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EXCLUSIVELY GREEN

A growing number of investors are interested in making their portfolios 'greener' or 'more sustainable' by restricting their portfolios to companies that are committed to fighting climate change, improving social equality and opportunity, and running their businesses to benefit not just shareholders but also customers, employees and the community. But in the current environment, there are a bewildering number of ways to measure these things, and the analytical services seldom agree on what they're measuring or which companies measure up.

That could change next year. Something called the Green Exchange (GIX) is seeking regulatory approval to become a new stock exchange, similar to the New York Stock Exchange or Nasdaq, but one which would only list companies that follow a variety of strict environmental, social and governance guidelines. Companies that promise to adhere to the guidelines but fall short would be de-listed.

The Green Exchange is founded by a group of executives who previously worked for the New York Stock Exchange, including Daniel Labovitz, who was in charge of writing the exchange's regulatory policies, and Louis Pastina, who has been in charge of operations at the NYSE. If the Securities and Exchange Commission approves the new exchange, then 'green' investors would have a platform to exclusively buy and sell the stocks of companies which, by some standards, at least, are committed to improving life on planet Earth.

Sources:

https://www.advisorperspectives.com/articles/2022/09/14/green-stock-exchange-focused-on-esg-seeks-path-to-wall-street

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PRICES DOWN, PRODUCTION UP

Gas prices at the pump have been falling from peak prices recently, but you may have seen projections of a global oil and gas shortage that could send us back to $5 a gallon. The most recent IEA Oil Market Report actually anticipates a close matching of supply and demand this year, with global demand averaging 99.7 million barrels a day and world supply averaging a post-pandemic high of 100.5 million barrels a day. North Sea oil fields, Canada, Kazakhstan and OPEC have all increased the amount of crude they're selling on the markets to make up for declines in Russian oil.

Where does the United States fit into this picture? You might think that the environmental movement has motivated oil companies to cut back on production, but in fact the U.S. remains the world's leading oil producer, and as you can see in the accompanying chart, the domestic producers dramatically raised the amount of oil they were pumping out of the ground from roughly 2007 until February of 2020—when the Covid pandemic sent all economic activity into a spiral.

U.S. Crude Oil Production Levels: Recovering From the Decline

Since then, production has been slowly recovering, somewhat fitfully.

The world may never be quite as dependent on oil production in the future as it has been during the recent unpleasantness at the pump. Currently, renewable energy sources account for about 20% of electricity production in the U.S., and electric vehicle (EV) sales are projected to more than double from 855,000 units this year to just over three million by 2027. Battery costs have dropped 73% since 2010. The remaining challenge is to assure EV drivers that they will have charging stations that are as convenient as gas stations are today—and there we seem to have a long way to go. A recent assessment found the need for 600,000 public 240-volt plugs and 27,500 fast-charging plugs nationwide; compared with 36,000 and 3,300 respectively as of the most recent survey.

Sources:

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https://www.iea.org/reports/oil-market-report-august-2022

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PERSONAL SAVINGS RATE UP, THEN DOWN

One of the most remarkable—and under-reported—consequences of the Covid epidemic is how it triggered a temporary spike in the U.S. personal savings rate—that is, the percentage of income that was not spent and could therefore be saved and invested. If you look at the chart, you see that the savings rate since around 1960 had been gradually declining up until the 2008-2009 Great Recession, at which point we began to see modest increases that still didn't get above the normal rates between 1960 and 1990.

Then came Covid, and look what happened. Savings rates jumped upwards above 30%, fell to a little under 15% (which is still higher than historical peaks), and jumped back up over 25% as the next round of the pandemic hit the country.

Since then? The savings rate today is at or near 5%, which is a few ticks above the historical lows that we saw from 2002 to around September of 2008. Most advisors would say that a healthy balance sheet would see people save between 10% and 15% of their income, so this rapid decline could be a warning sign that today's workers will be unprepared for retirement at some point in the future. It could also mean that a higher number of people will be trapped in high-interest credit card debt if they experience even a modest financial emergency.

Sources:

https://fred.stlouisfed.org/series/PSAVERT

https://www.marketwatch.com/picks/the-personal-savings-rate-in-america-just-hit-its-lowest-level-since-the-great-recession-even-as-rates-on-savings-accounts-have-risen-what-gives-01654533975

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THE DOWNTURN IN PERSPECTIVE

By now you know that market timers and traders were spooked once again, causing a downward ripple across the U.S. investment markets. It's not easy to tell what startled them this time. The financial press told us that the reversal was brought on by the release of the August Consumer Price Index report, but one wonders how, at this point, a month-to-month continuation of inflation is much a surprise. And the report was hardly dramatic; the CPI was up 0.1% from July, after no change from the prior month.

Even though the markets dropped just over 4% in one day, when the dust cleared, the S&P 500 index was still only 0.33% below where it had been the previous Wednesday. Other signs are definitely less gloomy. Gas and energy prices have been dropping, the employment rate has been consistently high, and economists now believe that higher wages have become the top driver of inflation—which cannot really be bad news for consumer spending and the overall health of the economy. Indeed, retail sales increased 0.3% in August, which took many economists by surprise.

All of that said, the U.S. economy does seem to be experiencing a slowdown that could (emphasize could) lead to a recession. The problem for investors, though, is that the stock market tends to be a leading indicator of economic slowdowns, rather than something that follows on—meaning that, in the past, markets have recovered during recessions as investors start to see the light at the end of the tunnel. This makes predicting future market movements, using economic data, virtually impossible.

And, of course, predicting anything based on a startling of the herd of market timers and active traders is patently impossible. It's natural to look at returns this year and want to stop the bleeding, but that would mean selling and taking the risk that the markets will suddenly startle in the opposite direction as traders and market timers experience a sudden fear of missing out on the next upward movement.

If you think that anyone can successfully time the exits and entrances in a way that would avoid downturns and capture upturns, then stop and think for a moment, and try to name a famous, successful market timer.

If such a person existed, he or she would not only be right at the top of your mind, but also fabulously wealthy. The fact that nobody comes to mind, coupled with the fact that the most successful investors of the past have consistently preached a buy and hold approach, suggests that people who have the fortitude to stay invested when stocks are on sale tend to come out the other side with higher account balances.

This can be seen on the historical return chart, which not only shows the steady, incremental rise in stock values due to the daily efforts of millions of workers in tens of thousands of companies, but also how unpredictably the timers and traders can move the markets in the short term. Their impact is volatility and anxiety, not consistent wealth-building returns.

Growth of the S&P 500 (logarithmic scale)

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