On Monday, September 25, the Breakfast Club met again. As the group settled in with coffee, the month’s trivia challenge was addressed.

**Trivia**. In August, we re-visited Ben Graham’s thoughts on the quality of an investment. This month we consider others. (1) **There’s Jeremy Grantham’s definition that is somewhat more concise: “High returns, stable returns, low \_\_\_\_\_\_\_.”** That would be **low leverage**. Grantham is co-founder and chief investment strategist of GMO LLC, a Boston-based asset management firm ($65Billion). In a long investment career – he turns 85 in days – Grantham accurately identified bubbles developing in asset classes. He then invested contrariwise and patiently to reap benefits of the “reversion to the mean” that was certain to come. The only unknown in his approach was the exact date when the bubble would burst. Hence the patience. (2) **Another useful take is offered by Joel Greenblatt, described in his best seller “The Little Book That Beats the Market.**” Greenblatt wanted a definition simple enough so that a kid running a lemonade stand could understand what a quality business is. Greenblatt concentrated on earnings yield and “return on \_\_\_\_\_\_ \_\_\_\_\_\_ (ROIC)”. **ROIC = Return On Invested Capital**. Greenblatt is Principal of Gotham Funds, which advertises their “… fundamental disciplined approach to value investing.” As an academic in NYC, Greenblattt has taught the investment course at Columbia University originated by Ben Graham.

**Portfolio Review.** The brakes applied to the market in August continued into September. Portfolio 42, which had reported a YTD return of 14.4% through July, reported a noticeably reduced 8.1% in August, and that level has not changed, 8.1%YTD. The DOW retreated over the month, falling from August’s 2.9% to 1.8% through September. Likewise for the S&P 500 and NASDAQ. The S&P drops from 10.9% to 8.7% September YTD, and NASDAQ drops to 18.6% from 22.0% in August. Tech companies continue to dominate the portfolio, with Diep C’s Nvidia (NVDA) delivering a strong 133.3% return (though down from August’s 168%), followed by Frank C’s Tesla (TSLA) at 83.5%. Rounding out the top spots are Bob J’s Eli Lilly (LLY) at 60.1% and Dale W’s Broadcom (AVGO) at 47.7%. Tom K’s Marathon Digital (MARA), which had returned 106.9% through July, dropped to 30.7% through August, then to 7.4% for September. Quarter III is now behind us, what can we reasonably expect going forward to year end? With the FED dropping hints here, there and everywhere that interest rates will remain higher for longer, the future for high flying tech stocks is taking a serious “haircut”. The value of future cash flows is now discounted more heavily than was the case just a few short months ago. The decline in value is taking place right before our eyes.

For the month, Portfolio 43 exhibited similar behavior. Navigating the market for ten weeks or so, effects are emerging. From a negative -5.51% return in August, things declined further, to -7.32% return through September. Since mid-July, the three indices also run negative, the DOW at -1.6%, the S&P 500 at -4.1% and NASDAQ -6.4%. The portfolio trails the indices. As usual, there are bright spots, though few. Just three selections deliver positive, double-digit returns. The portfolio is led by Marvin H’s choice of Fuel Positive (NHHHF), returning a strong 27.7%. We congratulate Marvin for the courage of his convictions. NHHHF is a repeat selection for Marvin. The remaining pair of “high” performers are Rick Y’s choice of DLH Holdings (DLHC), returning 18.9%, and Chuck D’s selection of IBM, returning 11.6%. Overall, almost two-thirds (64%) of the portfolio is underwater. A serious challenge lies ahead. Quarter IV and the Santa Claus Effect? We’re losing faith.

**Handouts**. Discussion of several handouts followed. Gary G. summarized a Barron’s article that discussed the future of Social Security. CBO reports that under current rules, funding for Social Security is depleted by 2034. To avoid the draconian cuts necessary if the scenario is allowed to play out, something must be done. The article points out that at least some new thinking is underway and explores (again) the possibility of incorporating market returns to the fund. Thank you, Gary.

Another handout presented the collected headlines from the WSJ for the month. Beginning mid-month, stories began to appear that have dampened enthusiasm for stocks. From **September 18**, “**A Growing Expectation** that the Fed will keep interest rates higher for longer threatens to stifle the tech-stock rally, potentially dimming the outlook for indexes influenced by the sector. Then a few days later, **September 22**, “**Treasury Yields Surge to Decade-Plus Highs** … The highest bond yields in more than a decade prompted another sell-off, as the possibility of a prolonged higher interest-rate environment sank in across Wall Street.” And then **September 23**, the Friday preceding our meeting, “**S&P 500 Posts Its Worst Week Since March**… The prospect of a prolonged period of higher rates … has investors pulling back on risk. Higher bond yields can make assets like stocks look comparatively less attractive.” Is this more bad news? From **September 20**, “**Is the Newest iPhone Worth It**? … In a year of dismal smartphone sales, Apple’s strategy is to get those of us who are spending to spend more … the company wants you to buy the iPhone 15 Pro Max … $100 higher than the 14.” We wonder which phone Warren Buffett puts in his pocket.

Sector performance was re-visited for the month. The briefest summary: across the board declines. From overall market returns of 19.1% in July, to 14.3% in August, September declined further, to 11.7%. As captured in the Vanguard sector ETF’s, five sectors continued in negative territory, with Utilities (VPU) hurting the most, at negative -10.1% return YTD. Others suffering are Real Estate (VNQ, -6.1%), Health Care (VHT, -4.0%), Consumer Staples (VDC, -2.2%), and Financials (VFH, -1.0%). Leading sectors remain those that have shown the way through the year: Information Technology (VGT, 30.0%), Communication Services (VOX, 28.1%), and Consumer Discretionary (VCR, 23.3%). With this Quarter III of loss finally behind us, it will be interesting to see how the market adjusts. Chaos, as in market chaos, is unpredictable, we will just have to wait and see.

The final handout was a reprise of a Scientific American article from several years ago, “Open Mind, Longer Life.” This article summarized the connection between health and the five major personality traits: agreeableness, extroversion, neuroticism, openness and conscientiousness. Research has shown neuroticism is linked with poorer health and conscientiousness with superior health. “Now openness, which measures cognitive flexibility and the willingness to entertain novel ideas, has emerged as a lifelong protective factor.” What was noteworthy about this article is the local connection, as study authors reside at the University of Rochester Medical Center. Subjects were 1,000 older men, studied over a period approaching twenty years. It was found that creativity – not intelligence or overall openness – decreased mortality risk. “Individuals high in creativity maintain the integrity of their neural networks even into old age.” Apparently, exercising the brain helps to keep all systems running smoothly. “Keeping the brain healthy may be one of the most important aspects of aging successfully – a fact shown by creative persons living longer in our study.” There’s our challenge, instead of physical, let’s get creative.

As we wrap things up, we close with some good news. The Breakfast Club’s experimental small-cap portfolio, the “Swinging for the Fences Portfolio” is doing quite well, thank you, dominating the appropriate indices by far. No brag, just fact! Join us for breakfast, check this one out.

The Jeff Fraser Breakfast Club meets again the final Monday of the month. That date is October 30. Hope to see you all again then.