



"It's like our first evenings... when you brought in the firewood!"

Norman Jung/Cartoon Collections—Used by permission

Inside This Issue

Past, Present & Future	1/3
Market Observations	1-2
Did You Know?	3/4
New Year's Resolution	4
A Parting Thought	4

MONTAG Viewpoints is published quarterly by MONTAG Wealth

Visit us at montagwealth.com

Georgia-Pacific Center
133 Peachtree Street NE
Suite 2500
Atlanta, GA 30303

404.522.5774

© 2022, All Rights Reserved

January 6, 2021

PAST, PRESENT and FUTURE – Ned Montag, CEO

To all our clients who have endured the last year, and the last two years, Happy New Year! We hope the holiday season brought you some joy, rest and peace.

The hard work done at MONTAG was cheerfully met because the faith, fortitude and confidence of our clients fuels us to meet new challenges when the sun comes up. Many thanks for your loyalty.

The new year, upon us already, is of course an extension of the last one. For those who think of these times as less and less recognizable, or even dystopian, permit me to argue the future is only an extension of the present and the past, although I must occasionally remind myself of this fact.

I was born in 1967, when our country was seemingly at war with itself, a society inflamed by anger, protests and violence over the Vietnam War, civil rights, including the rising importance of women's rights. The 1960s had assassinations of a sitting president, a presidential candidate (RFK), a controversial civil rights leader (Malcolm X) and a towering one (Dr. King). The Democratic Convention in Chicago was marred by police violence against anti-war protesters and the refusal of a sitting president (LBJ) to run for a second term. Legislatively, LBJ refused to choose between funding the war and funding his major social programs expansion dubbed the Great Society, including the newly minted healthcare plan called Medicare. So he funded both, triggering tax hikes in 1968 and a sustained rise in inflation from below 2% in the early 60s to over 6% by 1969. The country boiled with emotion. Sound familiar?

Continued on page 3

MARKET OBSERVATIONS – Chris Guinther

Let's begin by noting the Fourth Quarter and 2021 Year End market numbers through 12/31/21, all of which were strongly to the upside:

	Q4 2021	YTD 2021
S&P 500	11.0%	28.7%
DJIA	7.9%	21.0%
NASDAQ	8.5%	22.2%

With the Economy Strong, What are the Market Indicators Saying?

The housing market is strong, auto related companies saw consistent demand throughout the year, most sectors drove profits and margins to new highs in 2021, unemployment is back below 4.5% and most measures of consumers show that they are in the strongest financial shape in decades. Consumers, following 10+ years of deleveraging and consistently growing savings, give us hope that the economy can

still grow for years to come. We've struggled with some Covid variants in the past year, but make no doubt about it, overall, the U.S. economy is very strong and we suspect GDP will continue to grow above 3% for several years.

MONTAG evaluates a diversified basket of indicators to understand the odds of success that stocks perform over the next 1 to 2 years. There's no sure-fire method to predicting the stock market but we do improve our odds of success and add value by constantly evaluating indicators that have proven to be prescient at prior peaks and troughs in the past. Let's look at 5 important indicators and compare their current readings to 2019 and to mid-2020 during the worst of the pandemic.

Valuations - They are high. Everyone knows buying low and cheap is a more

Continued on page 2

profitable strategy than buying high. It's always important to understand what the cost of future earnings are and to compare that cost to prior cycles over the past 50 years. Currently, stocks look really expensive. We're looking back over 50 years and P/E's have only been this high one other time, and that was in 1999-2000. As we all know, stocks fell 50% and then took about 8 years to get back to breakeven from the internet bubble highs. If one were to invest strictly based on using a valuation indicator history would tell us that, going forward, we will see market returns below the long-term return averages that most investors seek.

The Fed - It is reducing stimulus. The past few decades have seen the U.S. Federal Reserve grow in importance. The Fed has the ability to control bank reserves and interest rates, two critically important levers that highly influence economic growth. At the turn of the year, the Fed began signaling that it will reduce stimulus by raising interest rates to fight off inflation. We view this as mildly bearish relative to the past 2 years, but we anticipate that the Fed will not move too quickly this cycle, learning from past mistakes. Nevertheless, this indicator is moving into a neutral mode rather than being in a positive position since the summer of 2020.

Earnings Expectations - They are already high. Stock prices often reflect 'future' earnings. The best time to invest is when earnings expectations are poor as prices tend to be low then. As most astute investors know, the uptrend in expectations has been consistently improving since the Fall of 2020 and therefore this important indicator joins the negative reading on valuations. Going forward, it will be difficult for companies to continue to beat and raise current expectations which is essential for stock prices to move higher.

Profit Margins - They are at all-time highs. Profit Margins rise and fall with every economic cycle. A particularly good investment strategy to lean on, is to buy stocks when margins are low and sell when they are high. Typically, stock prices will be depressed when margins are low because investors are as always, paying for the 'expectations' of earnings. Astute investors understand well that periods of low margins have always

been eventually followed by improving and higher margins. Currently, U.S. corporate margins are at 100-year highs and therefore prices, adjusting as they do for a continuation of high margins are very high. Based on this measure, it is not historically a good time to invest in stocks.

Sentiment - Investor sentiment is high, expectations for growth are high, valuations are high, profit margins are high....and with all that, investors are pretty fully invested already. Looking back 50 years, investors currently have near all-time high equity allocations. This 'contrarian indicator' is easy to understand. When everyone else has bought, who's left to buy if expectations turn down? With interest rates at generational lows, money has moved into stocks in force and we think investors now need to realize that there aren't many investors left to buy stocks should a few heavy hands decide to sell.

Summary - While no indicator is foolproof or especially good at timing tops, we're looking at this diversified list of indicators to help us with equity allocations. Using history as a guide and putting these indicators into 50 years of context we think helps us understand the risks. Based on all this, our expectations for future equity returns has diminished. That being said, we are still confident that strong economy and higher earnings will generate positive real returns over the next 10 years, so we continue to stay nicely invested in equities and diversifying across asset classes, sectors, styles and strategies.

We intend to stick with our mostly bottom-up approach to investment selection and continue buying long term winning business models that should outgrow the average company in the U.S. We will also be mindful that the combination of too much demand and low supplies has never been greater. Our message at MONTAG as always, stay diversified and be more concerned with the downside than missing out on the upside should it come, because remember, the markets take the stairs up and the elevator down. **M**

We are mindful that the combination of too much demand and low supplies has never been greater

The information provided is for illustration purposes only. It is not, and should not be regarded as "investment advice" or as a "recommendation" regarding a course of action to be taken.

We seek to buy long term winning business models that should outgrow the average company in the U.S.



Chris Guinther is Senior Investment Strategist & Portfolio Manager

DID YOU KNOW?

During the 1930s, well before the advent of television, some 90 percent of American households owned a radio. Seeing the potential of mass media to communicate directly and intimately with the public, President Franklin D. Roosevelt would give around 30 total radio addresses from March 1933 to June 1944. The topics he spoke about ranged from domestic issues such as the economic policies of the New Deal, drought and unemployment, to Europe's battle with fascism and American military progress in Europe and in the Pacific during World War II. By what name did we come to know these broadcasts?

- A. "Chats from the Oval Office"
- B. "Armchair Companion"
- C. "Fireside Chats"
- D. "Presidential Musings"

(Answer on Page 4)

Any securities identified were selected for illustrative purposes only. Specific securities identified and described may or may not be held in portfolios managed by the Adviser and do not represent all of the securities purchased, sold, or recommended for advisory clients. The reader should not assume that investments in the securities identified and discussed were or will be profitable.

MONTAG

PAST, PRESENT and FUTURE continued from page 1

About the same time, a young Wall Street pro named Gerry Goodman published the best-selling classic *The Money Game*, written under the pseudonym "Adam Smith." It holds an interview with the iconic Ned Johnson, who bought a struggling investment management firm named Fidelity and turned it into one of the best fund management companies in the nation by the mid 60s. Johnson's views on the markets were always sought and closely studied. It might have come with some surprise that, in the midst of national chaos, Johnson told "Smith" that he thought: "...the dominant note of our time is unreality. Times of crusading spirit are times of unreality. Now we have mass emotion moving, trying to change the folkways of the world."

When we look around the market and the country today, maybe we do not see a repeat of the 1960s, but there are signs of a crusading spirit: the urgency of climate remediation; "cancel culture" as a response to "free speech," and other extraordinary developments. Consider as some signs of a new unreality:

1. Investment firm GMO estimates that more than 60% of the growth stocks in the Russell 3000 Index (the 3000 most highly valued publicly traded companies in America) lose money, but that's not a problem; those growth stocks have averaged a two-year return of 84%, more than twice the rate of more pedestrian, and profitable, companies in that index. GMO calls this "making money on companies that make no money." GMO notes the percentage of unprofitable growth stocks in that index is higher than the peak of the Dot.com bubble in 2000.
2. By some calculations, the value of active cryptocurrencies now exceeds \$2 trillion (yes, trillion). Recent estimates count more than 7,000 cryptocurrencies, of which Bitcoin is the biggest. It is possible, perhaps likely, that one or several cryptos will grow even more popular as technologies supporting online transactions grow, but \$2 trillion is a striking valuation in these adolescent times for cryptocurrencies.
3. The hot new theme in Silicon Valley is the "metaverse," even though there is no strong consensus on exactly what the "metaverse" is. Facebook, a nearly trillion-dollar business based on social media, has just adopted the name Meta Platforms, having paid other firms to release the name. Sanford Bernstein defines the "metaverse" as something that includes standard virtual reality functions such as online games, but that also will involve the evolution of devices that will put people more instantly in

touch with information or services from the Internet. You see, the first form of interface with the Internet was done on a PC linked by a physical wire, using Windows or Mac software; connecting to the internet required an address, called a "URL." In the second phase, as is the case today, the dominant device used is a phone (or tablet), which needs no wired connection, and uses iOS or Android software. It connects to the internet through apps, not URLs. The "metaverse" is projected to take us to further "immersion" (the internet comes to us, we no longer need to go to it), using wearables and headsets as dominant devices, finding the internet over 5G wireless and where the access points and browser software are still undetermined. Wow. Crusading spirit indeed.

4. Then there are the "meme stocks," stocks that represent companies whose businesses have been eclipsed and whose stocks are now in their (late) sunset years. Examples include Gamestop, the Blockbuster of video game rental stores; AMC Theaters, now outcompeted by streaming services; Bed Bath and Beyond, buckling to online competition and Blackberry (remember those?). But if the businesses are deflating, the stocks were not in 2020-2021; day-traders spurred on by Internet message boards drove Gamestop shares from \$15 at the end of last year to a high of \$483 two months later. (No misprint.) A similar story for Bed Bath, running from \$18 on January 1 to a high of \$54 two months later; or AMC, running from \$2 in January to a high of \$70 in June.

Periods of change tend to be periods of great speculation and subsequently, for some speculative stocks, periods of great loss. That is how a productive future evolves. We know this and have lived in times like these before, with no map and no crystal ball. But we have experience, a steady hand, and embrace the emergence of new, promising technology and economic trends at MONTAG. Most critically, we do so through study and management of the shares of companies that are establishing or have already established dominance in their markets. This is our own "crusade," and Ned Johnson would approve.

We hope 2022 brings all good things to you and your family. **M**



Ned Montag is CEO

NEW YEAR'S RESOLUTION: KEEP HACKERS AWAY — Jane Morrow

This New Year's, make a practical resolution to be vigilant about protecting yourself and your information online. Hackers are getting smarter and smarter, but by taking a few, practical cybersecurity measures, you may be able to outsmart even the most relentless of hackers. Take a look at the below tips and see if you can implement all 3 in 2022.

Passwords, Passwords, Passwords!

1. Using strong passwords is a simple, but effective method for preventing bad actors from accessing your accounts. A strong password should consist of a combination of numbers, letters (upper and lower case), and special characters. Try using a phrase and substituting numbers and characters for letters, such as "c@TsandDOgsf!ght" (read, cats and dogs fight).
2. Even if you come up with the strongest password you can think of, that doesn't mean you should use it for all of your accounts. You should use a unique, strong password for each account. This is because if a hacker gains access to your login credentials from one website, they may try to log in to other websites using the stolen credentials.
3. Be smart about storing your passwords. Having a unique, strong password for every online account is great for protecting your accounts, but can make it difficult to remember all of your different passwords. If you need to write down your passwords, you should store them in a secure, private place. Using a password manager is a great way to safely store all of your passwords.

Click Carefully

Whether you're scrolling through social media, reading a food blog online, or reviewing your emails, there are plenty of opportunities for you to stumble across a malicious link. Be careful of pop-ups that ask you to download something or links that, when clicked, take you to websites where you are asked to enter sensitive information, such as your social security number or your credit card number.

Hackers may also send you "phishing" emails that urgently ask you to click a link. The link may contain malware or could take you to a website where you're prompted to enter your login information so the hacker could steal your credentials. Hackers can make phishing emails appear as if they're coming from someone you know, so if something seems off, you should contact the sender (using a phone number you have saved or one you find by searching the company online) to confirm if the email is real.

Keep Security Tight

One of the easiest ways to keep your phone or computer secure is to install security updates from your operating system or web browser as soon as they are available. These security updates are very effective at thwarting hackers. You can set your computer to automatically install any updates so you never miss one.

You should also be sure that your computer has antivirus software installed. Some computers come with antivirus software already installed, but if yours doesn't, it's a good idea to install this software from a reputable website.

If, despite your best efforts, a hacker does get through to your email or other account, there are steps you can take to mitigate the amount of damage the hacker can do.

- **Immediately change your password** to a strong, unique password.
- **Alert your contacts** that you have been hacked.
- **Scan your computer and account** for any signs of trouble. **M**



Jane Morrow is our Compliance Administrator

DID YOU KNOW? (from page 3)

Answer: C. "Fireside Chats"

Roosevelt was not actually sitting beside a fireplace when he delivered the speeches, but behind a microphone-covered desk in the White House. Reporter Harry Butcher of CBS coined the term "fireside chat" in a press release before one of Roosevelt's speeches on May 7, 1933. The name stuck, as it perfectly evoked the comforting intent behind Roosevelt's words, as well as their informal, conversational tone. Roosevelt took care to use the simplest possible language, concrete examples and analogies in the fireside chats, so as to be clearly understood by the largest number of Americans. He began many of the nighttime chats with the greeting "My friends," and referred to himself as "I" and the American people as "you" as if addressing his listeners directly and personally. **M**

Source: History.com

A PARTING THOUGHT

"Winter is the time for comfort, for good food and warmth, for the touch of a friendly hand and for a talk beside the fire: It is the time for home.

— Edith Sitwell, "Taken Care Of"

MONTAG

Georgia-Pacific Center
133 Peachtree Street NE
Suite 2500
Atlanta, Georgia 30303
404.522.5774
montagwealth.com
info@montagwealth.com

INVESTING FOR GENERATIONS.