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Don't Stay Tied Up At The Dock Let's Get Our Sea Legs!



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Director, South Carolina Chapter
President, PM3IC model club

August 30, 2023



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Objectives

At the end of this presentation, you will be able to:

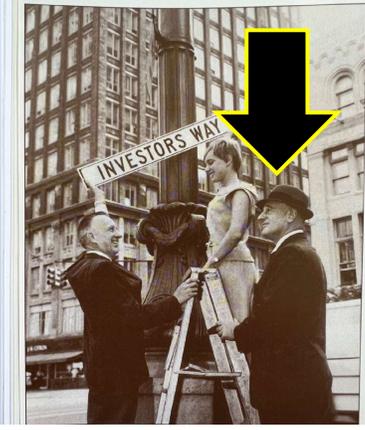
- Identify external factors that might affect your investment decision
- Have a better understanding of George Nicholson's Lesson 7
- Organize and interpret data to form an opinion about the economy
- Apply that knowledge and use it as a tool to make investment decision



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Who Is George Nicholson?



From little acorns grow: Main Street Millionaires

INVESTORS WAY
NAIC's First Investment Show, 1966. Tom O'Hara, Louise Rockwell, and George Nicholson implement Detroit City Council's action to rename Washington Boulevard for a week.

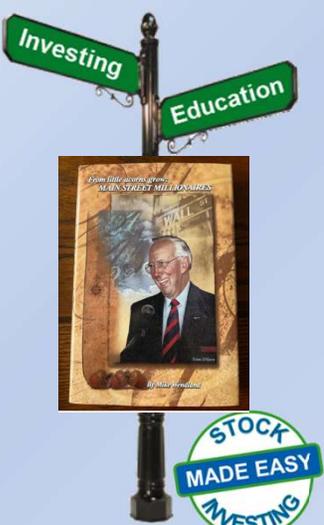
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George Nicholson Had a Dream

- Everyday people own a stake in leading corporations
- That would make for a stronger America
- Investors need to be educated about how the economy works

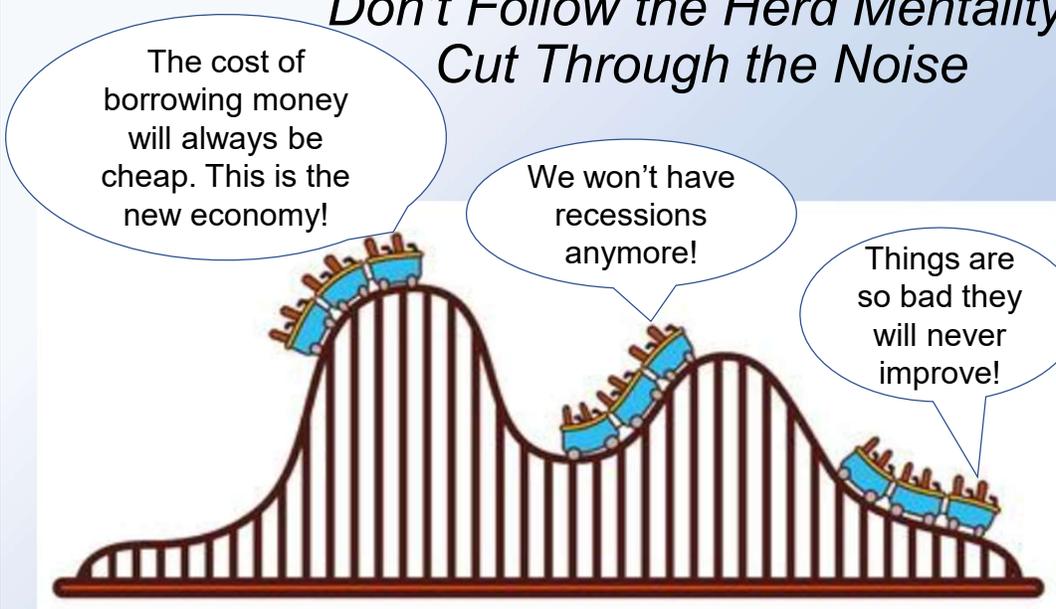
From little acorns grow: Main Street Millionaires Pg 30



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Don't Follow the Herd Mentality, Cut Through the Noise



The cost of borrowing money will always be cheap. This is the new economy!

We won't have recessions anymore!

Things are so bad they will never improve!



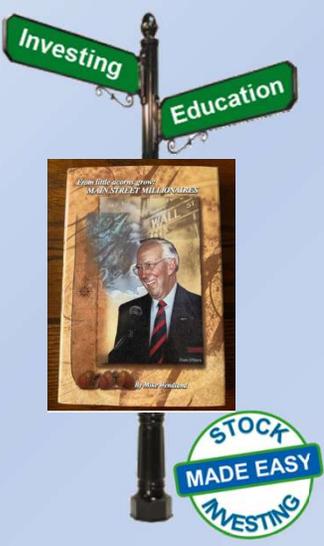
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George Nicholson Shared His Knowledge

George Nicholson knew that history repeats itself.

He produced a dozen guiding principles that during times of inflation would stand the test of time.



*From little acorns grow: Main Street Millionaires
Pg 111*

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Twelve Lessons in Inflation

Lesson 1
“While the climate may appear bad for stocks, do not let your money be idle. Search out and hold the strongest companies.”

Lesson 2
“Survivability is an important factor during inflation. Pick companies with strong survivability characteristics.”

Lesson 3
“Recognize the type of inflation that is occurring and choose companies capable of meeting its problems.”

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Twelve Lessons in Inflation

Lesson 4

“Management, as always, is vitally important.

Make sure management passes all of the tests in the Stock Selection Guide with top grades.”

Lesson 5

“Honest accounting is very important in inflationary periods.

Be sure profits are coming from the operation of the business, not from price or inventory inflation.”

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Twelve Lessons in Inflation

Lesson 6

“During inflation strong companies survive and grow even faster by taking over weak, poorly managed companies.”

Lesson 7

“Where government is conducting an inflation control “stop-go” movement, recognize this as a time not of fear but a time for bargain hunting.

Be sure you don't sell just as the shift to “go” is being made.”

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Twelve Lessons in Inflation

Lesson 8

“Utilities are subject to “regulatory lag.”

Regulators often are late adjusting rates to inflation.

This tends to make utilities excellent buys late in the inflation cycle.”

Lesson 9

“Inflation lag also takes place in stock prices. Put this lag to work for you in finding bargains.”

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Twelve Lessons in Inflation

Lesson 10

“During periods of high inflation there is a temptation to move into bonds paying ten percent or more.

The most important task is always to protect principal.

This means being at least seventy percent in stocks.”

Lesson 11

“Comparison is a stock selection method that always works.

In inflation times stick with basic comparisons and don't venture into the unknown.”

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Twelve Lessons in Inflation

Lesson 12

“Remember the investment rule stated by Justice Putnam in 1830.

Do what you will, the capital is at risk.

Observe how men of prudence, discretion and intelligence manage their own affairs in regard to the permanent disposition of their funds, considering the possible income as well as the probable safety of the capital to be invested.”

*From little acorns grow: Main Street Millionaires
Pg 111-119*

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Why Care About The Economy?

George Nicholson wanted us to always keep our finger on the pulse of the economy during good times and bad.

He wanted us to know about the economy so we can make informed decisions based on our own research and knowledge of what makes the economy tick.



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Let's Take a Voyage Into Lesson 7



When government is conducting an inflation control
“stop-go” movement:

- Recognize this as a time not of fear but
for bargain hunting.
- Be sure you don't sell just as the shift to
“go” is being made.

*From little acorns grow: Main Street Millionaires
Pg 115*



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Pre-Departure Checklist



- Pick the right ship for the voyage.**
 - Do all research on the company you study.
- Check your weather forecast, tides, and currents.**
 - Check external forces a company and an industry might encounter.

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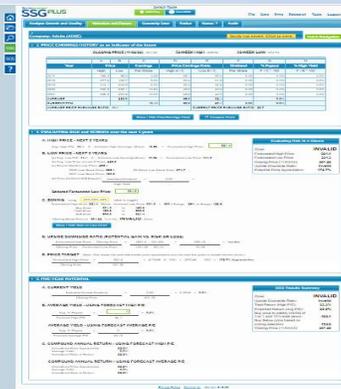
Pre-Departure Checklist

- ✓ **Pick the right ship for your voyage.**
- ✓ Do all research on the company you study.





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Pre-Departure Checklist

- Check your weather forecast, tides, and currents.**
 - Check external forces a company and an industry might encounter.



ECONOMY

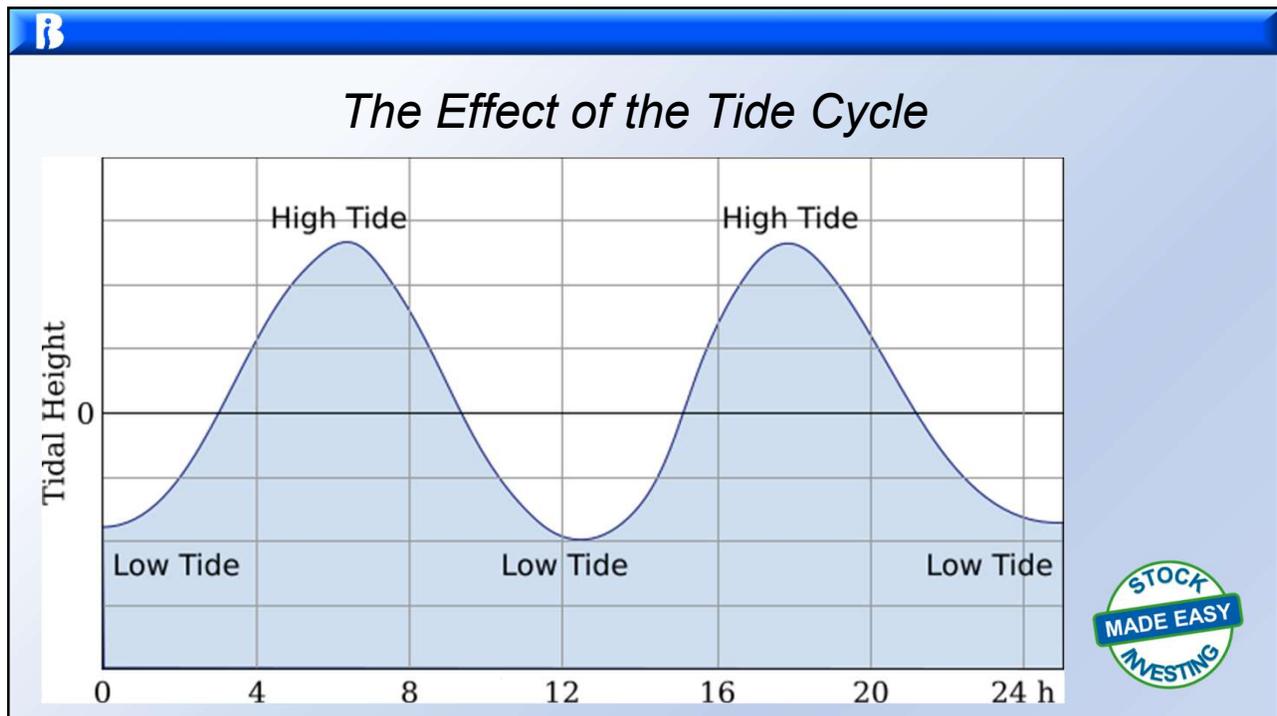


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The Effect of the Tide Cycle

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High Tide Low Tide

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Cycles

Economic Cycle

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Cycles





Sector Cycle

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Cycles





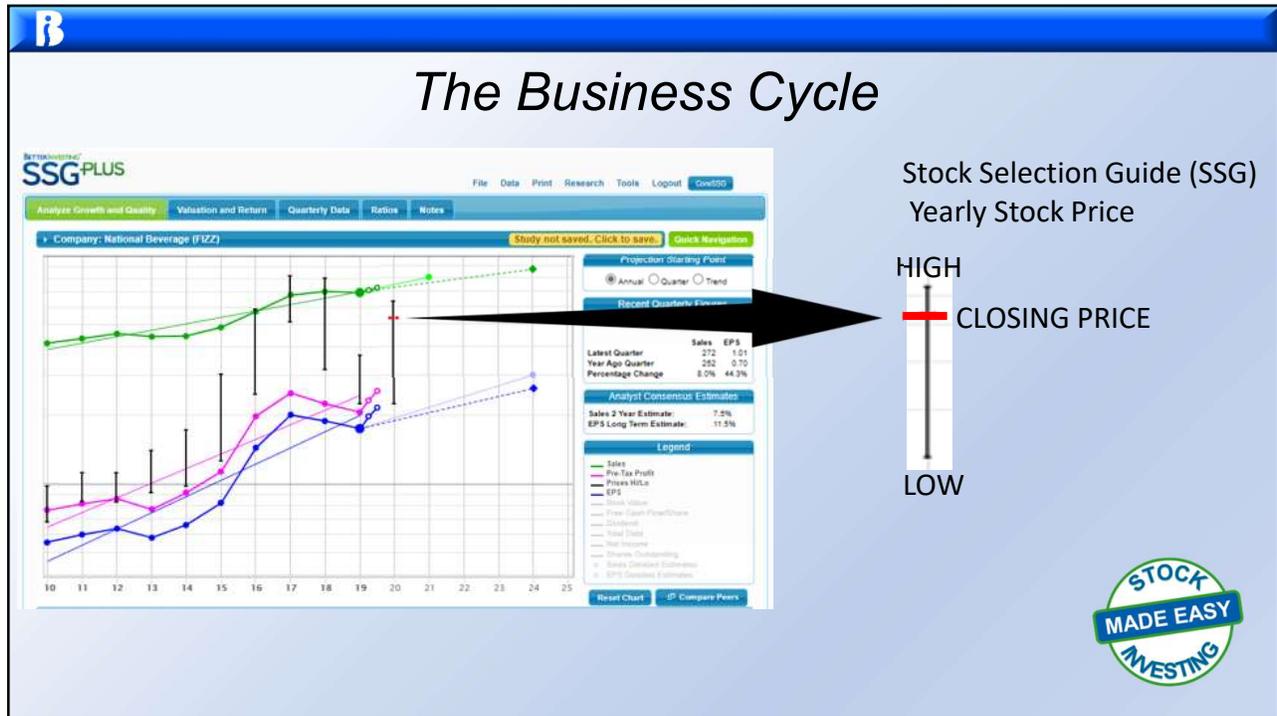
Business Cycle

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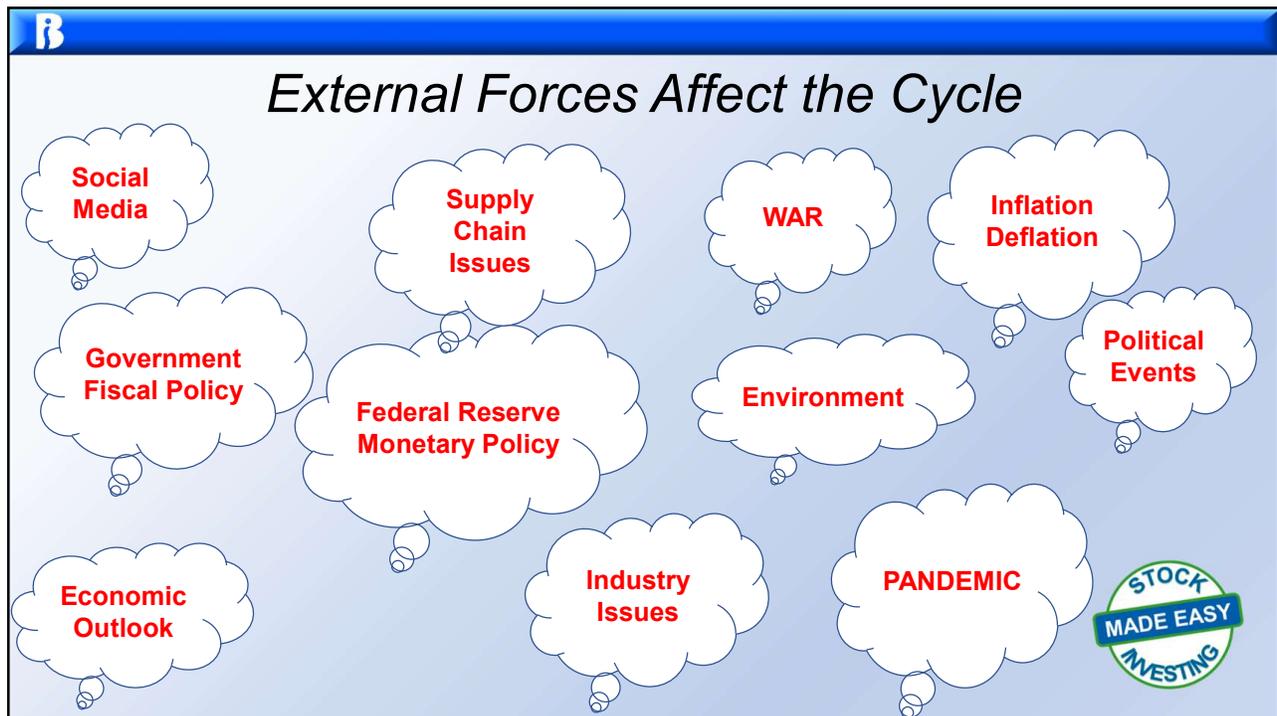
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Let's Sail into Deeper Waters

Economic Outlook

Federal Reserve Monetary Policy

Inflation Deflation



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Economic Cycle Response

ECONOMIC CYCLE

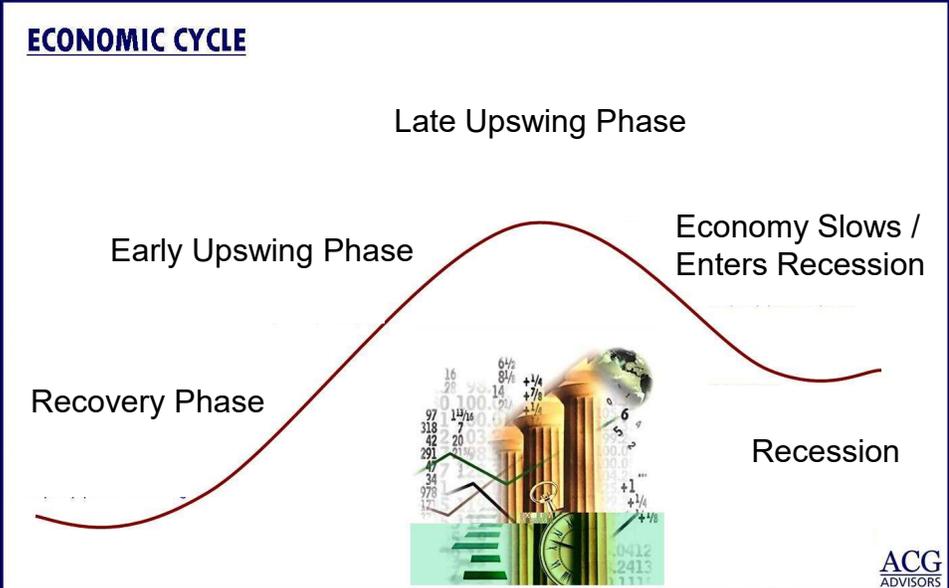
Recovery Phase

Early Upswing Phase

Late Upswing Phase

Economy Slows / Enters Recession

Recession



ACG
ADVISORS

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Economic Cycle Response

ECONOMIC CYCLE

RECOVERY PHASE

- Stimulatory economic policies
- Confidence picks up
- Inflation falling

MARKETS :

- Short rates low or falling
- Bond yields bottoming
- Stock market rising
- Commodities rising
- Property prices bottoming

RECOVERY PHASE

- Stimulatory economic policies
- Confidence picks up
- Inflation falling

MARKETS :

- Short rates low or falling
- Bond yields bottoming
- Stock market rising
- Commodities rising
- Property prices bottoming




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Economic Cycle Response

ECONOMIC CYCLE

EARLY UPSWING PHASE

- Increasing confidence
- Healthy economic growth
- Inflation remains low

MARKETS :

- Short rates at neutral
- Bond stable
- Stock market strong
- Commodities strong
- Property prices picking up

EARLY UPSWING PHASE

- Increasing confidence
- Healthy economic growth
- Inflation remains low

MARKETS :

- Short rates at neutral
- Bond stable
- Stock market strong
- Commodities strong
- Property prices picking up




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Economic Cycle Response

ECONOMIC CYCLE

LATE UPSWING PHASE

- Boom mentality
- Inflation gradually picks up
- Policy becomes restrictive

MARKETS :

- Short rates rising
- Bond yields rise
- Stock market topping out
- Commodities rising strongly
- Property prices rising strongly

LATE UPSWING PHASE

- Boom mentality
- Inflation gradually picks up
- Policy becomes restrictive

MARKETS :

- Short rates rising
- Bond yields rise
- Stock market topping out
- Commodities rising strongly
- Property prices rising strongly






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Economic Cycle Response

ECONOMIC CYCLE

ECONOMY SLOWS/ENTERS RECESSION

- Confidence suddenly drops
- Inflation continues to rise
- Inventory correction begins

MARKETS :

- Short rates peaks
- Bond yields tops out
- Stock market starts falling
- Commodities starts falling
- Property prices tops out

ECONOMY SLOWS/ENTERS RECESSION

- Confidence suddenly drops
- Inflation continues to rise
- Inventory correction begins

MARKETS :

- Short rates peaks
- Bond yields tops out
- Stock market starts falling
- Commodities starts falling
- Property prices tops out






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Economic Cycle Response

ECONOMIC CYCLE

RECESSION

- Confidence weak
- Inflation peaks
- Production falling

MARKETS :

- Short rates drops
- Bond yields drops
- Stock market bottoming
- Commodities weak
- Property prices weak

RECESSION

- Confidence weak
- Inflation peaks
- Production falling

MARKETS :

- Short rates drops
- Bond yields drops
- Stock market bottoming
- Commodities weak
- Property prices weak

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Historical Performance of Sectors During Each Cycle's Phase

Sector	Early Rebounds	Mid Peaks	Late Moderates	Recession Contracts
Financials	+			-
Real Estate	++	-	+	--
Consumer Discretionary	++		--	
Information Technology	+	+	-	--
Industrials	++			--
Materials	+	--		-
Consumer Staples	--	-	+	++
Health Care	--			++
Energy	--		++	--
Communication Services		+		-
Utilities	--	-	+	++

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Don't Time the Market, Know The Market

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It's Diversity of Thoughts and Ideas

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Key Players in the U.S. Economy

Business



Everyday People (Consumer)



Government – Fiscal Policy

- Regulation
- Spending
- Taxation
- Debt Ceiling



Federal Reserve – Monetary Policy



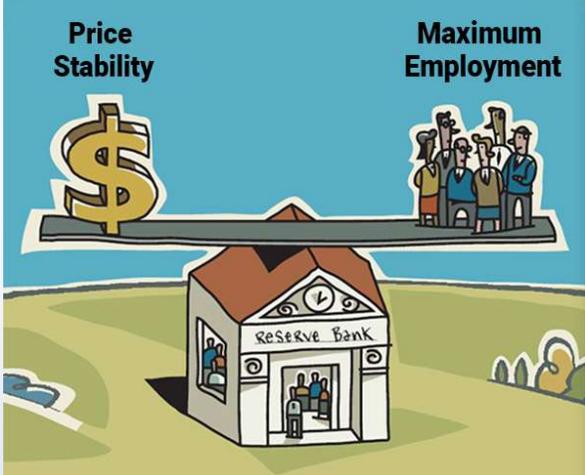
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The Federal Reserve Mission

The Federal Reserve has been given a dual mandate:

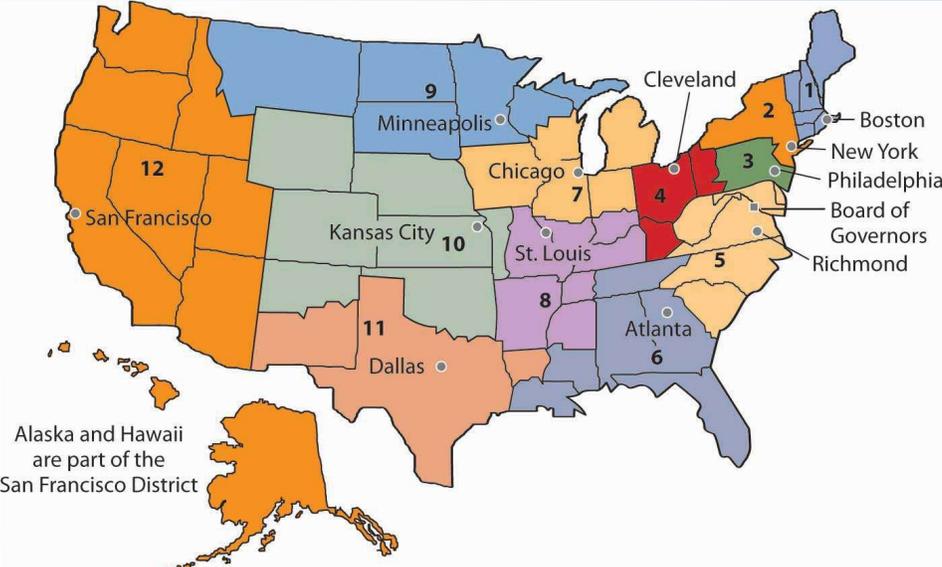
Price Stability **Maximum Employment**



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The Federal Reserve System



Alaska and Hawaii are part of the San Francisco District

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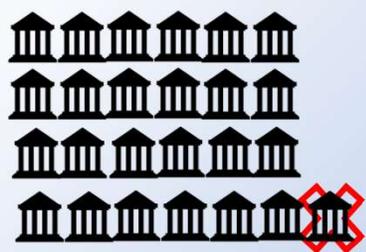
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The Federal Reserve System

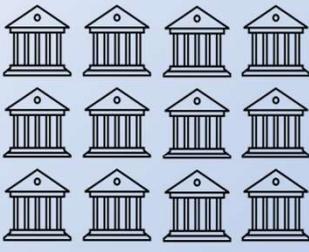
Federal Reserve Board of Governors



Federal Reserve Branches



Federal Reserve Banks



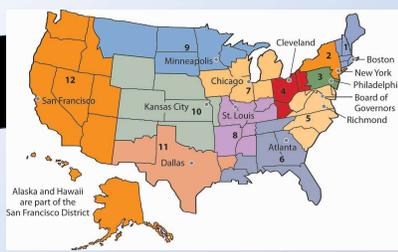
- In Washington, D.C.
- Seven members including Chairman and Vice Chairman
- Appointed by U.S. President and confirmed by the Senate
- Oversee Federal Reserve Banks



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The Federal Reserve System







Each district gathers their own economic information from various sources within their territory.





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The Federal Reserve System

Alaska and Hawaii are part of the San Francisco District

For use at 2:00 PM EDT
Wednesday
July 12, 2023

The Beige Book
Summary of Commentary on Current Economic Conditions
By Federal Reserve District

June 2023

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The Fed Meeting

Federal Open Market Committee (FOMC)

The Outcome of the Meeting is the Fed's **Monetary Policy**

Federal Open Market Committee

- All seven members of the Board of Governors
- Presidents of the Federal Reserve Banks.

STOCK MADE EASY INVESTING

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U.S. Monetary Policy Involves...

- Influencing Interest Rate
- Promoting Stable Prices
- Promoting Maximum Employment
- Availability of Money and Credit

STOCK MADE EASY INVESTING

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The Fed's Tools to Implement Monetary Policy

- Fed Fund Rate**: A target interest rate range that banks pay when borrowing from each other overnight.
- Bank Regulations**: Rules and guidelines that apply to the banking and mortgage lending industries.
- Reserve Balances**: The amount of money that is held back from the available balance.
- Discount Rate**: The minimum interest rate set by the Federal Reserve for lending to other banks.
- Open Market Operation**: Use to buy or sell securities on the open market to raise or lower interest rate.

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Lesson 7's - Stop / Go Movement

Federal Reserve Toolbox



Fed Fund Rate

Bank Regulations

Reserve Balances

Discount Rate

Open Market Operation

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When The Feds Are Dovish On The Economy	
Borrowing	Up
Spending	Up
Demand	Up
Unemployment	Down
Prices	Up

When The Feds Are Hawkish On The Economy	
Borrowing	Down
Spending	Down
Demand	Down
Unemployment	Up
Prices	Down

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Federal Reserve's Measurable Targets

Stable Prices

Consumer Price Index (CPI)
Producer Price Index (PPI)
Target 2%

Maximum Employment

Unemployment
Target 4-5%



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WOO!!! STOP RIGHT HERE.
You were starting to make a little sense until you used **ACRONYMS!**
CPI?
PPI?



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Macroeconomic Indicators

Dow Jones Industrial Average (DJIA)	Consumer Price Index (CPI)
Standard & Poor's 500 (S&P 500)	Producer Price Index (PPI)
National Association of Securities Dealers Automated Quotation (NASDAQ)	Consumer Confidence Index (CCI)
Gross Domestic Product (GDP)	Business Confidence Index (BCI)
Unemployment	



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Macroeconomic Indicators

Labels ???



<i>Bull & Bear</i>	
<i>Expansion & Contraction</i>	
<i>Rise & Fall</i>	
<i>Inflation & Deflation</i>	
<i>Optimistic & Pessimistic</i>	



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Consumer Price Index (CPI)



Consumer Price Index (CPI)

Target 2%

- +

Deflation Inflation

What is the Consumer Price Index?

The Bureau of Labor Statistics also produces the Consumer Price Index (CPI), which measures the average price of a basket of consumer goods and services domestic producers provide.

Forbes FORBES | MONEY
PPI vs. CPI: Understanding The Producer Price Index And Consumer Price Index As An Investor

U.S. BUREAU OF LABOR STATISTICS <https://www.bls.gov/>



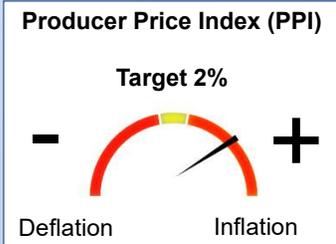
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Producer Price Index (PPI)

What is the Producer Price Index?

The Producer Price Index (PPI) is a program overseen and published by the US Bureau of Labor Statistics (BLS). It tracks the wholesale selling prices that domestic manufacturers receive for their products and services. The prices collected represent the initial cost of a product or service as it reaches the market and tracks current pricing for around 10,000 products and services.



Producer Price Index (PPI)

Target 2%

- +

Deflation Inflation

Forbes FORBES | MONEY
PPI vs. CPI: Understanding The Producer Price Index And Consumer Price Index As An Investor

U.S. BUREAU OF LABOR STATISTICS <https://www.bls.gov/>



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Do Comparisons While Evaluating the Indicators

Producer Price Index (PPI) **Consumer Price Index (CPI)**
Wholesale **vs.** **Retail**

Look at month-over-month changes

Companies can pass on all or part of their cost or saving to consumer

Watch their quarterly earnings report



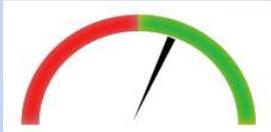
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Unemployment



Unemployment
Target 4% - 5%



Rise **Fall**



 **U.S. BUREAU OF LABOR STATISTICS** <https://www.bls.gov/>

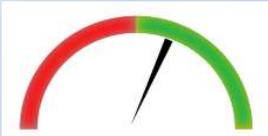
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Gross Domestic Product (GDP)

GDP = Total market value of goods and services produced within the United States in a year.

Gross Domestic Products (GDP)

-  +

Contraction Expansion

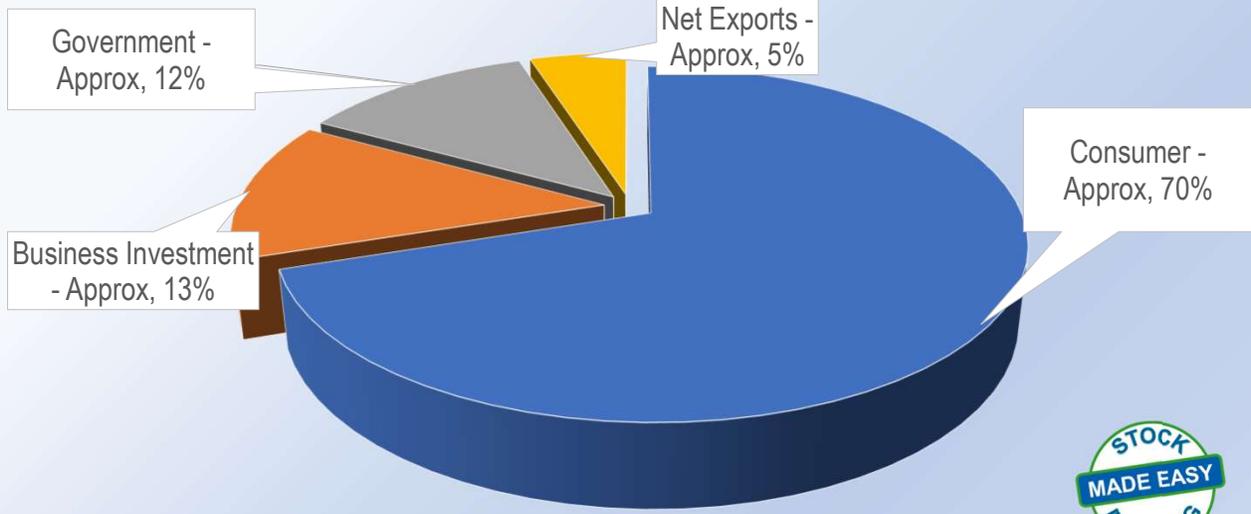
<https://www.bea.gov>



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Gross Domestic Product (GDP)



Category	Approximate Percentage
Consumer	70%
Business Investment	13%
Government	12%
Net Exports	5%



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How is GDP Calculated?

<https://www.bea.gov>

There is a four-part formula:
 $C + I + G + NX = GDP$

Personal Consumption Expenditures	Also called consumer spending : the goods and services people buy, such as groceries, clothing, cellphone service, and health care.
+ Investment	This is business spending on fixed assets such as land, buildings and equipment, plus investment in unsold inventory; also includes purchases of homes by consumers.
+ Government Spending	Spending by federal, state, and local governments to provide goods and services, such as schools, roads, or national defense.
+ Net EXports	Also known as exports minus imports (X - M) : the value of exports to other countries minus the value of imports into the United States. <i>Why are imports subtracted? Consumers, businesses, and governments spend some of their money on imports. U.S. production would be overstated if the formula didn't remove imports.</i>
= GDP	The total market value of the goods and services produced within the United States in a year.

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Consumer Confidence Index (CCI)

Consumer Confidence Index (CCI)

Value = 100

Pessimistic Optimistic

Consumer Confidence Index (CCI)

This consumer confidence indicator provides an indication of future developments of households' consumption and saving, based upon answers regarding their expected financial situation, their sentiment about the general economic situation, unemployment and capability of savings.

<https://data.oecd.org/leadind/consumer-confidence-index-cci.htm#indicator-chart>

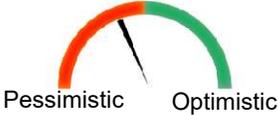
OECD Data

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Business Confidence Index (BCI)

Business Confidence Index (BCI)

Value = 100



Pessimistic Optimistic

Business Confidence Index (BCI)

This business confidence indicator provides information on future developments, based upon opinion surveys on developments in production, orders and stocks of finished goods in the industry sector.

<https://data.oecd.org/leadind/consumer-confidence-index-cci.htm#indicator-chart>



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Bear Markets

CEILING



20% Rise

20% Decline

Bear Market



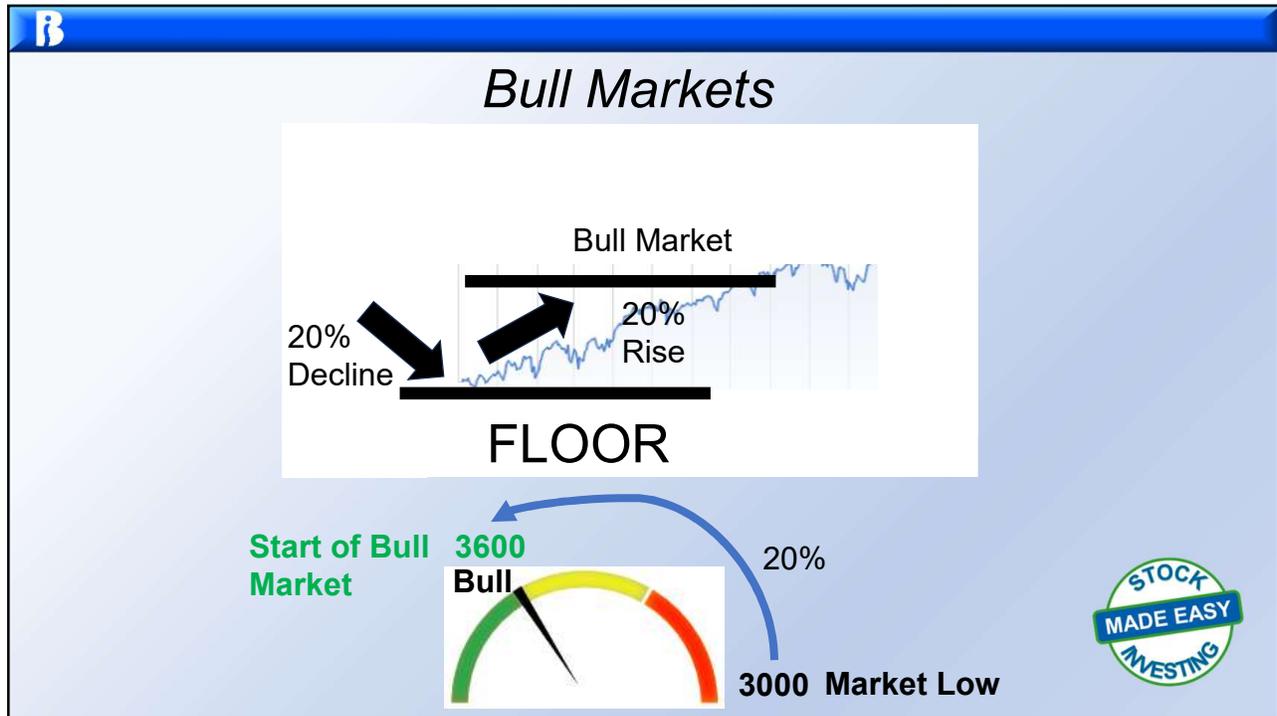
Market High 5000

4000 Start of Bear Market

Bear Market



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B The Federal Reserve Mission

The Federal Reserve has been given a dual mandate:

Price Stability

Maximum Employment

RESERVE BANK

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Key Players in the U.S. Economy

Indicator	Source	Link
Gross Domestic Products (GDP)	Bureau of Economic Analysis	https://www.bea.gov
Unemployment	U.S Bureau of Labor Statistics	https://www.bls.gov/
Consumer Price Index (CPI)	U.S Bureau of Labor Statistics	https://www.bls.gov/
Producer Price Index (PPI)	U.S Bureau of Labor Statistics	https://www.bls.gov/
Consumer Confidence Index (CCI)	OECD data	https://data.oecd.org/leadind/consumer-confidence-index-cci.htm#indicator-chart
Business Confidence Index (BCI)	OECD data	https://data.oecd.org/leadind/business-confidence-index-bci.htm#indicator-chart
Federal Fund Rate	Federal Open Market Committee - Minutes	https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm

DIY



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DIY Creating Dials and Speedometers

Search Google

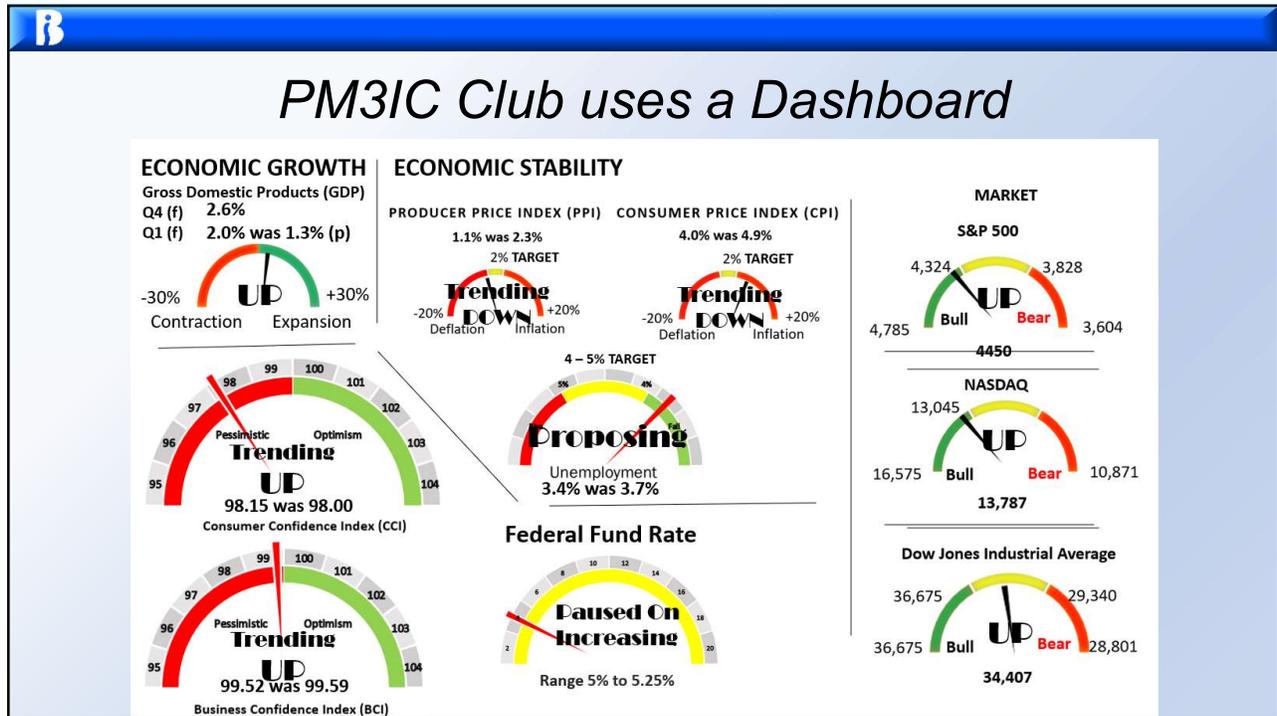


“making an Excel dial”
“making an Excel speedometer”





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Lesson 7



When government is conducting an inflation control “stop-go” movement.

2% TARGET

- Deflation + Inflation



Producer Price Index (PPI)
Consumer Price Index (CPI)

4 - 5% TARGET

Rise Fall



The Unemployment

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Lesson 7

Recognize this as a time not of fear but for bargain hunting.

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B

Lesson 7

Be sure you don't sell just as the shift to "go" is being made.

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Pre-Departure Checklist

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 - ✓ Do all research on the company you study.

- ✓ **Check your weather forecast, tides, and currents.**
 - ✓ Check external forces a company and an industry might encounter.

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ECC ECONOMIC GROWTH
 Q1 (Y) 2.5%
 Q1 (Y) 2.0% was 3.3% (p)
 Trendline: UP
 98.13 was 98.00
 Business Confidence Index (BCI)

ECONOMIC STABILITY
 PRODUCER PRICE INDEX (PPI) 3.2% was 2.2%
 CONSUMER PRICE INDEX (CPI) 4.0% was 4.2%
 Trendline: UP
 8.0% was 3.7%

MARKET
 S&P 500 4,234 was 3,828
 Bull Bear 3,604
 NASDAQ 13,045
 Bull Bear 10,871
 Dow Jones Industrial Average 36,675 was 33,340
 Bull Bear 35,801
 34,407

Federal Fund Rate
 Targeting 4.75%
 3.0% was 3.75%
 Trendline: UP
 Caused to Increase
 Range 5% to 5.25%

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B 75

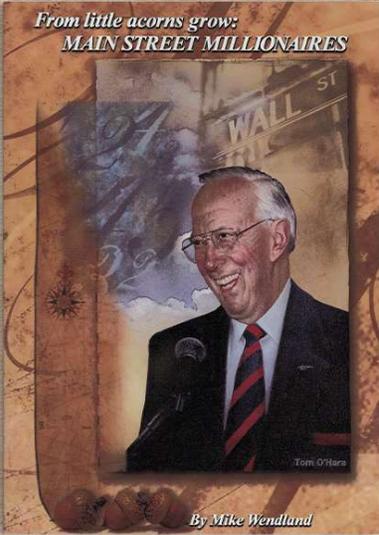
In this session we:

- ✓ Spent time looking at economy
- ✓ Gained understanding of Lesson 7's inflation control Stop / Go movement
- ✓ Identified key players in economy
- ✓ Discussed common labels
- ✓ Provided resources to create a dial



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The screenshot shows the BetterInvesting website's product page for the book 'Main Street Millionaires'. The page features a navigation bar with the logo and links for Home, Membership, Learn About Investing, Find Great Stocks, Investment Clubs, Meet Our Community, and About Us. A breadcrumb trail indicates the path: Home > Store > Newsletters & Books > Main Street Millionaires. On the left, a sidebar lists various newsletters and books, with 'Main Street Millionaires' highlighted. The main content area includes the book title, a description of its inspiring story, a list of key features, and a price of \$4.95. An 'ADD TO CART' button is visible at the bottom right of the product information.

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The promotional banner features the headline 'Make A Difference In Someone's Life' and the central message 'Pay it forward!'. It encourages users to share their investment education materials. Logos for 'BETTERINVESTING weekly', 'StockUp', 'SSG PLUS', and 'CORE SSG' are displayed on the left. On the right, there are images of 'TOP 100' stock books and a 'TickerTalk' logo. A circular seal at the bottom right reads 'STOCK MADE EASY INVESTING'.

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Questions

Contact Info:

frhamyjr@gmail.com

The next class will be
October 30, 2023 – Tinker to Evers to Chance

