



"I will now play a familiar seasonal piece."

Julia Suits/CartoonStock—Used by permission

## WELCOME

Thursday September 22<sup>nd</sup> saw the Autumnal Equinox, one of only two days a year when day and night are of equal length. We also know this to be the official beginning of autumn, easily confirmed by a look out the window at the changing (and eventually falling) leaves.

Friday September 30<sup>th</sup> marked the end of 2022's third quarter, capping off another difficult quarter for markets. Details are below, but suffice it to say that it's a quarter investors would rather forget.

Here at MONTAG, our 40<sup>th</sup> anniversary is in the air, and a much-needed website redesign is in store for launch soon. As if that wasn't enough, the firm is proceeding with plans to relocate our offices at year-end. Expect to hear more about these and other initiatives in coming months.

Meanwhile, we hope you enjoy our latest edition of *Viewpoints*.

## MARKET OBSERVATIONS — Chris Guinther, Senior Investment Strategist

Let's begin by noting the turbulent 2022 third quarter's market numbers through September 30, and year-to-date, all of which were sharply negative:

	Q3 2022	2022 YTD
S&P 500	- 4.9%	- 23.9%
DJIA	- 6.2%	- 19.7%
NASDAQ	- 3.9%	- 32.0%

Rising interest rates are beginning to put downward pressure on economic growth, but with many economic conditions remaining in rarified territory we will continue to diversify and keep portfolios in a defensive posture.

We are seeing some modest signs that inflation may wane between now and year end. Commodity and goods prices began to fall throughout the quarter and supply chains are beginning to recover as inventories build towards a normalized level. Should this trend continue, it may give the FED some comfort to avoid some future interest rate hikes. If we can get to flat or lower interest rates, we could start seeing some improvement in the outlook for asset values and corporate earnings as well.

### Third Quarter Summary

For stock investors, not much improved during the third quarter as our concerns about the economy continue, and the outlook for stocks remains cautious. The MONTAG team constantly monitors forward-looking indicators of all kinds and many weakened during the quarter. We don't think that now is a good time to invest big, one way or the other. While analyzing the indicators, we are finding many unprecedented conditions exist, which causes concern for some potential negative outcomes.

Until then, we are expecting weak 3<sup>rd</sup> quarter earnings reports as companies will likely forecast lower earnings for the back half of the year and into 2023. For the 3<sup>rd</sup> quarter, companies with a clear line of

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**MARKET OBSERVATIONS** continued from page 1

sight into consumer demand like Nike, FedEx, CarMax and Ford, have pre-announced negative results over the past few weeks. The bright spot may be, that since investor analysis is forward looking, the expectations for continued weak earnings reports are already baked into many of the stock prices, possibly mitigating some of the downward pressure on stocks.

Our base case calls for slower growth domestically and globally, with cuts to earnings expectations through year end and for 2023. With tensions high in China, Ukraine, Europe and Washington, DC, and with inflation leading to falling profit margins and earnings, we

think it will take some time to put a solid bottom in place for stocks. We expect stocks to continue to struggle, so we will likely be defensive in our portfolio strategy until such a time as the broad market indicators and the FED allow us some clarity into a more positive market environment. For now, inflation, earnings, and politics are all tough calls so we are staying relatively conservative with client assets. We look forward to improved economies and lower inflation, hopefully, in 2023. **M**



Chris Guinther is Senior Investment Strategist & Portfolio Manager

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**THE ILLUSION OF VALIDITY – Ned Montag, CEO**

As a MONTAG client, you may find yourself these days asking your MONTAG manager for an outlook on the economy, or interest rates, or the stock market. Our managers, one and all, are blessed with high levels of intelligence and experience, and will undoubtedly offer a well-reasoned answer. But don't bet the ranch that this outlook will occur; the future is always well disguised and usually surprises everyone. In recent years, who would have predicted a global pandemic, or that, unprovoked, Russian tanks would roll into Ukraine, threatening global stability, impacting energy markets in Europe and elsewhere? Nevertheless, humans are undaunted in the quest to figure out the future by analyzing the past and the present, even though evidence abounds that the world and the future are filled with too many “unknown unknowns” to be predicted precisely. More strangely, even though we are wrong a lot, that rarely impacts our confidence that we can make accurate predictions.

In 1973, Nobel Prize winning psychologists Daniel Kahneman and Amos Tversky wrote a scientific paper, “On the Psychology of Prediction,” about this phenomenon, dubbed “the illusion of validity.” In the 1950s, Kahneman served in the Israeli Army, and his commanders, recognizing his talent, assigned him to a team tasked with predicting which Israeli recruits would make the best officer material. The recruits were batched into teams and given assignments to master an

obstacle course over one hour. Kahneman and his psychologist colleagues observed how the recruits interacted and wrote a report predicting which recruits would be the best future officers. Kahneman later stated that they developed very clear opinions on who would succeed and who would wash out of officer training. The only problem was that, as Kahneman writes, their “ability to predict performance at the school was negligible.” Undaunted, Kahneman and his fellow evaluators tried again with a different group of recruits, and again developed strong opinions on the recruits, both pro and con. Alas, they once again were largely wrong. Kahneman wrote “the statistical evidence of our failure should have shaken our confidence in our judgments, **but it did not.** It should also have caused us to moderate our predictions, **but it did not.**” Kahneman explains that they were being required to answer a very complex question based upon limited observations over only a one hour period. “We had made up a story from what little we knew but had no way to allow for what we did not know about the individual's future, which was almost everything that would actually matter.”

Kahnman need not be hard on himself or his partner Tversky; they were both brilliant in their field. Economists, even the most lauded, suffer the same misfortune routinely.

**How Psychology Impacts Markets**

*Having a plan and working it with new information allows for precise course-correction and grows confidence in the work, permitting one to face uncertain times. It keeps us nimble, engaged, focused.*

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## DID YOU KNOW?

Pumpkin spice lattes may have dominated every autumnal season in recent memory, but *actual* pumpkin has been on earth for a whopping 5,000 years. There's so much more to the fruit (yep, it's a fruit!) than its honorable contributions to our favorite coffee shops, Thanksgiving desserts, and the most haunted holiday of the year.

According to a university study, which state harvests 95% of the U.S. pumpkin production?

- A. Pennsylvania
- B. Indiana
- C. Ohio
- D. Illinois
- E. California

(Answer on Page 4)

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*“The first questions people often ask are, “Am I doing OK?” and “What should I be thinking about?” Some say, “I don’t know what I don’t know.”*

## FINANCIAL PLANNING OVERVIEW — Jackson Keenan, CFP®

*EDITOR'S NOTE — Recently, MONTAG added Jackson Keenan to the team to enhance our firm and our clients experience with Financial Planning. With Jackson joining MONTAG, we hope to create even deeper and broader relationships with those who entrust us with their financial futures. Jackson's role is to bring focus to the planning for current clients as well as the next generation of family members.*

*Jackson has created a high-level overview of the financial planning process and what he has learned as he works through the process with clients. **M***

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As the Director of Financial Planning here at MONTAG, I look at what lies beyond the assets of each client's portfolio. It is my personal philosophy that money is only a tool, a means to an end. As MONTAG has a strong handle on the investment objectives of each client, I will begin an engagement by taking a snapshot of the current financial picture, including, insurance, cash flow, stock options, philanthropy and more. My next step will be to utilize this information to work with the portfolio manager to facilitate conversations and focus on how financial planning can ultimately help create a holistic family overview on top of an existing investment strategy.

### Thinking Beyond the Portfolio

A comprehensive financial plan starts with challenging each client to think beyond a portfolio. Once the baseline report is complete, the next step is meeting with the client to explore short and long-term goals. This can be anything from retirement planning to life insurance coverage, cash flow, or simply taking the time to fully understand the current financial picture. In the past, I have worked with basic plans as well as working with executives who had significant restricted stock units and options.

### Organization is a Key Driver

I have found that organization of documents is a key driver in the financial planning process and is almost as important as cash flows and financial needs. There are always a lot of moving parts within the financial structure of a family household. My organizational process includes the creation of summaries of net worth, cash flow, insurance, and estate documents. Basically, a clear picture with everything in one place!

### Education

The first questions people often ask are, “Am I doing OK?” “What should I be thinking about?” Or even, “I don't know what I don't know.” Many times, these questions begin with life insurance or estate planning issues, but planning for the future should include so much more. A financial plan helps provide direction on retirement, education funding, major purchases, executive benefits, taxation and more.

By knowing the facts and having a better education and insight into financial frameworks, MONTAG clients will have the information needed to make informed decisions for current and future needs.

### Building Confidence

At MONTAG, every client regularly speaks with a portfolio manager regarding goals and risk profiles with respect to investments. The hope is that working in tandem, a financial plan will capture both personal and financial information where MONTAG can deliver a formalized document to give a roadmap for each client's unique circumstances. I have found this exercise to bring great peace of mind to those I have been fortunate to work with.

I am excited to be at MONTAG and look forward to the opportunity to meet and help many of the firm's clients.

- Jackson



Jackson Keenan, CFP® is MONTAG's Director of Financial Planning

Famously outspoken economist John Kenneth Galbraith once commented about his own field, "the only function of economic forecasting is to make astrology look respectable." During his 2015 Berkshire Hathaway shareholder meeting, Warren Buffett said "we think any company that has an economist has one employee too many." Ouch. And a name-brand research leader *Ned Davis Research* tracked the "predicted average annual growth" of S&P 500 Index earnings from 1979 through 2002. The results? The forecasted average annual growth rate for the S&P 500 was 14.9%; the actual annual growth rate over this 23-year period was 5.5%. Not a small miss!

At MONTAG, we constantly debate and discuss our best guesses at the near-term direction of the economy and interest rates. But given such high levels of endemic uncertainty, why do we bother? Good question....

Dwight Eisenhower once said, "in preparing for battle, I have always found that plans are useless, but planning is indispensable." Similarly, Nobel Laureate economist Kenneth Arrow served as a weatherman in the Army during World War II, He told the story of a time a general came to him for a 30-day forecast of the weather in Normandy, to aid preparation for the invasion. Arrow told the general that any such forecast was likely to be wrong. The man replied, "We know. But we have to have a forecast for our planning."

Planning matters. It forces discipline and accountability into work. When we make basic assumptions on interest rates, the economy and earnings growth, we understand there is a good chance we will be wrong but having a plan and working it with new information allows for precise course-correction and grows confidence in the work, permitting one to face uncertain times. It keeps us nimble, engaged, focused. Adjustments are likewise part of any plan, and making those adjustments drives better results.

"OK, Ned, you've convinced me that forecasting is a tricky business, and course-correction is the real plan. Is there any way that investors can take advantage of the "illusion of validity?" The answer is likely to be: Yes.

In our field and in our work, there is usually a reward for planning; there is also often a solid reward for skepticism. The most established method for being a skeptical investor is commonly called "contrarian investing," and the premise is to do the opposite of what the broader investment crowd is doing, with two important caveats. First, there must be a strong consensus that a company under review is either going to grow dramatically (with that assumption leading to the stock being overpriced), or that the company is headed for failure (resulting in that stock being depressed in price and therefore undervalued). The second condition is crucial to understand. If the company is universally disdained and significantly down from its all-time highs due to bad news, that news must relate to strained industry conditions that eventually will improve. If the stock is down because the business model is no longer relevant (think of video rental, for example), it will not be a buy at any price.

Conversely, if the stock is up but the business model is unstoppable (think Microsoft or Apple these days), then selling it simply because the crowd loves it could still be a mistake. But for the vast majority of companies (over 90%) that are neither unstoppable nor terminal, buying when the crowd hates them and selling when the crowd loves them can be an effective approach in a world filled with uncertainty. Execution is critical and course-correction plays a key role in any well-organized plan, and these two efforts are where your MONTAG manager will strive to shine. **M**



Ned Montag is CEO

**DID YOU KNOW?** (from page 3)

**ANSWER: "D: Illinois"**

According to a study by the University of Illinois, 95% of the pumpkins grown in the U.S. are harvested in Illinois soil. Morton, IL calls itself the "Pumpkin Capital of the World", and the town is allegedly responsible for producing 80% of the world's canned pumpkin production.

Indiana, Ohio, Pennsylvania and California are other top pumpkin-producing states, behind #1 Illinois.

Other pumpkin fun facts:

- 80% of the U.S. pumpkin crop is available in the month of October
- The world's heaviest pumpkin, grown in Germany, weighed over 2,600 pounds
- Each pumpkin has about 500 seeds **M**

Source: Good Housekeeping

**A PARTING THOUGHT**

**"Every leaf speaks bliss to me, fluttering from the autumn tree."**

— Emily Bronte

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