Fed opts for another 50 basis point hike.

> *"While I won't hazard a guess for every meeting, I expect us to end 2023 with a Fed funds rate of **no less** than 5.25%.... I don't expect the Fed to cut rates at all. If anything, the risk is to the upside — with 2023 ending with rates at 6%."*

The Fed is petrified at the thought of another surge in the monthly inflation readings.

After the February meeting, the Fed is scheduled to announce rate decisions on March 22, May 3, June 14, July 26, September 20, November 1, and December 13. And while I won't hazard a guess for every meeting, I expect us to end 2023 with a Fed funds rate of ***no less*** than 5.25%.

In a nutshell, I don't expect the Fed to cut rates at all. If anything, the risk is to the upside — with 2023 ending with rates at 6%.

An Unknown Economic Outcome

A few recently released economic reports have increased the number of economists and Wall Street strategists predicting a soft landing. But let's be honest, these guys are guessing the same way I am right now!

If you want to sound smart while sipping eggnog around a fire with your neighbors, you can point out that *leading and coincident indicators* are pointing squarely at a recession in 2023.

Moreover, recessionary bear markets have (to the best of my knowledge) never ended before the onset of a recession. And this bear market will not come to an end while the Fed is still hiking rates.

Put another way, a recession is on the way. The only question is will it be deep or shallow and when will it become evident to the masses.

I'm looking for a recession to begin around the middle to the end of the second quarter. But again, that is a guess.

But it's not all bad news because as rising interest rates steer us into a recession, the increase in borrowing costs leads me to one of my favorite sectors for the next year.

Financials Take The Lead

Few investors pile into financial stocks when they hunt for outsized stock market returns. But we finally have an environment where banks and lending institutions can borrow money and lend it at a higher rate.

The counterargument is that lending activity will contract if we fall into a recession. And I don't dispute that.

But even so, with rates no longer sitting at zero and banks sitting on well-capitalized books, I expect investors to begin buying banks on dips.

From a longer-term view, we should not see Fed Funds back near zero anytime soon. Frankly, without a horrible event like a plague or nuclear war, my out-on-a-limb guess is I won't see zero percent rates in my lifetime. When my 12-year-old son is in college, I expect him to learn about the lessons the Fed learned while handing out money as it grew on trees.

An easy way to invest in financials is to buy the **SPDRs Select Sector Financial ETF (XLF)**. But if you prefer individual stocks, look at blue chip names like **JPMorgan Chase (JPM)** and **Citigroup (C)**.

If you like regional banks or asset managers, consider **T. Rowe Price Group (TROW)**, **BlackRock (BLK)**, or the **SPDR S & P Regional Banking ETF (KRE)**.

Full disclosure: I currently own JPM, C, and TROW shares in a long-term account I manage for my family.

Bonds Gain Ground

Given the terrible performance of bonds in 2022, it doesn't take a lot of courage to predict better times for fixed income in 2023.

Nonetheless, I expect things like the **iShares Barclays 20+ Year Treasury Bond Fund (TLT)** to gain ground in the new year.

Now, ***while I own shares of TLT***, I bought them during the historic decline in mid-to-late October. As I type, the TLT is trading at around $107. So, while I believe TLT will test the low-$120s in 2023, I would wait for a pullback toward the upper-$90s before considering buying it or adding to an existing position.

Full disclosure: I currently own shares of TLT and am short TLT calls that expire on December 16, 2022.

The Energy Revolution: Lithium, Solar, and Battery Storage

As an ex-energy trader, I believe hydrocarbons will be around for a while. In fact, while the price of oil will likely decline during a recession, oil and natural companies are apt to “share the value” of their shares’ rise as investors now believe the managements of those companies are more fiscally responsible than ever.

That's code for: While President Biden is wagging his finger and demanding more drilling, oil and gas CEOs in this country have a responsibility to take care of their shareholders.

And while Biden may want more supply to improve his public image, oil and gas CEOs answer to shareholders. And shareholders want reduced expenses (less drilling) and higher profits (increased prices on existing hydrocarbon reserves).

That means 2023 will be a big year for companies connected to the energy revolution. As solar and battery storage companies see their businesses soar, so will the price of lithium and companies that explore it.

To be clear, I don't consider electric vehicles (EVs) a sustainable business, given the state of our electric grid and the already soaring price of lithium. So, while I like companies that deal in solar, battery storage, and lithium, I'd tread carefully with electric vehicles.

Investing in this theme is more challenging than it seems.

On the public side, you can consider researching companies like **First Solar (FSLR)**, **Enphase (ENPH)**, and **SolarEdge (SEDG)**. But pay attention to how richly valued their shares are.

On the private side, ***I'm invested in a company called Paladin Power***. These guys are developing and selling battery (energy) storage solutions that store solar energy and help consumers get off the electric grid.

While I have yet to confirm this, I could imagine the company raising money via Reg A+ or Reg CF in late 2023 or early 2024.

On the lithium side of things, you can always consider researching the more prominent players in the space, like **Albemarle (ALB)**, **Piedmont Lithium (PLL)**, or **Livent Corporation (LTHM)**. But again, please note that these stocks are richly valued.

An End of Year Upturn

Between high and rising rates, an ongoing battle to reduce our out-of-control inflation, and the likelihood that the US finds itself in a recession by the third quarter, it's fair to assume that 2023 will be another challenging year.

But I want to leave you with something bullish to mull over.

The year after midterm elections is traditionally a very bullish year for stocks. We're facing a government with a Democrat in the White House and either a split Congress or a GOP lead Congress, and investors have reason to celebrate.

Many investors don't realize it, but the government makeup that has historically produced the best returns for the stock market is a Democrat in the White House and GOP-controlled Congress. The second-best outcome is a Democrat in the White House and a Split Congress.

So, while 2022 could have been a better year for investors, I am optimistic about 2023. And while my preferred areas to focus on are financial and energy stocks, as the Fed signals an end of interest rate hikes, I do expect high-growth technology stocks to make a sharp turn higher.

Disclosure: Bob Byrne owns shares of JPM, C, TROW, TLT, and Paladin Power (not public).

Industry Update: Crypto in the Post-FTX Era

The Future of Crypto and How Investors Need to Play It Now

-by Bob Byrne

Two trillion dollars…

That's the amount of "real" money that cryptocurrency as a whole has cost investors and traders since its all time high in 2021.

Crypto markets have been in a year-long collapse.

The "Billionaire Bros" — the 30-something crypto billionaires like Coinbase founder Brian Armstrong who was worth over $13 billion and Galaxy Digital CEO Michael Novogratz who was priced at $8.5 billion — are all less rich by billions.

And a lot of regular folks have gotten stung putting their hard earned money into various tokens as well…

> *Jamie reckons it will take him about 20 years to save the amount he lost in the FTX collapse.*

Another investor said:

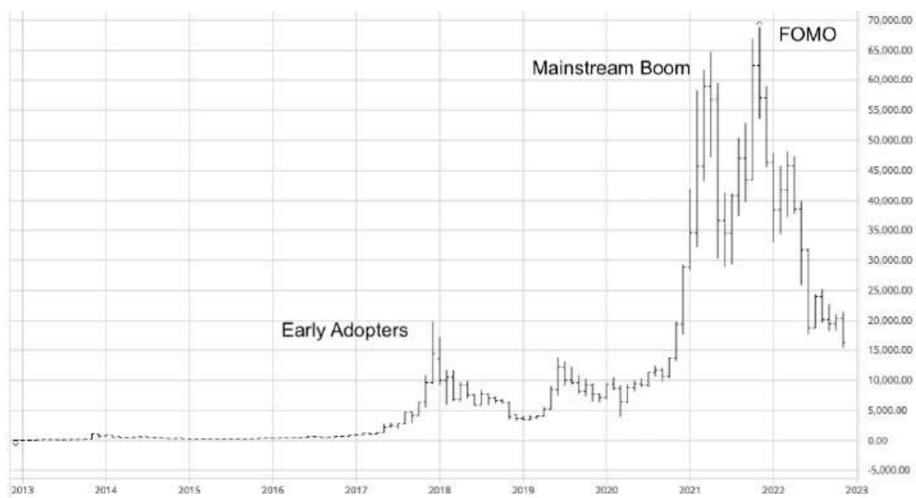
> *"I have lost $60,000 and whatever my three bitcoins would be worth now [$50,691 as of Friday]. I had plans to build a new family home with that money. We're not going to be out on the street, but it hurts.*

Now, punctuated by the final spectacular flameout of FTX who lost somewhere between $8 and $16 billion of investor funds, it would be reasonable to think that the crypto-mania boom is over.

Probably not, in [last week's update] I said that there are other worthless tokens still out there promising riches and waiting to collapse. And if you are still serious about investing in the future, you have to view the playing field from a slightly higher perspective.

I think it's reasonable to say the coin-mania stage of the boom has run its course. Take a look at the lifecycle of Bitcoin. The early adopter boom is over. The mainstream (wider acceptance) boom is done. And the FOMO boom has finally topped out…

Bitcoin (BTC/USD)



Source: barchart.com

So what happened? And more importantly, what's next? If you want to get a clear picture on what the future holds, we need to understand 1) how new technologies (and the actual value they represent) develop and 2) identify where we are in that cycle.

These losses were because people misperceived cryptocurrencies as the "thing" that actually carried value.

The "Digital Asset" Paradox

The phrase "digital asset" is often used when people talk about things in the cryptosphere.

> *Asset (n) Property owned by a person or company regarded as having value.*

Now we can dive into the legal, hair-splitting weeds arguing what "property" actually means. But in general it's understood to be something physical that carries an inherent value.

"Digital" anything, by contrast, is something non-physical. Rather than atoms, it's made up of 0s and 1s and compiled into "reality" by computer processors.

That makes the term "digital asset" pretty much an oxymoron.

You see the distinction… You can own a million dollars in gold bars. And you can "own" a million dollars in some cryptocurrency. But if the power goes out (or you lose your password)… only one of them is going to still be worth anything.

> *If you're investing in the future, the question you should be asking yourself at this point in the game is, "If things like NFTs and cryptocurrencies themselves aren't the future, what is?"*

I've previously written that Bitcoin is not, and was never, the inflation hedge so many proclaimed it to be. It's not an asset but a place to gamble when money is cheap and profits can be huge. In short, it's like a momentum stock. (Check out the chart in that weekly update!)

The same is true of other creations bought and sold in crypto-land. Take non fungible tokens or NFTs. NFTs are "digital assets" which have identifiers that make them unique. That "uniqueness" gave them an air of value that led to images of cartoon apes and other things being bought and sold for millions of dollars! You don't hear about it, but that market has cooled considerably too.

The problem is people have been viewing these crypto non-things as THE things. The ultimate value that this new wave of technology is bringing us. They're not.

Where cryptocurrencies and NFTs go, there's no actual value to them except what the buyer and seller perceive. They're chips on a craps table. (Actually, they're not even that.)

At the same time, and I'll come back to this in a moment, not all coins and collectibles are necessarily going to go by the wayside.

If you're investing in the future, the question you should be asking yourself at this point in the game is, *Blockchain technology offers two important advancements from where we are in the current internet world: It makes peer-to-peer access the norm (removing centralized servers from the online equation) and it solves the "double spend" problem.*

"If things like NFTs and cryptocurrencies themselves aren't the future, what is?"

Finding the Real Value

The "crypto universe" is actually a subset of a much bigger, more important, development — the technology that's driving it all: Web 3.0 and the blockchain.

Blockchain technology — or distributed network architecture — is where I believe is the real value that's just beginning to evolve in all this crypto mayhem lies.

Blockchain technology offers two important advancements from where we are in the current internet world: It makes peer-to-peer access the norm (removing centralized servers from the online equation) and it solves the "double spend" problem. Let me explain…

The internet we know today is based on a network of centralized servers. I connect to my internet service provider, load up my browser and off I go.

But with this configuration everywhere I go, I go through my ISP. Sure, you *can* establish direct, secure connections (like with your bank or some other important service) but again, you connect to them through your ISP. You basically leave bread crumbs everywhere you go.

The idea of peer-to-peer networking cuts out that middleman. Frankly it isn't all that new.

Back in the early days of music file sharing, after the notorious Napster platform went down in regulatory flames, there were some early efforts at creating decentralized networks.

Services like "Grokster" and others wrote software that would actually connect you to another individual computer's hard drive (running the same software) so you could browse the files they were willing to share. Peer to peer. No middleman.

It never really became as popular as Napster, but the idea of connecting and transacting one-to-one — without a centralized server between you and your destination — was a groundwork that bitcoin and other cryptocurrencies would be built on.

The other problem that plagued the music sharing fad (and what really pissed off the recording industry) was the "double spend" problem.

In the real world, if I share an album with you, you have the album and I don't. It's different online. When I'd share the music file of that album with you, you end up with a copy… but I still have a copy.

This was the REAL problem the Bitcoin blockchain solved where the digital currency was concerned. It debited whatever I transferred from my account and credited it to yours just like the real world. So now you'd have my album and I wouldn't.

These two, seemingly minor, advancements could have a profound impact on what we know as the internet (and a lot of companies connected to it).

Can You Profit from This Kind of Obscure Technology?

I'd argue yes…

Consider the operating system called Linux. Linux began as an "open source" operating system meaning that any programmer anywhere could access and modify the source code. For a lot of years it was basically for hobbyists — way too advanced for an average user to install on their computer.

But as the project grew, a number of companies took the code, within the parameters of the open source agreement, and created user friendly installation distributions ("distros" for short) that would appeal to the average user as a Windows alternative.

One of these companies, Red Hat, grew into a multibillion dollar company.

Nothing to rival Microsoft, but when you think about it, building a viable, multibillion-dollar business out of shared code is nothing short of miraculous.

I believe blockchain technology is comparable to the Red Hat Linux distro (or any other installation) when it comes to its evolution.

Early in the Linux game, no one could foresee the kind of success that Linux distributors would have. It was basically an experiment that grew itself.

Prior to Red Hat (and others) there was no "utility" to Linux. It may well have been a superior operating system, but just wasn't usable in the market.

Today, the question is what does the "user-friendly" version of blockchain technology look like?

A Nearly Impossible Question to Answer

Despite the fact that everyone seems to have an opinion on use cases for Web 3.0, there's really no consensus as to the direction this nascent technology will develop. For example…

Earlier this year, I attended the Web 3.0 Conference in Las Vegas. One of the presenters there was talking about the potential to use NFTs as a means for farmers to sell their wheat crops (or whatever) as a forward contract.

And indeed that is a possibility. But today farmers already have that capability via the futures market. And regulated futures markets have a couple huge advantages over the NFT version.

First, every contract is uniform in terms of contract size, product quality, delivery points and so on. Trades are all made via futures clearing members who guarantee the financial stability of buyer and seller. Trades cleared via clearinghouses (exchanges) so there is little to no risk whether delivery will be made or accepted.

And maybe most importantly, every trader will know well in advance what their costs for the transaction will be. Unlike today's futures markets, executing digital contracts via the Ethereum blockchain requires something called "gas."

Gas is the fee you pay to execute the digital contract. And the price of gas fluctuates depending on how busy the market is. It could potentially cost a farmer upwards of six-figures to execute a forward trade depending on market conditions.

No one will take on that kind of risk.

So NFT futures may or may not be in the cards. My point is, for the companies who do find the most usable implementations for blockchain technology, the potential will be huge.

Betting on What You Don't Know Will Kill You

Another (potentially very expensive) example is what's being called the metaverse.

Make no mistake… The metaverse is Web 3.0. The big question is, what will the metaverse actually look like when it comes to full utility? Right now, no one can say for sure.

Mark Zuckerberg learned first hand how much a bad bet on uncertain technology can cost. He went all in — and I mean ALL IN — on his vision of the metaverse. What was it?

Cartoon land…

Zuck and Meta had pursued the idea that AR/VR (augmented reality/virtual reality) would become the core of the metaverse to the tune of some $10 billion in one year. [Back in October] I wrote:

> *In their quest to dominate the metaverse, the company spent over $10 billion in 2021 alone. That's more than ten times what they spent to buy Instagram in 2012. And the spending didn't stop there. Zuck had been up front about the huge capital investment that developing this new technology is going to require.*

His big bet was that Reality Labs, Meta's hardware division, plus an unlimited budget would create the headsets that basically put you and the rest of the world in a cartoon.

Don't get me wrong. AR/VR are viable technologies. I can easily see their value in certain use cases.

For example, imagine you're remodeling your kitchen and your designer wants to show you and your spouse some 3D drafts of their ideas. Putting on a virtual headset would be a great solution to give you an idea of what the finished product would look like.

But as a core utility of the metaverse? Frankly I don't see it.

I don't see the attraction of sitting in a meeting with a headset projecting cartoon versions of the people I'm talking with in some animated space. If I need to take a remote meeting face-to-face, there's always technology like Zoom that works just fine. (A recent ad by Meta actually showed people in a meeting in the SAME ROOM all wearing headsets to meet in the metaverse. To me that's plain dumb.)

And if virtual reality is going to be the thing, cartoon characters won't cut it.

Think about the last time you went to a concert. The experience you had. It goes beyond the visual (with real people) and audial… you can actually feel the vibrations from being in front of the speakers. Being at a concert in person creates a sensory experience.

Until they can duplicate that with a headset, I believe Meta's AR/VR vision of the metaverse will always be a side attraction.

Apparently the market thought so too…

After a brief admission to the trillion dollar market cap club in late 2021, Meta has lost some 75% of its value. Everyone (and now including Mark Zuckerberg) knows that's because of his blind obsession for spending money on a future that no one can agree on.

So that brings us to the big question…

How To Find The Next Google

I believe the days of people paying crazy multiples over forward earnings from technology that doesn't exist are over.

At the same time, there are still going to be a lot of opportunities in the coming years. But to avoid buying into the next Pets.com (the internet company who spent $500 to get a customer who would then go online and order a $20 bag of dog food — see the business dilemma?) version of the cryptosphere, watch these guidelines.

The bottom line is… If a cryptocurrency is going to be worth anything in the future, it needs some utility — including products and audience adoption potential — behind it.

First you have to understand that cryptocurrencies are simply not valuable on their own. You want to play them, by all means do. But do so understanding that 90-plus percent of them are all the same as Chuck E. Cheese tokens. They're chips on a craps table.

If you want to invest in cryptocurrencies that have a potential future, you want to make sure the token in question has some viable utility underpinning it.

Bitcoin, for all its preeminence in the crypto market, has no utility. It lives on its own blockchain (which is very secure) and you can spend it in some places. But for the most part, its only real use case is laundering money.

Right now, Ether, the native crypto on Ethereum's blockchain, is probably the only cryptocurrency that is attached to something potentially valuable. Fluctuating "gas" costs aside, the Ethereum blockchain is the leader among blockchains that are functional for anything other than the currencies swapped on them.

Matic is a currency on the Polygon blockchain. Polygon is a scalable blockchain platform with a whole set of products and tools helping developers create decentralized apps. It could be a contender.

...the good news is, the adults will now be coming to the table. Their job will be figuring out where the real value of this next evolution in technology can be created. And that all comes down to utility. Now is the time when actual VALUE will start to show up.

The bottom line is…

If a cryptocurrency is going to be worth anything in the future, it needs some utility — including products and audience adoption potential — behind it.

Beyond cryptos themselves, the next investment criteria you have to consider is how will the company I'm giving my money to create an actual business. SBF, the con artist founder of the FTX fiasco, insisted he was all about "effective altruism" — making money to give it away.

Listen…

If you want to do good works, start a charity.

Any business that's underpinning an investment you're considering, has to be a business. A business is meant to sell goods or services and grow the value of the enterprise. It's meant to distribute cash flows to its shareholders or see a consistent appreciable rise in its share price.

But there is always the small exception to the rule. And this goes back to my previous NFT comment… NFTs were always about "community."

The only thing that will continue to support the value of any of them are the communities that were built around them. The brands with the biggest, most recognizable brands (like the silly bored apes) will continue to hold some value.

So Where Are We in the Evolution of Web 3.0?

Think of the market being somewhere between late 2000 and mid-2001 during the latter stages of the internet and technology collapse. The tech wunderkinds — the companies that offered an idea with no possibility of ever launching a sustainable business — are all falling by the wayside. And the failures will likely continue.

But the good news is, the adults will now be coming to the table. Their job will be figuring out where the real value of this next evolution in technology can be created. And that all comes down to utility. Now is the time when actual VALUE will start to show up. (It might take a couple years, but it's going to happen.)

If you're looking to invest in this next stage of internet technology, start by identifying the aspects of blockchain technology that will likely be the backbone of it — and the companies that are best positioned to develop it.

And when you're considering that, remember a lot of that success will come down to the people behind the effort. Don't be blinded by visionaries.

Visionaries are all well and good. But for an investment in the future to be viable, and this may be the most important thing I write in this article, look for the best leaders with capital markets discipline.

Experienced management teams who can balance the income and expenditure sides of the balance sheet.

A Couple Final Thoughts…

Will the metaverse be developed? Absolutely. Do we know what the end result will look like? Not a clue.

If you're looking for some high degree of certainty where Web 3.0 investing goes, it doesn't exist yet.

A roll of the dice, however, would be **Unity Software (U)**. They are currently the dominant platform used to produce 3D game graphics for the internet and they own a huge percentage of the market they service.

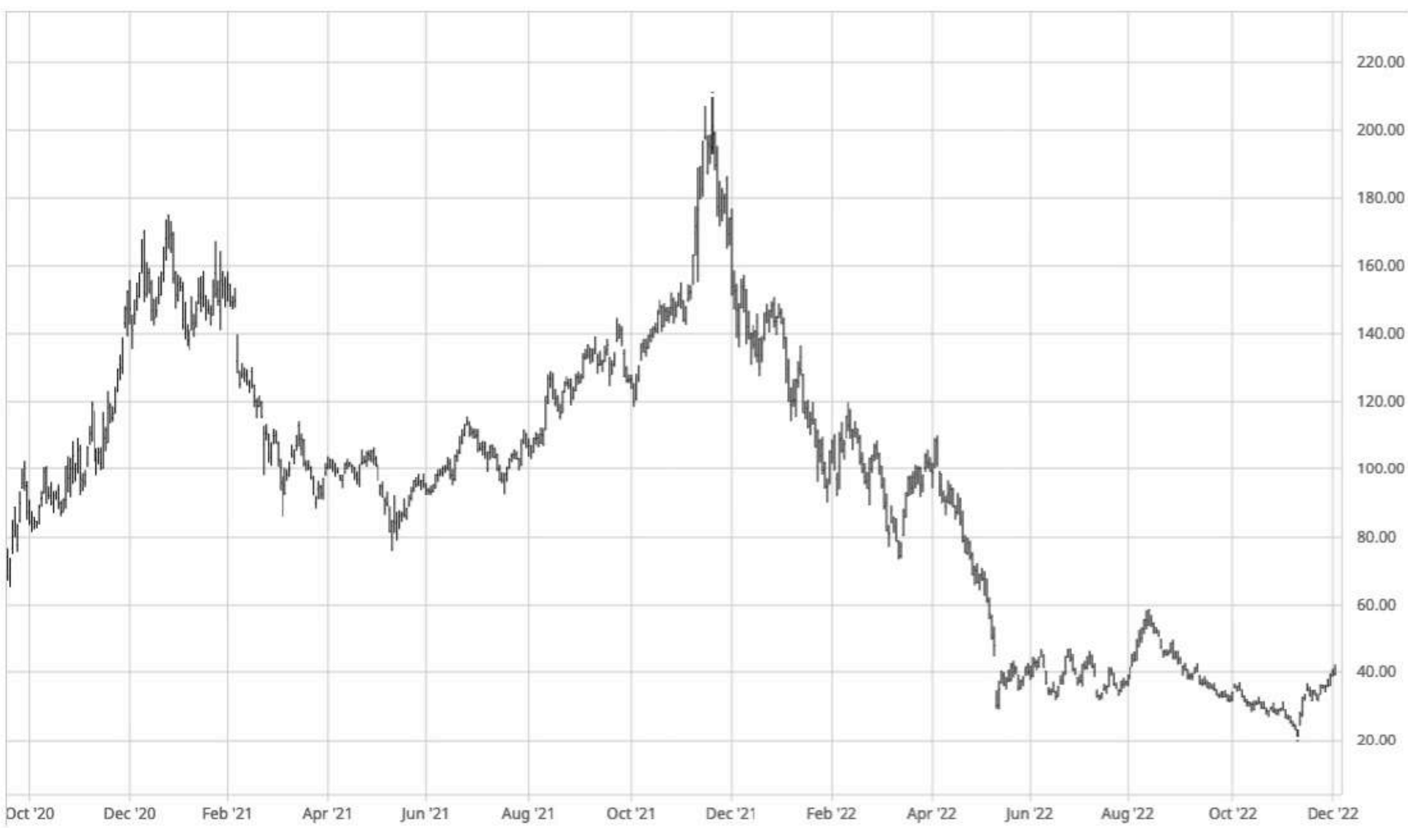
We hold U in our Streetlight portfolio and, frankly, it's showing the scars of Web 3.0 uncertainty. But it ticks all the criteria boxes of what would be an outstanding performer going forward.

Overall, where cryptocurrencies are concerned, I don't believe the bottom is in. And I don't have any personal investment in any of them.

For me, it's not a question of risk versus reward like assessing a company's stock. Rather, I don't see the utility of any given currency as an actual currency — as the great global replacement for the US Dollar? I mean how do you know the next great global currency won't be the Chinese Yuan?

But that's a prediction for another time…

Unity Software (U)



Source: barchart.com

The Last Word…

Last Year's Good News Suddenly Ain't So Good

-by Bob Byrne

The Fed certainly made a splash last Wednesday.

In some recent writings, I've alluded to how the Fed has been sending mixed messages about whether they'll keep barreling ahead on their trek to hike rates or whether they'll start lifting their foot off the gas.

It's all been pretty entertaining.

Unfortunately, all the market wants to know is where they're going to stop so it can reprice assets accordingly.

On Wednesday Santa Claus proxy Jay Powell gave the market its Christmas present early and all but made it official. 50 basis points in December. The market responded with the S&P rallying over 135 points.

Much of the rest of his spiel was concerning the state of the economy and how their slowdown would be to take stock in how things react to their hikes so far.

But this time there were a few different notes in his tune.

The Fed's Fake Employment Narrative

For the past year plus Powell, and the Fed in general, has been touting the strength of the economy — specifically the robust labor market — as reason not to worry about their massive rate hikes. Everything's fine, Chair Powell reassures us.

I wrote about it back in July…

> *But rapidly hiking rates is not something we should be worried about, according to Air-Fed Capt. Jay Powell. Because he believes they can continue to aggressively hike rates thanks to a labor market that's holding firm (in "Fed-speak" that means the economy is doing great!)*
>
> *He said so on June 15 right after the FOMC meeting:*
>
> *"The American economy is very strong and well positioned to handle tighter monetary policy."*
>
> *On June 22 The Hill quoted him:*
>
> *"Powell cited an unemployment rate of 3.6 percent, an average monthly gain of 408,000 jobs over the past three months and other signals of a strong labor market as signs of a strong and resilient U.S. economy."*
>
> *On June 29 Bloomberg reported:*
>
> *"Federal Reserve Chair Jerome Powell said the US economy is in "strong shape" and the central bank can reduce inflation to 2% while maintaining a solid labor market, even though that task has become more challenging in recent months."*

I argued that the employment numbers they were touting weren't as rosy as the Fed was making them out to be. That while the number of jobs was continuing to rise and the number of employed persons had eclipsed the pre-pandemic peak… The actual labor force participation rate was well below where it was in 2019.

How could they trumpet a booming jobs report while at the same time quietly reporting a slumping labor market? Through their economic usual sleight of hand — they counted workers who held multiple jobs multiple times.

And it didn't take much to figure out what was behind the irregular slump in labor force participation. The government shut the economy down during the pandemic basically putting everyone out of work. When reopening time came in 2021, not everyone was headed back. In that same article I wrote:

> *In total, according to a study by the St. Louis Fed, there were slightly over 2.4 million excess retirements due to COVID-19.*

Well wouldn't you know, JP and the rest of the Fed has finally caught on. In his speech last Wednesday at the Brookings Institute, he pointed out (my emphasis)…

> *But recent research by Fed economists finds that the participation gap is now mostly due to excess retirements—that is,* ***retirements in excess of what would have been expected from population aging alone. These excess retirements might now account for more than 2 million of the 3−1/2 million shortfall*** *in the labor force.*

Mystery solved!

And Now Suddenly *That's* a Problem

Unfortunately because now it's become evident that there are more job openings than people willing or available to take them, the glorious labor situation isn't so glorious any more.

Suddenly that big demand for workers isn't such a positive.

One could argue that this imbalance in the labor market is causing wages to rise as employers compete for this shrinking pool of workers. We can argue this because Jay Powell said so. The Fed believes that wage growth is well above levels that would be consistent with 2% inflation. (That would be the same wage growth that isn't even consistent with 7% inflation…)

> *Some measures of wage growth have ticked down recently. But the declines are very modest so far relative to earlier increases and still leave wage growth well above levels consistent with 2 percent inflation over time. To be clear, strong wage growth is a good thing. But for wage growth to be sustainable, it needs to be consistent with 2 percent inflation.*

So what's the solution according to the Fed Chair?

> *For the near term, a moderation of labor demand growth will be required to restore balance to the labor market.*

Let's unpack that statement just a bit.

I'm a small business owner who employs 40 people to run my business. But currently I only have 32 so I really need to hire eight more for my business to operate optimally.

It would seem that the Chairman is telling me that, since we no longer have enough workers who are able to fill the available positions, I have to somehow shrink my business.

The market may already be ahead of him.

On Thursday, the Challenger Gray & Christmas Jobs Cuts (i.e. layoffs) report saw a huge upswing in November. *"US-based employers announced 76,835 job cuts in November of 2022, the highest since January of 2021."*

Let the rebalancing begin!

So What's the Bottom Line?

So by the end of his brief talk, what did Chairman Powell say? First theFed was going to slow their throttling of the economy to admire their handiwork thus far. Second, job openings are far too high and business growth has to slow. And finally wages have to come down.

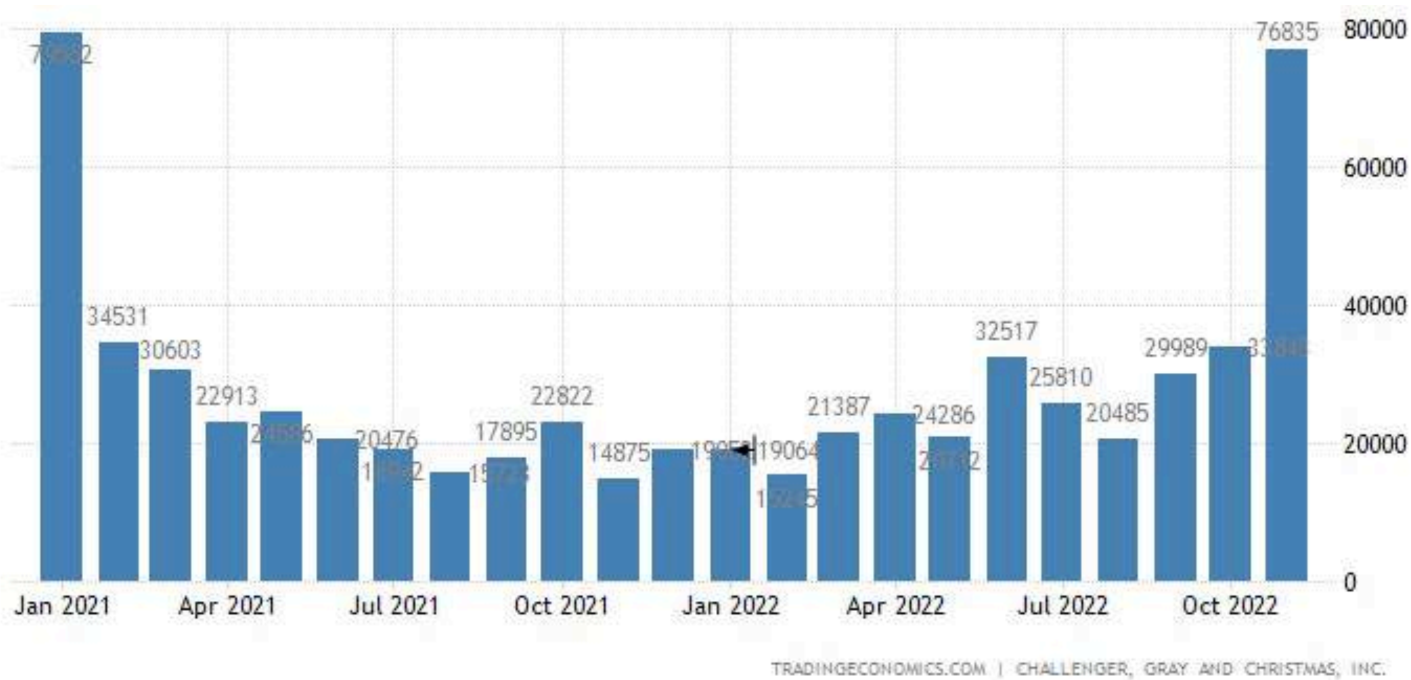
Ladies and Gentlemen…

Welcome to Recession-ville

And if all this doesn't pound a stake through the heart of inflation?

NEXT STOP STAGFLATION STATION…

Challenger, Gray, and Christmas Job Cuts



Source: tradingeconomics.com

You Can't Make This $#!% Up!

Pennsylvania Rep Elected to Record 21st Term… Almost

Vote early and often! That's how the saying goes.

I realize that state-level politics tend to be less exciting compared to the national scene, but it was never more evident in last month's Pennsylvania State House midterms…

Voters rallied to re-elect Representative Anthony DeLuca for a 21st term…

State Representative Anthony "Tony" DeLuca

…even though the candidate was dead. He passed away in October. According to Penn Live News:

> *DeLuca, at age 85, was the oldest member of the Pennsylvania General Assembly and the longest serving member of the state House. He had been elected 20 times by his constituents in Allegheny County.*

It was a refreshing change — in machine-party politics it's usually ***the voters*** who're deceased, not the candidates.

Still, in order to keep the gravitas of the elections intact, the PA House Dems sent a tweet acknowledging the unprecedented victory…

> *"While we're incredibly saddened by the loss of Representative Tony DeLuca, we are proud to see the voters to continue to show their confidence in him and his commitment to Democratic values by re-electing him posthumously. A special election will follow soon," Pennsylvania House Democrats said in a tweet.*

In any event, apparently the Pennsylvania constitution prohibits deceased people from serving in public office. A runoff election will be held in the near future…

And Now to the Portfolio

The bear market continues and we're still looking at a fair amount of red, however…

The components we added in our "bear market" portfolio have rallied nicely as the pressure in the market continues.

There has also been some noteworthy movement in a couple of our holdings. **Vision Marine (VMAR)**, the electric boat motor company we added in May is now up over 18% on contract deals it continues to make.

The other notable is our major metaverse pick, **Unity Software (U)** gaining 55% from last month.

The rest is here for your perusal…

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	$13.46	1.68%	-5.3%
VOO	The Vanguard S&P 500 ETF	Bear market portfolio: 20% position per the July 2022 Issue	7/5/2022	$351.06	$374.00	1.60%	6.5%
IJR	iShares Core S&P Small-Cap ETF	Bear market portfolio: 20% position per the July 2022 Issue	7/5/2022	$93.35	$102.13	1.89%	9.4%
VTV	The Vanguard Value ETF	Bear market portfolio: 20% position per the July 2022 Issue	7/5/2022	$131.74	$146.00	2.48%	10.8%
IJS	iShares S&P Small-Cap 600 Value ETF	Bear market portfolio: 20% position per the July 2022 Issue	7/5/2022	$89.52	$97.98	1.79%	9.5%
SCZ	iShares MSCI EAFE Small-Cap Index ETF	Bear market portfolio: 10% position per the July 2022 Issue	7/5/2022	$53.43	$57.76	4.72%	8.1%
VEA	The Vanguard FTSE Developed Markets ETF	Bear market portfolio: 10% position per the July 2022 Issue	7/5/2022	$40.01	$43.74	3.89%	9.3%
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	$30.84	N/A	-37.5%
ONDS	Ondas Holdings Inc.	Buy a full position up to $8.75	6/2/2022	$7.55	$2.41	N/A	-68.1%
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	$0.14	N/A	-68.9%
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. UPDATE August 2022: Buy up to price was raised to $6.50.	5/2/2022	$4.27	$5.07	N/A	18.7%
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	$40.94	N/A	-47.0%
EPD	Enterprise Products Partners, L.P.	Buy shares of EPD up to $23.00 as an income-generating investment.	12/1/2021	$21.20	$24.85	$1.86	17.2%
ARKX	ARK Space Exploration & Innovation ETF	Buy shares of ARKX up to $22.00	11/1/2021	$20.48	$13.50	N/A	-34.1%
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	$13.21	N/A	-54.4%
GENI	Genius Sports Group	Buy shares of GENI up to $22.50	10/5/2021	$16.99	$4.90	N/A	-71.2%
JD	JD.Com	Buy shares of JD.com (JD) up to $80 per share	8/30/2021	$76.69	$58.64	N/A	-23.5%
CZR	Cesars Entertainment	Buy shares of CZR up to $101.75	8/6/2021	$90.50	$51.38	N/A	-43.2%
	Current Prices as of 12/02/2022	**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 positon at $27 on 10/27 gives us an average engtry price of $28.95					