

**Casey Mullooly:** Welcome back to the Mullooly Asset podcast. I'm your host Casey Mullooly, joined by Tom this week.

**Tom Mullooly:** Hello there.

**Casey Mullooly:** A milestone here in the recording room. This is episode 400 of the podcast.

**Tom Mullooly:** Wow. That's a lot.

**Casey Mullooly:** 400.

**Tom Mullooly:** Yeah.

**Casey Mullooly:** That's crazy. So I have some trivia just to pick your brain and see if you can guess when we started recording podcasts and just some general podcast history. When was our first podcast recorded? I went through the archives and dug this stuff up.

**Tom Mullooly:** I'm going to guess 2013.

**Casey Mullooly:** 2010.

**Tom Mullooly:** Oh, boy.

**Casey Mullooly:** November 20th, 2010.

**Tom Mullooly:** That was probably me and Brendan.

**Casey Mullooly:** I don't even think Brendan was out of school at that point, so I think that was solo.

**Tom Mullooly:** Yeah.

**Casey Mullooly:** It was a review of charts of companies you may own.

**Tom Mullooly:** Oh.

**Casey Mullooly:** And the companies were ... These are not recommendations. Companies were Sanderson Farms, Sketchers, Amedisys. Did I say that right?

**Tom Mullooly:** Yeah.

**Casey Mullooly:** And Beckman Coulter.

**Tom Mullooly:** Wow. That's pretty random.

**Casey Mullooly:** Yeah.

**Tom Mullooly:** Oh my goodness.

**Casey Mullooly:** All right. So moving on, when did we start counting the episodes?

**Tom Mullooly:** Yeah. So this is number 400, but we've done way more than that because we weren't even counting.

**Casey Mullooly:** We started with episode 178.

**Tom Mullooly:** Oh, okay.

**Casey Mullooly:** So we counted all of the ones that we didn't do and then started counting them at 178, which was recorded in?

**Tom Mullooly:** I'm going to go with 2016.

**Casey Mullooly:** 2015. October 25th of 2015. So that was about two months after I started here. We talked about trading rate risk for credit risk. Interesting.

**Tom Mullooly:** That's funny.

**Casey Mullooly:** The last milestone we hit was episode 300, which was also recorded at an interesting time.

**Tom Mullooly:** Okay. So I'm going to say that that was, we were probably in the middle of the pandemic.

**Casey Mullooly:** We were.

**Tom Mullooly:** Lay it on me.

**Casey Mullooly:** It was March 26th of 2020.

**Tom Mullooly:** Oh, the bottom.

**Casey Mullooly:** The episode title was titled Stress Adjusted Returns.

**Tom Mullooly:** Funny. Wow.

**Casey Mullooly:** I also know we're coming up on the official 20 year mark of the business in general.

**Tom Mullooly:** July 22nd, 2022 will be 20 years of Mullooly Asset Management.

**Casey Mullooly:** Wow. We've got just about 20 years as a business here and about 12 plus years of podcasts. It'd be pretty cool to go back and listen to those someday.

**Tom Mullooly:** Scary.

**Casey Mullooly:** Yeah. Scary, but cool. We wanted to continue what we've been doing and just talking about what we're seeing out there with some charts and some stories and break it down for you. Tom, what do you have?

**Tom Mullooly:** I have a lot of headlines from this morning from Bloomberg and the Wall Street Journal. I think the overriding theme to remember as you hear these headlines is that people are guessing about the future. They sound 100% sure that these things are going to happen. But much like our recent podcast where we talked about, what if there isn't a recession? There's a lot of people out there. In fact, one of the stories says that 90% of investors expect a recession. What if they're wrong? We don't even know what kind of recession it's going to be.

**Tom Mullooly:** Before we turned the mics on, I was just looking at a stat that in the dot com meltdown, explosion, whatever you want to call it, it was 2000 and then 2001. And then 2002, the NASDAQ fell, in two and a half years, the NASDAQ fell 82%. Now there are some individual stocks out there today that in the last 16 months are down 75, 80, 85, 90%, but these are individual stocks that have imploded. It's not the market. It's not your portfolio. It's some individual anecdotes that are popping up around, but to throw a blanket over and say, "This is what we expect is going to happen in the next three months, six months, nine months," nobody out there knows.

**Casey Mullooly:** Yeah. If you're an investor in those individual stocks and those make up the entirety of your portfolio, then yes, of course you have to be concerned. But I think we've heard a lot about how diversification has failed this year because bonds and stocks are both down. This is going to be ... I think it's only happened that bonds and stocks are both down for two consecutive quarters only a handful of times in history, but you still have to consider there's different levels of diversification, I guess. Stocks and bonds is the main one that people think of, but not being concentrated in individual stock names and owning the broader market and owning baskets of stocks and ETFs is also a form of diversification.

**Tom Mullooly:** That reminds me of two things that I heard this morning as I came into the office. First, I was listening to a Jim O'Shaughnessy podcast and he relayed a story of Edward Harriman. Now this goes back way over 100 years. Edward Harriman was one of the very early railroad barons in the United States. His son, a little more famous and a little more recent, Averell Harriman, was Secretary of the Commerce in the 40s and he was the 48th Governor of New York. He actually started the firm. He took his investment firm and merged it with another one called Brown Brothers, and today it's Brown Brothers Harriman.

**Casey Mullooly:** Sorry. Isn't Harriman a book publisher? Harriman House?

**Tom Mullooly:** I don't think so, but a lot of people will remember or know Harriman State Park if you're in New York. They owned a big chunk of northern or upstate New York. But anyway, the elder Harriman

talked about, he was one of the first ones to ever use the term painting the tape. People don't understand what painting the tape means. It's basically today what Jim O'Shaughnessy was referring to is, over the years we've seen the explosion of chat rooms and now Twitter where people go-

**Tom Mullooly:** Yeah. And they go in and they talk up their meme stocks. So they talk about like Game Stop and AMC and all these things. And people today are like, "You don't understand. I'm down 80% in this stock or I'm down 90% in this stock. This has never happened." Oh, hell yes, it has. It has now happened for generations where someone went to Harriman and said, "Hey, we own stock in this railroad. It's \$100. We'd like to sell it. Can you get the price up to 125 or 130?" And he said, "No." He said, "I can get it to 200 and then you can sell as the stock is dropping." So look, folks, if you think that what's happening today is brand new and never happened before in the history of investing, sorry to burst your bubble with that. I heard that on the O'Shaughnessy podcast.

**Tom Mullooly:** The second thing that I wanted to mention was that on Bloomberg this morning, Bloomberg Surveillance, they were talking about the market in 1962. They talked about how for nine months, the first nine months of the year, the market just went straight down. I mean, just no hope. And then the fourth quarter in 1962, they had what Brendan refers to as a face ripping rally. And then the market finished only down a couple of points for the year. So, you don't know what is going to come in the next couple of weeks, months, quarters, years, that's going to turn all of this investing around on a dime.

**Casey Mullooly:** Yeah. Getting back to the poll about how 90% of investors expect a recession, I had some stats that I pulled from Michael Batnick. He actually pulled them from someone else. I'm drawing a blank where he got the numbers from, but we'll link to it in the show notes so you guys can check it out. But he looked at the opportunity cost of waiting for economic recovery before investing. So basically he looked at how far in advance does the stock market look ahead of economic data.

**Tom Mullooly:** So before I even hear this, I'm going to say, this should be the answer to how long do I wait before the coast is clear.

**Casey Mullooly:** Right. This is exactly what the numbers were looking at because there's this idea out there. We saw this in, it was kind of different in 2020, but the economic data was getting worse as the stock market was getting better. And everyone was saying, "Well, the stock market's not the economy." I think we've conflated those two again here in 2022 because the stock market is bad. The economy, everyone thinks it's bad. So getting to the numbers, on average, stocks bottom 116 days before the economy does.

**Tom Mullooly:** So that's about four months.

**Casey Mullooly:** Right. So the data set looked at when the equity markets bottomed and then when GDP bottoms. So if you waited for GDP to start improving before you invested, you missed a 19% move. The market still went up after GDP started to get better, but in 2020, the equity market bottomed on the 31st of March and GDP bottomed on the 30th of June. There were 91 days in between. So between the bottom and March and the GDP bottom in June, you missed 20%. It still went up 30% after June, but you

missed almost half of that rally. So that just speaks to what we always say about the news is probably going to get worse as the market bottoms, whenever that is going to be.

**Tom Mullooly:** That seems to always be the case. The other part that's not written about that is the market starts to go up because the market will bottom and then start to turn up. No one will believe it. No one will believe it. In fact, that was the story in the rest of 2009, all of 2010 and 2012, '13, '14. Nobody believed that this market was going back up. Let's face it. We had some, I mean, sheer terror, financially speaking, at the very end of 2008 and through 2009. A lot of things were falling apart on Wall Street in 2008 that Main Street wasn't even aware of. Countrywide Mortgage, gone. I mean, the equivalent of Countrywide Mortgage today is Rocket Mortgage. Think about that. I mean, just gone. Poof.

**Casey Mullooly:** Have a lot of TV space to fill up.

**Tom Mullooly:** Yeah, fill them up with those Mullooly Asset Management TV commercials.

**Casey Mullooly:** Yeah, there you go.

**Tom Mullooly:** Yeah. The advertising will be cheap. Cheap rates. So yeah, we're seeing a lot of headlines out there that are downright frightening. This is not a recommendation, but it's a scary time when you're putting money to work. Don't wait for the coast to be clear, because you're going to leave a lot of money on the table.

**Tom Mullooly:** We also saw a lot of news headlines this morning because we got some of the data that the Fed relies on. They talked about how the consumer prices rose 6.3% in May compared to a year earlier. That was the same rate as April and down a little bit in March. March was 6.6. They talk about this Personal Consumer Expenditures index, PCE index, which came out this morning. So the rise that we saw in March to 6.6% was the fastest rise in 40 years. The Fed looks at the total rate, the PCE rate, but they also strip out some things that they can't control and they call that the core rate. So the core PCE index excludes food and energy, increased 4.7% in May from a year ago May.

**Tom Mullooly:** This is really important. A lot of people look at this and say, "Inflation's going up 4.7%." We're going to get to a point now over the next few months where some of the really spiky increases that we saw in inflation are going to roll off, because think about it. If inflation stays, even if it stays the same 12 months from now, we're going to show a 0% year over year increase in inflation. The Fed's going to claim victory at that point.

**Casey Mullooly:** Yeah. I mean, you see some people already saying that on Twitter because of this number. The PCE has declined three months in a row, even though it's-

**Tom Mullooly:** Minimal.

**Casey Mullooly:** ... a small decline, but basically what to take away from that is it's not going up anymore. It's stalling out and people are saying maybe that means that inflation has peaked. I know

another thing that people are paying attention to is the five year break even rate, which is basically what the market expects inflation to look like in five years. That rate has also been declining for several months now. Again, I think the May reading was so wacky because we saw these same things in May and then the May CPI print came in hotter than expected. So we're not claiming victory over inflation. I know the Fed isn't doing that. If anything, they're ramping up their verbiage on controlling inflation. So, these are the things that we're seeing and we just wanted to get them on your radar as well.

**Tom Mullooly:** Let's just spend another moment talking about the rate of inflation because people always seem to chuckle when they say, "Why does the Fed, when they talk about the rate of inflation, why did they say excluding food and energy? That is where I'm getting all the inflation." You're right. You're right about that. We definitely see food inflation all the time with food, and much of the time with energy, but those are things that the Fed really can't control. What could the Fed have an impact on? Well, the first-

**Casey Mullooly:** We talked about it two weeks ago with the money supply.

**Tom Mullooly:** That's right. So, money supply. That impacts housing. So immediately when the Fed started talking about rates and increasing short term rates, mortgage rates went up. And that has really changed the landscape of the housing market. That is something that the Fed can control. More importantly, and to your point, Case, the money supply. Much bigger issue because it slows down the velocity of money changing hands in the marketplace. That's a big, big deal. They also talked about how consumer spending gains cooled off in the month of May. That was another number that came out this morning that showed that the seasonally adjusted spending in May increased by 0.2%. In April, it was 0.6% increase in spending. So, people were spending a little more going into April. That is still increasing, but it's increasing a lot less. Sometimes the jawboning effect where we're talking about how we want to slow down the economy, you see headlines saying, "We're going to slide into a recession," that gets people nervous and they stop, or they curb their spending. That's another component that the Fed can have an impact on.

**Tom Mullooly:** The other thing that just makes me really scratch my head as someone who's been around the block a few times is all of these, I'm using air quotes, investors. These are traders. They're not investors like you and I, dear listener. So when we talk about investors expecting a recession, 90% of them expecting a recession, most of them are saying, "Before the end of 2023." What the hell? That's a year and a half from now. So, so many things can change in the next year and a half.

**Casey Mullooly:** I saw something that made me chuckle and it was, we put too much economic emphasis on asking a random group of 1200 people a question. Because you see all these surveys coming out, how everyone's so negative. The consensus is there's too much consensus out there. And I think when there's that much consensus, the other side of the picture has to be talked about as well.

**Casey Mullooly:** I know we've been talking about the same topics here for the last couple of weeks with inflation and the Fed and the economy and the market, but this is what we're here to do. We're here to talk about what we're thinking and what we're seeing and communicate that with you, our listeners and our clients out there. Thanks as always for tuning into the podcast. That's going to wrap it up for episode

400. We'll be back with you next week for episode 401.

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