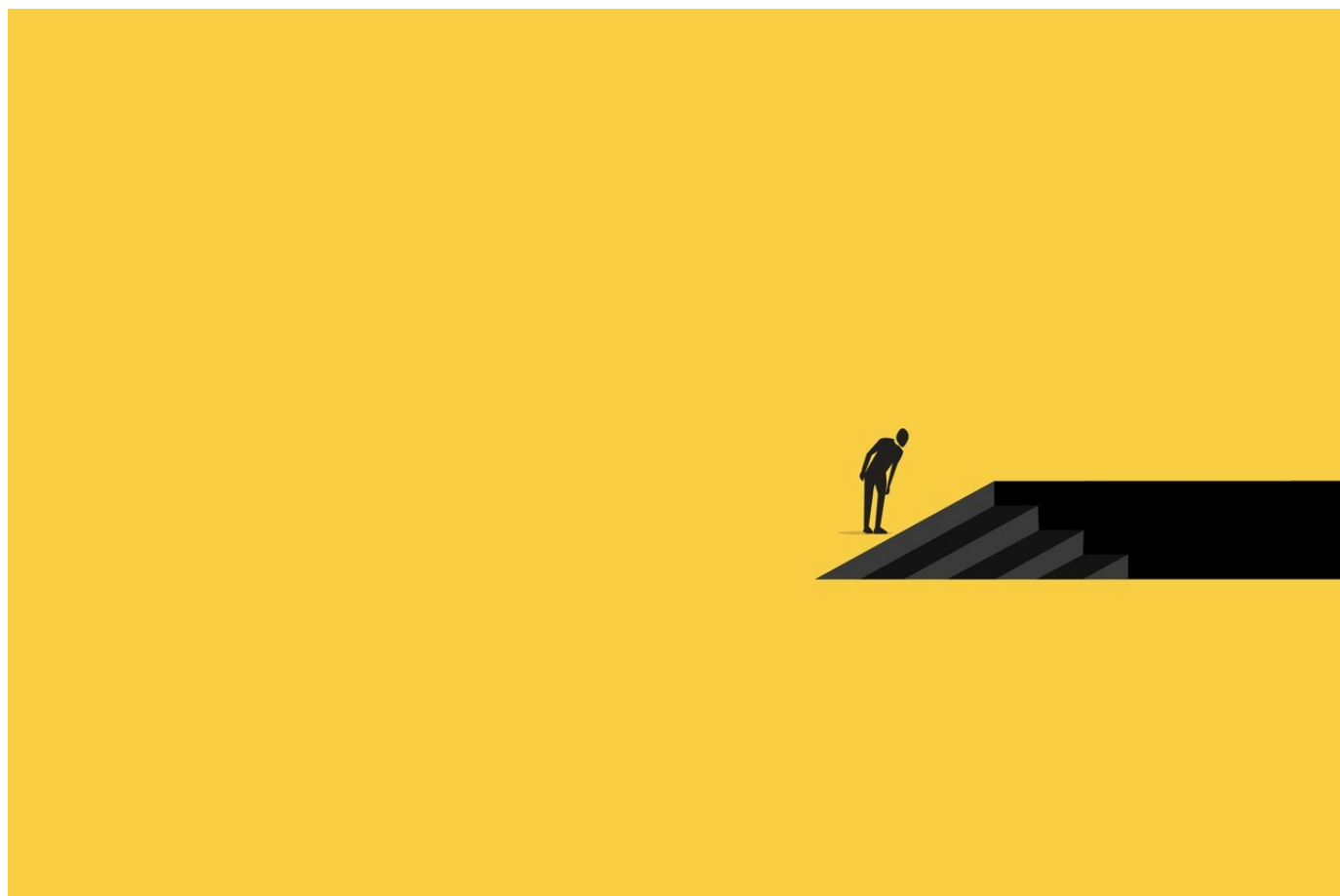


October 2022

THE ADVOCATE



Into The Tunnel

Market Review

Save The World

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A Note from the Principal

Over the last 2 1/2 years, so much of our communications have been centered on actions taken by our government or central bank. I wish I could say this edition of *The Advocate* will be different. Unfortunately, the proverbial tail is wagging the dog!

As the Federal Reserve attempts to execute its dual mandate of price stability and maximum sustainable employment (the Federal Reserve Act of 1977 actually stated the Fed's goals should be "maximum employment, stable prices, and moderate long-term interest rates") they find themselves in new, uncharted waters. Namely, the need to slow the economy by raising interest rates in the absence of normal bond demand. That's what happens when you buy over \$4.5 trillion in Treasury and mortgage-backed securities over the course of two years and then try getting rid of those bonds to the tune of \$95 billion a month. Might be "a big problem, Jerry!" We will see what other tools they have in their bag if liquidity in the Treasury market begins to falter. At this moment in time, there is no way to discuss markets and the economy without involving the Federal Reserve.

Another topic that you can't miss this fall is the mid-term elections. The control of the House and Senate is at stake on November 8th. The information, and misinformation, being put out by the "news media" is a bit underwhelming. Don't get me wrong, I believe a healthy democracy should have hotly-contested elections with passionate candidates. Unfortunately, I fear we are losing sight of the difference between a spirited debate and a mean-spirited argument. Worse yet, dismissing, diminishing, or even demonizing anyone who is not your preferred color (blue or red) doesn't lead to healthy governance.

Ray Dalio, the recently retired Chairman of Bridgewater Associates (the world's largest hedge fund), suggests in a follow-up to his book, *Principles for Dealing with the Changing World Order*, we are on the brink of reaching Stage 6 (The War Stage) because **"the evidence points to us being on the brink of civil and/or international war"**. To be clear, he is not saying he believes we are on the precipice of either, but that history suggests our actions are putting us on a path to finding ourselves in one or both of these situations relatively soon. I highly recommend his book and you can also follow him on LinkedIn.

My conclusion is that Dalio is neither uninformed nor politically motivated but rather an individual seeking to help us understand the lessons of history and recognize how we may be blindly marching toward an unexpected destination. I recently watched the updated release of *All Quiet on the Western Front* which starkly portrays the outcome of similar errors made in 1914. As for me, I hope we will recognize the error of our collective way and begin seeking collaborative solutions.



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Into The Tunnel

Wayne Cravens

Introduction

As we enter the final quarter of 2022, investors are increasingly losing confidence in the Fed's ability to rein in inflation without sending the economy into recession.

After a strong July, U.S. stocks once again ended the quarter in bear market territory. After another rally to begin the present quarter, the weight of higher rates and economic concerns is once again prevailing as markets look to retest their lows.

It's not unusual for stocks to experience a rough September and some argue seasonality may be partially to blame. As we brace for a potentially bumpy year-end, it may be helpful to review some of the reasons why markets are behaving erratically and what this may mean for us over the long-term.

The September Effect

There's debate as to whether the September Effect exists—and if so, why. But historically, U.S. stocks have experienced relative weakness during the month of September.

In fact, since 1950, September has been the worst performing month of the year for the Dow Jones Industrial Average and S&P 500, according to the Stock Trader's Almanac. Excluding last month, the S&P 500 has lost 7% or more in September 11 times, according to data going back to 1928.

Meanwhile, Dow Jones Market Data shows that in Octobers that follow a 7% or greater decline in September, the S&P 500 rises 0.53% on average and sees a median gain of 1.81%. To put this into context, the average S&P 500 return for all Octobers is 0.47%, and the median return is 1.03%.

If history is a guide, seasonal patterns may help explain September's decline and offer some reason for optimism. As Warren Buffet has often noted, in the long run, it's the "weighing machine" (weighing earnings) that matters most.

The Fed's Role in Recent Stock Market Volatility

Obviously, numerous factors contribute to stock market volatility but none have been more impactful in recent history than the actions of the Federal Reserve. After dropping the Fed Funds effective rate to zero and increasing their balance sheet by almost \$5 trillion to fight the economic impact of COVID, the Fed's aggressive efforts to tame inflation are largely responsible for the sharp downturn in financial markets.

In just six months, the Fed has pushed its near-zero benchmark rate to a target of at least 3%. Meanwhile, the central bank also initiated a plan to unwind its \$8.8 trillion bal-



ance sheet via a process called quantitative tightening (QT). (Rather than reinvesting proceeds from the securities it has on its books, the Fed will allow them to roll off each month.)

The Fed's aggressive actions to fight inflation are not only impacting stocks. In September, the 10-year Treasury yield topped 4% for the first time since 2008 and the average rate on a 30-year mortgage soared past 7% for the first time since 2002.

Higher interest rates and elevated bond yields are certainly good for savers but may also may be an indication that the market is pricing in tighter monetary policy for longer. In other words, investors are realizing that it may take longer to cure inflation than they or the Fed originally expected. And this, in turn, creates more uncertainty for the U.S. economy.

What Is the Yield Curve and Why Is It Important?

Alongside a spike in stock market volatility, short-term Treasury yields recently hit their

highest levels in more than a decade and briefly exceeded their longer-term counterparts. This is significant because an inverted yield curve has accurately predicted the last 10 economic recessions.

The yield curve is the difference in interest rates between short-term and long-term Treasury bonds. In a normal economic environment, short-term interest rates are lower than longer-term interest rates, resulting in a yield curve that slopes upward.

Intuitively, this makes sense. Owning a bond essentially means you're lending money to the issuer—in this case, the U.S. government—for a set amount of time. At the end of the period, you expect to receive your money back with interest. As the lending period extends, you expect to be compensated accordingly to make up for the additional risk you assume in the meantime.

An inversion in the yield curve occurs when yields on longer-term bonds fall below short-term yields. Put differently, investors earn a higher rate on their short-term bonds than on their longer-term bonds. And since short-

term bonds are relatively low-risk, investors are more likely to pour funds into Treasuries than stocks when rates on short-term bonds increase.

Most economists agree that an inverted yield curve doesn't cause recessions. However, it does tend to reflect negative investor sentiment about future economic growth, making it a popular leading indicator.

Furthermore, banks are less incentivized to make long-term loans when short-term interest rates are high. Therefore, economic growth often slows when banks pull back on lending.

A Strong Dollar is Good, Right?

Surprisingly, a strengthening U.S. dollar has also contributed to recent stock market volatility. In fact, the U.S. Dollar Index has increased nearly 20% since the start of the year and is near its highest level in almost two decades.

Indeed, a strong dollar can be viewed positively for many reasons. For example, it's an indication that the U.S. economy is doing better than other economies. Although inflation is high, the U.S. labor market is strong, and other areas of the economy remain resilient.

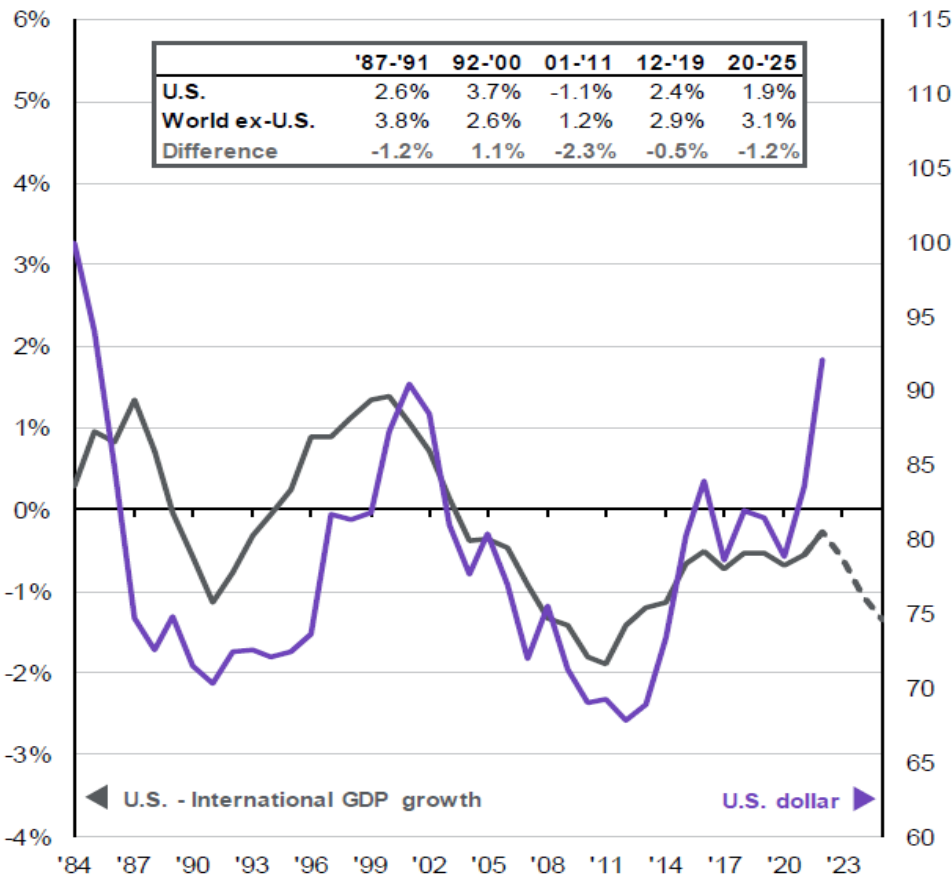
For travelers, a strong U.S. dollar makes it relatively less expensive to travel abroad. In addition, a strong dollar helps

consumers by generally offsetting prices on imports and commodities.

But there's a flip side to a strong dollar, as well. A soaring U.S. dollar effectively reduces earnings for multinational companies that generate sales overseas. When these companies translate foreign sales into a stronger dollar, they report fewer dollars in earnings. As a result, there has been increasing concern for a potentially disappointing earnings season from U.S. stocks.

U.S. dollar and international GDP growth

Real GDP growth: U.S.-intl. (5-year moving avg.); U.S. dollar: 100 = 1984



¹Source: J.P Morgan Asset Management; IMF.

Looking Forward

No one can predict what the future holds but we do know markets generally dislike uncertainty. So, we will be hanging on to Chairman Powell's every word for the next few months and we will likely see heightened stock market volatility for the time being.

Times like these are difficult. But it's important not to lose sight of your long-term goals and how time is your ally. Below is a chart showing how stock returns have consistently rebounded after past periods of negative volatility. Hopefully, it will provide some comfort.

Your investment plan is designed to withstand periods of volatility and temporary losses. When we enter a tunnel, or stairs to the basement, the immediate darkness is startling. Then, our eyes adjust and/or we turn on the lights. We are presently in that dark moment, but we've been here before. There are numerous reasons to feel positive for the long-term while being concerned about the present. We believe the best approach is to stay the course, especially when it feels most uncomfortable to do so. As always, we're here to help if you have any questions or concerns.

S&P 500 Total Returns Following 25% Drawdown (%)

25% Drawdown Period	Peak-to-Trough Drawdown	1-Year	3-Year	5-Year	10-Year
Dec 1961-Jun 1962	-28	34	70	100	178
Nov 1968-Apr 1970	-36	35	47	28	100
Jan 1973-Apr 1974	-48	1	23	44	189
Nov 1980-Aug 1982	-27	61	108	272	485
Aug 1987-Oct 1987	-34	28	55	119	471
Mar 2000-Mar 2001	-49	2	1	24	37
Oct 2007-Sep 2008	-57	-5	11	65	209
Feb 2020-Mar 2020	-34	62	-	-	-
Jan 2022-Sep 2022	-25	-	-	-	-
Average	-38	27	45	93	238

Source: Bloomberg and Goldman Sachs Asset management. As of October 6, 2022

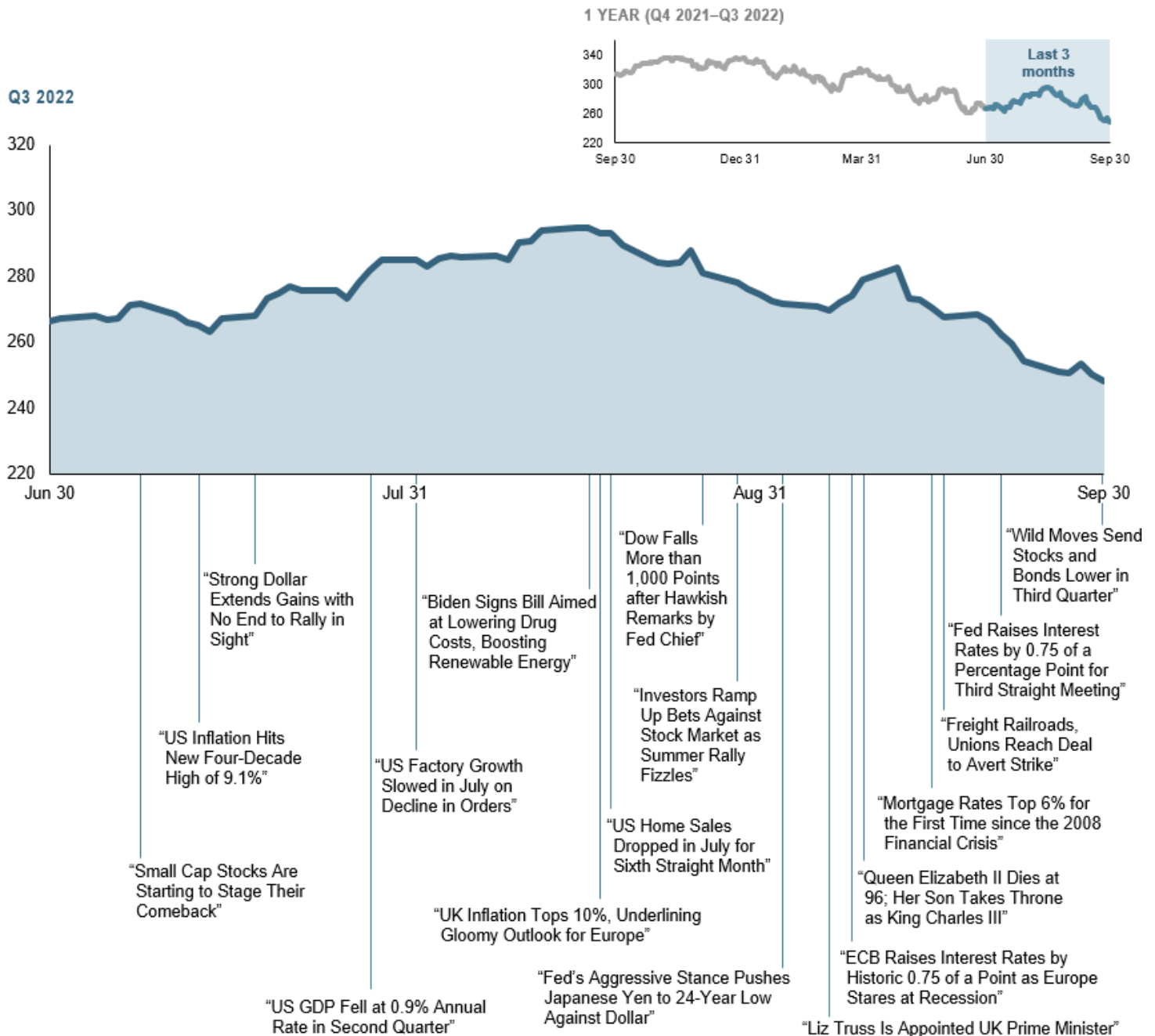
¹Source: J.P Morgan Asset Management; IMF.

Global GDP growth is based on GDP at market exchange rates as weights. U.S. dollar is the J.P. Morgan Global Economic Research real broad effective exchange rate (CPI), calculated as year-end moves versus the prior year-end. Past performance is not a reliable indicator of current and future results. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.

Guide to the Markets—U.S. Data are as of September 30, 2022.

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q3 2022



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2022, all rights reserved.

It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio.

Past performance is not a guarantee of future results.

Market Review

Woody Welch
Jennifer Cross

3rd Quarter 2022 Recap

After a very difficult first half of the year, equity markets rebounded in July and August on investor hopes of an easing in inflation and a Fed pivot or pause. The reprieve was short-lived however, as stocks tumbled to fresh lows in late September amid further aggressive central bank rate hikes and statements of further tightening to come.

Global stocks (MSCI ACWI Index)¹ fell 6.82% for the quarter and are down 25.63% for the year. The S&P 500² dropped 4.88% for the quarter and is down 23.87% for the year. Developed international markets (MSCI EAFE Index)³ fell 9.36% for the quarter and 27.09% YTD. Emerging Market stocks (MSCI Emerging Markets Index)⁴ dropped 11.57% for the quarter, and down 27.16% YTD. Foreign stock market returns were negatively impacted by the sharp appreciation of the dollar. The U.S. Dollar Index⁵ was up 7.1% for the quarter and a stunning 17.3% on the year, hitting a 20-year high (for US based investors, a stronger US dollar is a headwind to foreign equity returns).

Core investment-grade bonds didn't avoid the Q3 carnage. The 10-year Treasury yield hit a decade high of 3.97%, causing the Bloomberg U.S. Aggregate Bond Index (the "Agg") to drop 4.75%. This puts the "safe-haven" Agg down an incredible 14.61% for the year to date. In other segments of the

fixed-income markets, high-yield bonds (ICE BofA Merrill Lynch U.S. High Yield Index) dropped 0.69%.

Investment Outlook and Portfolio Positioning

The economic backdrop for the U.S. and global economy deteriorated further in the third quarter. Stubbornly high Inflation remains the key economic indicator. The Fed's response to the sharp spike in inflation has been to aggressively raise interest rates – their only means of bludgeoning economic activity to reduce aggregate demand and in turn bring inflation in line with their longer-term targets. This has been the catalyst for the steep declines in both stocks and bonds.

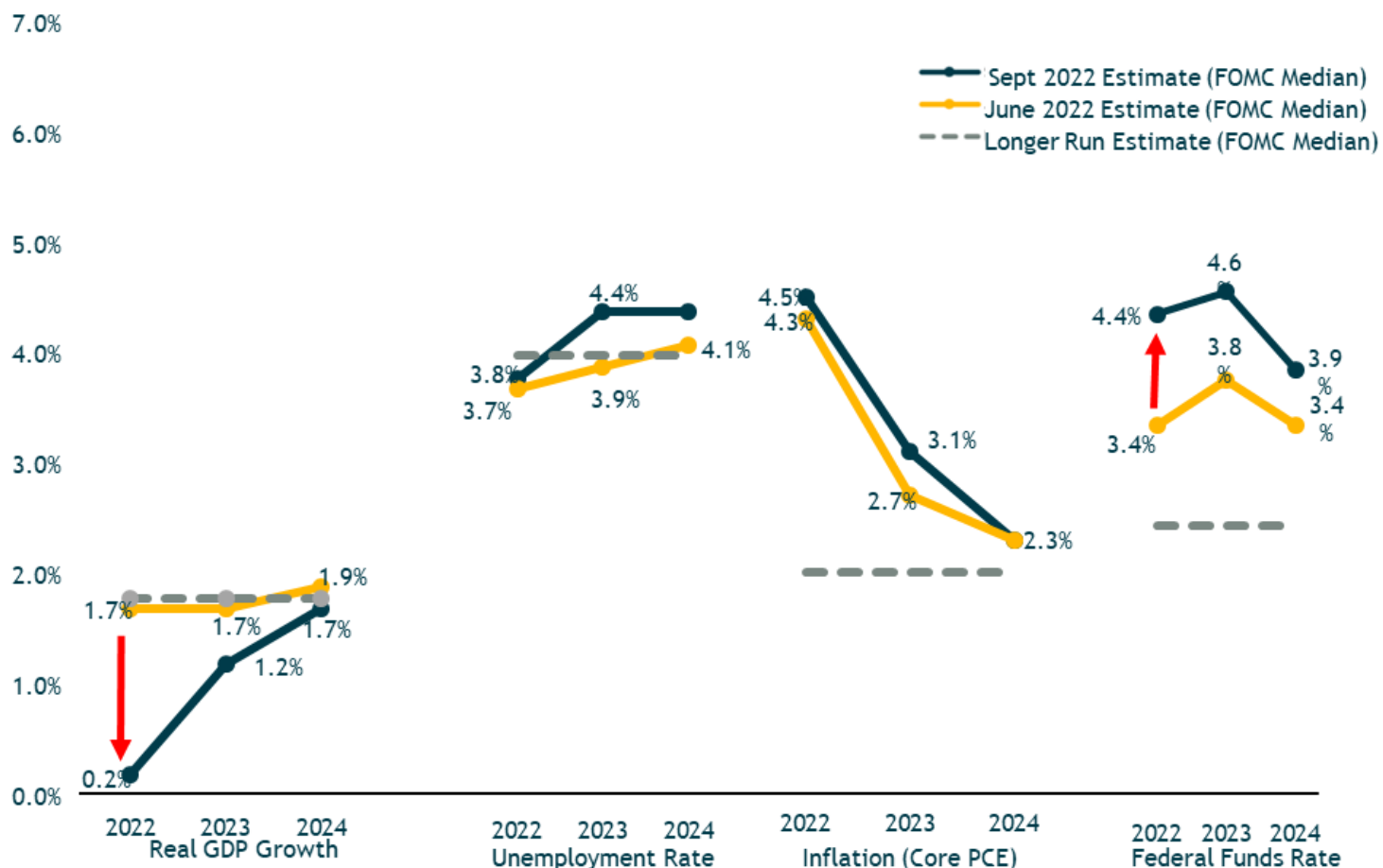
While headline CPI inflation (which includes food and energy) seems to have peaked, core inflation measures have continued to rise and are far above the Fed's 2% target. This indicates inflationary pressures have become more widespread throughout the economy, rather than driven by a few extreme outliers as in 2021.

Some of this broad-based core inflation is still due to the initial "transitory" COVID-related supply-side disruptions and production/distribution bottlenecks, which

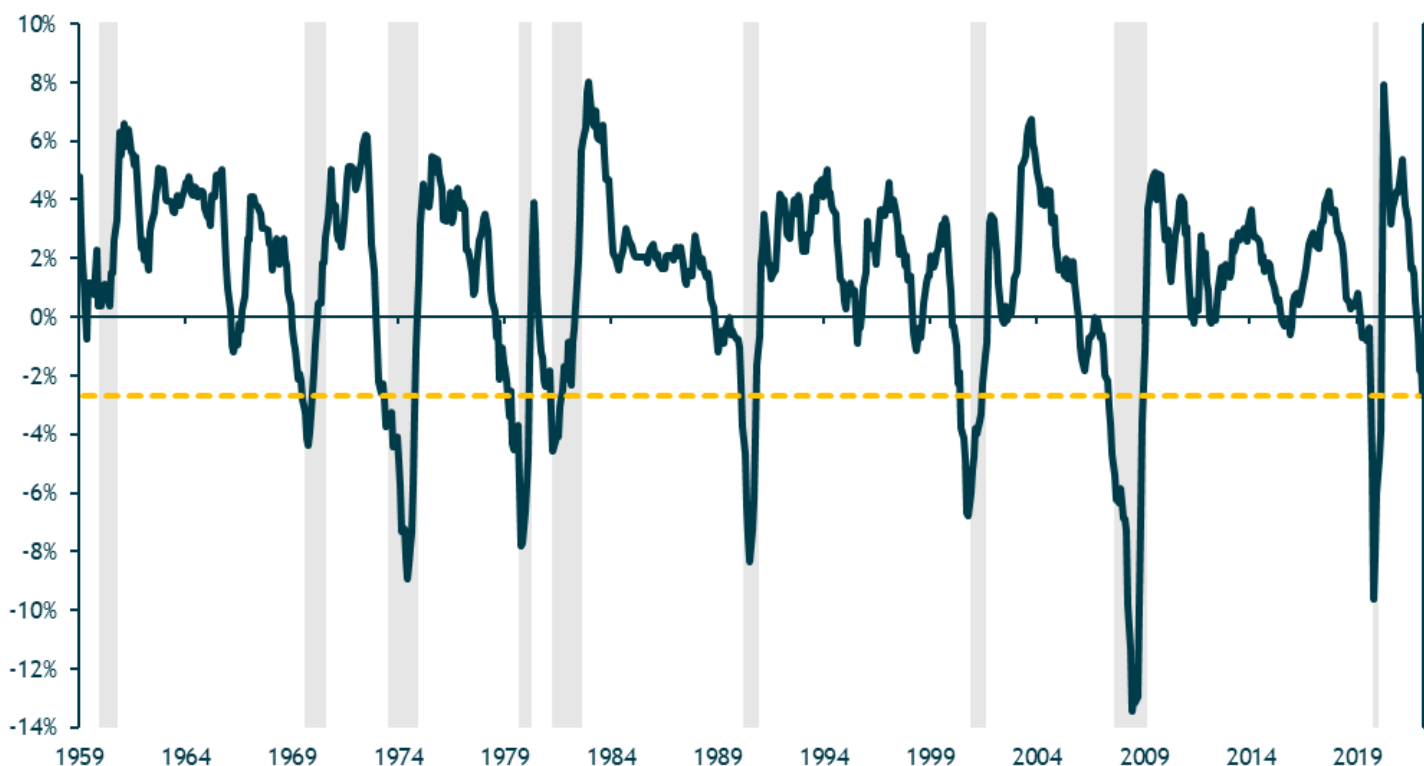
central banks can't do anything about. The good news is that many of these supply-chain disruptions are dissipating as the pandemic recedes globally. However, the demand-side drivers of core inflation in the U.S. have not yet peaked, let alone demonstrated the consistent month-over-month declines that Fed Chair Jerome Powell says the Fed is looking for as "clear evidence" inflation is headed to their 2% target. As such, and as expected, the Fed has continued its path of aggressive rate increases and has signaled there is more to come (below):

The Fed's policy hammer of higher interest rates will eventually pound down GDP growth and increase unemployment. The odds the Fed can engineer an economic soft landing -- where the U.S. economy slows sufficiently to tame inflation but does not fall into a deep recession with much higher unemployment -- are increasingly slim. In fact, historically reliable indicators, including the Leading Economic Index (right) and an inverted yield curve, point strongly toward a recession, and that is now our base case scenario for the next 12 months.

"Higher for Longer": The Hawkish Fed Projects More Rate Hikes and Economic Pain to Come



The U.S. Leading Economic Indicator (LEI) is Signaling Recession is Likely



LEI shown is six-month rate of change for the index. Dashed line represents latest reading. Shaded regions represent NBER-defined recessions. Source: Bloomberg LP. Data as of 8/31/2022.

While we weigh the evidence as leaning strongly towards a U.S. recession, there are still some positives supporting the economy and that may mitigate the *severity* of a recession if/when it happens, including a strong labor market, rising wages, and a strong US consumer. Moreover, there doesn't appear to be any major, systemic economic/financial imbalances (e.g., unlike in 2007/2008).

Our focus is on longer-term fundamentals and valuations, and we are not in the business of making shorter term bets on the markets. However, our analysis tells us that at current valuation levels, stocks may not be adequately discounting the potential for further earnings declines, and that has led us to revise some of our underlying assumptions and reduce the return we expect from stocks over our five-year horizon.

At the same time, the sharp increase in interest rates this year has driven bond yields up

to more attractive levels – more attractive than they have been in about a decade. On a relative basis, core investment-grade bonds now look much better versus stocks than at the start of the year. Further, core bonds provide good downside protection, which would be especially helpful if conditions turn out to be worse than currently anticipated.

Closing Thoughts

It's been a tough year, with most investors (ourselves included) braced for more to come. But all bear markets come to an end, and it is worth remembering that the bottom is by definition the point at which things collectively feel worst. We think long term and remain confident in our ability to deliver the long-term returns required to meet financial objectives while balancing risk.

While tilting towards our highest-conviction tactical views, our portfolios remain strategical-

ly balanced and well-diversified across multiple global asset classes, investment strategies, equity styles, and risk-factor exposures. This should enable them to be resilient should a risk scenario or shock outside our cautiously optimistic base case occurs.

We are confident that our long-term, team-driven investment process, access to quality research, and discipline will enable us to continue to navigate whatever macro and market environments come our way. We can all hope whatever comes next is not as grim as a pandemic or war. But as investors, we need to be prepared for the worst, even as we hope for the better.

If you have thoughts or questions about any of the information we've shared or any other subject, please don't hesitate to call us. We are grateful you allow us to serve you and your family, and we will continue to make every effort to justify the trust you've bestowed on us.

Sincerely,

Your CCA Investment Team

¹The MSCI ACWI Index, MSCI's global equity index, is designed to represent performance of the full opportunity set of large- and mid-cap stocks across 23 developed and 24 emerging markets. As of May 2022, it covers more than 2,933 constituents across 11 sectors and approximately 85% of the free float-adjusted market capitalization in each market.

²The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. It is a market value weighted index with each stock's weight in the index proportionate to its market value.

³The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.

⁴The MSCI Emerging Markets Index is a float-adjusted market capitalization index that consists of indices in 21 emerging economies: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

⁵The U.S. dollar index (USDX) is a measure of the value of the U.S. dollar relative to a basket of foreign currencies.



Save The World Returns

Trevor Crews

The Return

After a failed first attempt to reunite the Save The World audience, Thursday, September 8th marked the first Save The World gathering since March 2020. After such an extensive gap without meeting, many locals and friends gathered with us to discuss topics of the changing world and changing Cookeville. Everyone showed joy and excitement to have this opportunity again. The event was one of the smaller sessions that we had just to spark conversation on things happening in Cookeville and the world so we could break the ice and begin the next chapter for Save The World.

History:

In 2011 Save The World began as small, weekly gatherings of area business and community leaders to discuss challenges and concerns we face both locally and globally. As a means of keeping the discussion informal and enjoyable, we labeled the gatherings “Save The World” sessions. Though the name possesses an obvious tongue-in-cheek quality, the sessions have encouraged a respectful exchange of experiences, ideas, and perspectives to improve the quality of life for our members and our community, our nation, and our world. It

aims to gather different opinions from individuals with diverse professional backgrounds to benefit each individual's well-being and the impact they have on the community. Within a few short years, these sessions began attracting many new faces and provided an environment for sharing knowledge, producing solutions, and in essence saving the world – beginning right here at home.

Going Forward

Taking into consideration everything Save The World has stood for we don't want to sacrifice what value it has by not renewing the prolonged break we have had from it. Looking ahead Save The World is on schedule to be held on the second Thursday of every month. This schedule allows us to unite and gather our thoughts monthly as well as integrate any other events we would like on this date. We aim to continue our structure of small “sessions”, where we discuss random or current topics, and also larger “forums” where a speaker(s) provides information and fields questions on a single topic of significance. We always try to keep everyone as up-to-date as possible through emails reviewing previous discussions and detailing potential future topics.

Your Financial Advocate

You have goals you want to achieve... places you hope to go... things you want to do... people you desire to spend time with.

These dreams have motivated you over the years to work hard and to sacrifice.

Fully realizing your dreams also takes planning and execution to get them “over the top”.

Whether you aspire to...

- ...travel the world with your spouse...
- ...spend more time on hobbies like flying, cooking, or wine collecting...
- ...live on a ranch in the country or a cabin in the mountains...
- ...create a legacy for your children and grandchildren...
- ...support the charities and causes that you hold dear...

We can help you create and execute a comprehensive plan for financial success. One that will give you the confidence to spend your free time on the other things that are important to you.

At Cravens & Company Advisors, our mission is to help successful individuals and their families realize and enjoy their life goals. We are an SEC-Registered Investment Advisor that combines holistic planning, personalized investment management, tax and estate strategies, and business planning with a proactive, solutions-oriented mindset. The result is a fiduciary with a plan and a culture centered on your success; however you define it.

Since 1996, we have been serving the specialized needs of family businesses and their owners, professionals, and successful retirees. While prudent investment advice is a foundational component of our service, we believe developing an intimate understanding of your overall financial situation and goals is essential to formulating your strategy. Our holistic approach enables the development of solutions with the highest possibility for success. Because goals cannot be measured by return, we benchmark our progress as a firm in the same way you do as our client; by successful outcomes.

As we discuss your situation, goals, and concerns; we hope you will recognize the benefits that come with our independence and objectivity. As your fiduciary, we are held to the highest standard of transparency, objectivity, and disclosure. Simply put, we have not only an ethical but also a legal requirement to always act in your best interest.

Our goal is to provide each client with the leadership, relationship, and creativity needed to allow them to achieve their life's goals and, even more importantly, the confidence to enjoy the journey. After all, what is the point of all the work and worry if you do not get the satisfaction of realizing the results?

At Cravens & Company, we have a team that is by design, ready to work for you. If you have complex financial issues and/or desire a relationship of this type, please contact us to arrange an introductory meeting. We can be reached at 931-528-6865 or by email at info@cravensco.com.



Disclosures

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Investing involves risk including the potential loss of principal. Investing involves risk including the potential loss of principal. International investing involves additional risks including risks associated with foreign currency, limited liquidity, government regulation, and the possibility of substantial volatility due to adverse political, economic and other developments. The two main risks associated with fixed income investing are interest rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in the market value of bonds. Credit risks refer to the possibility that the issuer of the bond will not be able to make principal and interest payments. Investments in commodities may entail significant risks and can be significantly affected by events such as variations in the commodities markets, weather, disease, embargoes, international, political, and economic developments, the success of exploration projects, tax, and other government regulations, as well as other factors. No investment strategy can guarantee a profit or protect against loss in periods of declining values. Past performance is no guarantee of future results. Please note that individual situations can vary. Therefore, the information presented here should only be relied upon when coordinated with individual professional advice. Any opinions or forecasts contained herein reflect the subjective judgments and assumptions of the authors only and do not necessarily reflect the views of FSC Securities Corporation. There can be no assurance that developments will transpire as forecasted and actual results will be different. Data and analysis do not represent the actual or expected future performance of any investment product.

