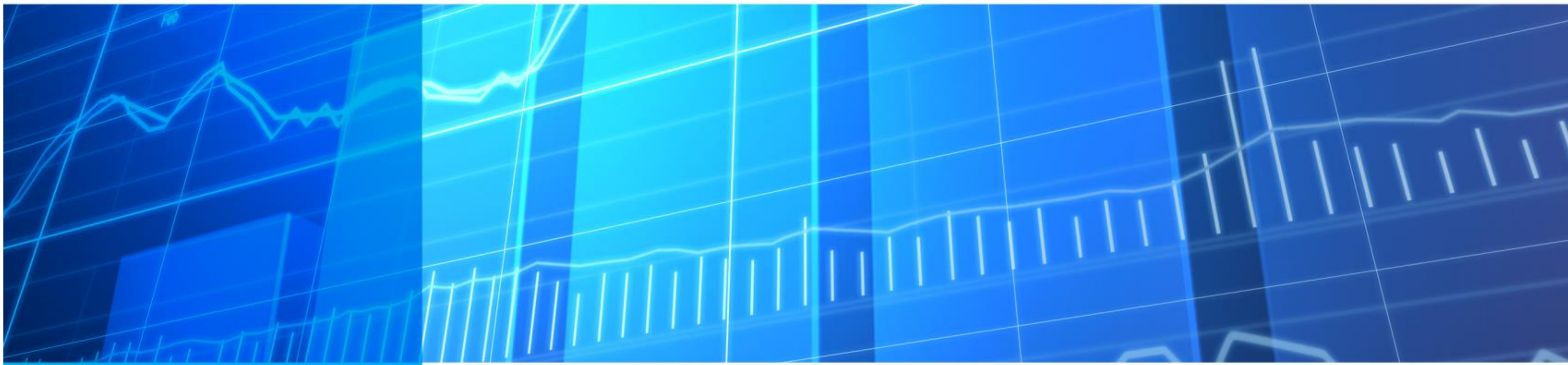
ABSHER
Wealth Management
Registered Investment Advisor

Asset Management
Investment Planning
Investor Education



QUARTERLY REPORT

November 5, 2021

Being Disciplined Matters,
(Especially when the ice looks thin)

Mike Absher, CIMA®, CPWA®
Founder
Chief Investment Officer
Investment Advisor Representative

Through the end of October, our average return since the end of the year for most clients is approaching 20%. Despite those gains, this year has been challenging at times for disciplined investors like us. Our investment strategy has evolved over the past 25 years, but the core objectives have remained the same. We own high-quality businesses that have the potential to grow while also possessing a margin of safety, such as a discounted valuation or a dominant brand. By focusing on quality and value, we expect our portfolios to perform solidly during good markets but to have drawdowns that are shallower in magnitude and shorter in duration than the overall stock market during the tough years. Historically, this has been true for investors with strategies like ours, as it was true for our long-term clients that came through the tech bubble with us. Additionally, our focus on companies with a track record for raising their dividends provides our clients income during those drawdowns. However, the tradeoff for owning those dividend-paying stocks that often lose less and recover faster from drawdowns is that we don't fully participate in the upside when Mr. Market's mood drifts towards euphoria.

The good news is that we are finding many attractive opportunities in our universe today, but there are also considerable risks that many investors may be ignoring in their pursuit of an index-beating return. Market valuations, especially for technology stocks, have moved into levels not seen since the top of the dot-com bubble. The Nasdaq 100 was trading for 43x earnings at the end of the 3rd quarter. If not for Apple and Microsoft, the largest holdings for that index, the valuation would be even higher. Research published by Bernstein in September reported technology stocks within the 1,500 largest stocks in the country are now more expensive than at any time other than 1999 across the past 50 years based on market value to sales. As one example of investor optimism, Tesla currently has a fully diluted market value of ~$1.5 trillion, greater than all the traditional automakers combined, despite having just a 1% share of the global auto market.

1450 Raleigh Road,
Suite 105
Chapel Hill NC 27517

absherwealth.com

Macro-Economic Conditions and Concerns

We find ourselves at an interesting moment for the global economy and for investors of every asset class. As the world slowly comes out of the coronavirus pandemic, there are many potential risks that could be significant for investors and consumers. The most concerning for us are listed below. They include potential sources of inflation, downside pressure on profitability and productivity, and higher taxes.

- Central banks have been exceptionally accommodative over the past few years. Based on this week's press release from the Federal Reserve Open Market Committee, it appears that we are nearing an inflection point for some of that liquidity. Moments like this in history have also been opportunities for a policy mistake. Bond yields have moved modestly higher, but global interest rates are still near 60-year lows or said another way bonds are near all-time highs.
- Global supply chains have been sources for productivity gains and cost savings (reducing inflation) for the past forty years as manufacturing systematically moved from one low-cost country to another even lower cost country. The pandemic exposed the fragility of that supply chain, and we are experiencing the first signs of input cost inflation in decades.
- Wage inflation has been minimal for most of the past 40 years. Most of the gains in wages were a function of productivity gains and innovation, and specifically were heavily skewed towards higher income workers. The pandemic may have broken that trend, as an extremely tight labor market coupled with fiscal stimulus provided many lower income workers a stronger bargaining position to demand higher pay. The tradeoff of higher wages is either lower profits or higher inflation.
- While still too early to be certain, there are signs that the downward trend on tax rates which began during the Reagan era may be ending. Corporate tax rates seem most at risk for an increase, especially for the global technology titans that historically have had a very low average tax rate.

We do not invest based on macro forecasting, but we do consider how some of those possible outcomes could negatively impact our investments. The issues above could lead to reduced profit margins and slower economic growth. Despite these potential headwinds, most asset classes are trading at or near record highs.

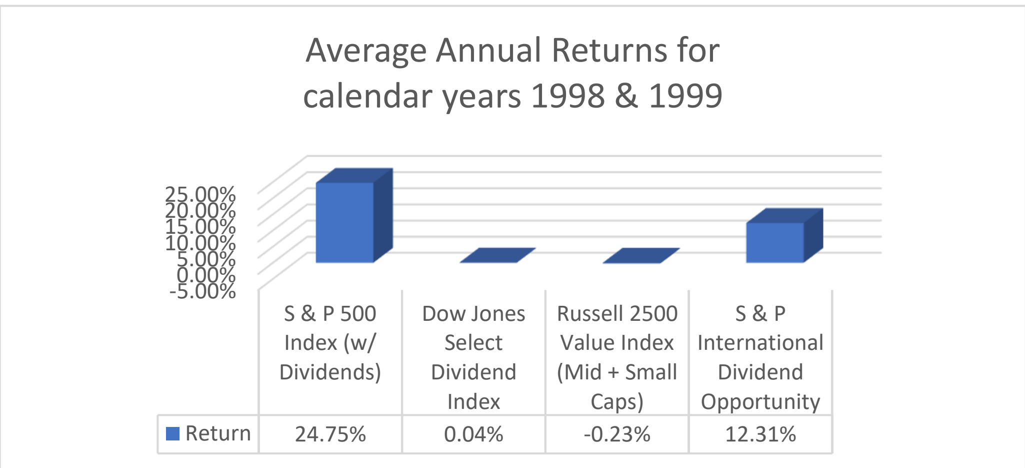
Fortunately, our decisions are based on the quality of the businesses we own, the opportunity that we see in their current share prices, and the downside risk we perceive if that upside opportunity fails to materialize. Simply stated, we want to be handsomely rewarded if our thesis proves correct, while limiting downside if it does not. We have the advantage of owning a smaller and more focused portfolio of unique opportunities, not hundreds of stocks or bonds that are simply proxies to the overall environment. As an example, our portfolios have significantly more exposure to the global consumer and to currencies other than the dollar. These foreign companies trade at meaningful discounts to their US peers, even though many of them have stronger balance sheets and greater exposure to the fastest growing economies of the world. Additionally, the average company that we own inside our portfolios is half the size of those held by the index. Being smaller doesn't guarantee a higher growth rate, but smaller companies have historically been able to grow earnings at a faster pace than their larger peers.

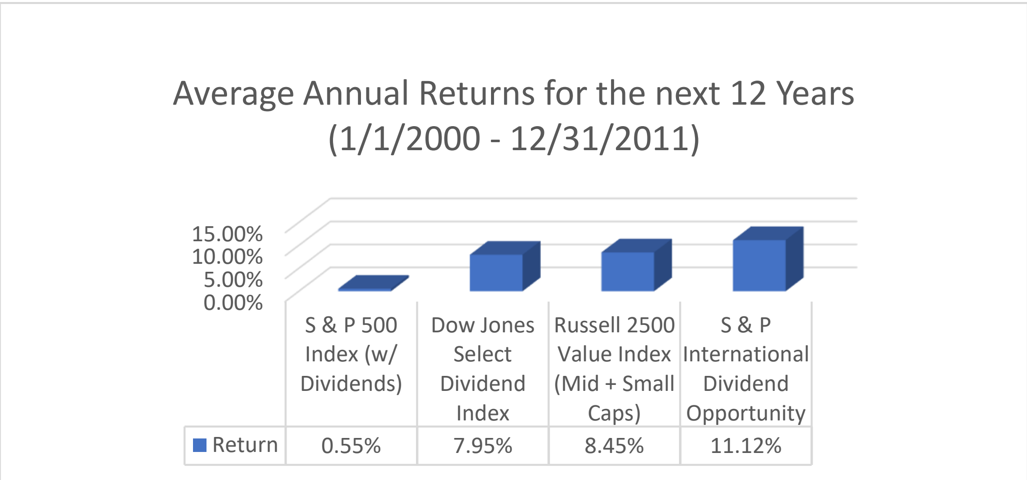
"Investing is about preserving more than anything. That must be your first thought, not looking for large gains. If you achieve only reasonable returns and suffer minimal losses, you will become wealthy and will surpass any gambler friends you may have. Considering the downside is the single most important thing an investor must do."

~ ***Irving Kahn***, *Studied under Benjamin Graham and worked on Wall Street for 86 years*

Benchmarks and Market History

We often get asked how our strategy performs relative to the S&P 500 index. The S&P 500 index is comprised of 505 companies and is market-cap weighted, which means that the 10 largest technology companies represent about 30% of the overall index. The goal of beating the index seems most popular during prolonged bull market advances, but the benchmark has also experienced multiple prolonged periods of zero returns over the past century. Our clients have hired us to help protect their nest eggs throughout their lifetimes, specifically against the destructive impact of inflation as they expect these assets to generate income for them in retirement. That means we are always focused on owning assets that have the potential to produce real (net of inflation) returns, either an amount above their desired withdrawal rate or based on a return needed to fund future goals. After a decade of robust returns for the index, I fear that many investors don't realize the depth or duration of previous drawdowns for the index after periods like this one. The charts below show average annual returns for the S & P 500 index compared to three dividend or value oriented indices at the end of the tech bubble and the subsequent 12 years. Our holdings more closely resemble a combination of these three other benchmarks, as we own companies of all sizes, both domestic and foreign, and with a focus on dividends and valuations.





Source: Refinitiv

In case you're curious about how the various investments in this example performed across the entire 14-year timeframe ending 12/31/2011, the worst performing index of these four was the S & P 500 at just 3.7% annually. The Dow Jones Select Dividend Index was the 2nd worst performer, but it still returned nearly 7% annually over those 14 years.

The impact of the tech bubble on the S & P 500 was so severe that it still hasn't caught back up to other US-based dividend and value-based indices. It did manage to catch the international dividend index last year, nearly 20 years after falling behind!

Portfolio Commentary

I want to close with some comments about our discretionary portfolios. The third quarter was frustrating, but it was also one with opportunities. Several of our holdings had significant moves in both directions during the quarter and we traded into those price swings as we saw opportunity. The nature of being a disciplined investor is also an exercise of ignoring your emotions. Years ago, one investment manager used a visual of a child eating their peas to illustrate the feeling one has when buying low. It has been a year full of those moments for me. Fortunately, many of them have already worked out nicely, such as the additional buys into Costco, PepsiCo, and Walmart earlier this year. More recently, we made additional purchases in M & T Bank and Chevron which have already rebounded sharply. Many of you may have noticed more recent purchases into London Stock Exchange and FedEx that are still near their lows. I have spent the past 25 years studying the stock market as a professional investor working on behalf of our clients. I have extreme confidence in very few things, but I certainly have it in two maxims. The first is the greatest loss comes when one makes an emotional mistake, whether it be from fear or greed. In today's market, I am seeing greed and envy creep into the decision-making process. The second maxim for which I have complete confidence is that price and quality matter. Periodically, Mr. Market may allow speculators to drive market prices for companies with little or no actual profits to stratospheric levels, but eventually stocks will trade based on the value of their actual cash flows. Our portfolios are built with that premise in mind. We own high-quality businesses that have measurable earnings and free cash flow, but also are trading for a reasonable valuation based on their future opportunity for growth. While weightings across client portfolios vary slightly, the fundamentals of the stocks that we own across our core portfolios trade at an average discount to the index of 20% on a price-to-earnings and price-to-cash flow basis. Additionally, our holdings have higher dividend yields and have a lower percentage of debt on their balance sheets. Over time, I am confident that owning higher quality and lower priced companies will be critically important for our clients in their fight against inflation.

Biggest Outperformers Year-to-Date	Worst Laggards Year-to-Date
Microsoft	Henkel
T. Rowe Price	Brown-Forman
Chevron	Amgen
J.P. Morgan Chase	FedEx

Absher Wealth Management is a team of experienced professionals who have a shared belief that professional development is critically important to their client's success. The members of the team hold many advanced industry designations and continue to work on additional professional designations. We believe prudently managed wealth serves as a means to get you where you want to go, and we're committed to delivering our best advice to help you get there.

Michael F. Absher, Jr., CIMA®, CPWA®
Founder/Chief Investment Officer
Investment Advisor Representative
mike@absherwealth.com
919 283-2246

Jennifer L. Oravsky, CFP®, CPWA®
Senior Wealth Planner/Senior Partner
Investment Advisor Representative
jennifer@absherwealth.com
919 283-2248

Kevin L. Mishoe, CFP®
Chief Compliance Officer/Director of Operations
Investment Advisor Representative
kevin@absherwealth.com
919 283-2247

Zak Wahdan, CIMA®
Client Service Specialist
Investment Advisor Representative
zak@absherwealth.com
919 283-3612