Casey Mullooly: Welcome back to the Mullooly Asset Podcast. This is your host, Casey Mullooly back with you for episode 394, we're getting close to 400 podcasts.

Tom Mullooly: We are almost there.

Casey Mullooly: Wow. I'm joined by Tom this week, and we're going to talk about what we've been seeing in the latest headlines and broader discussion points about the economy and the stock market as a whole.

Tom Mullooly: I think it's important to talk about what's happening with these economic stories because it has a direct impact on what's happening with the S&P 500, with the Dow Jones, and this is what people want to hear.

Casey Mullooly: Yeah, and we'd also rather have you hear it from us than some of these talking heads on CNBC.

Speaker 3: Tom Mullooly is an investment advisor representative with Mullooly Asset Management, all opinions expressed by Tom and his podcast guests are solely their own opinions and do not necessarily reflect the opinions of Mullooly Asset Management. This podcast is for informational purposes only and should not be relied upon as a basis for investment decisions. Clients of Mullooly Asset Management may maintain positions insecurities discussed in this podcast.

Casey Mullooly: So where do we want to start off?

Tom Mullooly: The week that was, I think we need to talk about how great Walmart is and how great Target is, but how crappy their stocks are.

Casey Mullooly: Does a good company make a good stock?

Tom Mullooly: Just like the economy doesn't equal the stock market. Sometimes a great company is not translated well into their stock. Also, this is what makes a market is that people have different opinions, and I think seeing a stock like Walmart drop almost 20% and then the very next day target drop 25%. There's people out there who are going to say, I never want to own these things again, or this is the greatest opportunity you'll have to buy these stocks on sale.

Casey Mullooly: Yeah. So what happened was Walmart and Target came out with earnings, and they reported that basically what it came down to was they have a huge stockpile of inventory. So last year in 2021, with all the supply chain constraints around these companies, ordering the goods that they need to stock their shelves, they increased what they were purchasing, and now they aren't able to sell it as quickly. They reported that in their earnings and people freaked out.

Tom Mullooly: Yeah, they did freak out. As I mentioned, as stocks were down, I don't think we've seen these kind of moves in these two stocks since the 1987 stock market crash.

Casey Mullooly: Which is crazy.

Tom Mullooly: It really is crazy, but it's also kind of like the duh factor in the sense that things had really kind of run away in terms of people ordering stuff online and going out to shop because people were permitted, during the pandemic, to go to these big box stores like Walmart and Target, but here in New Jersey, a small business had to close. I mean, it was just ridiculous, and so a lot of traffic was forced into these big box stores.

Casey Mullooly: It was also like something you could do.

Tom Mullooly: Right. You could go out and do that.

Casey Mullooly: So like, going out to Target was like a fun thing to do.

Tom Mullooly: That was a thing, and so a lot of people in the industry thought, well, this is going to continue. What feeds into these kind of panics is when we go into a recession, what happens is whether it's a supplier, a manufacturer, or a retailer that has to take stuff off their shelves, they suddenly, their orders slow down, now they've got a lot of inventory that they hadn't planned on having, what do they do? They stop ordering, and so this feeds into the frenzy that people are worried that, oh my God, we're going into a recession. That may not be true, and so people just did the freak on these two stocks.

Casey Mullooly: The speed of which things are being quote unquote priced in or priced out, the speed at which that is happening has just ... It's been remarkable to see the moves, and like you said, things just kind of compound on top of each other. But talking about that, we saw the eighth straight week that the S&P declined last week. And I remember just, I believe it was in the fall of last year, we did a podcast along different lines, but kind of the same where we talked about how the S&P had gotten up for eight straight months last year in 2021, and now we're seeing a streak on the other side of that equation. So it's interesting to see how things work out that way.

Tom Mullooly: And we've done podcasts in the past where we talk about weekly momentum and monthly momentum. Now, momentum is not the same as like eight straight weeks going down.

Casey Mullooly: Right.

Tom Mullooly: You could have weeks where you go sideways, and that counts as continuing the momentum, the direction that you're in, but I think the point that we really want to drive home is that when we go into these bear markets, we're going to have five, six, in this case, eight weeks where we've had negative action. Where the prices are just going down, what happens after that? Typically? Not always, but typically?

Casey Mullooly: They go back up.

Tom Mullooly: Yeah. We see them move in the other direction, and it's usually a pretty violent move too. The other thing that I think really needs to be underscored in this podcast and a lot of what we've recorded so far in 2022 is people get really nervous and people get really worried when we go into these bear market phases. Technically we met the definition of this being a bear market because we're down more than 20%, but my definition of a bear market is different from other people's definitions and maybe different from yours too.

Casey Mullooly: Well, I think something that bear's discussing is a bear market in a recession versus a bear market not in a recession, which is kind of what the market has been trying to feel out over the last couple of months here, because you see everyone saying that the Feds forcing us into a recession because that's the only way that they can curb inflation, and then on the other side of the equation you see-

Tom Mullooly: Which is incorrect.

Casey Mullooly: But you see other people talking about how this is just basically a price correction with stocks coming down or taking a breather after they run up so far.

Tom Mullooly: And that's kind of why we're down where we are right now, because we're kind of in the one foot in each camp.

Casey Mullooly: Right.

Tom Mullooly: The market can't really decide, is this going to be a recession. I'm of the belief that this is not going to be a recession, and there's still people out there who feel that this is the only way that the Fed can curb inflation, as you just said, is to bring us into a recession. Which honestly just think that through for a moment. When we go into a recession, what is the very first thing that the Fed does?

Casey Mullooly: They cut rates.

Tom Mullooly: Yeah. So there is no chance that ... First of all, I believe that the people who sit around the table at the Fed governors, they're really smart, and they have more information than I do. So I believe them when they tell us there's very little chance of us going into a recession this year or next. So I have to take them at their word.

Casey Mullooly: I just want to interject because I know we talked before we turned the mic on about how we got the Fed minutes yesterday from their may meeting and the market has received them well.

Tom Mullooly: Yes. So since two o'clock yesterday, on Wednesday, when the Fed minutes of the last meeting were announced, the market has pretty much gone up about 3%, depending on whether using the S&P or the Dow Jones. It's up about 3% in seven trading hours.

Casey Mullooly: Yeah.

Tom Mullooly: Something like that.

Casey Mullooly: Mm-hmm (affirmative).

Tom Mullooly: Only because with each passing meeting, we get a little more clarity about what the Feds plans are. Now we used to have a Fed Chairman like Martin in the late sixties. We used to have Greenspan who, I mean, these guys talk like they had marbles in their mouths. You just could not understand what they were even saying, and they liked it that way, and they didn't have press conferences, and they weren't out making speeches, and you just kind of had to read the tea leaves. That's a crappy way to find out which way the wind is blowing.

Casey Mullooly: Yeah.

Tom Mullooly: So with each passing Fed Chairman that we've had, starting with Bernanke and then Yellen and now Powell, each one has been more clearer than the one before, than the predecessor, and they have been very transparent about what's going on. There is no hidden agenda, but let's put all of that aside. I just want to, you know, people worry about bear markets, and they worry about recessions, and they worry about inflation. I just want to pull out a tidbit of information from Charlie Bilello, and we'll link to the stuff that he puts out cause some of the stuff is truly great.

Casey Mullooly: It's really good.

Tom Mullooly: But one line that I highlighted was, "Bear markets have lasted as short as one month as they did in 2020, and as long as 36 months from 1938 to the end of 1941." What I wrote in the margin when I printed that page out was one month to 36 months, not forever. Not forever. I'm going to say that again, not forever.

Tom Mullooly: We have clients who were born in the depression. We have a lot of clients whose parents were born in the depression. This is a fear that is so far buried inside of people that they can't even verbalize this. That they worry like hell that I just don't trust that stock market, and I just don't trust those people in Washington, and I just feel like I'm going to get screwed. Something's going to happen to my money, and so I have to watch it like a hawk. You know, having a TV channel like CNBC, it's like-

Casey Mullooly: Preying on that fear.

Tom Mullooly: It is. It is. It's terrible, and I think that people need to remember bear markets are short. Yeah. They're violent. You can lose a lot of value on paper, but they end. They end at some point.

Casey Mullooly: Temporary losses. That's the price you got to pay.

Tom Mullooly: Yeah.

Casey Mullooly: And I think that that fear is the opposite of what we saw in 2020 and 2021.

Tom Mullooly: Yeah.

Casey Mullooly: And that's why we have cycles in the stock market and in the economy. At the height of the bull market, everyone thinks that it's going to continue forever, and then people get FOMO and they're afraid that they're going to miss out. So then they get-

Tom Mullooly: FOMO, fear of missing out.

Casey Mullooly: Right, but then that feeds it even further, and then kind of what we've seen lately, and what happens at the bottom of bear markets is people think this is also going to last forever, but people think that it's only going to get worse from here.

Tom Mullooly: Right.

Casey Mullooly: And it takes kind of a level headed ... In good times, no one wants to hear that isn't going to last forever, and in bad times, people don't really believe you when you say that it isn't going to last forever. But both of those things have proven to be true over the last a hundred or so years here.

Tom Mullooly: That's right. Yeah. So by several different measures out there, we're starting to see things start to get cheap, start to get attractive.

Casey Mullooly: Mm-hmm (affirmative).

Tom Mullooly: The Shiller PE ratio, which is something that's often quoted. I put zero faith in that thing, but-

Casey Mullooly: Interesting to talk about.

Tom Mullooly: Yeah. The Shiller Price Earnings ratio has gotten cheaper. That's good. However, it's back to their index level of 30, which is not very good. According to the Shiller PE ratio, things have cooled off, but not to the point where they're a real screaming buy or a real value out there. I know, just looking at individual names like Target and Walmart, they're not going anywhere.

Casey Mullooly: Right.

Tom Mullooly: And this may be, depending on your particular brand of vodka, this may be attractive for a stock buyer like that.

Casey Mullooly: Yeah. Those stocks are a lot different than the SNAPs of the world or some of these other more techy names that have just gotten their brains beat in over the last six months or so. Last week we saw SNAP, which is Snapchat release their earnings, and the company has actually made more money. It's been way more profitable than when it IPOed back in 2017, but the stock is down 85% from its high last year.

Tom Mullooly: It's not only just down 85% from its high last year. It's actually trading at below half of its initial public offering.

Casey Mullooly: Yeah.

Tom Mullooly: It's IPO price and they have revenue. They actually have a business.

Casey Mullooly: Which they didn't have when they IPOed.

Tom Mullooly: Yeah. It was really just an idea.

Casey Mullooly: I think there was a joke in the show Silicon Valley, which is about like tech startups and everything like that.

Tom Mullooly: A great show by the way.

Casey Mullooly: Yeah, really good. But the joke is basically along the lines of don't ever report revenue, because then once you report revenue, people are going to say, oh, it's not enough. Oh, it's too much. The best thing that you can be is pre growth because then it can be whatever you want, and then people are basically buying a story.

Tom Mullooly: Yeah.

Casey Mullooly: They're buying what you can be.

Tom Mullooly: That's right.

Casey Mullooly: Once you have revenue, people know what you are.

Tom Mullooly: Yeah.

Casey Mullooly: And that dream kind of gets extinguished.

Tom Mullooly: Yeah. So just to back up what you were saying about Snapchat, when they went public in 2017, they had $400 million in revenue. Today, they have $4.4 billion in revenue. Now revenue doesn't translate to earnings, and so I don't know what the earnings are or what they're going to look like in the future. But that leads me to another point that I think is very important. Part of the reason why we've seen some really big stocks like Walmart, like Target, like Amazon, like Nvidia, like some of these companies that have reported earnings at the same time, they're reporting good earnings. They're also talking down their book, they're talking down, "Hey, next quarter may not be so good. The next two quarters may not be so good." That is not a bad thing. The stock market hates it.

Casey Mullooly: Yeah.

Tom Mullooly: They absolutely detest it, but if you keep promising, like, "Yeah, we're going to make 20%

margins next quarter for the foreseeable future." What happens to the stock? It becomes a runaway train. Sooner or later, it's going to crash, but if you keep talking down your book and talking down like, "Next quarter we don't have much visibility." They like to use that line a lot. "We don't have much visibility into the next quarter."The one who really perfected that, it started with Bill Gates, but then Steve Ballmer who succeeded Gates at Microsoft was the world's best at that. Every single quarterly call, "We're going to take down our numbers for next quarter by a couple of cents per share or 10 cents a share," whatever the number was every quarter, he never missed. He never missed, never missed in the sense that he would talk the numbers down.

Casey Mullooly: Mm-hmm (affirmative).

Tom Mullooly: What does that do? It sets the bar really low.

Casey Mullooly: Allows them to beat.

Tom Mullooly: Correct. And then you're going to be sitting there watching CNBC one day while oatmeal is dribbling down your chin, and someone's going to get on there and say, "Microsoft has beat their own earnings reports, like 20 quarters in a row."

Casey Mullooly: Yeah. They do that on purpose.

Tom Mullooly: Of course they do.

Casey Mullooly: Yeah. You hear about when companies report their earnings, they either beat or they miss.

Tom Mullooly: Yeah.

Casey Mullooly: And people react very negatively when they miss.

Tom Mullooly: Yeah.

Casey Mullooly: So that's why these companies don't want to do that.

Tom Mullooly: Yeah.

Casey Mullooly: But just kind of wanted to shift gears here, back to another economic talking point that we've seen lately. I know we recorded a video on it this week about home sales in the United States, and we've seen over the last year, the average price of a home in the United States has increased 31% in a year, and we started to see some of those home sale numbers roll over a little bit. So we never want to predict what's going to happen, but I know the video's point was pretty much, this is exactly what the Fed wants to see in the data.

Tom Mullooly: The-

Casey Mullooly: Just talk a little bit about why housing and rents are specifically so important to the Fed.

Tom Mullooly: So the Fed can't pinpoint say Austin, Texas, or Denver, Colorado, or Wall Township, New Jersey as the median market for real estate sales and home values. The only way, the only tool that they can really use to measure inflation when it comes to home prices is rents. Rent is really important, and so as leases come due, what landlords are doing now is they're bumping up, people who are staying in their units, they may be bumping them up 10% or they may be bumping them up, whatever number it is.

Casey Mullooly: Mm-hmm (affirmative).

Tom Mullooly: If you're a new tenant coming in, you're going to see inflation big time.

Casey Mullooly: Yeah.

Tom Mullooly: Right in your face.

Casey Mullooly: Yeah.

Tom Mullooly: And that is happening right now. And so we need to see the edge come off real estate, off the housing industry. It's going to cool down things. Number one, it's going to put less pressure on the supply chain.

Casey Mullooly: Mm-hmm (affirmative).

Tom Mullooly: All right. We haven't been able to get dishwashers for a two years now.

Casey Mullooly: Yeah.

Tom Mullooly: So you're talking about lumber. You're talking about all the materials that go into a house. You're talking about labor. You're talking about rent. You're talking about so many things. This is a housing economy it's built on the consumer, but what drives it? Housing. It's probably the last thing that we make in this country, and so what happens to housing is going to be a big driver behind inflation, behind interest rates, and behind the economy in general. So if the Fed really wants to slow things down, the first thing they should do is raise rates so that the mortgage rates will follow in lockstep.

Casey Mullooly: Which we've seen.

Tom Mullooly: And that is exactly what has happened.

Casey Mullooly: Yeah.

Tom Mullooly: So the other part of that is when you get inflation, one of the last things that finally gets adjusted is income. You know, that's a big deal. So people talk about how housing is so unaffordable right now. Yes. In May of 2022, unaffordable. No doubt. However, I think we're going to find over the next year that housing is cooling off, wages are going to increase. They have to. We can't find people to fill the 11 million jobs that are out there, and so wages continue to go up, and so we're going to come to some point of equilibrium where housing will become more affordable. People will make more money.

Casey Mullooly: Yeah. That's just kind of how the cycle goes. Like we've seen this story before, is this time different?

Tom Mullooly: So technically each one of these different markets and economies are different, but I'll tell you what-

Casey Mullooly: Some of the themes are very similar.

Tom Mullooly: Gosh. We've seen them over and over and over, and I always kind of, would say that I would always think like, I'm the young guy or the new guy, and now I'm the old guy. This month marks 35 years in the industry as either a broker or an advisor and in July will be 20 years that Mullooly Asset Management has been around, and so, yeah, I'm kind of becoming the gray-haired guy.

Casey Mullooly: Wow.

Tom Mullooly: Yeah.

Casey Mullooly: Things happen. Live moves pretty fast.

Tom Mullooly: Better ... What's the line from Ferris Bueller?

Casey Mullooly: Better-

Tom Mullooly: Better stop and look around once in a while.

Casey Mullooly: I think that's it.

Tom Mullooly: Yeah.

Casey Mullooly: So we just kind of wanted to recap what we've been seeing in the market and the economy here in this week's podcast. As always, if you've got questions, feel free to get in touch with us and that's going to wrap it up for episode 394. We will be back with you next week. Thanks for listening.