

An aerial photograph of a winter landscape. A dark-colored car is driving on a snow-covered road that stretches horizontally across the lower third of the image. The road is flanked by dense, snow-laden trees and bushes. The sky is a pale, overcast blue. The overall scene is serene and quiet.

Quarterly Booklet  
**WINTER 2022**

Thoughts for a new year.

Winter 2022

ONE DAY  
IN JULY

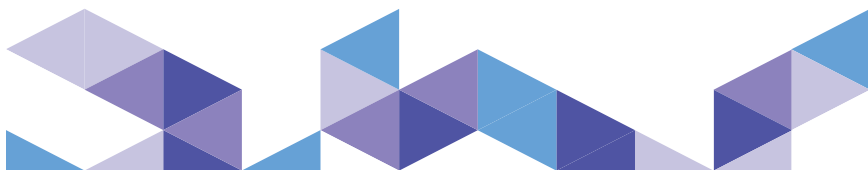
Issue XVIII

# A Note from our Founder

You can accomplish anything in life with a reflector vest and an orange cone. That veneer of authority is enough to make people not ask questions. Need to save a parking space? Drop the orange cone. Have to get something done around town without anyone asking questions? Throw on a green reflector vest and you'll look official.

I'm kidding of course. But in investing, too much trust of authority and the status quo can be a dangerous behavior. Under the hood here, we are skeptical of almost everything. It doesn't matter if a purported "expert" said it – we are still going to cross-check it many different ways.

~ Dan Cunningham

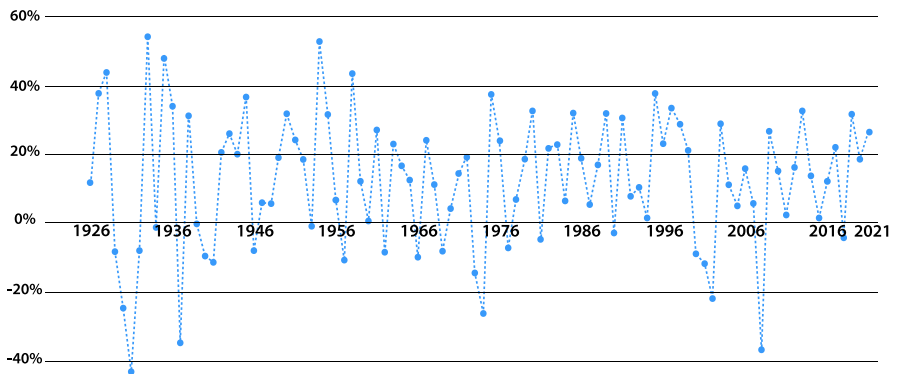


# Stock market behavior is uncertain.

“Over the past 100 years, the U.S. stock market, as measured by the S&P 500, has returned a little over 10% on average per year, but hardly ever close to 10% in any given year. The same is true of dozens of other markets around the world that have delivered strong long-term average returns. Stock market behavior is uncertain, just like most things in our lives. None of us can make uncertainty disappear, but dealing thoughtfully with uncertainty can make a huge difference in our investment returns, and even more importantly, our quality of life.”

- David Booth, founder of Dimensional Funds

## S&P 500 Annual Returns



Sources:

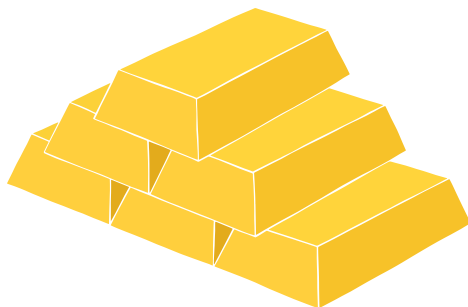
David Booth Quote - Evidence Investor, "David Booth: Five Timeless Investment Lessons I've Learned" 15 Apr 2021  
S&P 500 Annual Returns Data - <https://www.slickcharts.com/sp500/returns>. The returns include both price returns and re-invested dividends.

## **If everyone just offers less for a position, it is worth less.**

On the surface, markets may be unpredictable and chaotic, but behind every transaction exists the same fundamental principle: buyers and sellers must agree on a price. If buyers refuse to pay the same price they paid yesterday, the sellers' wealth dwindles. If sellers demand higher prices for essential goods with no reasonable substitutes, the buyers are stuck paying more, creating more wealth for the sellers. This is the driving force behind capitalism – private individuals or businesses voluntarily agree to exchange goods or services for a certain price. In this system, wealth is subject to the capricious whims of the consumer, whose preferences are influenced by an endless list of factors, leading to market volatility that results in an ongoing cycle of periods of wealth creation followed by waves of its destruction.

Whether this “wealth” translates into the true, tangible value of a particular good or service is arguable, but, in a capitalist economy, at any given time, an item is only as valuable as the price someone else is willing to pay for it.

This concept is well-illustrated as it relates to the valuation of gold. Warren Buffet famously loathes gold as an investment, believing it has little utility and therefore little value. Gold can't go bankrupt, its dividend can't fail to be paid and it doesn't produce income or create anything tangible. The value of gold is predicated on our simple, shared, continued belief that it is valuable. As a result, gold prices tend to be volatile, riding waves of emotion, particularly fear. Investors often flock to gold in times of market uncertainty, driving up its price. If people lose faith in gold's function as a store of value, its price will decline. Gold is only valuable because we all agree that it is.

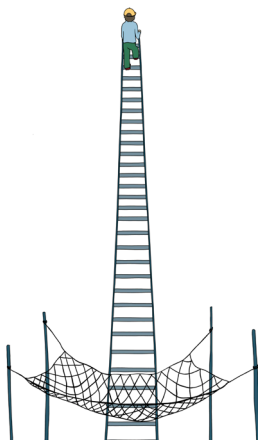


**"Show me an incentive  
and I'll show you the  
result."**

**Charlie Munger**  
Berkshire Hathaway

# Investing is a lifelong journey. Make a plan and stick with it.

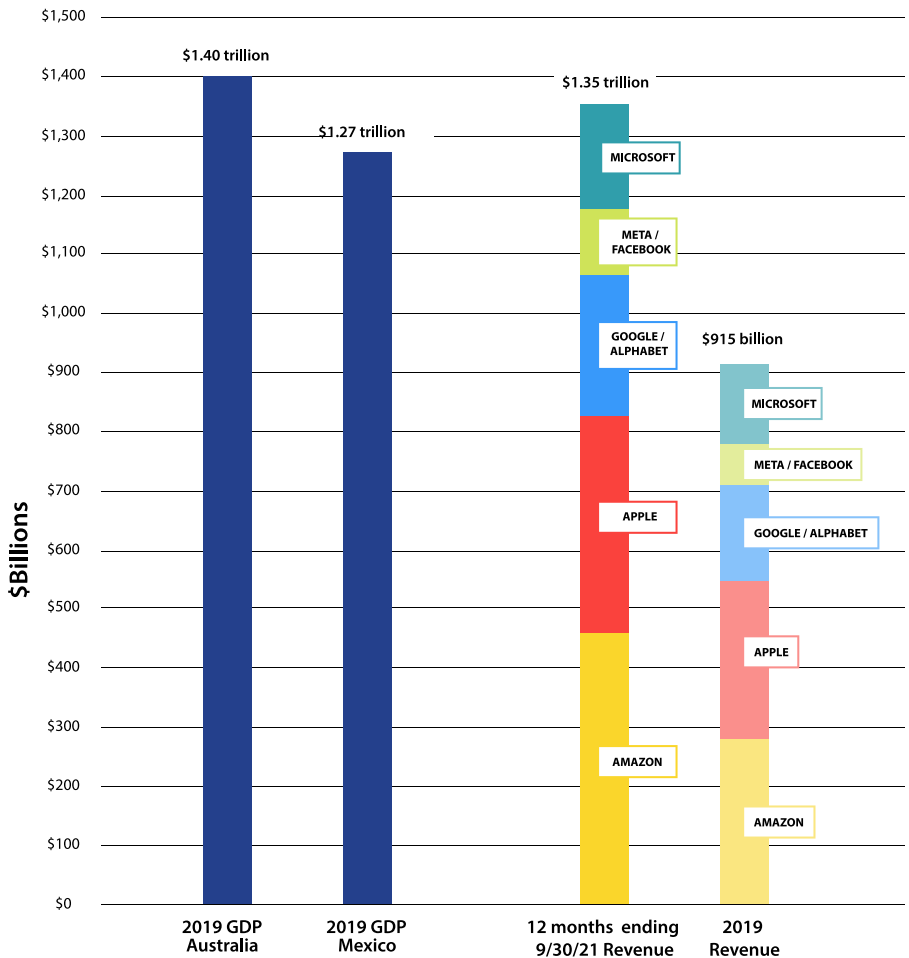
Given the uncertainty of the stock market and the economy, how should investors determine the optimal portfolio allocation of stocks vs. bonds in their long-term plan? Bonds are commonly described as providing “downside protection” for investment portfolios when equity prices are in retreat. However, if your bond allocation is too high, you will miss out on some of the market gains achieved by equities. Too few bonds, and your portfolio is susceptible to volatile swings in the valuations of stocks. Your bond allocation should only be as high as is necessary to prevent you from changing your investment behavior during periods of high market volatility.



## **You've heard that corporations are people too...**

...but in the days of highly digitalized pandemic life, so-called “Big Tech” firms are more closely resembling nations, at least in terms of their soaring sales revenues. If you combine the revenue reported for the 12 months ending September 30, 2021 of the five companies that are dominating the tech sector and the U.S. economy (Alphabet/ Google, Amazon, Apple, Facebook and Microsoft), you get a total of \$1.35 trillion. To put that in perspective, in 2019 (pre-pandemic) the entire economies of Mexico and Australia had total GDP of \$1.27 trillion and \$1.40 trillion, respectively.

# Big Tech Sales Revenue vs. Australia and Mexico GDP



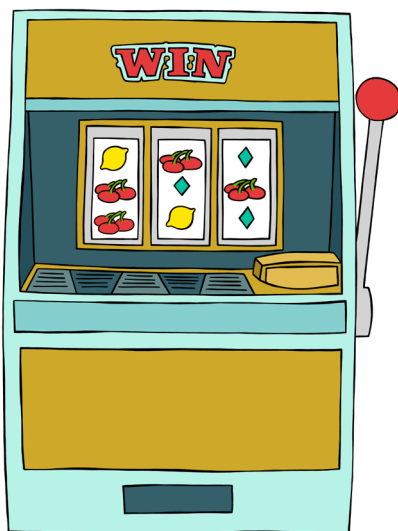
Sources:

Big Tech Revenue data collected from [macro trends.net](https://macro.trends.net/), retrieved 12/13/2021.

Mexico and Australia 2019 GDP data: [worldbank.org](https://data.worldbank.org/)

# Gambling and investing are not the same thing.

As John Maynard Keynes wrote in his *General Theory of Employment, Interest and Money* during the depths of the Great Depression, "Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done."



# All Eyes on Inflation: From Transitory to Not-so-transitory

In a late November 2021 interview with Jeremy Siegel (author of *Stocks for the Long Run*, widely considered one of the best books on investing), the Wharton School professor explained, “Last year, I saw the tremendous, unprecedented boost in the money supply that the Federal Reserve was creating. It turned out that 2020 was the greatest one-year M2 money supply increase in the 150-year history that we have such data. That money was going to the financial markets and then broke out into inflation in 2021.”

The Fed is responding to these now rather persistent price increases by aggressively increasing the pace of tapering asset purchases. As of the December 15th meeting of the FOMC, the current expectation is that tapering will be completed by March 2022, after which the Fed plans to raise interest rates 3 times before year end, followed by 4 more rate hikes throughout 2023-2024.

## Sources:

Advisor Perspectives, “Jeremy Siegel: The Market is Not in a Bubble; The S&P Could Reach 5,000 in 2022” 28 Nov 2021  
CNBC, “Fed will aggressively dial back its bond buying, sees three rate hikes next year” 15 Dec 2021

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# ONE DAY IN JULY

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"The only function of economic forecasting  
is to make astrology look respectable."

~ Economist Kenneth Galbraith

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