

PROSPECTS



The Richard Cluver Investment Newsletter in continuous publication since 1987

October 2022

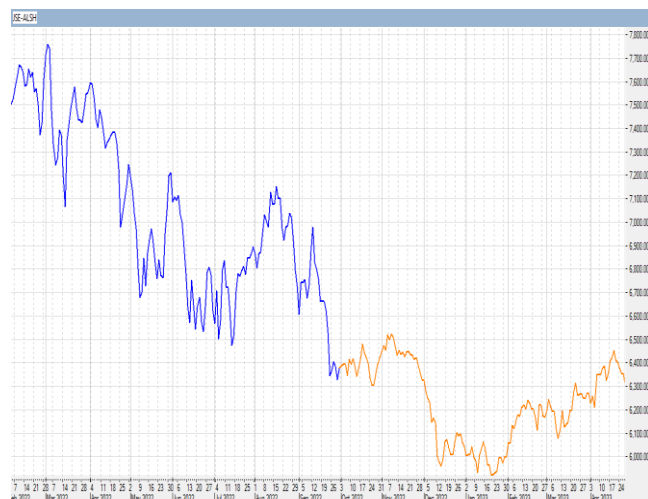
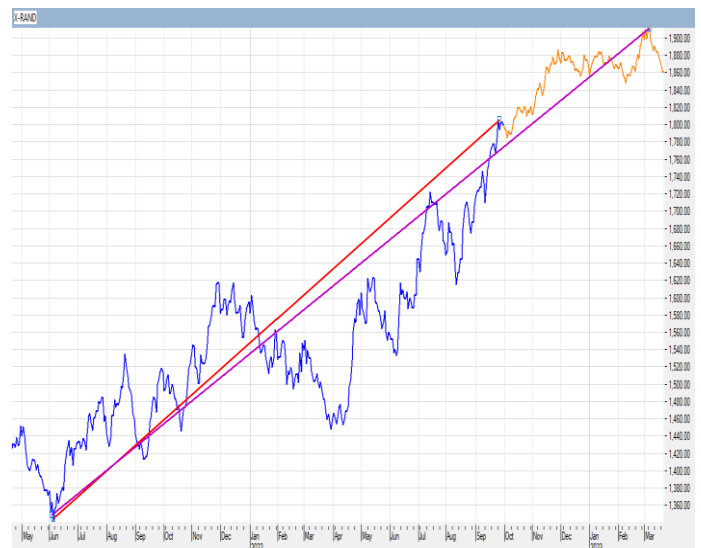
I chose a crucial time to go travelling with markets plunging everywhere and, in the wealthiest nation on earth, the grim fact that 30-million adults and 12-million children live in food-insecure households at a time when food inflation is up 10.4 percent in the past 12 months. Major world indices have, furthermore, notched up their worst performance in 20 years over the past three quarters!

And it is far worse elsewhere which makes it all the more inexcusable since it was all predictable. As I have been warning readers with increasing urgency since long before I wrote my book *The Crash of 2020*, the blame lies fairly and squarely at the door of the US Federal Reserve which for decades has played fast and loose with its custodianship of the world's reserve currency.

When you add to that the irresponsible borrowing of our own South African government which has taken Government debt to \$78 749-million and our debt to GDP ratio to 70 percent it is no surprise that together they have bequeathed to us a producer price inflation rate of 16.6 percent. So it should also should not surprise anyone that our own food price inflation rate reached 11.3 percent in August with the annual rate for maize meal up 29.1 percent. Add the rise in unemployment to 33.9 percent and it is plain that we are in deep trouble. Runaway inflation is imminent and South African taxpayers are caught in the headlights!

Worse, the US Federal Reserve is now making it clear that the gloves are off in their fight against global inflation which they have at last woken up to as a serious risk of getting completely out of hand. That, as I have so often reminded readers, means that interest rates will remain high and rising for the foreseeable future which can only add further intolerable social pressure to South Africa. As one of the world's most over-borrowed nations, that stark fact inevitably signals heightened political instability at a time when the ruling ANC has clearly run out of the few worthwhile ideas it ever possessed.

As last year's Durban riots made clear, misery is stalking the land making it easy for irresponsible politicians to plunge us into chaos. So it can be no surprise that the Rand has been taking such strain. As my graph on the right worryingly telegraphs, the money in your pocket has been losing value at a compound rate of 25.1 percent annually since June last year and, as ShareFinder projects, it is likely to continue doing so at an annualised rate of 21.9 percent until at least next March when the rate to the US Dollar is likely to reach R18.95:



Against this backdrop it should thus surprise nobody that the JSE All Share Index (on the left) has fallen 18.4 percent since March and appears likely to continue declining until mid-January at least. We might, however, count ourselves lucky since the Nasdaq is down 32.4%, the S&P500 down 24.77% and the Dow 20.95%.

While it would be irresponsible to attempt to minimise the looming threat to social security that unemployment, economic stagnation and irresponsible

State borrowing have piled upon this nation, those of you who listened to my warnings and acted in a timely fashion to create cash in your investment portfolios should now be in a strong position to take advantage of the attractive share prices which have lately been opening up. Furthermore, where you are seeing paper losses in some holdings, this situation is opening up the opportunity to offload some holdings such as the controversial Naspers/Prosus axis which over the years has offered you huge capital gains but yielded very little in dividends.

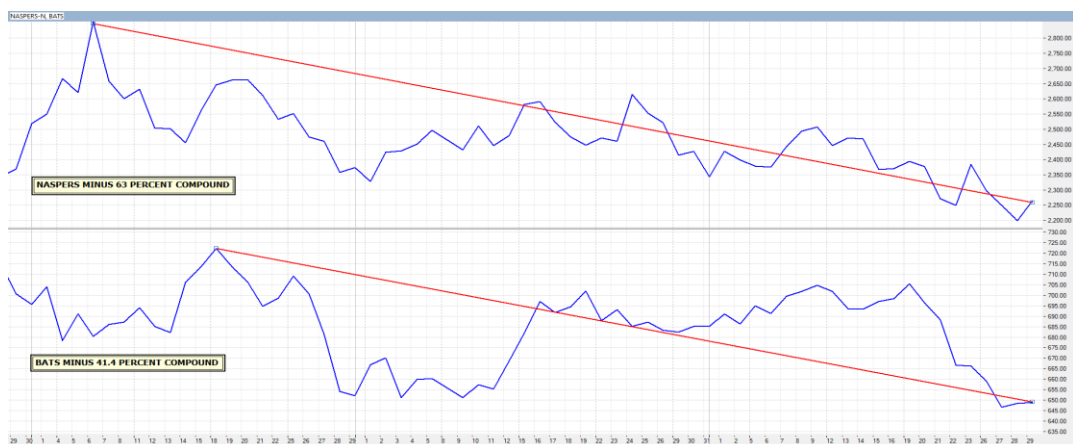
As I reported to you immediately before my departure for North America at the end of August, I have been selling underperformers in my personal portfolios and opting for counters offering high dividend yields as well as overseas-sourced income. If you consider the list on the right, every share listed here (down to the bottom of the 'Blue Chips' list) has enjoyed at least ten years of constantly-rising dividends along with very high dividend yields. Furthermore, the stand-outs are British American Tobacco and the Anglos with five-year dividend growth histories and which simultaneously source a major proportion of their income from businesses located outside of South Africa which might thus be considered largely immune to events inside of this country. Since I personally have no intention of joining the general exodus of upper-income-group individuals who are exiting the country in the face of growing political and economic uncertainty, creating an income stream from this type of investment sufficient to meet my immediate monthly needs makes it a great deal easier to sleep at night. Collectively these shares are offering a dividend yield of 8.2 percent currently compared with the 0.28 offered by Naspers, Capitec's 2.13%, Shoprite's 2.61%, Aspen's 2.43% and Netcare's 4.12%.

Name	DY	Grade	5YrDiv
— Grand Old Favourites —			
Group Avg.	3.1	3,166.9	38.98
CAPITEC BANK HDGS LTD	3.3	4,23...	55.24
ADVTECH LTD.	2.8	2,10...	22.73
— Mid-Cap Companies —			
Group Avg.	48.2	5,729.7	380.72
ZEDER INVESTMENTS LIM...	48.2	5,729.7	380.72
— Tightly Held Mid-Cap Companies —			
Group Avg.	3.1	1,219.7	53.88
AFRIMAT LTD.	3.1	1,219.7	53.88
— Blue Chips —			
Group Avg.	5.2	1,739.2	16.90
INVESTEC PROPERTY FU...	8.9	703.7	0.73
AFROCENTRIC INVESTME...	8.0	288.0	17.35
AECI LTD.	7.9	475.3	10.24
BRITISH AMERICAN TOBA...	6.8	257.0	12.26
THE SPAR GROUP LTD	5.7	214.6	4.49
CLICKS GROUP LIMITED	1.7	282.8	13.21
SABVEST REMOVED DELI...	1.4	5,47...	47.61
SABVEST CAPITAL LTD	1.0	6,21...	29.34
— Medium-Term Market Leaders —			
Group Avg.	9.0	2,490.3	55.57
KUMBA IRON ORE LTD	26.6	1,59...	38.00
ANGLO AMERICAN PLATIN...	23.3	10,1...	283.69
ANGLO AMERICAN PLC	11.4	5,61...	83.21
NEPI ROCKCASTLE N.V	7.2	-217.2	12.56
MUSTEK LTD.	6.1	4,50...	62.67
SIRIUS REAL ESTATE LTD	4.7	383.3	13.11

Here, as I have several times recently pointed out, it is always folly to sell in the middle of a Bear market unless you do so in order to swap for shares with better prospects which also offer higher dividend yields. The table on the right lists such shares which have enjoyed exceptional price and dividend growth in recent years. Many are, of course, mining companies which have benefitted from the recent minerals boom and which might **not** yield the same high growth fundamentals in future and so you need to exercise caution if you are considering such a move. The principle of swapping for quality is, nevertheless, a sound option in times like these and is not to be equated with panic selling because, at this comparatively late stage in the bear market you have begun to fear the complete collapse of your long-held investments in the face of one of the scariest markets of the past century!

Name	Close	3 Month Price Gro...	5 Year Price Gro...	Dividend Growth
The following shares, combine exceptional fundamental quality with high historic dividend growth rates:				
ZEDER	1.92	-4.20	-19.23	380.72
CAPITEC	1,553.00	-60.25	14.95	55.24
Though the following shares may carry a greater degree of risk, these have achieved the highest historic dividend growth				
ANGLOPLAT	1,288.26	-33.26	27.07	283.69
LIBERTY2D	4.65	128.73	-11.49	275.53
REINET	266.93	-36.85	-0.43	182.95
ANGLO	546.00	-26.11	16.78	83.21
EXXARO	202.43	0.92	10.53	77.41
ARM	244.52	41.97	18.99	70.28
ANGGOLD	249.67	-3.58	13.35	66.73
MUSTEK	14.75	-32.20	24.35	62.67
KAAPAGRI	38.50	-4.13	-4.70	47.40
KUMBA	387.83	-71.04	10.69	38.00
The following shares, combine exceptional fundamental quality with high historic rates of price growth:				
CAPITEC	1,553.00	-60.25	14.95	55.24
AFRIMAT	48.00	-44.87	11.24	53.88
REMOVED	42.64	-3.81	6.58	47.61
SABCAP	75.00	5.71	26.05	29.34
CLICKS	285.46	6.94	13.11	13.21
Though the following shares may carry a greater degree of risk, these have achieved the highest historic price growth:				
ANGLOPLAT	1,288.26	-33.26	27.07	283.69
ANGLO	546.00	-26.11	16.78	83.21
ARM	244.52	41.97	18.99	70.28
ANGGOLD	249.67	-3.58	13.35	66.73
MUSTEK	14.75	-32.20	24.35	62.67
CAPPREC	1.46	-44.27	14.86	17.57

In that light you should consider the relative trends of Naspers and BATS in the graph on the right. Clearly I would rather be left holding BATS which is down 41 percent compared with Naspers' 63.



Here let me add an observation from Fortune Magazine's Alan Murray warning of the coming blood on the street, "One of Warren Buffett's most famous quotes is: "Only when the tide goes out do you learn who has been swimming naked." Well, the tide is receding. So don't be surprised as bare bodies start to appear.

Among companies, you can call them "zombies"—even if that mixes the metaphor. Real interest rates have been negative for the last 15 years, with only a few brief months of exception. So no surprise many companies have loaded up on debt. Now the Fed is determined to reverse the process. And as rates rise, the "zombies" will find they aren't making enough money to service their debts. How many? Well, a recent estimate from Goldman Sachs found that 13% of U.S.-listed companies "could be considered" zombies. Other estimates put it even higher. David Trainer, CEO of investment firm New Constructs, has a list of roughly 300.

As the zombies feel the pinch, expect pain to spread. That's why some commentators are already calling on the Fed to ease up on raising rates. But unwinding the effects of 15 years of easy money doesn't happen without pain. The only question is timing: Does the water go out rapidly—exposing the naked bodies all at once—or slowly and fitfully—prolonging the process?

Here in South Africa where it is commonplace to blame everything on inept government and its supporting institutions we should accordingly pause to note that we have one voice of economic sanity in Reserve Bank Governor Lesetja Kganyago who has forcefully outlined his determination to fight inflation, saying the central bank's larger strategic target was to undo the error of 20 years ago when "we gave up on lowering the inflation target".

In remarks at the Centre for Education in Economics in Johannesburg, Kganyago said that while the immediate priority was to guide inflation to the middle of the 3%-6% target range, he was convinced by the case for a lower inflation target of 3%. "Low inflation is like reliable electricity: good policy means most people don't have to worry about it. Unfortunately, just as we have load-shedding, so our high and wide inflation target means the currency suffers persistent value-shedding. We would like this to end."

Kganyago also weighed in on SA's fiscal policy, cautioning that policymakers had no room left to tackle social needs through more spending, more debt and higher taxes but urged them to channel the spirit of the 1990s and early 2000 when structural reforms boosted economic growth and lifted the standards of living. "Trying to deal with social needs simply through more spending, more debt and higher tax doesn't really cure the patient, but rather limits the pain while accepting continued decline. Living standards cannot rise materially without growth," he said.

"This is an unsustainable situation, not least because the efficiency of government spending has been low. Much as I wish we had a strong state that could deliver high-quality public goods at reasonable prices, the facts reflect otherwise. Relative to the 2000s, we have a weaker state spending a larger share of GDP. The result is an economy barely capable of growth faster than 1%, with a shrinking tax base and a weak outlook."

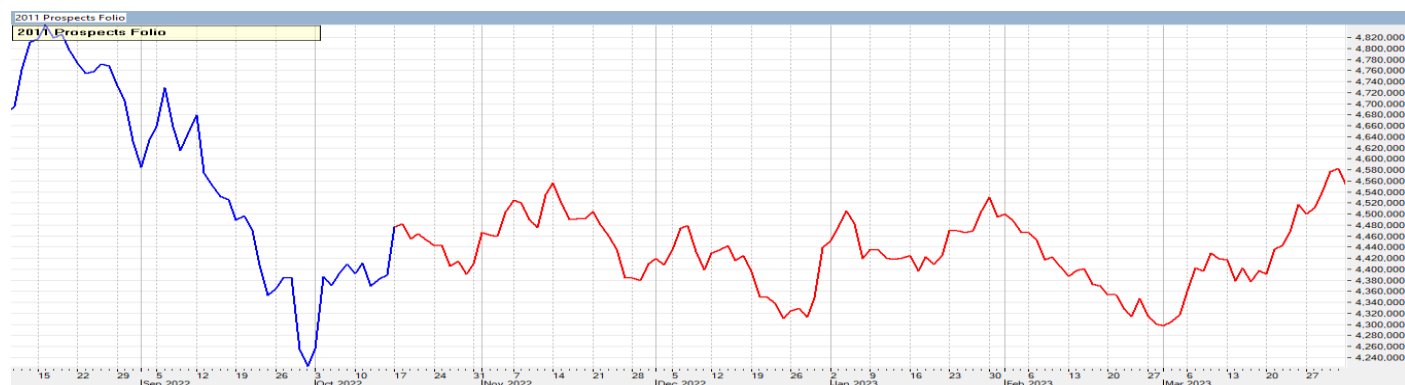
His comments about fiscal policy came ahead of finance minister Enoch Godongwana's medium-term budget policy statement next week and Godongwana's resolve to keep spending under control is being tested by demands to make permanent the income support grant, public service workers' demands for inflation-beating wage increases and state-owned enterprises on the brink of collapse. The presentation is expected to show that SA's public debt and tax burdens are too high for an emerging-market economy. More recently, speaking at the annual conference of the Government Employees Pension Fund, Godongwana warned that downside risks to the economy are intensifying. He cited intensifying load-shedding, worsening geopolitical tension, faltering Chinese growth, rising inflation and tighter global financial conditions leading to capital outflows from emerging markets. Godongwana said the combination of these risks could have a negative effect on the fiscus. But despite a poorer growth outlook, fiscal developments since February — notably main budget data from June to August and provisional financing data for September — continue to support an even more positive view.

What does all of this mean for the South African man in the street? I began with an illustration of the rising social problems of the US where I have just spent the past month and so let me conclude my general October economic comments with a statistic from Bloomberg which seems to offer the best illustration yet of just how unaffordable buying a home is becoming there: With mortgage rates around 3% in early 2021, if you wanted to spend \$2,500/month on a home you could buy a house that cost \$758,572. Now, with mortgage rates more than double that, that same monthly payment would get you a house that costs

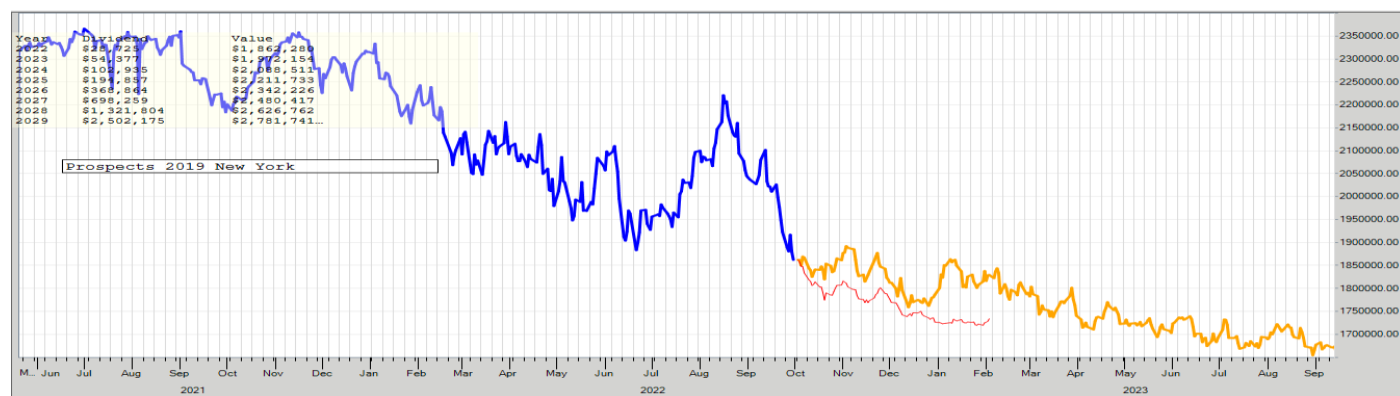
\$476,425.
Watch out South Africa!

The Prospects Portfolios

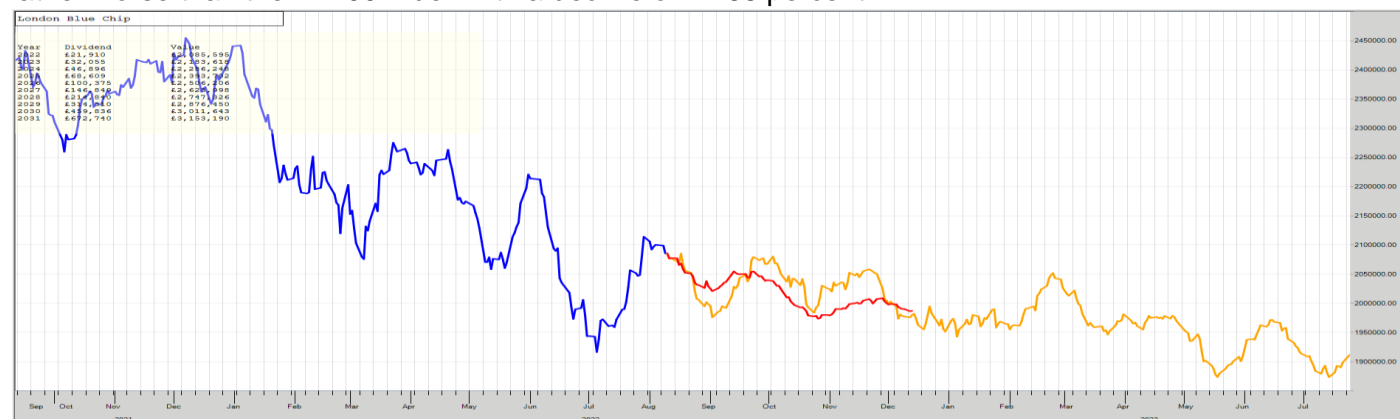
I began the August issue by noting how slight had been the damage wrought upon the Prospects portfolios relative to the suffering of world markets as a whole with our South African portfolio recording a mere 8.9 percent decline compared with the Nasdaq decline of 28.33. Our position remains relatively very strong with the decline actually reaching just 9.6 percent before it began recovering strongly this month compared with the Nasdaq 32.4 percent rout, New York's S&P500 24.77 percent, the Dow 20.95 percent and our own JSE All Share Index down 18.4 percent. The recovery from late June to August 16 proved, as I warned was likely, to be a proverbial dead cat bounce and, as the graph projection below suggests, the portfolio is likely to continue taking strain for at least the next ten months in line with the outlook of most other world markets..



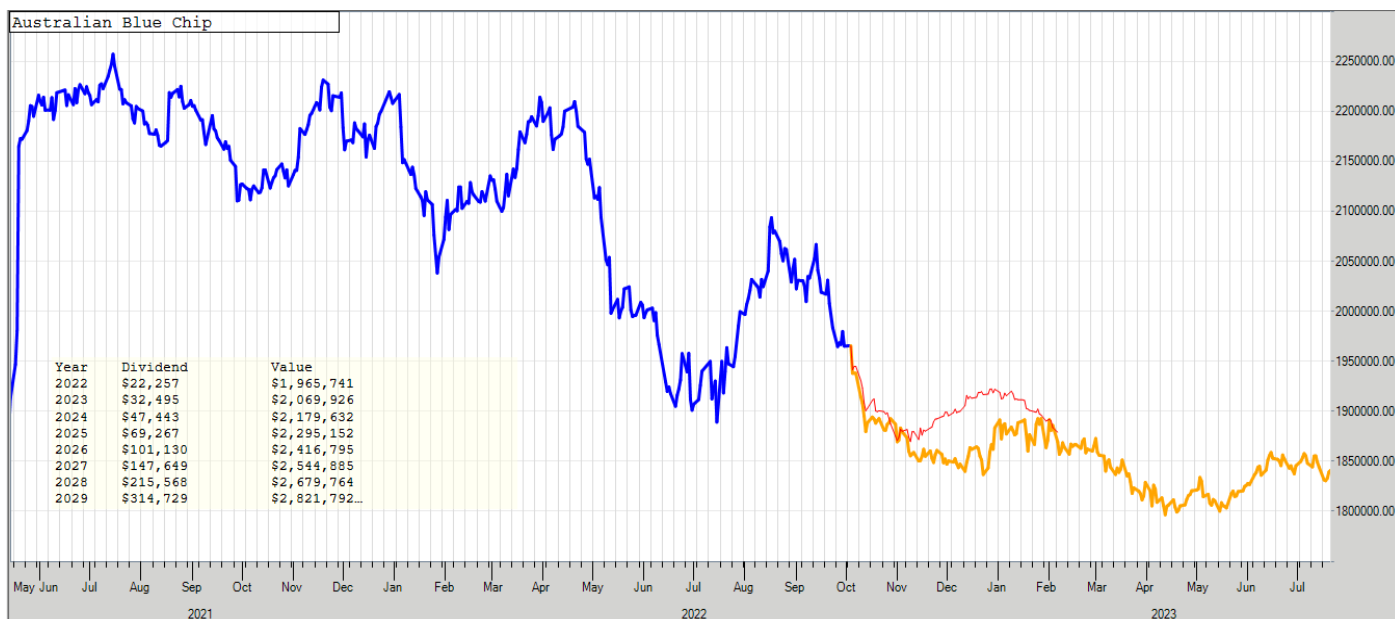
Furthermore, our overseas portfolios have to date mostly performed better than their respective market indices with our New York portfolio currently down 18.47 percent relative to its September 2021 peak as depicted in the following graph compared with the benchmark Nasdaq's 32.4 percent, the S&P500's 24.77% and the Dow's 20.95%. ShareFinder has, however, a bleak view of the likely performance of this market which it sees as likely to continue declining until at least next September:



Britain is in an ever-worsening economic situation with local inflation reaching an all time high of 10.10 percent relative to a 25-year average of 2.62 percent and its government in disarray over its disastrous economic policy proposals which have been castigated by the majority of international observers and has cost the pound its biggest decline since 1992 which has taken it almost to parity with the US Dollar and its share market down 10.4 percent. Our London portfolio could not escape the carnage and sadly it is doing rather worse than the FT100 Index with a decline of 21.68 percent.



Out in Australia where the declines began rather sooner than the rest of the world and ShareFinder's projection suggests that most of the worst might soon be over, our Prospects Portfolio is so far down 12.47 percent since its September 2021 peak compared with the 14.07 percent decline of the Australian All Ordinaries index. However, ShareFinder projects that it is unlikely that the Australian market will bottom before next May



The Prospects JSE Portfolio

Perhaps a little intemperately, I elected to use up the last of our cash reserve to buy BATS shares and so the portfolio currently like this; down a half million Rands! Now it is a time to “vasbyt” while we ride out the rest of this uncomfortable time.

Name	Quantity	Cost	Per Share	Value	% Portf...	DY	% Gain	Price
2011 Prospects Folio				5,000,744.20		3.6	152.9	
*Cash				1,032.22	0.0%			
ANGLO	300	189,287.00	630.96	169,335.00	3.4%	11.1	-10.5%	564.45
BATS	840	538,977.60	641.64	549,326.40	11.0%	6.7	+1.9%	653.96
CAPITEC	362	64,436.00	178.00	562,446.64	11.2%	3.3	+772.9%	1,553.72
CLICKS	1,800	237,150.00	131.75	506,394.00	10.1%	1.7	+113.5%	281.33
DISCOVERY	2,150	286,454.00	133.23	223,578.50	4.5%		-21.9%	103.99
HYPROP	11,364.1508	129,749.00	11.42	391,154.07	7.8%	9.8	+201.5%	34.42
ITLTILE	26,047.6018	319,355.09	12.26	375,085.47	7.5%	7.4	+17.5%	14.40
MONDIPLC	333.3333	100,000.00	300.00	93,639.99	1.9%	3.9	-6.4%	280.92
MRPRICE	1,804	100,000.00	55.43	315,790.20	6.3%	3.8	+215.8%	175.05
MUSTEK	12,000	183,600.00	15.30	174,360.00	3.5%	6.2	-5.0%	14.53
NASPERS-N	50	17,857.14	357.14	113,550.00	2.3%		+535.9%	2,271.00
< PSG >	8,354.4294	538,185.00	64.42	746,301.18	14.9%		+38.7%	89.33
PURPLE	83,809.5238	200,600.00	2.39	158,400.00	3.2%		-21.0%	1.89
RENERGEN	5,248.6674	150,000.00	28.58	151,686.49	3.0%		+1.1%	28.90
RICHEMONT	749.0637	66,419.48	88.67	128,584.27	2.6%	1.8	+93.6%	171.66
SABCAP	1,600	100,000.00	62.50	128,000.00	2.6%	0.9	+28.0%	80.00
TRANSCAP	5,698.0057	100,000.00	17.55	212,079.77	4.2%	1.4	+112.1%	37.22

London Blue Chip Portfolio

I mentioned last month that in view of the continually worsening British economic outlook I did not consider it prudent to invest further and would continue to hold our 37 percent cash portion until I saw signs of a recovery beginning. Impossibly, the outlook has gone from bad to worse with new Prime Minister Liz Truss's economic policy in ruins and a growing possibility that the Tories could be ousted at the next election and so I will continue to sit tight for the foreseeable future.

Meantime the portfolio remains as follows:

Name	Full Name	Price	% Change	Quantity	Cost	Per Share	Value	% Gain	% Portfolio
*CASH	*CASH						712,104.50		37.10 %
AHT.L	ASSTEAD GROUP	41.22	+0.9 %	4,000.00	94,640.00	23.66	164,880.00	+74.2 %	8.60 %
ANTO.L	ANTOFAGASTA	11.31	+1.3 %	12,000.00	104,040.00	8.67	135,720.00	+30.5 %	7.10 %
HWDN.L	HOWDEN JOINERY GROUP PLC	5.14	+1.8 %	1,100.00	10,230.00	9.30	5,649.60	-44.8 %	0.30 %
JDG.L	JUDGES SCIENTIFIC PLC	71.00	-2.7 %	1,600.00	95,040.00	59.40	113,600.00	+19.5 %	5.90 %
LIO.L	LIONTRUST ASSET MANAGEM...	7.45	+1.9 %	10,000.00	94,200.00	9.42	74,500.00	-20.9 %	3.90 %
MBH.L	MICHELMERSH BRICK HLDGS	0.81	-1.2 %	94,000.00	99,640.00	1.06	76,140.00	-23.6 %	4.00 %
RDWL	REDROW	4.11	+3.0 %	32,000.00	116,800.00	3.65	131,520.00	+12.6 %	6.90 %
SAG.L	SAGENTIA GROUP PLC	3.90	0.0 %	50,000.00	207,000.00	4.14	195,000.00	-5.8 %	10.20 %
TPFG.L	PROPERTY FRANCHISE GROU...	2.70	-2.9 %	8,000.00	19,200.00	2.40	21,600.00	+12.5 %	1.10 %
UTG.L	UNITE GROUP	8.72	+1.5 %	13,000.00	99,970.00	7.69	113,360.00	+13.4 %	5.90 %
YOU.L	YOUGOV	8.76	-0.5 %	20,000.00	111,800.00	5.59	175,200.00	+56.7 %	9.10 %

NYSE Prospects Portfolio

In New York our strategy remains the same as in respect of the UK where we will continue to sit it out and hold onto our remaining cash. Thus our portfolio there looks like this:

Name	Full Name	Price	% Change	Quantity	Cost	Per Share	Value	% Gain	% Portfolio
Prospects 2019 New York			2.46 %				1,936,094.50	7.1 %	
*CASH	*CASH						214,998.07		11.10 %
AAP	ADVANCE AUTO PARTS INC	163.37	+4.5 %	450.00	99,036.00	220.08	73,516.50	-25.8 %	3.80 %
AMT	AMERICAN TOWER CORPORA...	217.17	+1.2 %	400.00	113,840.00	284.60	86,868.00	-23.7 %	4.50 %
APO	APOLLO GLOBAL MANAGEME...	48.93	+5.2 %	2,800.00	98,000.00	35.00	137,004.00	+39.8 %	7.10 %
BAH	BOOZ ALLEN HAMILTON HOL...	95.97	+3.9 %	1,300.00	106,171.00	81.67	124,761.00	+17.5 %	6.40 %
BBY	BEST BUY CO., INC.	63.67	+0.5 %	1,077.00	113,795.82	105.66	68,572.59	-39.7 %	3.50 %
DHI	D.R. HORTON, INC.	70.74	+5.0 %	1,899.00	92,861.10	48.90	134,335.26	+44.7 %	6.90 %
DHR	DANAHER CORPORATION	268.79	+4.1 %	400.00	128,380.00	320.95	107,516.00	-16.3 %	5.60 %
DOC	PHYSICIANS REALTY TRUST	14.86	-1.2 %	5,760.00	99,993.60	17.36	85,593.60	-14.4 %	4.40 %
FSS	FEDERAL SIGNAL CORPORATI...	38.85	+4.1 %	2,600.00	102,154.00	39.29	101,010.00	-1.1 %	5.20 %
HTH	HILLTOP HOLDINGS INC.	25.40	+2.2 %	3,200.00	100,160.00	31.30	81,280.00	-18.9 %	4.20 %
KFY	KORN/FERRY INTERNATIONAL	48.84	+4.0 %	2,824.00	99,489.52	35.23	137,924.16	+38.6 %	7.10 %
MA	MASTERCARD INCORPORATED	290.48	+2.2 %	384.00	99,997.44	260.41	111,544.32	+11.5 %	5.80 %
MED	MEDIFAST INC	111.06	+2.5 %	500.00	92,500.00	185.00	55,530.00	-40.0 %	2.90 %
MS	MORGAN STANLEY	80.38	+1.7 %	1,200.00	119,664.00	99.72	96,456.00	-19.4 %	5.00 %
NRG	NRG ENERGY, INC.	39.34	+2.8 %	4,000.00	147,816.00	36.95	157,360.00	+6.5 %	8.10 %
RDN	RADIAN GROUP INC.	19.97	+3.5 %	4,500.00	97,155.00	21.59	89,865.00	-7.5 %	4.60 %

Australian Blue Chip Portfolio

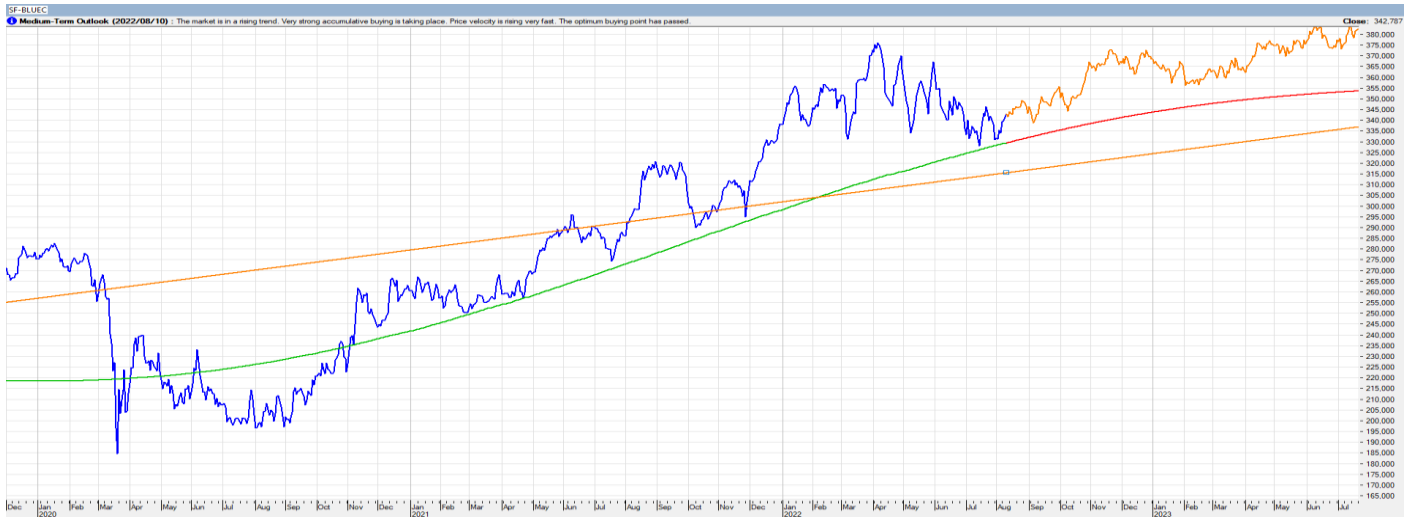
Sitting tight, the portfolio graph looks like this:

Name	Full Name	Price	% Change	Quantity	Cost	Per Share	Value	% Gain	% Portfolio
*CASH	*CASH						984,706.51		49.30 %
CSR.AX	CSR LIMITED	4.60	+2.9 %	40,000.00	228,800.00	5.72	184,000.00	-19.6 %	9.20 %
EGG.AX	ENERO GROUP LIMITED	2.91	-1.7 %	37,000.00	95,830.00	2.59	107,670.00	+12.4 %	5.40 %
EVN.AX	EVOLUTION MINING LIMITED	2.11	+5.0 %	34,722.00	124,999.20	3.60	73,263.42	-41.4 %	3.70 %
IGO.AX	INDEPENDENCE GROUP NL	14.66	+6.1 %	1,000.00	10,160.00	10.16	14,660.00	+44.3 %	0.70 %
JIN.AX	JUMBO INTERACTIVE LIMITED	12.26	+3.5 %	11,000.00	190,520.00	17.32	134,860.00	-29.2 %	6.80 %
KME.AX	KIP MCGRATH EDUCATION CE...	0.81	0.0 %	114,700.00	125,023.00	1.09	92,907.00	-25.7 %	4.70 %
NST.AX	NORTHERN STAR RESOURCES ...	8.24	+7.4 %	13,000.00	125,450.00	9.65	107,120.00	-14.6 %	5.40 %
PME.AX	PRO MEDICUS LIMITED	52.19	+3.8 %	5,700.00	124,431.00	21.83	297,483.00	+139.1 %	14.90 %

On the following pages we publish lists of the world's top-performing shares which, we submit, should form the bulk of your investment portfolios in their respective countries or as suggested replacements for any in your portfolios that are achieving lesser growth rates than the ShareFinder Blue Chip average growth rates which head the lists. The shares listed in the first block of each list have been selected because of their investment grade quality, their very high dividend growth rates and superior investment safety.

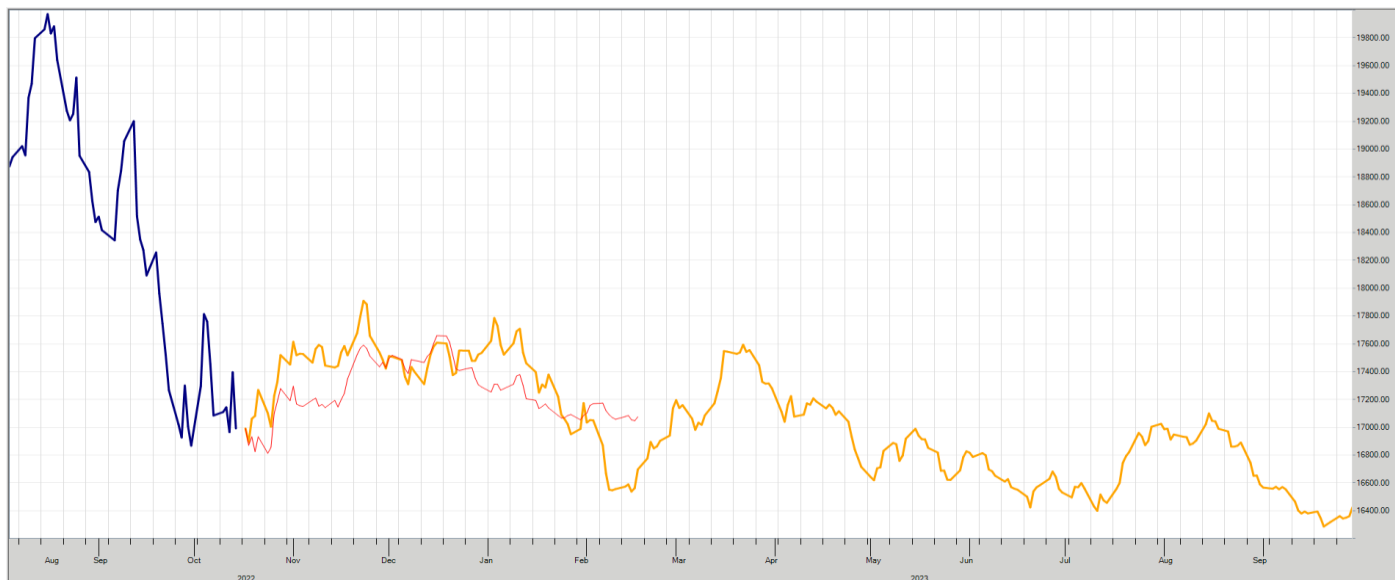
The second block of ten offers significantly higher dividend growth rates but at the price of a greater degree of investment risk. The shares listed in the third block have been selected because of their investment grade quality and their very high price growth rates. These offer superior investment safety. Finally, shares in the fourth block have been selected because they generally offer significantly higher price growth rates but at the price of a greater degree of investment risk:

South Africa: JSE



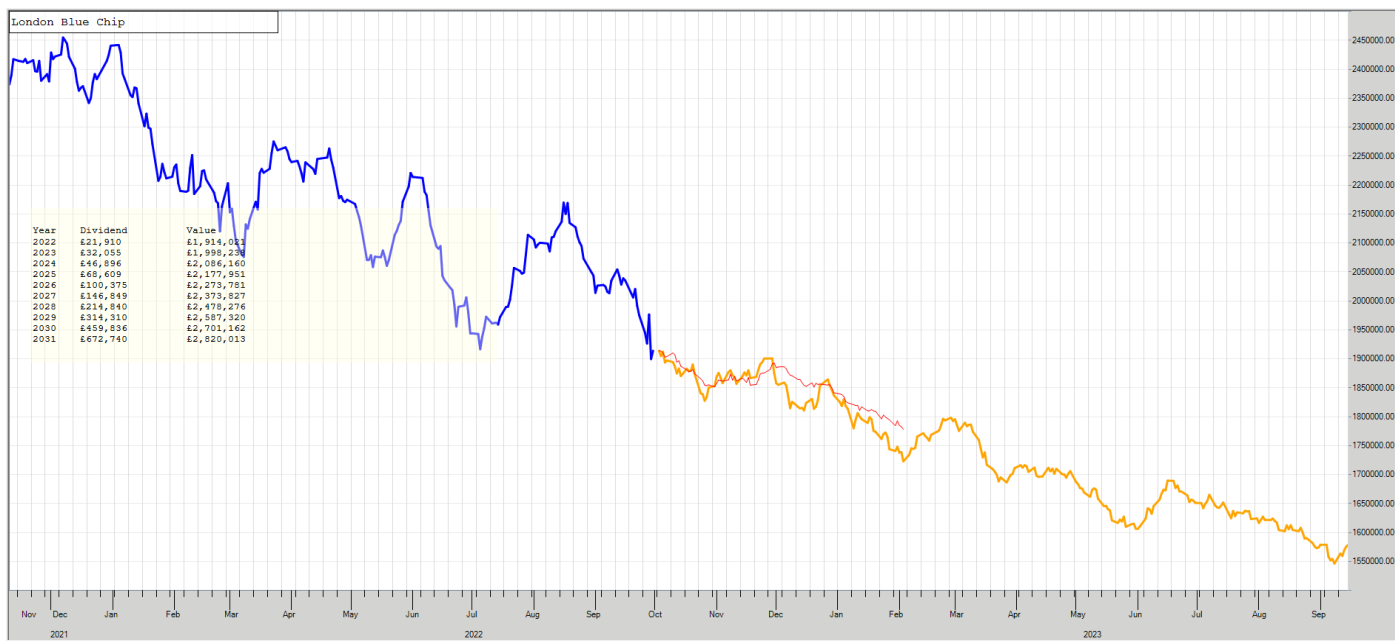
Name	Close	3 Month Price Gro...	5 Year Price Gro...	Dividend Growth	Grade	Risk	Total Return	Rating
The following shares, combine exceptional fundamental quality with high historic dividend growth rates:								
ZEDER	1.92	13.50	-21.00	380.72	5,735.5	18.11	27.18	Fair.
CAPITEC	1,840.61	-33.04	13.95	55.24	4,235.8	0.00	16.75	Fair.
Though the following shares may carry a greater degree of risk, these have achieved the highest historic dividend growth rates:								
ANGLOPLAT	1,460.59	70.85	31.35	283.69	10,112.3	62.21	51.89	Very cheap.
LIBERTY2D	4.63	72.26	-11.82	275.53	3,402.8	-29.93	-4.46	Costly.
REINET	277.78	-23.07	-1.28	182.95	1,273.7	-31.09	0.26	Fair.
ANGLO	550.72	3.48	15.72	83.21	5,617.4	-0.50	27.05	Cheap.
EXXARO	208.26	13.12	6.57	77.41	1,336.4	2.37	22.18	Costly.
ARM	260.90	123.17	18.03	70.28	743.6	12.44	29.52	Fair.
ANGGOLD	234.94	-14.68	12.84	66.73	864.6	59.60	14.13	Very cheap.
MUSTEK	14.50	-28.27	22.95	62.67	4,504.4	2.81	29.15	Fair.
KAAPAGRI	38.87	-22.64	-5.20	47.40	2,643.4	10.36	-1.31	Fair.
KUMBA	387.82	-55.47	8.02	38.00	1,599.7	38.86	34.63	Very cheap.
The following shares, combine exceptional fundamental quality with high historic rates of price growth:								
CAPITEC	1,840.61	-33.04	13.95	55.24	4,235.8	0.00	16.75	Fair.
AFRIMAT	49.60	-29.84	11.08	53.88	1,223.6	-2.54	14.06	Cheap.
SABCAP	80.00	51.89	24.95	29.34	6,217.7	28.73	25.89	Very costly.
CLICKS	286.30	-5.15	12.07	13.21	285.2	-30.82	13.78	Fair.
Though the following shares may carry a greater degree of risk, these have achieved the highest historic price growth:								
ANGLOPLAT	1,460.59	70.85	31.35	283.69	10,112.3	62.21	51.89	Very cheap.
ANGLO	550.72	3.48	15.72	83.21	5,617.4	-0.50	27.05	Cheap.
ARM	260.90	123.17	18.03	70.28	743.6	12.44	29.52	Fair.
ANGGOLD	234.94	-14.68	12.84	66.73	864.6	59.60	14.13	Very cheap.
MUSTEK	14.50	-28.27	22.95	62.67	4,504.4	2.81	29.15	Fair.
SYGNIA	16.40	-24.81	12.68	24.29	439.8	-1.51	20.91	Cheap.
CAPPREC	1.37	-58.38	14.04	17.57	894.7	-11.45	18.06	Cheap.

New York Stock Exchange: NYSE



Code	Full Name	Close	3 Month Price Growth	5 Year Price Growth	Dividend Growth	Grade	Risk	Total Return	Rating
The Following shares, combine exceptional fundamental quality with high historic dividend growth rates :									
BCC	Boise Cascade, L.L.C.	58.65	-46.72	21.09	72.00	269.00	44.36	21.79	Fair.
AAP	Advance Auto Parts Inc	168.57	-58.95	12.41	63.33	1124.00	17.61	13.01	Fair.
CSV	Carriage Services, Inc.	30.94	-67.85	22.14	29.42	172.00	72.25	23.24	Fair.
HTH	Hilltop Holdings Inc.	25.78	-44.42	10.31	68.69	234.00	19.24	11.71	Fair.
BAC	Bank of America Corporation	31.70	-32.80	8.36	30.15	146.00	13.98	10.66	Fair.
EIG	Employers Holdings Inc	35.62	-55.90	-3.05	34.73	82.00	-27.50	-0.25	Fair.
KFY	Korn/Ferry International	51.27	-76.94	9.10	60.00	155.00	30.99	9.90	Fair.
MED	MEDIFAST INC	115.60	-86.99	15.42	34.95	231.00	116.83	19.32	Fair.
CMA	Comerica Incorporated	72.11	-31.49	-3.24	29.13	52.00	31.11	0.56	Cheap.
AL	Air Lease Corporation	31.60	-49.10	-1.95	29.52	71.00	42.12	-0.05	Fair.
Through the following shares may carry greater degree of risk, these have achieved the highest historic dividend growth rates :									
MMS	Maximus, Inc.	56.01	-47.23	2.75	93.51	247.00	-29.74	4.75	Fair.
VOYA	ING U.S. Inc.	63.38	24.39	7.92	157.50	632.00	-5.21	8.92	Fair.
NRG	NRG Energy, Inc.	41.04	61.00	5.08	170.43	3110.00	-2.80	7.98	Fair.
GPN	Global Payments Inc.	110.06	-37.82	6.16	122.83	1017.00	13.15	6.86	Fair.
RDN	Radian Group Inc.	18.79	-45.89	2.30	980.00	17121.00	16.13	5.00	Fair.
PXD	Pioneer Natural Resources Com...	239.89	43.15	6.46	131.67	553.00	40.44	7.36	Fair.
NTB	Bank of Butterfield Ltd	34.86	-3.22	-5.57	242.91	438.00	18.39	-0.47	Fair.
CLI	Mack-Cali Realty Corporation	18.31	34.25	-10.80	139.51	2520.00	6.77	-7.50	Cheap.
CC	Chemours Company	26.39	-73.64	-9.14	107.95	149.00	101.22	-5.34	Fair.
AM	Antero Midstream Corp	9.79	-13.31	-36.25	113.88	90.00	101.78	-23.65	Fair.
The Following shares, combine exceptional fundamental quality with high historic price growth rates :									
DKS	Dicks Sporting Goods Inc	109.96	113.35	55.11	13.64	289.00	53.96	56.21	Fair.
TGT	Target Corporation	145.69	-19.66	38.58	1.91	156.00	31.81	40.38	Fair.
DE	Deere & Company	357.14	40.30	34.36	5.07	129.00	6.31	35.26	Fair.
AJG	Arthur J. Gallagher & Co.	170.36	3.24	29.31	4.00	115.00	-13.57	30.41	Cheap.
DG	Dollar General Corporation	236.60	-17.56	26.29	6.88	140.00	-12.84	26.89	Fair.
KBR	KBR, Inc.	44.97	-45.47	32.14	5.00	176.00	25.72	33.04	Costly.
CSL	Carlisle Companies Incorporated	281.62	11.44	25.89	13.44	153.00	7.55	26.59	Cheap.
MCK	McKesson Corporation	352.65	10.96	24.71	11.14	131.00	2.00	25.21	Cheap.
KAI	Kadant Inc	163.98	-59.60	25.85	8.29	186.00	15.71	26.55	Fair.
ALB	Albemarle Corporation	237.47	113.45	34.78	5.85	157.00	71.52	35.48	Cheap.
Through the following shares may carry greater degree of risk, these have achieved the highest historic price growth rates :									
WMS	Advanced Drainage Systems Inc	119.75	55.69	210.32	42.69	927.00	53.91	210.62	Fair.
DDS	Dillards, Inc.	280.87	128.98	125.63	12.53	573.00	126.31	125.83	Cheap.
WST	West Pharmaceutical Services, I...	247.53	-74.29	57.56	5.86	230.00	35.15	57.86	Fair.
LLY	Eli Lilly and Company	331.39	0.86	44.55	8.31	220.00	-6.75	45.45	Fair.
DKS	Dicks Sporting Goods Inc	109.96	113.35	55.11	13.64	289.00	53.96	56.21	Fair.
MSCI	MSCI Inc	388.72	-38.61	46.74	24.91	254.00	23.29	47.54	Fair.
TGT	Target Corporation	145.69	-19.66	38.58	1.91	156.00	31.81	40.38	Fair.

London Stock Exchange: LSE



Code	Full Name	Close	3 Month Price Growth	5 Year Price Growth	Dividend Growth	Grade	Risk	Total Return	Rating
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The Following shares, combine exceptional fundamental quality with high historic dividend growth rates :

IPX.L	IMPAX ASSET MANAGEMENT GRO...	5.57	-68.20	179.91	26.67	888.00	128.99	181.01	Cheap.
YOU.L	YOUGOV	7.84	-57.46	42.01	36.67	312.00	49.03	42.51	Fair.
AHT.L	ASHTHEAD GROUP	41.87	-18.40	32.78	28.17	247.00	41.21	33.78	Cheap.
POLY.L	POLYMETAL INTL PLC	2.10	-1.93	3.41	34.29	271.00	98.50	43.41	Cheap.
LIO.L	LIONTRUST ASSET MANAGEMENT	7.64	-70.19	30.49	52.47	309.00	72.26	34.29	Cheap.
SMS.L	SMART METERING SYSTEMS PLC	6.91	-52.50	6.58	52.33	657.00	23.68	9.08	Cheap.
NTBR.L	NORTHERN BEAR PLC	0.45	-58.09	-8.51	30.00	-2.00	-7.90	-1.81	Cheap.
IGR.L	NATIONAL EXHIBITION CENTRE(D...	0.82	-62.14	-13.46	44.50	137.00	112.37	-0.06	Cheap.
FEVR.L	Fevertree Drinks Plc	9.71	-57.77	-9.33	95.00	116.00	74.07	-7.83	Cheap.
AVO...	AVON RUBBER	10.23	-17.95	7.95	30.94	187.00	65.36	10.25	Cheap.

Through the following shares may carry greater degree of risk, these have achieved the highest historic dividend growth rates :

TPFG.L	Property Franchise Group Plc (T...	2.66	4.43	25.41	76.19	264.00	17.81	28.41	Cheap.
LIO.L	LIONTRUST ASSET MANAGEMENT	7.64	-70.19	30.49	52.47	309.00	72.26	34.29	Cheap.
AUT...	Auto Trader Group Plc	5.24	-49.83	12.05	57.33	184.00	-9.76	13.35	Cheap.
KETLL	Strix Group Plc	1.00	-82.42	14.87	77.86	222.00	45.45	22.87	Cheap.
SNN.L	Sanne Group Plc	9.21	-8.23	6.47	152.54	308.00	-6.42	7.97	Cheap.
MOT...	Motorpoint Group Plc	1.50	-53.20	7.02	88.00	174.00	28.87	11.72	Cheap.
SMS.L	SMART METERING SYSTEMS PLC	6.91	-52.50	6.58	52.33	657.00	23.68	9.08	Cheap.
PLUS.L	Plus500 Ltd	17.44	10.87	7.77	52.98	278.00	79.08	15.37	Cheap.
FEVR.L	Fevertree Drinks Plc	9.71	-57.77	-9.33	95.00	116.00	74.07	-7.83	Cheap.
CER.L	Cerillion Plc	9.85	-26.60	0.00	65.00	188.00	59.02	0.50	Cheap.

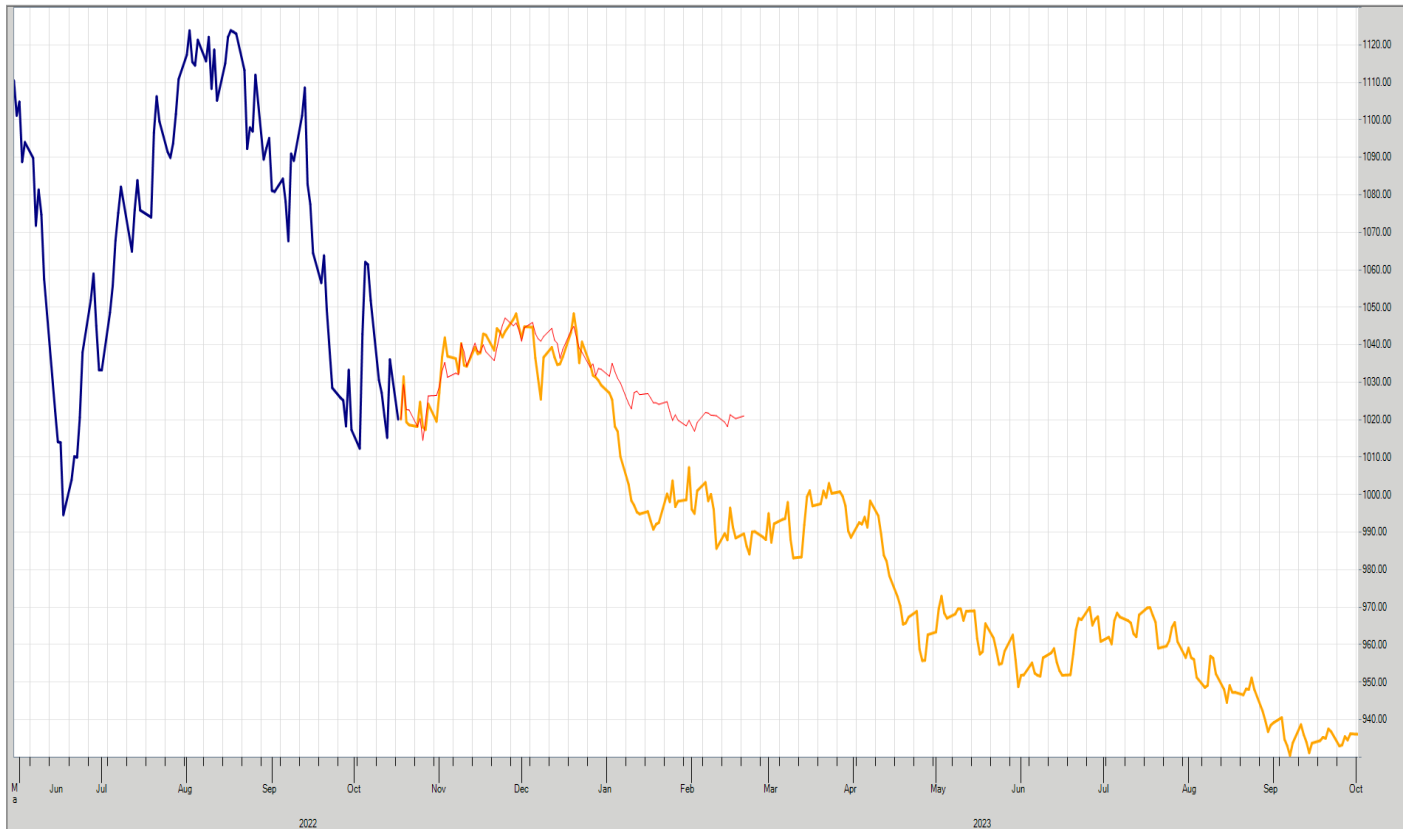
The Following shares, combine exceptional fundamental quality with high historic price growth rates :

IPX.L	IMPAX ASSET MANAGEMENT GRO...	5.57	-68.20	179.91	26.67	888.00	128.99	181.01	Cheap.
JDG.L	JUDGES SCIENTIFIC PLC	67.40	-39.23	41.17	17.91	251.00	38.45	41.97	Fair.
YOU.L	YOUGOV	7.84	-57.46	42.01	36.67	312.00	49.03	42.51	Fair.
SOLI.L	Solid State Plc	10.25	-30.50	44.65	7.33	229.00	74.77	46.05	Cheap.
AHT.L	ASHTHEAD GROUP	41.87	-18.40	32.78	28.17	247.00	41.21	33.78	Cheap.
SAFE.L	SAFESTORE HLDGS PLC	8.30	-76.93	24.76	16.62	104.00	17.18	26.86	Cheap.
TET.L	TREATT	6.00	-81.62	28.22	9.00	151.00	34.74	29.22	Fair.
LOK.L	Lok'n Store Group Plc	7.05	-70.68	24.95	11.40	141.00	24.10	26.65	Fair.
CAPD.L	CAPITAL DRILLING LTD	0.81	-36.63	24.30	11.67	87.00	24.05	26.80	Cheap.
LIO.L	LIONTRUST ASSET MANAGEMENT	7.64	-70.19	30.49	52.47	309.00	72.26	34.29	Cheap.

Through the following shares may carry greater degree of risk, these have achieved the highest historic price growth rates :

IPX.L	IMPAX ASSET MANAGEMENT GRO...	5.57	-68.20	179.91	26.67	888.00	128.99	181.01	Cheap.
KNOS.L	Kainos Group Plc	11.93	4.01	65.05	11.91	378.00	63.53	65.85	Cheap.
TND.L	TANDEM GROUP	2.45	-41.25	59.93	11.67	394.00	95.03	62.43	Cheap.
JDG.L	JUDGES SCIENTIFIC PLC	67.40	-39.23	41.17	17.91	251.00	38.45	41.97	Fair.
YOU.L	YOUGOV	7.84	-57.46	42.01	36.67	312.00	49.03	42.51	Fair.
SOLI.L	Solid State Plc	10.25	-30.50	44.65	7.33	229.00	74.77	46.05	Cheap.
RED...	Redde Plc	3.11	-67.54	35.78	24.72	207.00	48.03	41.58	Cheap.

Australian Stock Exchange: ASX



Code	Full Name	Close	3 Month Price Growth	5 Year Price Growth	Dividend Growth	Grade	Risk	Total Return	Rating
The Following shares, combine exceptional fundamental quality with high historic dividend growth rates :									
PME....	PRO MEDICUS LIMITED	51.12	22.68	90.49	39.91	581.00	50.42	90.69	Very cheap.
ICS.AX	ICSGlobal Limited	2.19	0.00	20.16	20.71	682.00	-4.80	24.26	Fair.
SFC.AX	SCHAFFER CORPORATION LIMITED	17.47	-12.03	13.22	25.83	222.00	-27.39	18.12	Fair.
JIN.AX	JUMBO INTERACTIVE LIMITED	11.93	-54.16	21.79	76.96	435.00	54.87	25.19	Fair.
EVN....	EVOLUTION MINING LIMITED	1.90	-74.37	5.01	52.14	405.00	16.72	11.81	Fair.
BSL.AX	BLUESCOPE STEEL LIMITED	16.05	-19.56	8.27	34.68	99.00	2.02	9.17	Very cheap.
NST.AX	NORTHERN STAR RESOURCES LTD	7.66	19.53	6.50	21.49	183.00	10.24	8.50	Cheap.
TWE....	TREASURY WINE ESTATES LIMITED	12.70	34.93	-10.71	26.12	34.00	-9.37	-7.51	Very cheap.
SSM....	SERVICE STREAM LIMITED	0.67	-89.36	-13.35	68.33	174.00	26.22	1.55	Fair.
EOL.AX	ENERGY ONE LIMITED	4.63	-36.87	0.00	30.00	173.00	47.38	0.70	Very cheap.
Through the following shares may carry greater degree of risk, these have achieved the highest historic dividend growth rates :									
PME....	PRO MEDICUS LIMITED	51.12	22.68	90.49	39.91	581.00	50.42	90.69	Very cheap.
FID.AX	Fiducian Group Limited	6.48	-21.29	14.55	34.51	134.00	-14.31	18.15	Fair.
PNL.AX	Pinnacle Investment Managem...	8.15	-52.33	32.09	50.45	304.00	67.08	34.09	Fair.
JIN.AX	JUMBO INTERACTIVE LIMITED	11.93	-54.16	21.79	76.96	435.00	54.87	25.19	Fair.
IPH.AX	Ipoh	9.82	85.70	11.86	89.04	271.00	1.11	14.66	Fair.
EVN....	EVOLUTION MINING LIMITED	1.90	-74.37	5.01	52.14	405.00	16.72	11.81	Fair.
BSL.AX	BLUESCOPE STEEL LIMITED	16.05	-19.56	8.27	34.68	99.00	2.02	9.17	Very cheap.
ALU.AX	ALTIUM LIMITED	35.06	130.75	12.03	78.38	283.00	22.56	13.13	Fair.
SSM....	SERVICE STREAM LIMITED	0.67	-89.36	-13.35	68.33	174.00	26.22	1.55	Fair.
CL1.AX	Class Limited	2.50	-21.05	-9.16	31.00	-3.00	33.33	-7.16	Fair.
The Following shares, combine exceptional fundamental quality with high historic price growth rates :									
PME....	PRO MEDICUS LIMITED	51.12	22.68	90.49	39.91	581.00	50.42	90.69	Very cheap.
DDR....	DICKER DATA LIMITED	9.35	-62.71	62.66	19.78	558.00	23.22	66.36	Fair.
LIC.AX	LIFESTYLE COMMUNITIES LIMITED	16.42	-15.07	49.48	9.00	242.00	24.58	49.88	Cheap.
LBL.AX	LASERBOND LIMITED	0.83	100.19	51.89	0.00	171.00	90.16	53.09	Cheap.
HIT.AX	HITECH GROUP AUSTRALIA LIMIT...	1.91	12.67	26.96	2.86	81.00	-15.81	31.16	Very cheap.
GMG....	GOODMAN GROUP	16.03	-64.50	23.98	6.45	98.00	-2.63	25.88	Cheap.
TNE.AX	TECHNOLOGY ONE LIMITED	11.36	-31.76	20.57	7.39	184.00	-12.43	21.67	Very cheap.
DMP....	DOMINO'S PIZZA ENTERPRISES LI...	56.63	-78.31	25.13	7.13	136.00	22.05	27.23	Very cheap.
CHC.AX	CHARTER HALL GROUP	11.68	-10.87	23.86	8.48	127.00	23.97	26.96	Cheap.
JIN.AX	JUMBO INTERACTIVE LIMITED	11.93	-54.16	21.79	76.96	435.00	54.87	25.19	Fair.
Through the following shares may carry greater degree of risk, these have achieved the highest historic price growth rates :									
PME....	PRO MEDICUS LIMITED	51.12	22.68	90.49	39.91	581.00	50.42	90.69	Very cheap.
DDR....	DICKER DATA LIMITED	9.35	-62.71	62.66	19.78	558.00	23.22	66.36	Fair.
LIC.AX	LIFESTYLE COMMUNITIES LIMITED	16.42	-15.07	49.48	9.00	242.00	24.58	49.88	Cheap.
DTL.AX	DATA#3 LIMITED	6.30	34.28	45.62	17.91	260.00	20.19	47.52	Fair.
OZL.AX	OZ MINERALS LIMITED	25.75	310.46	40.71	2.91	180.00	7.71	41.61	Fair.
CDA....	CODAN LIMITED	4.98	-90.29	47.72	30.72	377.00	57.50	50.32	Fair.
SNL.AX	SUPPLY NETWORK LIMITED	10.30	4.40	36.22	22.39	207.00	4.84	37.72	Fair.

Pension Sandpile

By John Mauldin

Sandpiles can be fun. Nothing beats taking kids to the beach (or being a kid!) and watching their creativity blossom into all kinds of magical shapes. The problem with sand construction is it doesn't last. I have it on good authority that building your house on the sand probably won't end well.

The same holds for financial sandpiles. I described in a 2006 letter (and rerun many times since then) scientists using computer-simulated sandpiles to study complex systems. The piles can grow quite large and then suddenly collapse with a single added grain of sand.

The point at which this happens is unpredictable. That it *will* happen is highly predictable. From that 2006 letter...

“So, we end up in a critical state of what Paul McCulley calls a ‘stable disequilibrium.’ We have players all over the world tied inextricably together in a vast dance through equities, debt, derivatives, trade, globalization, international business, and finance. Each player works hard to maximize their personal outcome and reduce their exposure to fingers of instability.

“But the longer the game runs, says Minsky, the more likely it is to end in a violent avalanche, as the fingers of instability have more time to build, and, eventually, the state of stable disequilibrium goes critical.”

The stable disequilibrium of that time did, in fact, go critical a couple of years later. The sandpile collapsed but reconstruction (with ample stimulus) began almost immediately. Now we have a new and even bigger sandpile.

As noted, timing the collapse is impossible. Sandpiles, both in reality and in theory, can continue to grow much longer than we think they should. And Minsky tells us the longer it goes, the greater the subsequent collapse. But the instability is now growing more obvious. And this time, something we all depend on is in the sandpile's shadow: our pensions. That includes individual retirement savings, which is part of how we expect to survive if not hopefully thrive as we get older. This coming Minsky moment threatens it all.

The Cascade Begins

In an August 2021 letter I quoted the original sandpile article, adding a [new afterword section](#) talking about the many new sandpiles central banks were generating. I said...

“Which particular sandpile will fall first? It could be many, but it will likely be debt-oriented. And the fingers of instability tell us that it doesn't matter which grain of sand is the trigger, just that there will be one. Millions of investors think they can continue acting as if today will just be like yesterday, which will be like tomorrow, and then be able to sell when trouble appears.

“They're partly right. They will be able to sell... but well below the prices they expect.

“I think the mother of all Minsky moments is building. It will not be an instant sandpile collapse but instead, take years because we have \$500 trillion of [total global public] debt to work through. Remember, that debt just can't be swept away. It is both money somebody owes and an asset on somebody else's balance sheet. If you are retired, your pension and healthcare benefits are part of your net worth. They are assets on your balance sheet that you count on to cover future spending. We can't just take that away without huge consequences to culture and society.

“But the fingers of instability, the total credit system, are seemingly growing with more red sand dots every month. All are inextricably linked. One day, another Thailand or Russia or something else (it makes no difference which) will start a cascade.”

That was just over a year ago. Now it appears the cascade may be beginning, with the UK pension system as another grain of red sand.


We don't typically think of pension funds as debt but that's what they are. The plans "borrow" worker and sponsor contributions and "repay" years later as retirement benefits. That's their contractual obligation. But in between, they have a lot of freedom to invest the money however they think best.

Pension funds have an enormous responsibility. They actually receive only a fraction of what they eventually pay out. If returns aren't sufficient they may not be able to pay benefits as committed without additional contributions by plan sponsors, who are often state and local governments already under massive budget pressure.

We are in unprecedented times. A 60/40 portfolio of stocks and bonds is supposed to offset volatility in equity bear markets. Bonds usually gained value in past bear markets and recessions. This time stocks and bonds are both losing money. That give us (to date) the second worst year on record for 60/40 portfolios, which is typically how pension funds are allocated.

To date, these "balanced" portfolios are down 21.3% this year, meaning they need a 27% return to get back to even. It's even worse than that, because almost all pension funds have an inflation factor to keep up with. (more below)

60/40 Portfolio: S&P 500/US 10-Year Treasury (Total Returns, 1928 - 2022)									
Year	Return	Year	Return	Year	Return	Year	Return	Year	Return
1928	26.6%	1947	3.5%	1966	-4.8%	1985	29.0%	2004	8.2%
1929	-3.3%	1948	4.2%	1967	13.6%	1986	20.8%	2005	4.0%
1930	-13.3%	1949	12.8%	1968	7.8%	1987	1.5%	2006	10.2%
1931	-27.3%	1950	18.7%	1969	-7.0%	1988	13.2%	2007	7.4%
1932	-1.7%	1951	14.1%	1970	8.8%	1989	26.0%	2008	-13.9%
1933	30.7%	1952	11.8%	1971	12.4%	1990	0.7%	2009	11.1%
1934	2.5%	1953	0.9%	1972	12.4%	1991	24.1%	2010	12.3%
1935	29.8%	1954	32.9%	1973	-7.1%	1992	8.2%	2011	7.7%
1936	21.2%	1955	19.0%	1974	-14.7%	1993	11.7%	2012	10.7%
1937	-20.7%	1956	3.6%	1975	23.6%	1994	-2.4%	2013	15.6%
1938	19.3%	1957	-3.6%	1976	20.7%	1995	31.7%	2014	12.4%
1939	1.1%	1958	25.4%	1977	-3.7%	1996	14.2%	2015	1.3%
1940	-4.2%	1959	6.2%	1978	3.6%	1997	23.8%	2016	7.3%
1941	-8.5%	1960	4.9%	1979	11.4%	1998	23.0%	2017	14.1%
1942	12.4%	1961	16.8%	1980	17.8%	1999	9.2%	2018	-2.5%
1943	16.0%	1962	-3.0%	1981	0.5%	2000	1.2%	2019	22.6%
1944	12.4%	1963	14.2%	1982	25.4%	2001	-4.9%	2020	15.3%
1945	23.0%	1964	11.3%	1983	14.7%	2002	-7.1%	2021	15.3%
1946	-3.8%	1965	7.7%	1984	9.2%	2003	17.2%	2022*	-21.3%

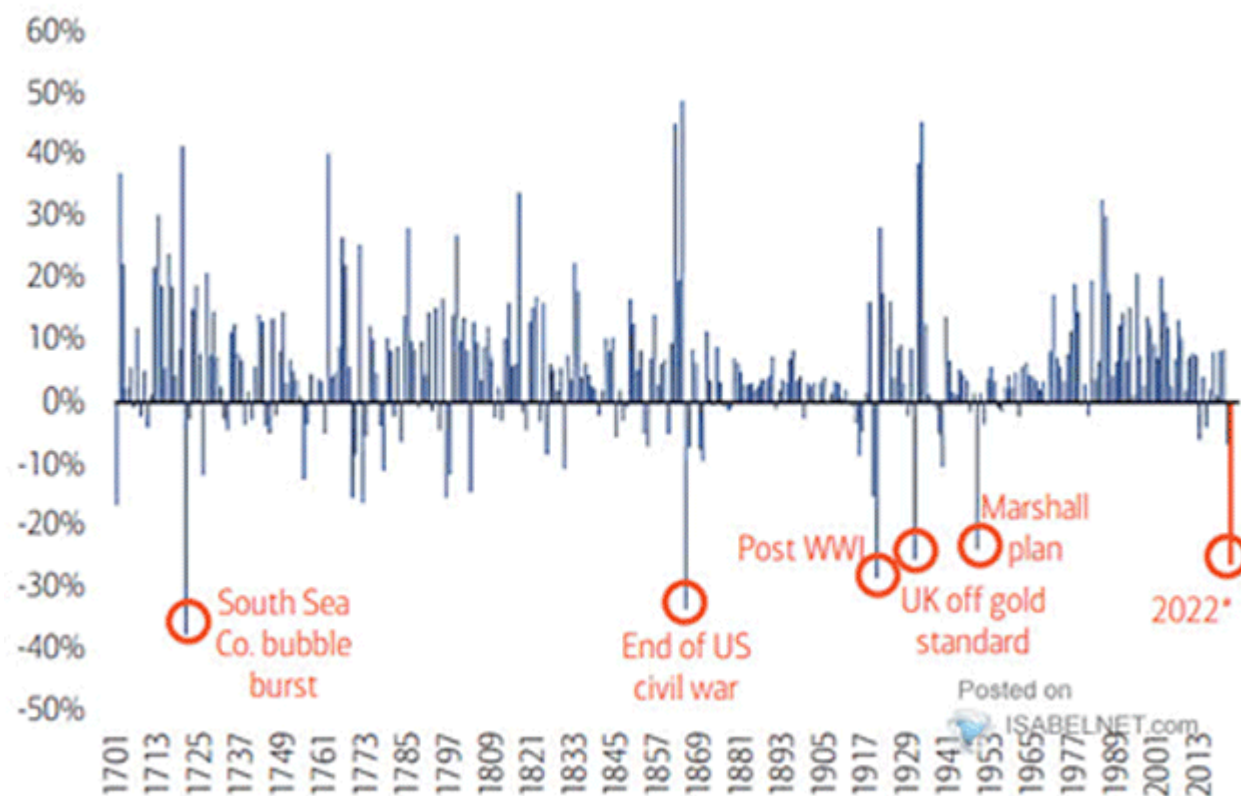

COMPOUND *As of 10/11/22 @CharlieBilello

Source: Charlie Bilello

Bonds are having one of their worst years ever as the Fed raises rates from the zero bound. Remember, as interest rates go up, bonds lose value. Thankfully this doesn't happen often, at least while stocks are collapsing as well.

Chart 6: Govt bonds ann. 4th worst year after 1721, 1865, 1920

World government bond index annual return (% , GDP-weighted)



Source: BofA Global Investment Strategy, GFD Finaeon. 2022 annualized as of end of September.

Source: Tony Sagami

Pension obligations, i.e. debt, are a significant part of the large and growing global debt load. They are big enough to have systemic effects all their own. This seems to be happening in the UK. If you want the details, I **highly recommend** [Ben Hunt's analysis](#). It is long so I won't reproduce it here, but well worth your time to read. Seriously, this is Ben at his best!

Ben methodically explains how years of falling interest rates raised pension liabilities—a big problem for plan sponsors and managers. Lower interest rates reduced the return on the bond portion of a pension fund. In a world of zero and negative interest rates, pension funds simply couldn't make their target returns (typically 7% and sometimes more) when 40%+ of the portfolio was making 2–3% (at best!).

Consultants then pushed them toward something called “Liability-Driven Investment” or LDI, basically a leveraged hedge fund strategy betting interest rates would keep dropping. They showed data that for the last 30 years the trade ALWAYS won. Except the last 30 years was a period of falling rates and inflation, which everyone assumed would continue. It worked well until rates went higher... or, as Ben says, “until the math broke.” Now they all want to exit at once.

In effect, UK pensions are in a solvency crisis. Giant debtors are in danger of not being able to meet their obligations—not the pension benefits years from now, but margin calls due immediately. They are thus frantically trying to raise liquidity. Their combined efforts to sell UK government bonds all at once raised rates even further, aggravating the problem and creating new ones. The word “cascade” is quite accurate. Each step leads to another one, bigger than the last. As of this morning, it looks like the Bank of England is calming the market, but it serves to demonstrate how fragile the debt/leverage system is. We will know more next week.

I have sat in numerous pension board meetings, mostly as a guest speaker invited by a member of the pension board. I make my presentation and then listen to consultants tell them essentially the exact opposite. Growing your portfolio at (x%) is easy if you just stick to this model portfolio we have designed

(for hefty fees). They smoothed those average yields over time so that target rates could be achieved. Until a crisis...

Very simplistically, the UK pension crisis uses math akin to that used by Long Term Capital Management's Nobel laureates, which showed that based on history these bonds always moved in the direction of becoming the same valuation as other bonds. Thirty-year bonds would assume characteristics of 29-year bonds, generating a slight profit. So, the logical conclusion was to leverage up to 30 times on these safe instruments to get a good target return. Then diversify into the bond markets of scores of nations, as the trades are similar.

Except the math broke. Traders began to notice and started to front run LTCM, causing the trade to yield less and then "inexplicably" the trade dynamic reversed and hedge funds piled on, causing LTCM to lose \$4 billion or so leveraged 30 times. This almost broke the financial markets in 1998.

There is never just one cockroach. We will see more of these "investment programs" fail to achieve the desired results, forcing pension boards to request more principle from their sponsors.

US pensions use different hedging tools, so they don't have the particular problem UK funds are enduring. But they're still not in great shape.

High Correlation

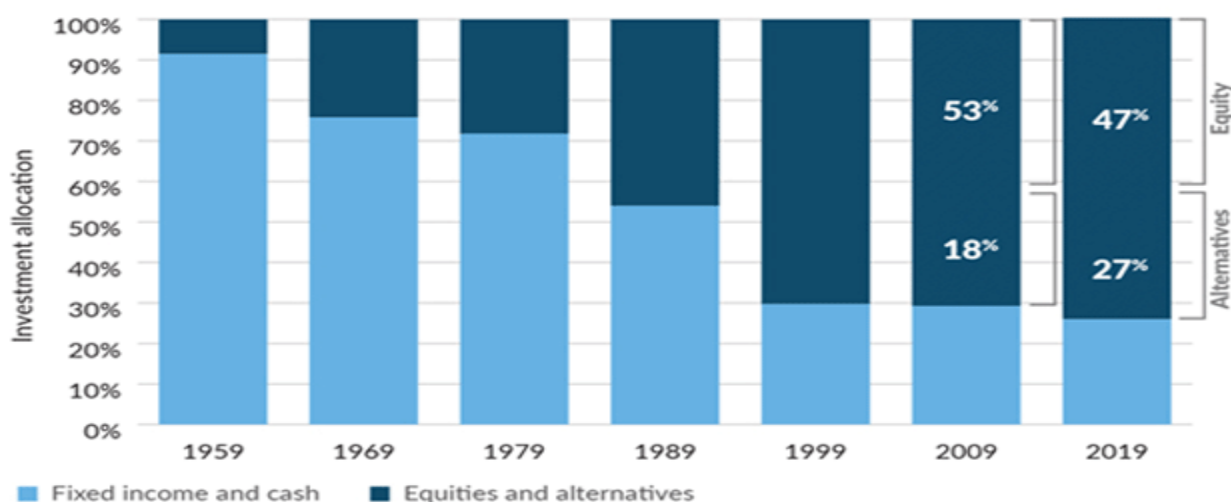
The large pools we call "pension funds" fall mostly in the *defined benefit* category. Money from a company's workers, for instance, goes into a giant fund that promises to pay them a defined amount from retirement until death. Lifespans being uncertain, this is an inherently risky structure for the sponsor. That's why US private employers have mostly abandoned it. But defined benefit plans are still common for state and local governments and public employee unions.

The pension math Ben Hunt describes works the same here. Falling interest rates and rising inflation increase the present amount needed to meet future obligations. The difference between US and UK plans is that US plans can buy government bonds in their home currency, which is also the global reserve currency, and is the world's deepest and most liquid financial market. They don't need they kind of derivatives that are exploding in London.

The bigger problem for US plans is low fixed income rates led them to fill their portfolios with riskier assets like stocks, real estate, venture capital, and assorted "alternative" investments.

Equities, Alternative Assets Steadily Grew as a Share of Public Pension Fund Allocations Over 6 Decades

Investments by asset category, 1959-2019



Sources: U.S. Board of Governors of the Federal Reserve System, Financial Accounts of the United States, 1959 to 2019; Pew analysis of state financial reports

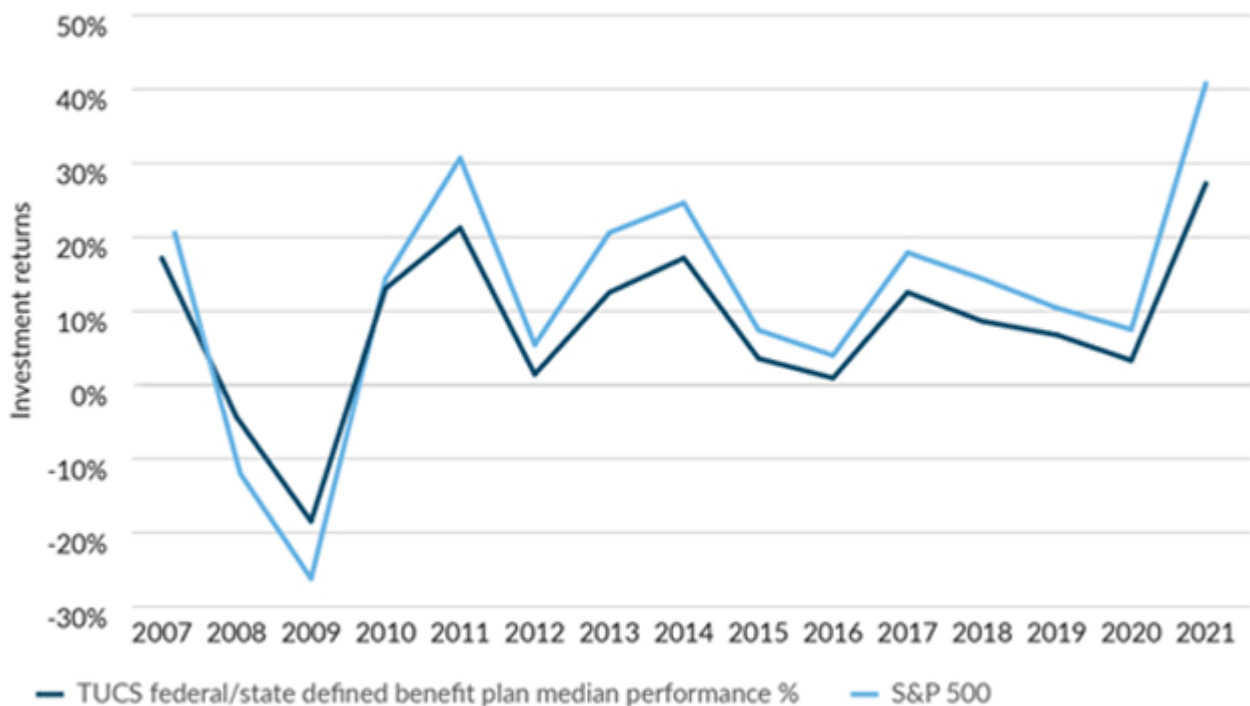
© 2022 The Pew Charitable Trusts

Source: Pew Charitable Trusts

This is good if those investments succeed but the odds they will do so decline as more plans throw more money into them. This chart shows the correlation between defined benefit plans and the S&P 500.

Equity Investments and Public Pension Fund Yields Are Strongly Correlated, Highly Volatile

Average annual stock market and fund returns, 2007-21



Source: Pew analysis of data from Wilshire Trust Universe Comparison Service (TUCS)

© 2022 The Pew Charitable Trusts

Source: *Pew Charitable Trusts*

So, if pension plan returns are a) highly correlated to the S&P 500 and b) highly correlated to each other, what do you think will happen when the S&P 500 has an extended bear market? And by that, I mean not a bad year or two, but an extended 1970s-style generational sell-off. We are long overdue for one.

I'll answer my own question: Plans will all change course at once, stampeding like buffalo to whatever they consider safer ground. And not caring who they run down in the process.

This wouldn't necessarily prevent plans from paying benefits. Most keep enough cash or near-cash assets on hand to ride out a short downturn. But it's quite likely at least a few plans would fail, and that will generate doubt and fear among retirees... who will, in all likelihood, have seen their other assets plummet in value, too.

At that point the pressure for bailouts and government interventions will grow. But it isn't clear that will even be possible. Who would buy all the new Treasury debt? Here's a Bloomberg headline from last week.

The Most Powerful Buyers in Treasuries Are All Bailing at Once

- Fed, foreign governments, commercial banks all stepping back
- More pain for bond investors may be in store amid buyer void

Source: *Bloomberg*

Here's how that article opens.

“Everywhere you turn, the biggest players in the \$23.7 trillion US Treasuries market are in retreat.

“From Japanese pensions and life insurers to foreign governments and US commercial banks, where once they were lining up to get their hands on US government debt, most have now stepped away. And then there’s the Federal Reserve, which a few weeks ago upped the pace that it plans to offload Treasuries from its balance sheet to \$60 billion a month.

“If one or two of these usually steadfast sources of demand were bailing, the impact, while noticeable, would likely be little cause for alarm. But for every one of them to pull back is an undeniable source of concern, especially coming on the heels of the unprecedented volatility, deteriorating liquidity and weak auctions of recent months.

“The upshot, according to market watchers, is that even with Treasuries tumbling the most since at least the early 1970s this year, more pain may be in store until new, consistent sources of demand emerge. It’s also bad news for US taxpayers, who will ultimately have to foot the bill for higher borrowing costs.”

I talk often about the way years of policy mistakes leave nothing but bad options. **This is where it led.** Easy money sparked inflation which the Fed is (appropriately, in my view) trying to squelch with tighter policy. But that’s raising the Treasury’s borrowing costs and—maybe more to the point—strengthening the US dollar, which globalizes our problem.

We have grown accustomed to fiscal and monetary rescues in every crisis: 2000, 2008, 2020. That may not be an option next time. Then what?

But wait, there’s more.

[Inflation Creates Massive Pension Problems](#)

Many pension funds have an inflation adjustment, typically using some version of CPI. The Social Security Administration informed us this week that Social Security cost-of-living adjustment will be 8.7% in 2023, the highest increase in 40 years and coming on top of 5.9% last year! Here is how my SS payments look. First, remember that I paid in the max amount for almost 40 years. And I waited to 70 to start getting my payments. My old payment was \$4,130 (after last year’s increase). Now it will rise to \$4,489. Almost \$54,000 a year. Multiply that by total SS payments?

What was \$1,194,842 trillion rose to \$1,285,640 trillion. A \$91 billion increase. In one year! This does not include military or other government pensions, presumably all of which will rise by almost 9%. (Should I even mention Medicare costs?) All of these entitlements rise inexorably faster than revenues as we are now at the point where the government will start to have to pay 4%-plus for its \$31 trillion debt, well over \$1 trillion in interest alone in a few years.

This is going to create a future crisis in the US which will, along with other policy problems, produce a crisis that makes the UK pension problems small potatoes. Coming to a theater near you in the not-too-distant future.

[Broken Promises](#)

Last week I ran across the Mercer/CFA Institute’s newest “Global Pension Index” report. They look at pension systems by country and rate them for adequacy, sustainability, and integrity. Such comparisons are difficult because pension systems and practices vary so widely, both among countries and within them. But it’s a fair attempt to compare everyone against a standardized benchmark. Here’s the results summary.

Figure 2. Summary of the 2022 results

Grade	Index value	Systems		Description
A	>80	Iceland Netherlands Denmark		A first-class and robust retirement income system that delivers good benefits, is sustainable and has a high level of integrity
B+	75–80	Israel Finland	Australia Norway	A system that has a sound structure, with many good features, but has some areas for improvement that differentiates it from an A-grade system
B	65–75	Sweden Singapore UK Switzerland Uruguay Canada	Ireland New Zealand Chile Belgium Germany	
C+	60–65	Hong Kong SAR US Colombia France	Malaysia Portugal Spain UAE	A system that has some good features, but also has major risks and/or shortcomings that should be addressed; without these improvements, its efficacy and/or long-term sustainability can be questioned
C	50–60	Saudi Arabia Poland Mexico Brazil Peru Italy	Austria South Africa China* Japan Taiwan Korea (South)	
D	35–50	Indonesia Turkey India	Argentina Philippines Thailand	A system that has some desirable features, but also has major weaknesses and/or omissions that need to be addressed; without these improvements, its efficacy and sustainability are in doubt
E	<35	Nil		A poor system that may be in the early stages of development or non-existent

*In this report, "China" refers to the pension system in mainland China. The pension systems in Hong Kong SAR and Taiwan are shown separately, as they have different pension systems.

Source: Mercer CFA Institute Global Pension Survey

Congratulations, workers and retirees of Iceland, Netherlands, and Denmark. Your systems are “first-class and robust.” They’re also relatively small.

Look a bit lower at the “B” graded category for some larger economies. There we see the UK—which based on recent events probably should be lower—along with Switzerland, Canada, and Germany.

The US and France get a C+, meaning “major risks and/or shortcomings.” Going even lower, we see some very large economies in the C and D categories: Mexico, Brazil, Italy, China, Japan, Taiwan, South Korea, Turkey, India, Argentina.

“Efficacy and sustainability are in doubt” is a very kind way of saying, “You folks are in trouble.” The US has serious problems, but we also have serious capabilities. We can muddle through almost anything. I am not sure that’s the case in some of these other countries.

Workers are barely keeping up. As Ben Hunt wrote:

“Over the past 43 years, real wages for Americans are up 6.9%. Not 6.9% per year. **6.9% total for forty-three years.**”



Source: Ben Hunt

That’s roughly 0.16% a year. Hard to get ahead on that. This is why I am so fixated on inflation and have been since it was clear we were going to have a real problem. It totally screws with the average worker.

Jerome Powell appears to have a similar fixation. Will he maintain it until he drives a stake through the heart of the inflation vampire? Will Powell transform into vampire slayer Van Helsing?

Yes, I realize this will cost jobs. I have been pounding the table seemingly forever about policy and bad choices. We now have only bad choices. We can disagree (politely, please) about priorities, but as I look at economic history, inflation is the worst of multiple evils.

In that 2021 sandpile update, I wrapped up with this:

“Economic sandpiles that have many small avalanches never have large fingers of instability and massive avalanches. The more small, economically unpleasant events you allow, the fewer large and, eventually, massive fingers of instability will build up.

“Efforts by regulators and central bankers to prevent small losses actually create the large fingers of instability that bring down whole systems and spark global recessions. And, increasingly, the unfunded liability of government promises will be the most massively unstable finger.

“In that crisis, things that should be totally unrelated will suddenly become intertwined. The correlations of formerly unrelated asset classes will all go to one at the absolute worst time. Panic and losses will follow. Governments will try to stem the tide, perhaps appropriately so, but, eventually, the markets have to clear.

“There is a surprising but critically powerful thought in that computer model from 35 years ago: We cannot accurately predict when the avalanche will happen. You can miss out on all sorts of

opportunities because you see lots of fingers of instability and ignore the base of stability. And then you can lose it all at once because you ignored the fingers of instability.”

I know many, perhaps most of my readers are fortunate enough not to depend on someone else’s pension promises. But you do depend on *someone’s* promises. Every non-tangible asset—not to mention every currency—represents some kind of promise. Usually, the promises are good. Not always.

Your investments, pension or otherwise, are vulnerable to those fingers of instability. You need to protect yourself from the sandpile’s collapse while also participating until it happens.

Easy? No, not at all. But necessary if you want to survive the avalanche.