Warnke/Nichols Ltd.
Investment Management
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**PORTFOLIO NOTES** **NOVEMBER 2021**

*To our Business Partners:*

- ***RISK WITHOUT RETURN?*** Most stocks are now in uncharted territory with most, if not all, stock market indexes valued significantly above what is considered "normal" or average, based on historical relationships. This over-valuation is due partly to the extremely aggressive actions of the Federal Reserve over the last several years in bringing interest rates close to zero, pushing investors to seek seemingly better returns elsewhere. The strong advances of the markets have been cheered on by many as confirmation of a strong economic recovery and further blue skies ahead.

  While we have no way of knowing how long this market advance will continue, we do know that, based on historical relationships, future stock market returns are very likely to be below average, perhaps substantially so. Looking at data extending back to 1928, above-average stock market returns have only occurred when stock prices are moving upward from below long-term valuation averages. Gains that have been achieved when prices are substantially above valuation norms have almost always proved to be temporary.

  The current run-up in the stock market indexes has been strongly aided by the aforementioned "easy" money policies and aggressive government spending, both of which have inflated corporate profits and contributed to the stampede into stocks. These are unsustainable and have left investors with an environment where future returns must be called into question.

  With any asset, whether it's an apartment complex, industrial machine, or fractional share of a business (stock), you're buying a future stream of the income that asset produces. The value of that asset is today's estimated total of all the cash you can take out of it over time. Therefore, the price you pay for that stream of cash is extremely important. If you buy your fractional share of a business for way more than its intrinsic worth, your investment return is going to be highly unsatisfactory.

- ***PORTFOLIO VALUATION.*** It's somewhat shocking that, to the best of our recollection, this is the first time, our portfolio* of client-held stocks is selling for over 100% of estimated worth. It's but a small sample of the extreme overvaluation in the marketplace described above. While we still have a few stocks selling at large discounts to estimated value, we're even more motivated to look in every corner of the stock universe for new attractively priced high-quality companies to buy. Meantime, as part of our discipline, we're cutting back on stocks which have overshot conservative estimates of future value.

- ***RECENT RESULTS.*** Stock market indexes rallied back from their losses in September, rising 4-7%, with large company indexes providing the largest gains. Through October, indexes have gained from 17-23%, with smaller companies generally providing the higher returns. Our group* of portfolio stocks compares favorably with the market indexes over the same periods.

*Steve Nichols, CFA*     *Bill Warnke, CFA*

***The group of "portfolio stocks" -- our Equity Composite for the purpose of evaluating investment performance -- consists of 18 stocks that are held in our clients' accounts. Portfolios might hold some or all of these stocks, depending on investment guidelines unique to each client, the timing of purchases and sales, and start dates of accounts. The performance of this group of stocks is a good proxy for our equity performance but might vary widely among accounts. Of course, past performance is not necessarily indicative of future results.***

***We hereby offer to deliver to you without charge a copy of our current Form ADV Part 2, in accordance with the U.S. Securities and Exchange Commission's "Brochure Rule." Please contact us if you would like us to send you a copy.***

*Investing with a margin of safety.™*

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