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President

# Saleeby & Associates, Inc.

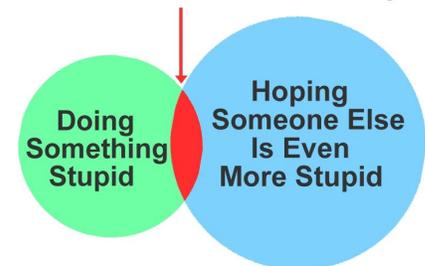
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## Market Update

I believe last year the euphemism for many stocks led to outperformance surpassing most investors' expectations which led to excess in intrinsic values for many companies. This year, it is the exact opposite with very little excess and many companies with good fundamentals going down with the rest of the market. "The S&P 500 printed its worst half-year since 1970, the Dow had its largest first-half drop since 1962 and the Nasdaq had its largest percentage drop ever."<sup>1</sup> "The S&P 500 (SBSPX) has posted its worst first half in more than 50 years, dropping 20.6% during the first 6 months of 2022."<sup>1</sup> "The S&P 500 has lost \$8.2 trillion in total dollars since the start of the year and suffered its worst June since 2008 and worst quarter since 1970, with all 11 sectors in the red, according to Howard Silverblatt, senior index analyst at S&P Dow Jones Indices."<sup>1</sup>

With these corrections, many investors are over exposed and must sell stocks for various reasons such as margin calls, overleveraging, loans, collateral assets, emotions, etc. Many investors sell what they can which may not necessarily be what they want to sell. I believe, one major difference in this correction is a meltdown in cryptocurrency investments which are primarily utilized by young people. This sector is new with very little historical evidence to show reactions to major meltdowns to other financial assets and its correlation to other stock market indexes. Even though the stock market is difficult to analyze and predict, determining the future of cryptocurrencies might be even harder. This investment sector has lost over \$2 trillion of wealth from \$3 trillion at its highs. Bill Gates recently said that cryptocurrencies are based on a Greater Fool Theory while other experienced investors, including Warren Buffett, have expressed a similar response.

### The Greater Fool Theory



Most investors agree that the economy is slowing down. The big question is whether we are headed for a slow-down, recession, or stagflation... but nobody knows. Hopefully inflation is topping out or peaking but at what point will the Federal Reserve stop increasing interest rates. Once they do, I think the stock market will rally. But I am a little skeptical that the Federal Reserve's target of 2% is unrealistic due to several factors such as decoupling globalization, increasing global wages, excessive commodity inflation along with supply chain problems that could linger on longer than investors expect. Furthermore, the war between Ukraine and Russia is disrupting energy and many other products and services which has also led to higher inflation. Right now, I believe the stock and bond markets are trying to adjust for current and anticipated higher rates while lowering stock prices accordingly. In addition, stock market investors are trying to predict how corporate earnings will be affected since many people believe we are in a recession or headed in that direction. If we are in a recession, it is very unusual that we have not seen massive layoffs by the corporate sector. If so, I believe it will be a recession of the consumer. Thus far we have seen a meltdown in the indexes between 18-30 percent over the first six months.

## Market Update (Continued)

However, on the positive side I believe:

- ◆ Employment is very high and there are many job openings available.
- ◆ Interest rates are low by historical standards.
- ◆ The banking system is in good shape.
- ◆ The U.S. seems to be more unified with NATO countries and western Europe than we have seen in a long time.
- ◆ A lot of excesses that we saw in 2021 seem to have disappeared or imploded.
- ◆ The consumer balance sheet is not bad due to the influx of capital and government money received over the last couple of years due to Covid.
- ◆ There is incredible liquidity in our financial system.
- ◆ A stock price decline allows you to buy stocks at a cheaper price potentially enhancing future long-term performance.
- ◆ We have not seen major layoffs by corporations thus far.
- ◆ Many supply chains have improved.
- ◆ Our economy seems to stand out relative to other global economies.
- ◆ Consumers have shifted from consumer goods to services/experiences.
- ◆ Retail investors are purging and there may be future markdowns on inventory which is good for inflation.

I believe there are also negative signs in the economy such as:



- ◆ Mortgage rates are hitting the highest levels (30-year fixed-rate mortgage average was 5.78% as of June 17, 2022) since 2008 thereby effecting housing affordability.
- ◆ A large part of the world is experiencing inflation or stagflation.
- ◆ We are seeing a great shift of the supply chain in the energy industry. Skyrocketing energy costs are significantly affecting Europe (especially German manufacturing plants) with concerns about whether Russia will supply natural gas during winter. They are scrambling for supplies which is very difficult to shift the infrastructure and supply chain on short notice since it is a very large and entrenched industry. With the trade war between Europe and Russia, Russia has shifted their oil distribution to India and China which previously came from Saudi Arabia.
- ◆ Food prices, especially grain, have increased due to the Ukraine/Russian war. Wheat prices have gone up an estimated 60% since the first of the year. This is harming poorer countries because a larger percentage of their income goes to food consumption.
- ◆ Globalization has improved efficiency for products and services. In the last couple of years, globalization has been under scrutiny. Many countries are changing how they trade and doing more internally which is deglobalization. This generally increases the cost of business.
- ◆ We are still seeing many supply chain issues, especially in specific technologies.
- ◆ Wages have increased which is more costly for corporations and increases inflation.
- ◆ Further decoupling between U.S. and China which has been exaggerated by the Russian/Ukraine war.
- ◆ Pessimism in the stock market is high which many investors believe is a good sign to climb a wall of worry although the general population would view it as a bad sign.
- ◆ “Consumer confidence: In June, the University of Michigan’s survey of consumer sentiment hit its lowest level in its 70-year history, with nearly half of respondents saying inflation is eroding their standard of living.”<sup>2</sup>
- ◆ China’s Covid crisis is affecting supply chains, but they do not need as much oil therefore putting less pressure on world oil prices.
- ◆ There will be more volatility due to the midterm elections coming up.

## Market Update (Continued)

One must analyze all these factors to understand our environment. “This is now the 13th decline of 20% of worth since World War II.”<sup>3</sup>

Peak	Trough	% Decline	# of Days
5/29/1946	10/9/1946	-26.6%	133
6/15/1948	6/13/1949	-20.6%	363
7/15/1957	10/22/1957	-20.7%	99
12/12/1961	6/26/1962	-28.0%	196
2/9/1966	10/7/1966	-22.2%	240
11/29/1968	5/26/1970	-36.1%	543
1/11/1973	10/3/1974	-48.2%	630
11/28/1980	8/12/1982	-27.1%	622
8/25/1987	12/4/1987	-33.5%	101
3/24/2000	10/9/2002	-49.1%	929
10/9/2007	3/9/2009	-56.8%	517
2/19/2020	3/23/2020	-33.9%	33
1/3/2022	6/13/2022	-21.8%	161
<b>Averages</b>		<b>-32.7%</b>	<b>351</b>

“These were the rates to start the year in January 2022:

- 2 year treasuries – 0.7%
- 5 year treasuries – 1.3%
- 10 year treasuries – 1.6%
- 30 year mortgage – 3.0%

And those same rates now:

- 2 year treasuries – 3.4%
- 5 year treasuries – 3.6%
- 10 year treasuries – 3.5%
- 30 year mortgage – 6.1%<sup>3</sup>

Usually when you have a correction, many investors flee to high quality bonds, but this is not currently a safe haven option. “Global bonds are nearing a bear market, slipping 19.7% from their January 2021 peak.”<sup>4</sup> In fact, many people use to follow the 60/40 rule in which 60% is invested in stocks and 40% in bonds. We have seen one of the worst years for the 60/40 portfolio.

Worst US 60/40* Returns Through June (1976 - 2022)		
Rank	Year	Total Return
1	6/30/2022	-16.1%
2	6/30/2008	-6.7%
3	6/28/2002	-6.4%
4	6/29/1984	-3.6%
5	6/30/1994	-3.6%
6	6/29/2001	-2.6%
7	6/30/1982	-2.0%
8	6/30/2010	-1.9%
9	6/30/1977	-1.7%
10	6/30/1981	-0.5%

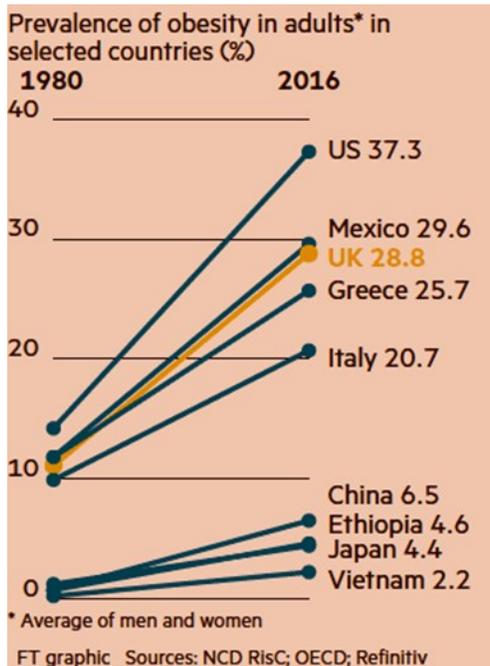
\*60/40 = 60% S&P 500/40% Bloomberg US Agg

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## Special Edition: Obesity

In past newsletters we addressed various health issues, i.e., cancer, dyslexia, beauty... In this issue, I will be addressing a health issue that has significant health and financial ramifications... the topic is obesity, and it is a global problem.

- ⇒ "Obesity among U.S. adults has grown from 15% of the population in 1990 to 40% now. And of the 35% of children considered overweight in the U.S., 19% are obese."<sup>6</sup>
- ⇒ "Nearly three-quarters of U.S. adults have measurements of body mass that put them in the obese or overweight range, according to government statistics. Yet weight-loss treatments are typically underused for a variety of factors, including reluctance by doctors to prescribe them."<sup>7</sup>
- ⇒ "No one disputes the problem — more than 40 percent of Americans have obesity, and most have tried repeatedly to lose weight and keep it off, only to fail. Many suffer from medical conditions that are linked to obesity, including diabetes, joint and back pain and heart disease, and those conditions often improve with weight loss."<sup>8</sup>
- ⇒ "The U.S. Preventive Services Task Force currently recommends screening for prediabetes and type 2 diabetes in adults ages 35 to 70 who are overweight or obese. The organization suggests screening every three years for adults with normal blood glucose levels."<sup>9</sup>
- ⇒ "Diabetes is linked to heart disease and liver disease, and it is the leading cause of kidney failure and new blindness in adults. The condition can lead to limb amputation, nerve damage and other complications."<sup>10</sup>
- ⇒ The "The World is Getting Fatter..."<sup>11</sup>



11

## Special Edition: Obesity (Continued)

- ⇒ “Some 42% of Americans are now obese, up 10 percentage points from 2000. Much of the rest of the world is catching up. Worldwide, there are half a billion potential customers.”<sup>12</sup>
- ⇒ Pharmaceutical stock analyst Vamil Divan of Mizuho Securities “estimates 67% of the U.S. population is overweight with a related condition or has obesity.”<sup>13</sup>

There are many reasons why obesity is a major problem which includes a lack of exercise, the digital revolution, eating foods with high fat content, eating unhealthy foods, genetics... In addition, “The medical system bears much of the blame, Dr. Stanford said. Just 1 percent of doctors in the United States are trained in obesity medicine.”<sup>8</sup> “It’s the biggest chronic disease of our time, and no one is learning anything about it,” she said.”<sup>8</sup>

For many years there has been great fanfare for potential medicines for weight loss. Up until last year many of them have never demonstrated success both clinically and commercially. Last year, a major pharmaceutical company drug was approved for weight loss by the FDA. I cannot disclose the company's name due to compliance reasons. This company is in the world's top makers of insulin. “For more than a decade, it has sold drugs that help manage blood sugar levels, with the happy side effect of weight loss, so it has won approvals for both Type 2 diabetes and obesity. The drugs are called GLP-1 agonists, meaning they mimic a certain hormone that both stimulates insulin secretion and causes a feeling of fullness.”<sup>12</sup>



“The latest of these is semaglutide, which is sold as Ozempic for Type 2 diabetes and as Wegovy for obesity. It won U.S. approval for obesity just last year.”<sup>12</sup> It is more effective than major pharmaceuticals and other obesity drugs that “requires weekly self-injections, down from daily so sales have taken off, but supply has been held back by problems with a contract manufacturer.”<sup>12</sup> “Wegovy is the first-of-its-kind, once-weekly injected use for chronic weight management for obese adults, intended to be used in conjunction with diet and exercise.”<sup>6</sup> Recently another advancement was made by another pharmaceutical company that is a major insulin producer. “The Food and Drug Administration approval last month for tirzepatide for diabetes, which it will sell as Mounjaro. It mimics both GLP-1 and GIP, a second hormone that plays a role in insulin and appetite. In tests, this dual-acting drug appears more effective and tolerable than Wegovy.”<sup>12</sup> This drug is not approved to treat obesity until 2024.

One can see that help is available now to a certain extent and better health could be coming around the corner. However, this is not all just good news. Obviously, there are side effects, it is hard to find doctors who are familiar with the drugs, and it is hard for the companies to get reimbursement and healthcare to cover this. Neither private nor public insurance tend to cover this type of drug. Some believe obesity is considered more of a lifestyle rather than a chronic disease. It has greater consequences outside of lifestyle and productivity for people. Thus far, the drug's effectiveness looks like it is not just a cosmetic type of drug. Hopefully the insurance community will embrace it which may lead to other decreases in diseases and/or cancers, and/or other health issues that may come from obesity. In addition, a lot of money can be made if these drugs hold up to their potential.

## Conclusion

In conclusion, no one knows how long this choppiness and downward market trend will continue. Obviously, the inflation rate of 8.6% for May (a 41-year high) is intolerable for everybody. And the Federal Reserve must respond. In this kind of environment, I favor companies that can grow, maintain profit margins, have pricing power and increase EPS, and are undervalued. I believe many stocks that I bought in the last couple of years exhibit those characteristics. One must remember that a recession is not new. In fact, "the United States has been in a recession 14 percent of the time since World War II, according to data provided by the National Bureau of Economic Research, the quasi-official entity that declares when recessions start and stop in the United States."<sup>14</sup> If we are in a recession, we generally will see corporate profits go down. The market is somewhat reflecting that; however, my major concern is inflation over the potential recession, and we maneuver around stagflation. I am hoping the Federal Reserve can get a reasonable level of inflation back which I believe is 3-3.5%. In the meantime, we will do our best to weather the storm. I appreciate your patients and your long-term investment horizon and look forward to better times ahead.

Optimistically Yours,



Raymond F. Saleeby  
President

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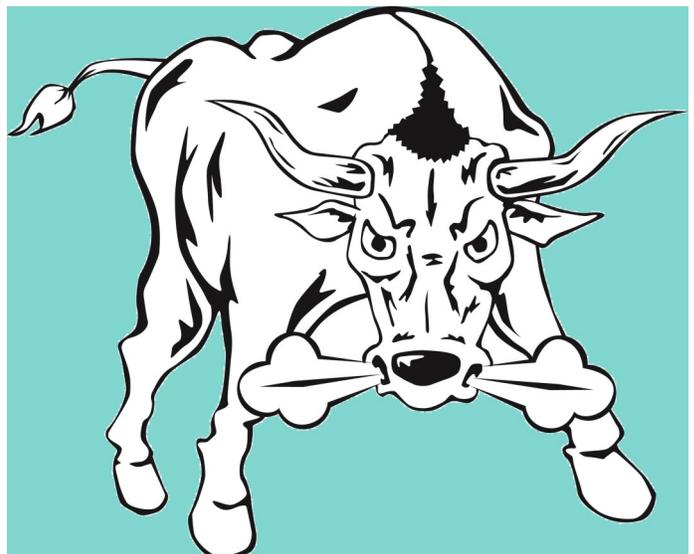
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## Footnotes

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## Did You Know

Warren Buffett's 4 rules for investing in a Bear Market

<https://www.fool.com/investing/2022/06/25/warren-buffett-4-investing-rules-bear-market/>

Warren Buffett has urged investors not to panic, and instead look for bargains during periods of market mayhem. Here are 7 of his best quotes about fear.

<https://markets.businessinsider.com/news/stocks/warren-buffett-berkshire-hathaway-fear-best-quotes-market-panic-bargains-2022-6>

Fight the bear-market blues with a Roth IRA Conversion

<https://www.wsj.com/articles/fight-the-bear-market-blues-with-a-roth-ira-conversion-11656063003?page=1>

Dollar cost averaging in a bear market

<https://www.advisorperspectives.com/commentaries/2022/06/17/dollar-cost-averaging-in-a-bear-market#:~:text=This%20strategy%20involves%20%E2%80%9Cdollar%20cost%20averaging%E2%80%9D.&text=The%20idea%20is%20pretty%20simple.or%20quarter%20%2D%20a%20selected%20timeframe.>

Think real estate has peaked? Here's how to sell without a huge tax bill

<https://www.fool.com/real-estate/2022/06/15/think-real-estate-has-peaked-heres-how-to-sell-wit/>

What it takes to buy your first home now

<https://www.wsj.com/articles/what-it-takes-to-buy-your-first-home-now-11656129639>

Column: Are Joe Biden and Dianne Feinstein too old to do their jobs?

<https://www.latimes.com/opinion/story/2022-06-27/joe-biden-dianne-feinstein-gerontocracy-age-politicians>

The Saturday I spent five-and-a-half hours in line waiting for the IRS

<https://www.wsj.com/articles/irs-tax-help-problems-11653007802>

The dramatic untold story of what happened inside Apple after Steve Jobs died and Tim Cook and Jony Ive took over is told in a new book

<https://www.businessinsider.com/after-steve-book-review-how-apple-became-a-million-dollar-company-2022-5>

The iPhone creators reveal the consequences they never expected

<https://www.wsj.com/articles/the-iphones-creators-reveal-the-consequences-they-never-expected-11656667803>

Inside the turbulent personal life of Elon Musk, who's been divorced 3 times, dated Hollywood stars, and now co-parents two babies with the musician Grimes

<https://www.businessinsider.com/elon-musk-relationships-2017-11>

Elon Musk's famous family includes a model, several millionaire entrepreneurs, and multiple sets of twins. Here are the members of the Musk family tree.

<https://www.businessinsider.com/elon-musk-family-maye-musk-kimbal-musk-grimes-talulah-riley-2020-5>

Inside the wild and successful life of Sergey Brin, who helped create Google over 20 years ago and is not worth \$97 billion

<https://www.businessinsider.com/sergey-brin-google-alphabet-life-photos-2016-12>

## Did You Know

A death in the Atlantic, a media empire that once had \$4 billion in debt, and a yacht named Lady Ghislaine: Take a look at Ghislaine Maxwell's family history

<https://www.businessinsider.com/ghislaine-maxwell-father-epstein-family-history-yacht-images-2019-8>

Five famous families undermined by sibling conflict

<https://www.wealthmanagement.com/high-net-worth/five-famous-families-undermined-sibling-conflict>

Stress might age the immune system, new study finds

<https://www.nytimes.com/2022/06/17/well/mind/stress-aging-immune-system.html>

The sleep debt collector is here

<https://www.nytimes.com/2022/06/24/health/sleep-debt-health.html>

New dementia prevention method may be behavioral, not prescribed

<https://www.nytimes.com/2022/07/03/health/dementia-treatment-behavior-eye-care.html>

Garlic's long march from foul to fabulous

<https://www.wsj.com/articles/garlics-long-march-from-foul-to-fabulous-11654812383>

Try these nondairy suggestions to stay healthy

[https://palmbeachpost-fl.newsmemory.com/?token=a91a7df5ea27998ce9b4cc2b9f80107f&cnum=2c9d3f83-4050-eb11-a0ad-90b11c3d639b&fod=1111111STD-0&selDate=20220707&licenseType=paid\\_subscriber&](https://palmbeachpost-fl.newsmemory.com/?token=a91a7df5ea27998ce9b4cc2b9f80107f&cnum=2c9d3f83-4050-eb11-a0ad-90b11c3d639b&fod=1111111STD-0&selDate=20220707&licenseType=paid_subscriber&)

Homeowners insurance will only cover plumbing failure caused by sudden, unexpected water damage

<https://www.businessinsider.com/personal-finance/does-homeowners-insurance-plumbing-and-pipe-leaks>

Where the super-rich reside

<https://ritholtz.com/2022/05/sunday-reads-273/>

The rich are not who we think they are. And happiness is not what we think it is, either.

<https://www.nytimes.com/2022/05/14/opinion/sunday/rich-happiness-big-data.html>

How pickleball became one of the fastest-growing sports in America – and which companies are benefiting from the boom

<https://www.businessinsider.com/pickleball-gear-startups-pandemic-popularity-recess-nettie-disco-country-club-2022-6>

A tracking device made by Apple is showing up in suspected crimes

<https://www.nbcnews.com/news/apple-airtag-showing-up-crimes-rcna9416>

Tattoo artists face a grayer palette in Europe

<https://www.nytimes.com/2022/06/19/health/tattoo-ink-europe.html>