

THE VALUE CONNECTION

O'Keefe Stevens Advisory's Quarterly Client Newsletter



IN THIS ISSUE

Update

Resources

Book Review

YouTube & Instagram

Year- End Reminders



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UPDATE FROM YOUR ADVISORS

Today, more than usual, people are asking questions. Where are markets headed? Are we in a recession? Is inflation here to stay? What will happen if supply chain issues don't improve? What if the war continues or expands in Ukraine? Will I be okay?

Uncertainty is high. Most of these questions don't have clear answers. Stock investors are susceptible to capitulating when uncertainty runs high. We're seeing that today. Last year's market darlings are trading at 50% of their market highs. Inflation is eroding the purchasing power of cash. Fixed-income holdings are losing value because of rising interest rates.

Yet, today provides an outstanding opportunity for long-term, plan-focused investors.

To understand this opportunity, we need to look past the narrative we see in the news. As emotional humans, we

Rank	Date	Return
1	October 13, 2008	11.6%
2	October 28, 2008	10.8%
3	March 24, 2020	9.4%
4	March 13, 2020	9.3%
5	March 23, 2009	7.1%

Source: J.P. Morgan Asset Management. Past performance is not indicative of future results.

Update continued...

too are discouraged by the headlines. No one wants to see others suffering or living in fear. As investors, our success is partly determined by our ability to remain unemotional when the world is turbulent.

Success as value investors happens when we buy a quality business at a discount price. Discount prices on stocks are most plentiful when fear is high. Today, the pieces are coming together for outsized future returns. The challenge is to remain convicted without the assurance of resolution. To quote Jeremy Grantham, *"Be aware that the market does not turn when it sees light at the end of the tunnel. It turns when all looks black, but just a shade less black than the day before."*

We have seen this story before, always wrapped in a slightly different narrative. The market today is providing a once-in-a-five-year (on average) opportunity. The short-term regret of deploying cash in a declining market is temporary. It is nothing compared to the long-term regret of waiting for the signal that never comes. One day the market will take off, before any clear sign of why, and those who waited will still be waiting. Market timing does not work over the long term. Some of the best days in the market occurred during the most turbulent times.

The chart at the top of this page highlights some of the best return days in market history. Notice, these double-digit returns came during the most intense periods of uncertainty. If you were sitting in cash, you missed a substantial part of the overall return by missing these days.

Dividend Growth

Our clients hold stocks in their portfolios because of their unparalleled ability to grow income. In fact, the dividend growth rate outpaces wage growth for most of our clients. I did a quick review of this with our client, John L., last month. John tracked his wage growth from 2011 through 2021. He reported that his income grew by 3.9% on average in each of the last 10 years. We looked at the top 20 holdings of our portfolio which comprise over 90% of our client's money. The average dividend increase during that same 10-year period was 10% annualized.

Markets are down in 2022, yet many dividend payers in the portfolio increased their dividend payments. Some paid special dividends that far exceed the regular dividends they pay shareholders. Corporations are still flush with excess cash. They are able to adjust to maintain profitability during inflationary times. It's good to be owners at times like these.

Company	2021 Price/Earnings	2022 Price/Earnings
Amgen	20.8	13.1
Graftech	8.1	2.6
Corning	29.1	13.8
Nvidia	66.2	35.7
Qualcomm	23.2	9.6

Source: O'Keefe Stevens Advisory, Inc. October 2022

Update continued...

Price to Earnings

Today the market is offering up some wonderful bargains on business ownership. Uncertainty is the main reason for this, but that's exactly what we're here to help you navigate. There are more world-class companies trading in our buy zone today than we've seen in years.

One way we can measure this is by looking at the price of the stock compared to the earnings of the company. This is called the Price to Earnings Ratio. By no means is this the only metric we use for selecting our investments. It does provide a good pulse on how expensive or inexpensive a company is relative to its earnings.

Think of it this way. Your neighbor owns a landscaping company that makes \$100,000/year and will sell it to you for \$1,000,000. The Price to Earnings of this business is 10. And your return on your investment will be 10% per year. Now let's say your neighbor gets panicked and wants to get out of landscaping. He's willing to sell the business for \$500,000. Now the Price to Earnings Ratio is 5. And, the future returns of this business have

doubled to 20%! This simplified example is exactly what is happening in today's market.

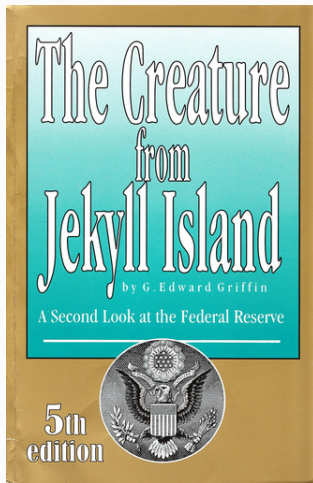
In the chart above, we show a snapshot of some of our largest holdings and how their Price to Earnings Ratios compare today to a year ago. As you can see, it's a staggering difference from where things used to be.

Going back to our simple landscaping business, the price paid and the future earnings of the business dictate our future return. We believe earnings will continue (and grow) for these businesses, and therefore our future returns will be substantially higher.

In Summary

At times like this, the risk is no longer that you're going to get caught in the last 20% decline. The big risk is that you're going to get caught **outside** the next 100% advance. That's something your retirement plan never catches up with.

RESOURCES



The Creature From Jekyll Island

G. Edward Griffin

Thanks to our client, Vince S., for the recommendation. The book details the history of The Federal Reserve. Read this book if you want to understand banking, inflation, and where the money comes from (and goes). Griffin provides a detailed and accurate overview of how money works in our world. It's not an easy read. But for the curious lover of economics, I couldn't recommend a more timely book. It will help you understand why we are currently experiencing inflation.

O'Keefe Stevens on YouTube and Instagram

During the 3rd Quarter, O'Keefe Stevens Advisory launched both an Instagram and YouTube channel. We encourage you to subscribe to these social media channels. We will provide both short and long-format content to answer timely and timeless questions about financial planning and investing. Links to both platforms are provided:

Subscribe to O'Keefe Stevens Advisory on [Instagram](#) and [YouTube](#)



Dear Clients,

For more than 40 years, I have made myself available to act as a sounding board for anyone who needs urgent financial advice - or just a second opinion. We are a team of caring and talented individuals who share my passion for this important work. As a result of these efforts, our business now comes to us almost exclusively through referrals. So, if you're approached by a friend, neighbor, or family member, or if you know someone who just needs a sympathetic ear, please let them know that we will always find the time to listen, and we'll do our best to help.

Peter S. O'Keefe

YEAR- END REMINDERS

Roth Conversion Opportunity

Roth IRA conversions can be a powerful strategy for lowering your tax bill in future years. This strategy is appropriate if you expect to pay higher taxes in the future. Converting while markets are down also means future market recovery will take place in a tax-exempt account. Now is a great time to review the opportunity for you to convert. If you have questions, please reach out to us soon, as these conversion must happen before the end of the year.

Gifting and Donations

Donations and gifts to family members are also time-sensitive for tax planning purposes. The deadline for tax consideration is December 31, 2022. The federal gift exclusion is now \$16,000/person/gift. Donations of stock or qualified charitable distributions from IRAs can help to lower your tax bills. We can help you coordinate gifts or donations including cash or securities. Please let us know as soon as possible if you have questions.

Required Minimum Distributions

If you need to take a distribution from an IRA or beneficiary IRA, you'll be hearing from us this quarter. We try to process distributions by November to avoid long processing times. The penalty for not taking your RMD is 50%. Our team is on top of getting these distributions completed so there are no costly mistakes on your end. Please let us know if you have questions about your RMD.

