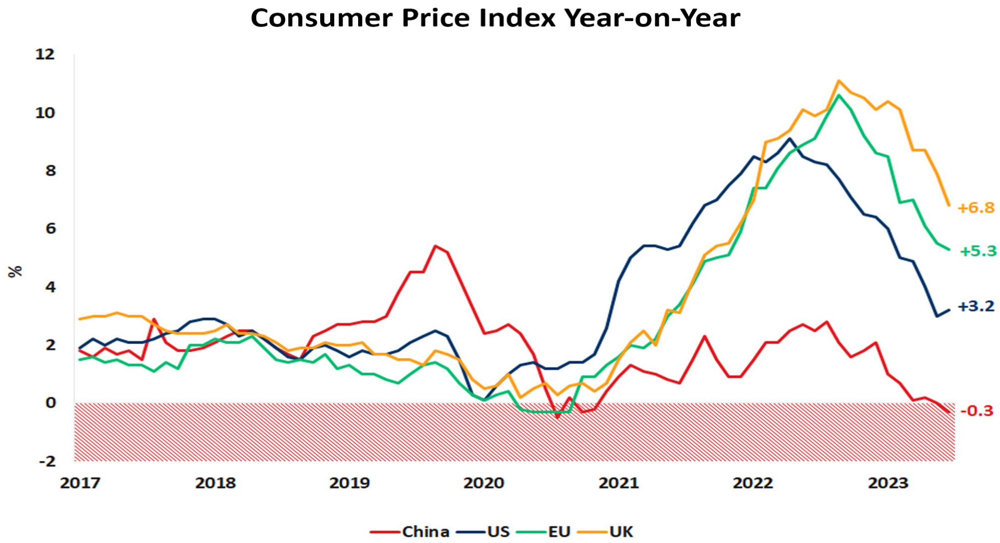
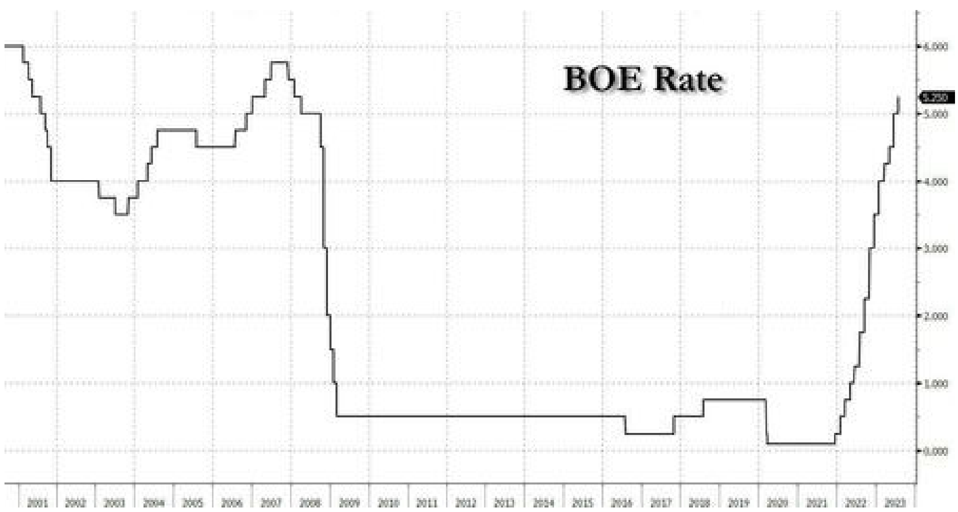
Monthly Report – August 2023



The consumer price chart above (to 31July2023) is the reason why the central banks have been raising interest rates. In the UK for example the rates have risen significantly, by more than ever before in such a short period. See below. The same is true in Europe and the USA.



But what if the central bankers have done too much in raising rates and are in danger of placing the global economies into a recession. Then economic activity will tumble and unemployment will rise. Stock markets do not like recessions especially the highly expensive technology sector and of course the property sector. They were too late to tackle inflation and now they are too slow to adjust to the new conditions. The head of the US central bank said in August ... *As is often the case, we are navigating by stars under cloudy skies* ... that does not sound like they know where they are going.

The bond market is taking the view that the central bankers do not know where they are going because long term rates are lower than short term rates, as shown in the June 2023 report. In fact the ECB board have complained that investors are bidding for the longer term bonds, increasing prices and lowering yields while the ECB is trying to raise long term yields. An ECB board member complained that this is upsetting their policy. Is the bond market smarter than the ECB? If the bond market curves are inverted, which they are, then investors should take note as it has usually predicted a recession. That can of course present opportunities.

My view is that in the coming final quarter of 2023 the central banks will realise they have gone too far with rate hikes. The next rate moves will be signalled as downwards, which is a positive world for dividend paying companies, bonds and gold.

In the meantime the darling of the AI world, a company called Nvidia, continues to rise in market value. It is now the 7th most valuable company in the USA. Last month I mentioned the very high price/earning ratio but even higher relatively is the price to sales ratio. This describes how much someone must pay to buy one share of a company relative to how much that share generates in revenue for the company. Generally speaking, the lower the P/S ratio, the better. For Nvidia it is 37. Compared to other leading USA companies it is very high eg. Apple at 7, Amazon 3, Microsoft 11.

Many investors will not realise they are now investing in Nvidia. As it is a major component of the US stock market, tracker funds will have to buy the shares. That is what tracker funds do. They buy the biggest companies, regardless of price and the more they go up the more they have to buy. Oddly their partner company called Coreweave Inc was founded and is managed by hedge fund, finance guys rather than tech wizard engineers.

That reminds me of the CEO of Sun Microsystems comments in the wake of the dot com crash.

Two years ago we were selling at 10 times revenues when we were at $64. At 10 times revenues, to give you a 10-year payback, I have to pay you 100% of revenues for 10 straight years in dividends. That assumes I can get that by my shareholders. That assumes I have zero cost of goods sold, which is very hard for a computer company. That assumes zero expenses, which is really hard with 39,000 employees. That assumes I pay no taxes, which is very hard. And that assumes you pay no taxes on your dividends, which is kind of illegal. And that assumes with zero R&D for the next 10 years, I can maintain the current revenue run rate. Now, having done that, would any of you like to buy my stock at $64? Do you realize how ridiculous those basic assumptions are? You don't need any transparency. You don't need any footnotes. What were you thinking?

Sun lost 80% of its value from Nov 2007 to Nov 2008 !

Afterwards the company was taken over by Oracle and their huge site in California sold. It is now the company headquarters for .... Facebook (now called Meta Platforms)

Best wishes

Tim 2 September 2023

Disclaimer - This is not financial advice.

See www.timunderwood.com for details and reports Contact tim@timunderwood.com