NIEMANN INVESTMENTS

July 31, 2023

Fellow Investors:

Market Update

The banking panic that headlined the end of the first quarter gradually receded in the second quarter. Inflation has continued to decline from its high of 9% last summer to 3% as of June. The Federal Reserve increased short-term rates in May, before pausing in June, and will likely resume increases again in July. Stocks have rallied, especially technology- and artificial intelligence–related companies, reflecting investor optimism. Longer term interest rates are also going up again and are approaching the levels seen last fall. Real estate has remained strong, which is surprising given the high mortgage rates (more on this below). To me, all of these economic outcomes are enabled by the persistent strength of labor markets. Unemployment is currently at 3.6% but has been low for several years now. My opinion is that most markets will remain resilient unless, or until, we see deterioration in the labor market (e.g., higher unemployment). Of course, I cannot predict this with any high degree of confidence, as I mentioned in last quarter's letter on the value of macroeconomic forecasts, but I feel the observation is still worth sharing. As far as your portfolios are concerned, I do take all of these factors into consideration when selecting stocks and try to build portfolios that will do well over long time periods, despite whatever the economic headwinds or tailwinds may be.

In last quarter's letter, I spoke about the tension between the Federal Reserve, which says they expect to hold interest rates high for some time, and the bond market, which expects the Fed to reduce rates in the next few months. This tension continued, and in Q2 it appears the bond market moved somewhat closer to the Fed's side, as I suggested in my last letter. I expect this movement will continue in Q3. The most-relevant implication of this for most people is that mortgage rates should continue to rise (see the chart included at the end of the letter). While this puts downward pressure on real estate values, I've been surprised so far at how strong they have remained.

Berkshire Hathaway Meeting Notes

This year I was fortunate enough to attend the Berkshire Hathaway annual meeting in Omaha, Nebraska. The event is considered a sort of pilgrimage for value investors and something I've wanted to attend since I first read Buffett's letters and started investing. My father and brother accompanied me on the trip. It was fun to feel the energy of such a large group (yes, even value investors have some energy), and Omaha is a lovely place in the spring.

Buffett's advice was good, as it always is. And Charlie is still witty at 99 years old. Some of my main takeaways from the meeting include:

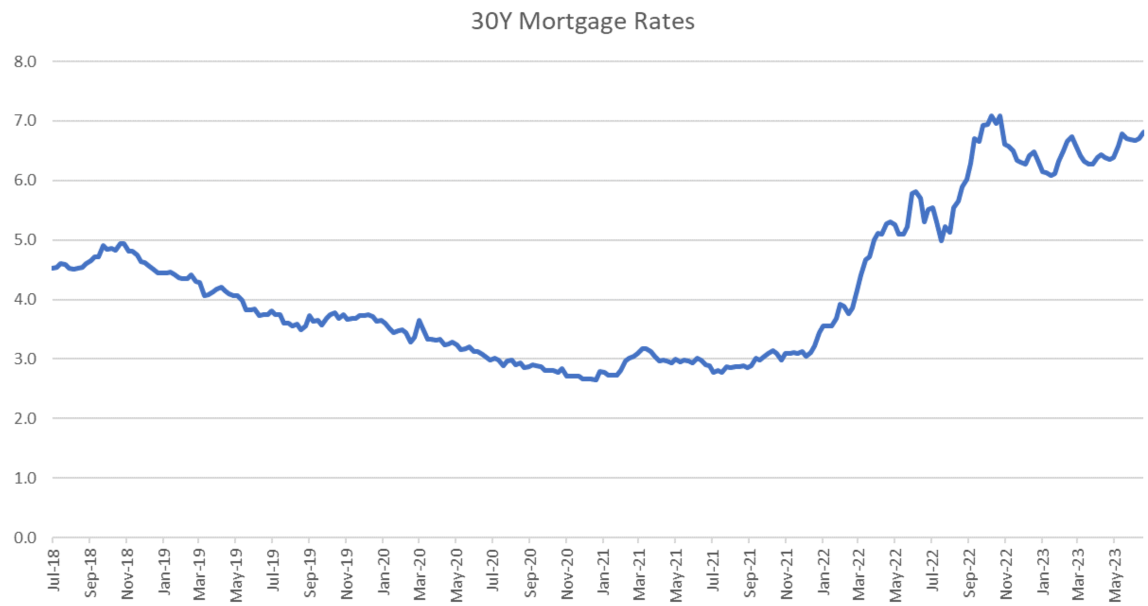
- We are in a difficult economic environment, and equity market returns are likely to be lower for the next decade than they were in the previous decade.
- Too many people go into investment management (I fully realize the irony of both me writing this and Charlie saying it).
- China is an important relationship that the US should preserve. Peaceful solutions should be sought.
- Avoid toxic people, they hinder your success in life.
- Always keep learning.
- Write your obituary, then try to live up to it.

Despite enjoying the meeting, I don't think I will be attending again next year. It's simply too convenient (and free!) to watch the event from home on YouTube. I think I'll save the money next time. But I'm glad I could go once.

Conclusion

As always, thank you for allowing me to manage a portion of your wealth. Please reach out if you want to talk. Also, please let me know if there are any specific topics you'd like me to address in future letters.

Kind regards,
Todd Niemann, CFA


30Y Mortgage Rates
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
Jul-18
Sep-18
Nov-18
Jan-19
Mar-19
May-19
Jul-19
Sep-19
Nov-19
Jan-20
Mar-20
May-20
Jul-20
Sep-20
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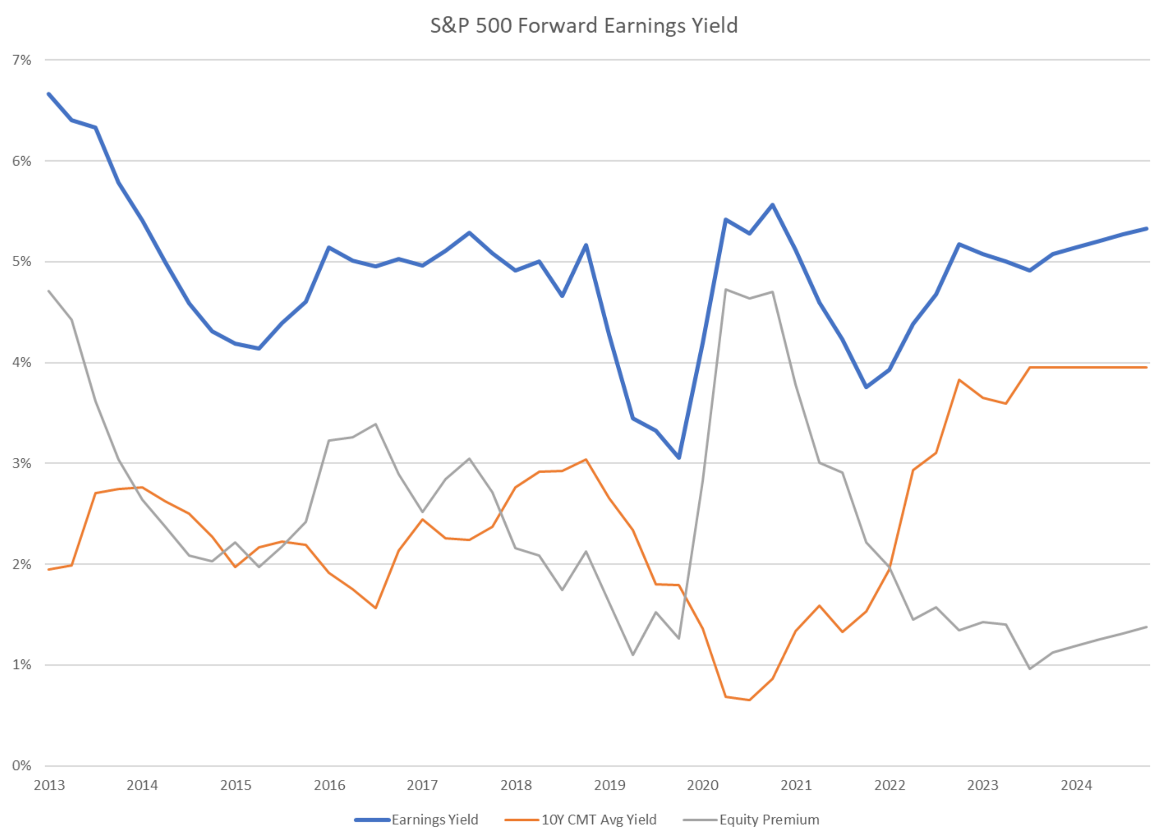
S&P 500 Forward Earnings Yield
7%
6%
5%
4%
3%
2%
1%
0%
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
Earnings Yield
10Y CMT Avg Yield
Equity Premium


berkshire
HATHAWAY INC.
2023
ANNUAL
SHAREHOLDERS
FESTIVAL
omaha
neb.
usa
SHAREHOLDER