ANALYTICS INVESTMENT ADVISORS, LLC

A Mid-Summer Nightmare

"What revels are in hand? Is there no play, to ease the anguish of a torturing hour?" [1]

What?

- At the end of the Trump administration, the United States economy was stable, energy independent, with substantial food surpluses. Today there is historically high inflation, new cars and homes are unaffordable, there is no southern border, police are underfunded, district attorneys deliberately release violent criminals, murder and assaults are spiking, and carjacking and smash and grab thefts are now normal big-city behavior. Crime has become a political matter where ideology, race, and politics determine the outcome.
- Supermarket shelves are bare, meat is beyond the budget of millions of Americans, and never has an administration tacitly approved mobs showing up at Supreme Court justices' homes to rant and intimidate.
- Free speech is a rarity on campuses, and merit is disappearing, replaced by hiring, promotion, retention, grading, and advancement, most often predicated on orthodoxies, race and/or gender.

Why?

- These misfortunes are ill chosen choices by the Biden administration. The United States has the largest combined gas, oil, and coal deposits in the world, and possesses the know-how to build the safest pipelines and produce the cleanest energy.
- Inflation was predictable in early 2021, but the Biden administration continued to print trillions of dollars for short term political advantage, incentivizing labor nonparticipation, while keeping interest rates historically low, attendant with pent-up global demand (Chart 1). [2]

[1] Shakespear, *A Midnight Summer's Dream,* (5.1.36).

[2] The change in the way inflation was calculated after the Carter administration, by looking at the relative cost of a fixed basket of goods to measure consumer satisfaction, allows the BLS to underreport increases in the actual price of consumer goods. One estimate by John Williams, NBER Expert, indicates inflation today would be approximately 16% if calculated the same as during the Carter years.

How?

- It is difficult to imagine the disastrous U.S. economy and corrupted social fabric improving the next two years under the Biden administration.
- Pending legislation contemplates an additional 700 billion in client and welfare spending, which will negate federal funds increases, making a bad situation worse.
- Newt Gingrich, in his recent book, *Defeating Big Government Socialism, Saving America's Future*, postulates that the threat to American freedom and safety is so great, that the goals of the 2022, 2024 and 2026 elections must be dramatically greater than normal, emphasizing idea-oriented campaigns. [3]
- Inflation is not going to be conquered without addressing energy supply shortages (Table 2) in conjunction with demand reduction. Shifting the supply curve will lower prices while expanding output, a preferable and more effective outcome to reducing the demand for goods and services by raising interest rates to lower prices.
- Compounding the supply problem are institutional investors, such as pension funds and mutual funds, who remain reluctant to back fossil fuel companies for concern about their impact on climate.
- Nevertheless, oil and gas demand has roared back as countries have lifted pandemic quarantine measures. The S&P Energy index is up 35% since the beginning of 2022, compared to a 13% drop in the broader index. Exxon and Chevron shares are up 46% and 26% respectively, while the energy sector has grown from 2.5% to 4% of the S&P500.[4]
- From an investment perspective, Table 1, Chart 2, & Chart 3 demonstrate the highly structured sector relationship between Relative Strength and Gain/Loss for 18 industries and relative potential returns.
- The regression equation in Chart 3 is a statistically significant relationship between Gain/Loss and Relative Strength, the latter explaining 73% of the equation variability, with a 85% correlation, all of which lends credibility to overweighting energy in the present economic environment. [5]

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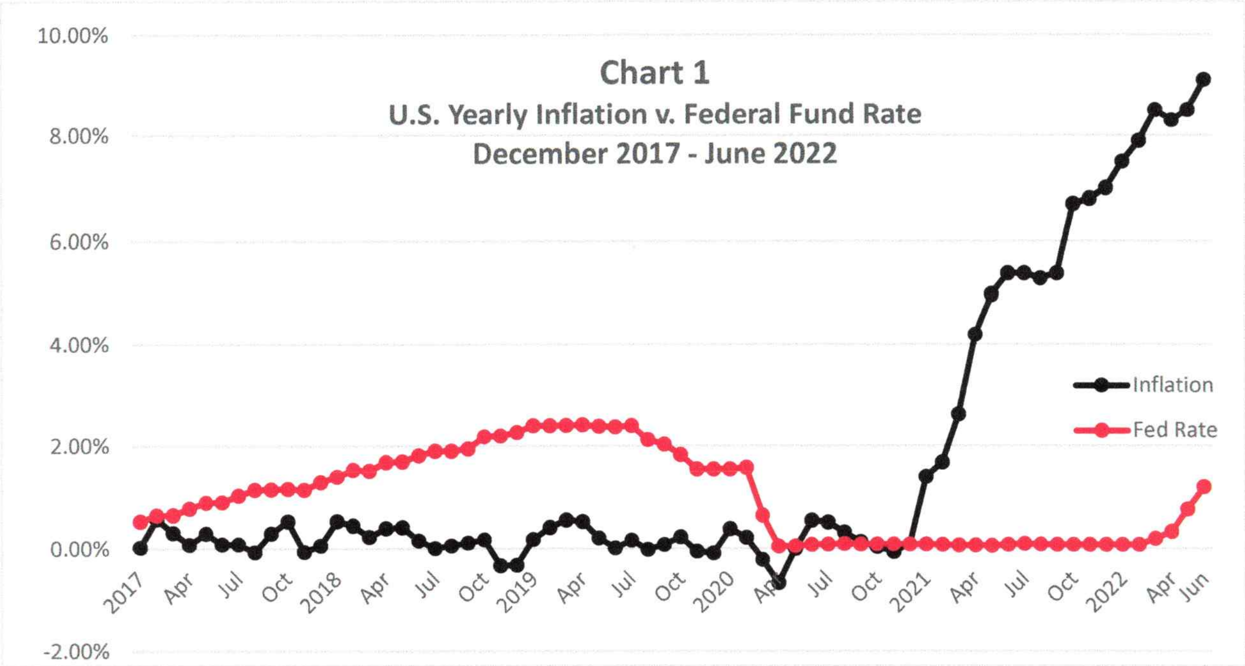
[3] Center Street, 2022.

[4] *Wall Street Journal*, 7/30-31/2022, Section A5.

[5] See, Gray, Wesley and Jack Vogel, *Quantitative Momentum, A Practitioner's Guide to Building a Momentum-Based Stock Selection System*, Wiley, 2016; Gary Antonacci, *Dual Momentum Investing, An Innovative Strategy for Higher Returns with Lower Risk,* 2105.



Federal Reserve Economic Data, Bureau of Labor Statistics

Table 1

Relative Strength v. Gain/Loss

ETF Sectors YTD July 29, 2022

		RS	Gain/Loss	Funds
1	**Energy IXC**	**96.5**	**26.13**	**73**
2	Utilities	93.1	-1.14	16
3	Agriculture DBA	79.6	5.97	13
4	Consumer Staples XLP	79.1	-5.9	47
5	Currency	66.0	-3.2	15
6	Volatility	59.3	2.44	6
7	Fixed Income	56.7	-10.45	410
8	Materials	56.5	-10.88	41
9	Metals	55.5	-10.59	42
10	US Bond BND	53.1	-18.04	671
11	Industrial SPY	50.3	-16.58	88
12	Financial	49.5	-16.03	36
13	Real Estate	43.5	-19.01	38
14	Emerging Markets	43.1	-16.55	167
15	Health Care	33.2	-23.24	50
16	Dividend	28.3	-19.71	355
17	Consumer Discretion	28.2	-19.72	136
18	Technology QQQ	27.2	-32.13	133 / 2337

Chart 2
Relative Strength v. Gain/Loss
ETF Sectors
YTD July 29 2022

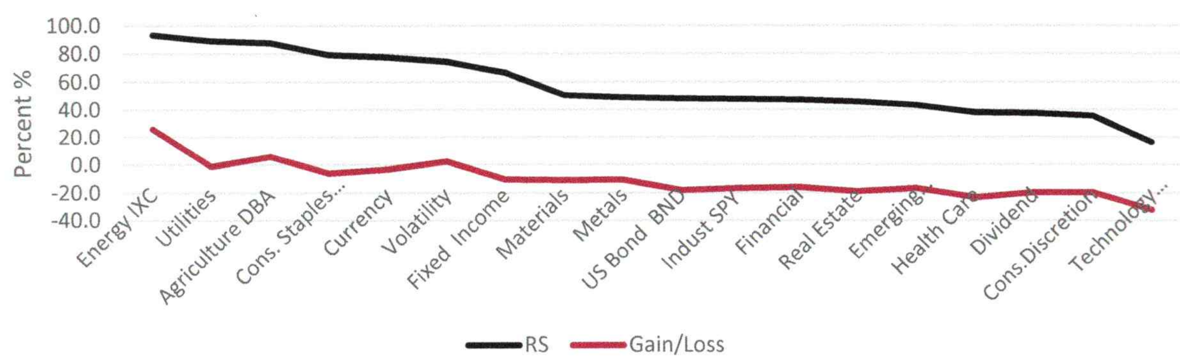
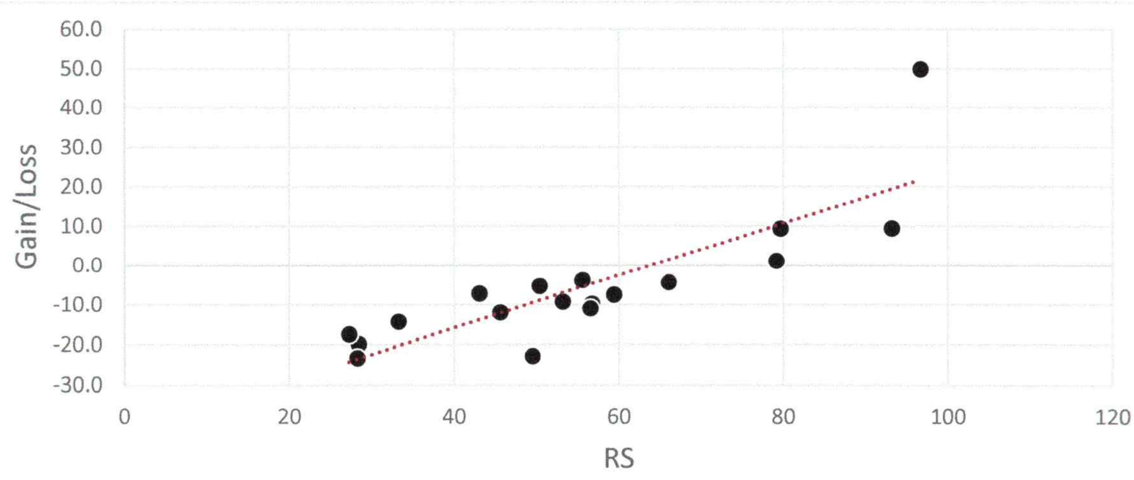


Chart 3
Gain/Loss v Relative Strength (RS)



Gain/Loss = -39.0545 + 6011*RS
R^2 = 7290; Correlation = .8538
T Value Intercept = -7.2083; Slope =- 605

Table 2

Percentage Change Uban Consumers
Unadjusted 12 Mos ended June 2022

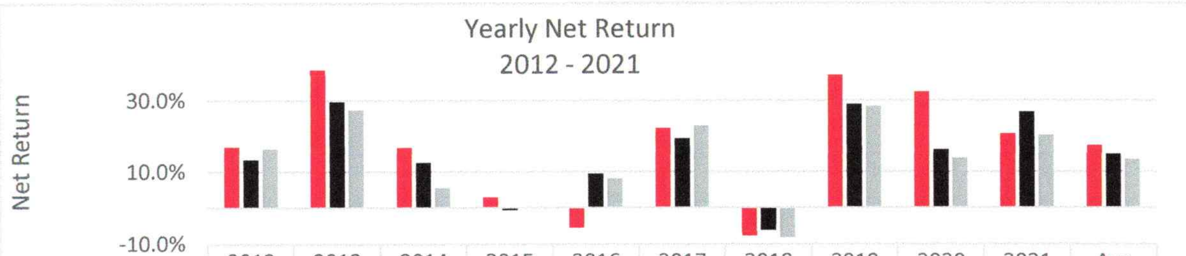
All Items	9.1%
Food	10.4%
Energy	**41.0%**
All Other	5.9%
Energy Fuel Oil	**98.5%**
Energy Gasoline	**59.9%**
Energy Utility (piped	**38.4%**
Energy Electricity	**13.7%**
Food at Home	12.2%
New Vehicles	11.4%
Transportation Services	8.8%
Food Away from Home	7.7%
Used Cars Trucks	7.1%
Shelter	5.6%
Apparel	5.2%
Medical Services	4.8%
Medical Care Commodities	3.2%

Performance Summary[6]

	2012-21 Avg.	YTD[7] 07/29/2022
S&P500 ($SPX)	14.97%	-13.34%
US Bond Index[8]	2.95%	-8.14%
Moderate	14.89%	-9.75%
Assertive 1	17.44%	-15.41%
Assertive 2	26.34%	-14.61%
Aggressive	28.40%	-16.98%

Risk Statistics

	Beta	R^2	SD	Sharpe Ratio
Moderate	.75	66	17.20	.63
Assertive 1	1.07	76	22.84	.58
Assertive 2	.71	56	17.65	.61
Aggressive	1.22	38	36.64	.37



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Avg
Assertive1	17.1%	38.4%	16.9%	2.9%	-5.6%	22.4%	-7.8%	37.0%	32.4%	20.8%	17.4%
SPX	13.4%	29.6%	12.6%	-0.7%	9.5%	19.5%	-6.2%	28.9%	16.3%	26.9%	15.0%
MSCI World	16.5%	27.4%	5.5%	-0.3%	8.2%	23.1%	-8.2%	28.4%	13.8%	20.3%	13.5%

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
S&P500	13%	44%	62%	61%	76%	110%	97%	154%	196%	275%	225%
Assertive 1	17%	62%	89%	95%	84%	125%	108%	184%	276%	355%	285%
Aggressive	23%	107%	111%	124%	98%	193%	152%	345%	507%	618%	498%

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[6] **Moderate:** Prudent investors desiring portfolios designed to accomplish medium long-term return. Calculated risk is acceptable to achieve good returns. **Assertive 1 & 2**: Investors with sufficient income to invest mostly in capital growth. Higher volatility and more aggressive investments are acceptable to accumulate wealth in the long run. **Aggressive:** Investors intending to compromise portfolio balance in pursuit of higher long-term returns. Security of capital is secondary to potential wealth accumulation.

[7] ***Net Average Return, Portfolio Center, Schwab Portfolio Technologies. Fees are negotiable and range between .5% to 1.0% per year for assets under management. Risk Statistics, Morningstar Advisor Workstation; most recent 3 years, computed quarterly.***

Beta	***Expected change in portfolio return per 1% change in market index return.***
R^2	***Percent of variation in regression equation explained by the independent variable (S&P500).***
SD	***Standard deviation of the dependent variable (Net Return).***
Sharpe	***Reward-to-Variability Ratio, i.e., portfolio return above risk free rate of return divided by standard deviation.***

[8] Bloomberg U.S. Aggregate Bond Index.