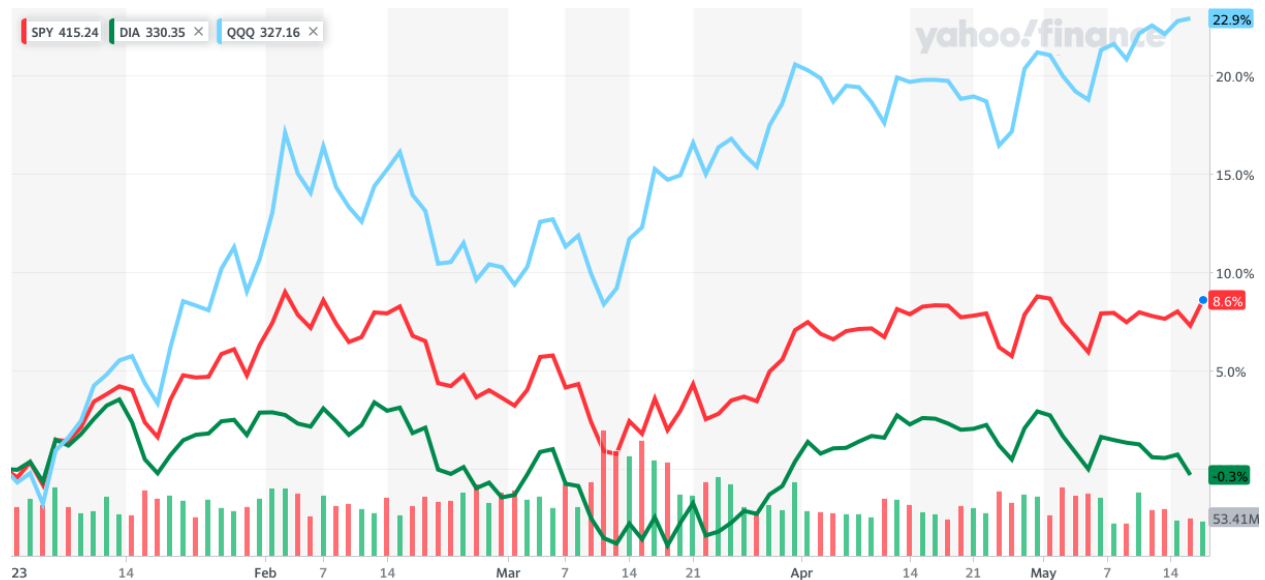


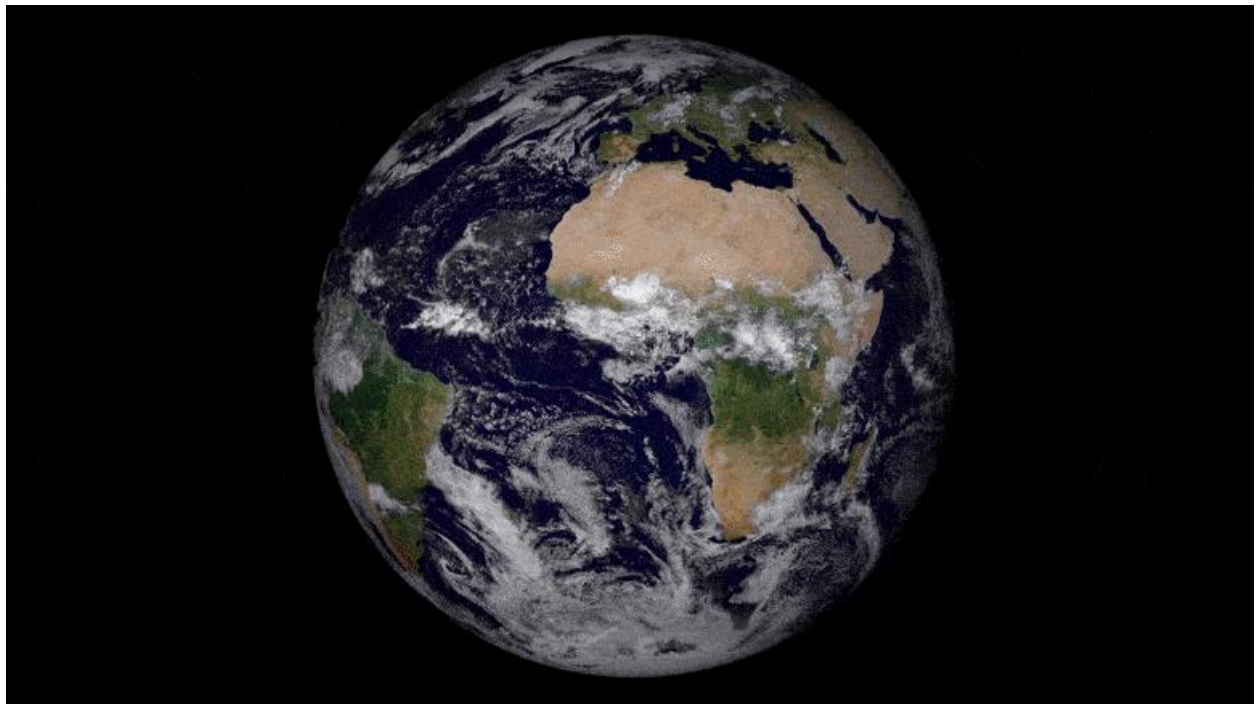
To know me, is to love me. And to also know that I can get really excited about things. Full disclosure, I'm pretty excited right now. For a (recovering) market junkie like myself, these are incredible times. Like the best in a while. The Fed is getting off the throttle, layoffs are coming, Chuck Munger is telling it like it is, bank credit is tightening, and on top of it, the Surgeon General just told us that loneliness is like smoking half a pack a day. How about being happy and still getting to take down just a few Marlboro Reds? Next level, win, win.



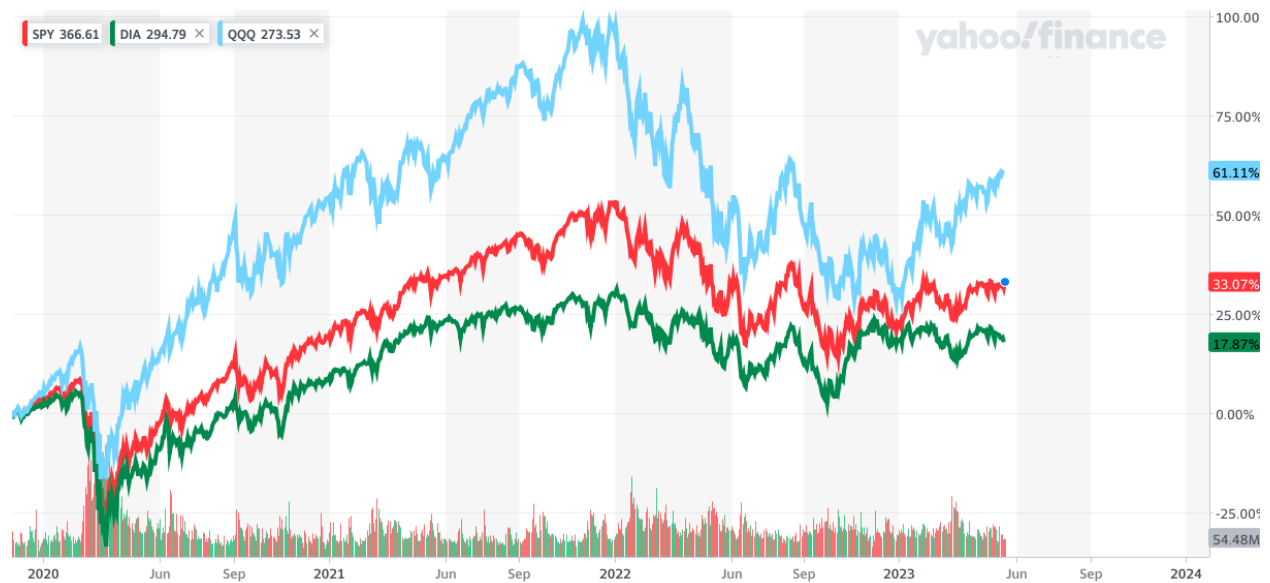
Full disclosure, cigs are nasty, and the few times a year I'm in a Vegas casino I'm still shocked that people can suck down these burning sticks of nastiness. But I digress, this is a great moment for markets as it is rare to get this many cross currents pushing against each other. And the effect? Stocks won't go down. Not that they are going up a lot, but they simply won't really go down. That 8.6% return for the S&P 500 through yesterday, is a pretty good result. Further juiced if you factor in dividends.



Now let's step back and get a little bigger perspective. Reminder, we live on a giant space rock, floating with other space rocks. There are so many space rocks in the universe, floating with other space rocks, that some incredibly bright physicists believe that everything that has happened on earth, has also happened on another space rock. Now that, my friends, is truly big picture.



Back to the subject at hand. Since the pandemic broke out in the early months of 2020, markets have put up some good gains, even when giving back the monster upside experienced from mid-2020 to year end 2021. With tensions building on many fronts, it's my reasonable observation that this chart shows the range in stocks for the next couple of years. Not great for outsized right tail returns, but by no means a Global Financial Crisis style 'bid wanted' scenario.



Biggest news recently from the macro perspective was the Fed tightening two weeks ago, taking the target rate to 5.25%. As has been well documented, this is the highest its been in 16 years. It is also the rate that was hit right before the housing crash and global financial crisis of 2008. Take that one step further, this was the prelude to when the Fed's ZIRP (Zero Interest Rate Policy) started.

Fed Sees No Cause for Pause Amid New Banking Turmoil

Upper limit of the U.S. federal funds target rate range*



* dotted lines indicate median Mar. 2023 projections of the midpoint of the appropriate target rate range at the end of the specified calendar year

Source: U.S. Federal Reserve



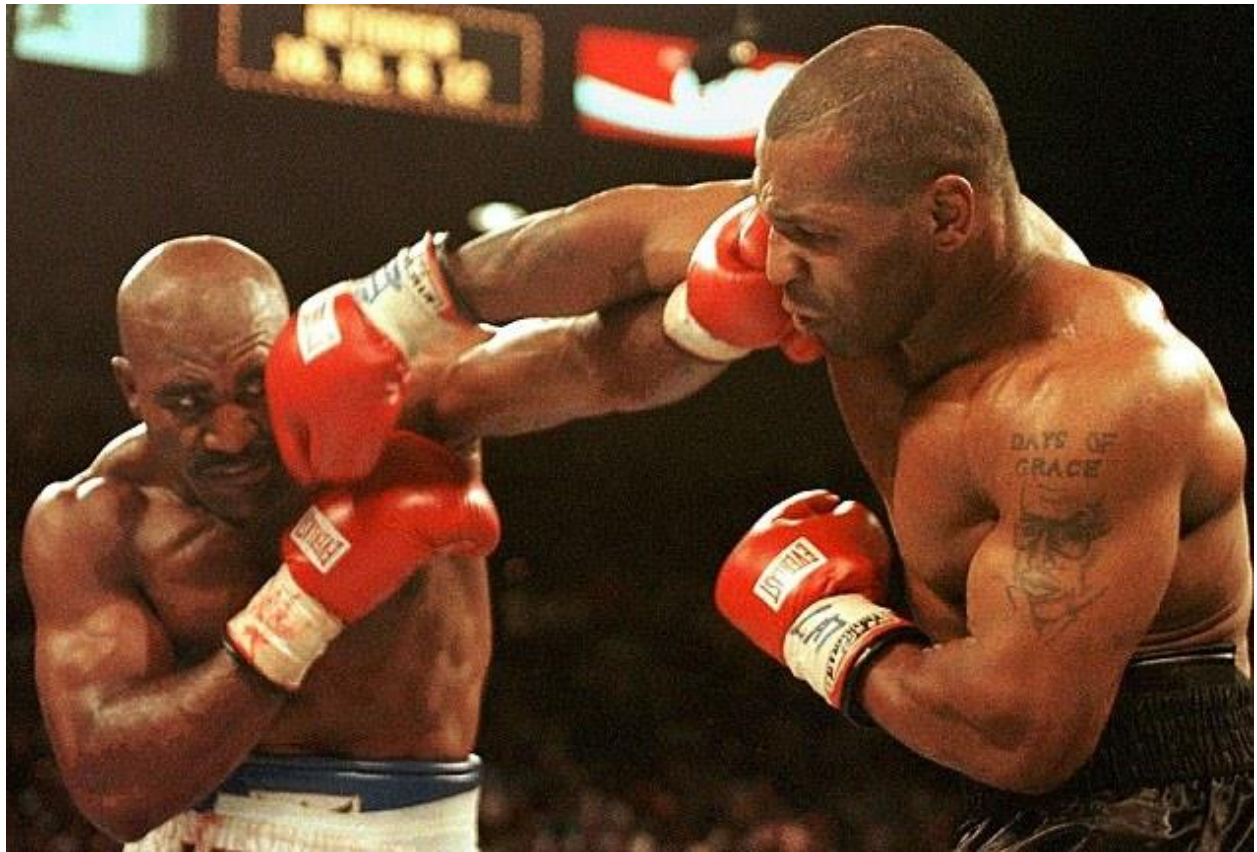
statista

Following this tenth rate hike since the inflation jihad was declared, Powell, the Fed Chairman did the unthinkable during his press conference that followed. The crazy fool said....

“It’s possible that this time is really different.”

No, flat out no! It’s never ‘different’. And every time that type of thinking starts to kick in, bad things happen. I’ve been doing this for 26 years, and that phrase has a 100% success rate for portending a smack of reality. And as my main man Iron

Mike said prophetically, 'everyone has a plan until they get punched in the face.'
Love you, Champ(s).



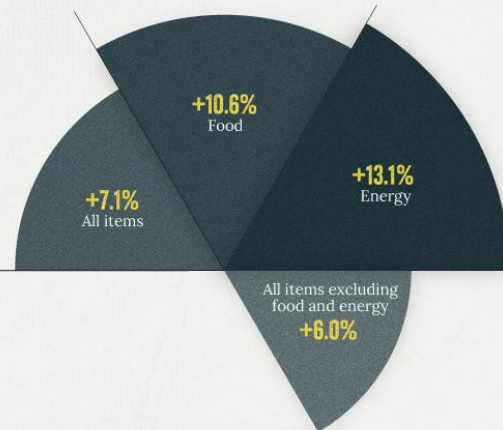
Here is one reasonable piece of reality that is going to smack hard, in my reasonable and humble opinion, inflation is not going back to where it was. Barring a hard landing and severe demand destruction, it simply isn't going to happen. Producers of goods and services aren't going to give back that much cherished, and hard to come by pricing power. They will come down in price, but not back to pre-pandemic levels.

U.S. INFLATION

HOW MUCH HAVE PRICES INCREASED?

High inflation has been a feature of the economy for about the last year. But how has inflation actually impacted the prices of everyday goods? This chart assesses the year-over-year percentage price change of basic daily goods and the overall categories they fall under.

Consumer Price Index
12 Month Percentage Change*



Select Goods**

Food at elementary and secondary schools

+254.1%



Flour and prepared flour mixes

+24.9%



Coffee

+14.6%



Fruits and vegetables

+9.7%



Fuel oil

+65.7%



Public transportation

+23.8%



Poultry

+13.1%



Alcoholic beverages at home

+4.5%



Eggs

+49.1%



Fats and oils

+21.8%



Energy

+13.1%



Apparel

+3.6%



Airline fares

+36.0%



Rice, pasta, cornmeal

+16.8%



Living room, kitchen, and dining room furniture

+10.3%



Beef and veal

-5.2%



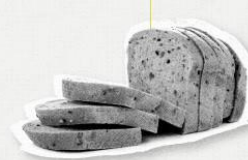
Butter and margarine

+34.2%



Bread

+15.7%



Gasoline

+10.1%



Smartphones

-23.4%



*Not seasonally adjusted, Nov'21-Nov'22. ** Change in Price YoY (Nov'21-Nov'22) Not Seasonally Adjusted.
Source: U.S. Bureau of Labor Statistics

visualcapitalist.com



You all know that I lamented hitting the bid at \$2.1 million for my house in Santa Barbara late in 2018, only to watch it trade for \$4.5 million last month. Part of the reason to sell was that 'the giving house' had done its job being in the right school district. But I also followed the trendline at the time thinking mortgage rates were going to go higher, making it less easy to pick up and move. Doesn't matter that these are Freddie Mac rates, it's the same picture for all mortgages.



Good news, bad news, at least for me. Last year I claimed residency in the great state of Montana, making me a now 5th generation in my family. With that comes a far lower cost of living, and home prices. The bad news, I've been out of the market waiting on better prices that never came. In fact, they doubled, and I wasn't interested in chasing them. Sour grapes? 100%. But I'm doing better at lamenting life's missed opportunities. 'Being present' is what I think the hip kids are calling it.

Santa Barbara, CA Median Sale Price



Based on Redfin calculations of home data from MLS and/or public records.

● Santa Barbara, CA

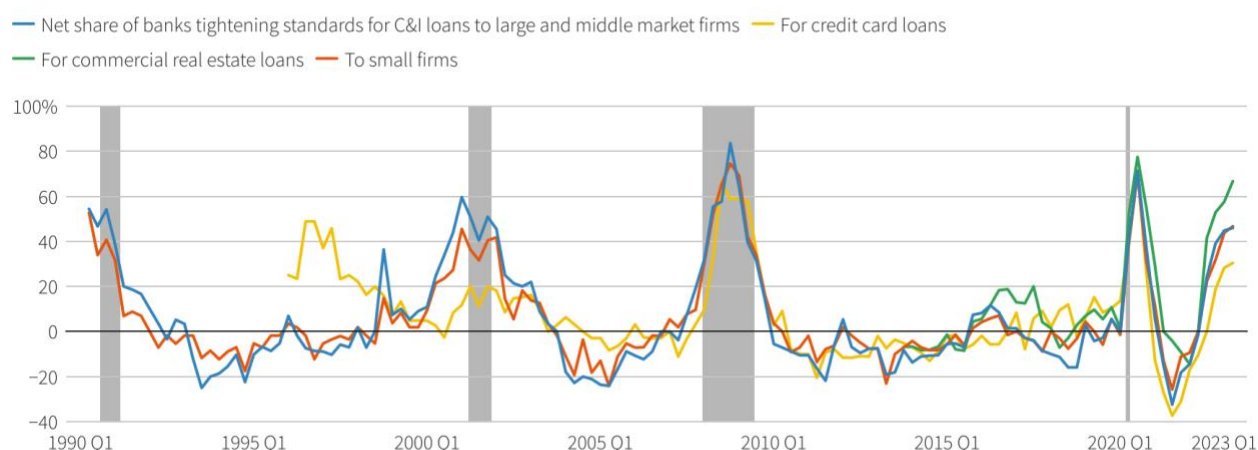
Couple of more items from the top down before we get to some of the real nitty gritty good stuff. Ed Hyman, Chairman of Evercore, and a guy who has seen a lot in his days, is calling for a recession starting right about now. One that he has 'never seen this far out'. Same story as everywhere else, too much liquidity was provided, and now it's being drained faster than Dave Robert's can suck down a Dodger bullpen. Well played, Ed, not only a power backdrop there, but you were not afraid to wear white before Memorial Day.



Another story that has been making the rounds, and as I have found to be true myself, is bank lending has gotten tight in a hurry. And let me also point out that this bi-polar monetary policy has created manic markets. Just look at how stable things were from 2010 to 2020. That's what a healthy lending environment should look like. The volatility we've seen in the last two years is like nothing on record. Slow your roll, Mr. Fed Chairman. Slow yo' roll.

Lending conditions

The Federal Reserve's Senior Loan Officers Opinion Survey shows the share of banks restricting credit for different types of lending.



Note: Questions have been added to the survey over time so not all extend for the full series. Gray bars denote recession.

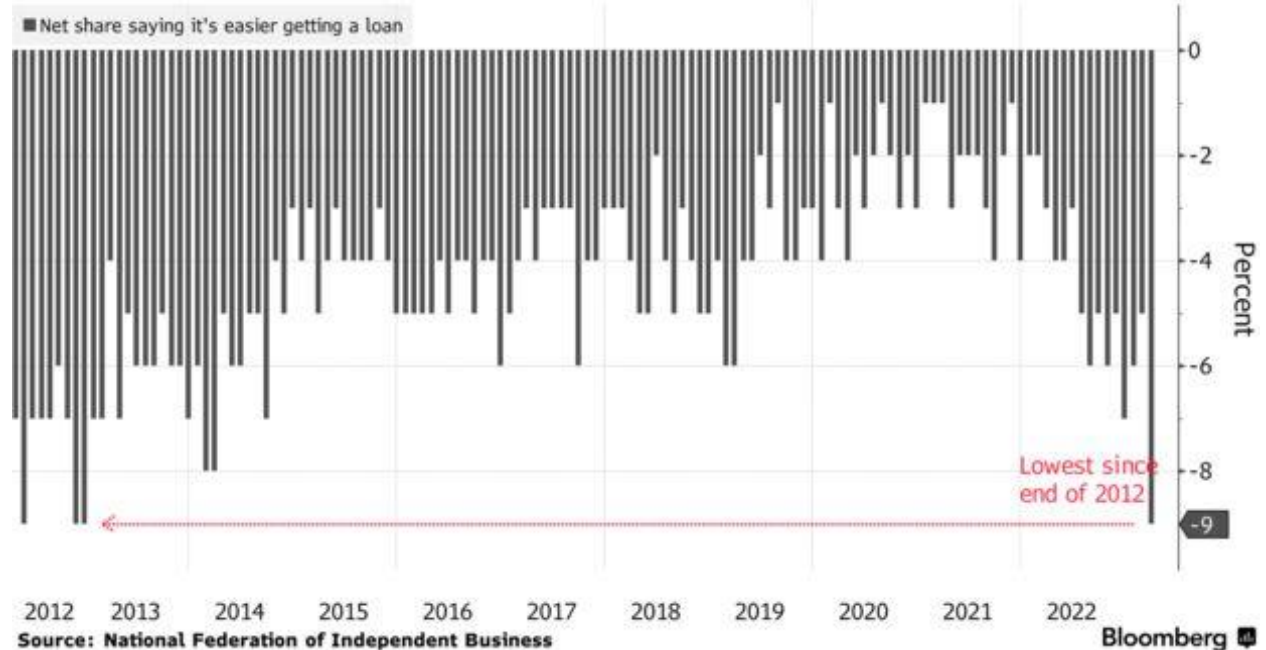
Source: U.S. Federal Reserve

An aspect of this condition, which has also been flogged by seemingly everyone that has been brought out on CNBC, is that smaller banks have gotten crushed this year, and for good reason. They had extremely levered balance sheets, got sideways in treasuries, and clients pulled the rip cord. Tough to have a healthy lending environment when failures could come at any time. Literally, any time.



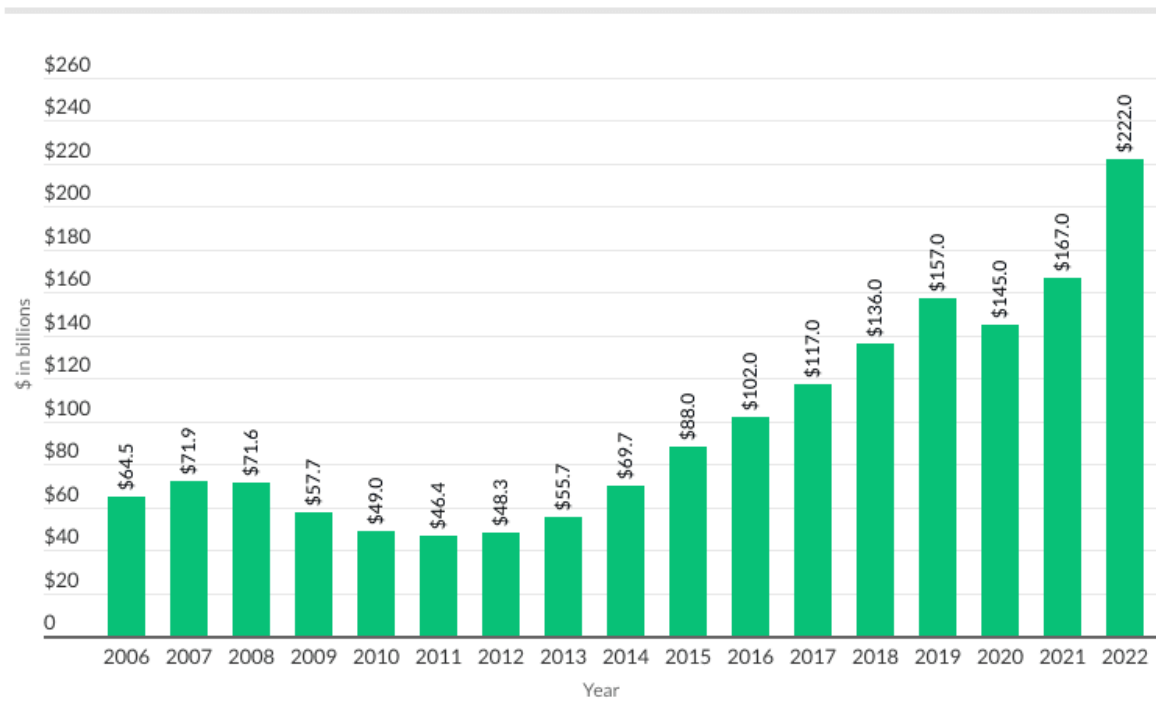
All this leads into the exasperating experience for the owners of Skinny Dips & Salsa, myself included, have had to live through in our quest to build a \$100,000 revolving line of credit. Before I tell you our tale, look at this chart. It paints a scary picture. That's a doubling of the delta between what small borrowers were thinking when it comes to the availability of credit to them.

Small Firms Face Bigger Challenge Getting Funding



We aren't alone in going out to the market and trying to get our hands on some unsecured private debt. Turns out a boatload of other people are out there doing the same, clearly with some success. Personal loan balances have gone up 50% in the past two years. Even while it's a small part of the overall debt market, this is going to be a problem when we enter recession.

Outstanding personal loan balances (\$ billions)



Sources: The Wall Street Journal and TransUnion.



Back to me, and our business of selling dips made from sunflowers, pepitas, cilantro and parsley. In the past few months, we have de-risked our business as much as humanly possible for a company that did \$50k in sales last year and is on track to do at least \$250k in this one. Bitchin' Sauce, here we come. You got flavors...



We got flavors...



Full disclosure, Jennifer here is the spokesperson for Skinny Dips, and in charge of sales. I'm for sure the 'back of the house'. We did get a nice write up in our local paper, *The Montecito Journal*, earlier this year. Wearing the moniker 'culinary artist' with 'savior-fare' never gets old, by the way.

Food Files

A New Conscious Way of Creating Dips and Salsas

by Amélie Dieux

It all started a year ago with a spontaneous conversation around food here in the heart of Montecito. Suddenly, **Jennifer Markham** (owner, founder of Oaks Culinary Group and SkinnyDips & Salsas) and **Bryan Goligoski** (culinary artist), both residents of Montecito, realized that there wasn't a variety of healthy seed-based dips and salsas available on the market. With that in mind, they collaborated on a new endeavor that sent them far and beyond their expectations.

With Markham's extensive knowledge of alternative health and nutrition, plus the *savoir-faire* of Goligoski's experience in the culinary arts, they formulated eight different flavors for their product, SkinnyDips & Salsas, for a new type of product that's to die for. From Hot & Skinny, to Smokin' Hot & Skinny, or even Skinny Chimi (to name just a few), it will surely make you want to take a dip or two. With fun and playful product names and healthy natural ingredients inside, it didn't take long for this business to get the success they deserved. They're presently located in 101 stores from the Bay Area to Los Angeles, Erewhon Markets, and even available here in Santa Barbara, Montecito, and Carpinteria. As Markham humbly points out, "It's been an adventure and a lot of work but also very fulfilling. We feel really lucky to be able to create something and then have people enjoying it."

So, what makes this product so unique? As Goligoski explained, "We're using sunflower and pepita seeds, which are healthier than nuts, they're Keto, lower in calories and carbohydrates compared to hummus for example." He added, "We see a huge movement in natural foods away from dairy, to vegan, to nut-based products, and we are the extension of that, into a seed-based product." To create a new line, Markham envisioned not only the tasty aspect of the dips, but also the healthy side as well. "When we were creating these dips, it was always in my mind to make sure all of the ingredients had a purpose, and we were sensitive to the idea of inflammations and allergies, and what would be better for one's health."

Growing up with fresh, healthy, and quality ingredients helped Markham create SkinnyDips & Salsas. "The benefits of cilantro is known as a cleansing herb, along with parsley, which helps the digestive tract, and mushrooms that support the immune system," explained Markham. "In every one of our products, there are no fillers or GMOs, we only use vinegar and lime juice, which are natural preservatives," Goligoski added. They intended to create a brand incorporating three significant values: being healthy, flavorful, and with the right nutritious ingredients.

Thus, they added to their products fresh organic ingredients where they blend and pack locally at Baba Small Batch in Goleta. For Markham and Goligoski, it is also important to be part of a small community and working with the locals, as well as



SkinnyDips & Salsas were created by Montecito residents Jennifer Markham and Bryan Goligoski

being supported by family and friends. Where handcrafted items are still a priority for the people here, Goligoski proudly states about his hometown: "It is so unique to have a small community so close to everything around, we love the healthy aspect of Santa Barbara and Montecito, not only for us but also for the brand."

Both of them realized the importance of being encouraged. "Even if we don't want to be a manufacturer," said Goligoski. "It will be nice to assist others with selling their products under Oaks Culinary Groups, for those who need distribution and support. There are too many creative people being stopped at the beginning stages," Markham added.

"People shop everywhere nowadays, and I wanted them to relate to that, it was intentional and I wanted the packaging to look different." It not only looks different, but the taste is unique as well. You won't be able to let go of the Original Skinny with the mild flavor and its creamy non-dairy texture, thanks to the sunflower and pepita seeds. And for the individual who wants a stronger kick and a more powerful spicy taste, try the bold Smokin' Hot & Skinny.

So new yet so successful already, the two new dips they're launching will just melt in your mouth. With the Skinny Pesto, the garlic, lime, and basil dance smoothly together. Shroom Umami is a savory Asian dip for your favorite meals.

It's delicious, healthy, fresh, and natural, so enjoy it with many servings. It's waiting on your burgers, mixed with your sauces, steaks, fish, salads or anything else you'd like; just let your imagination create a versatile recipe as delightful and unique as SkinnyDips & Salsas.

Amélie Dieux is a French-born freelance writer and world traveler - on a mission to provide information with articles that delight and inspire



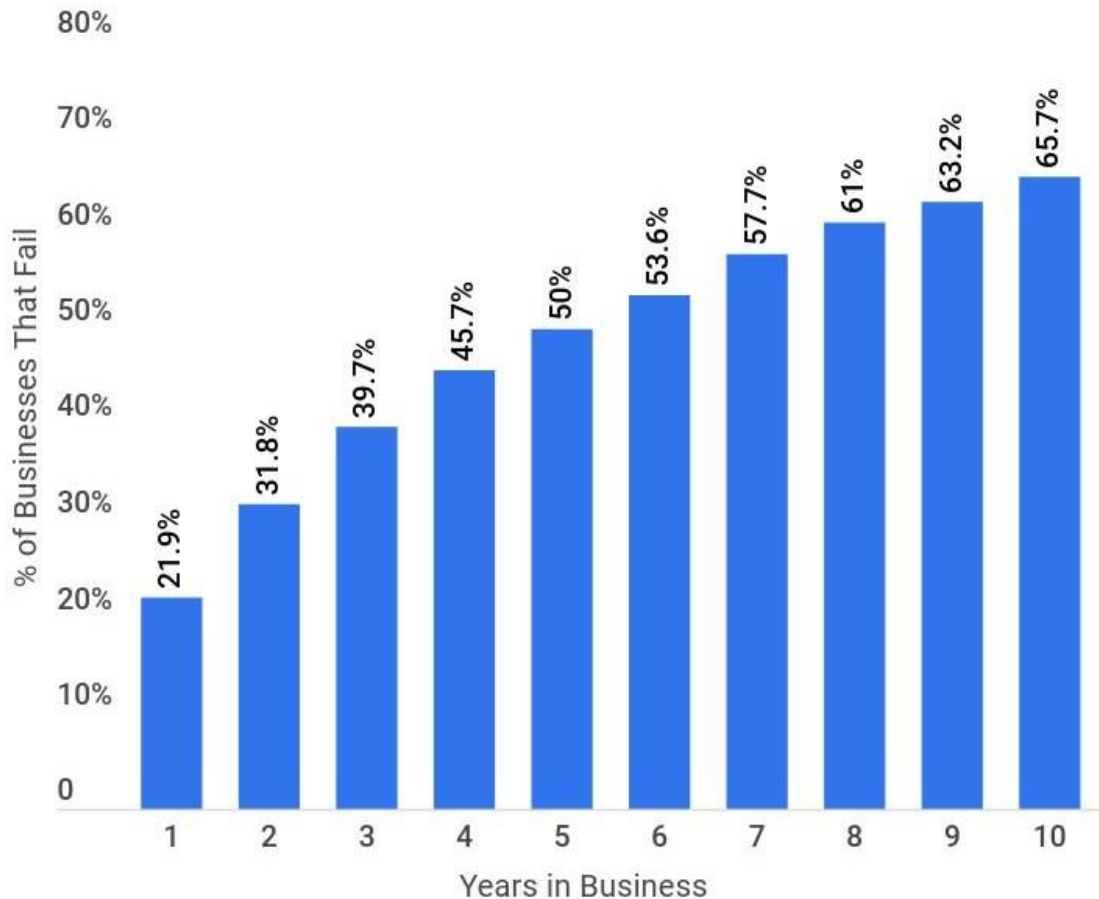
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OLD TOWN SANTA BARBARA *Best breakfast in Santa Barbara*

Like I said, we've been out beating all the bushes we can in a search for dough. Earlier this week, my co-founder and I, went down the path with a loan broker focused on smaller lenders. Turns out our 12% offer on the revolver is half of where the market is. That's right, the borrowing rate for a young company, with respectable prospects, is a whopping 24%. That's a low chance of survival lend.

SMALL BUSINESS FAILURE RATE



A couple of weeks back, the BLS released the April jobs report and it continued to defy observers who think that we are going to see an uptick soon. So far, no such luck. But it feels very much like there could be a change at the margin headed our way. But in this bizzarro world, fewer people entering the labor market would probably be applauded by the markets.

Monthly job creation in the U.S.

January 2022 through April 2023

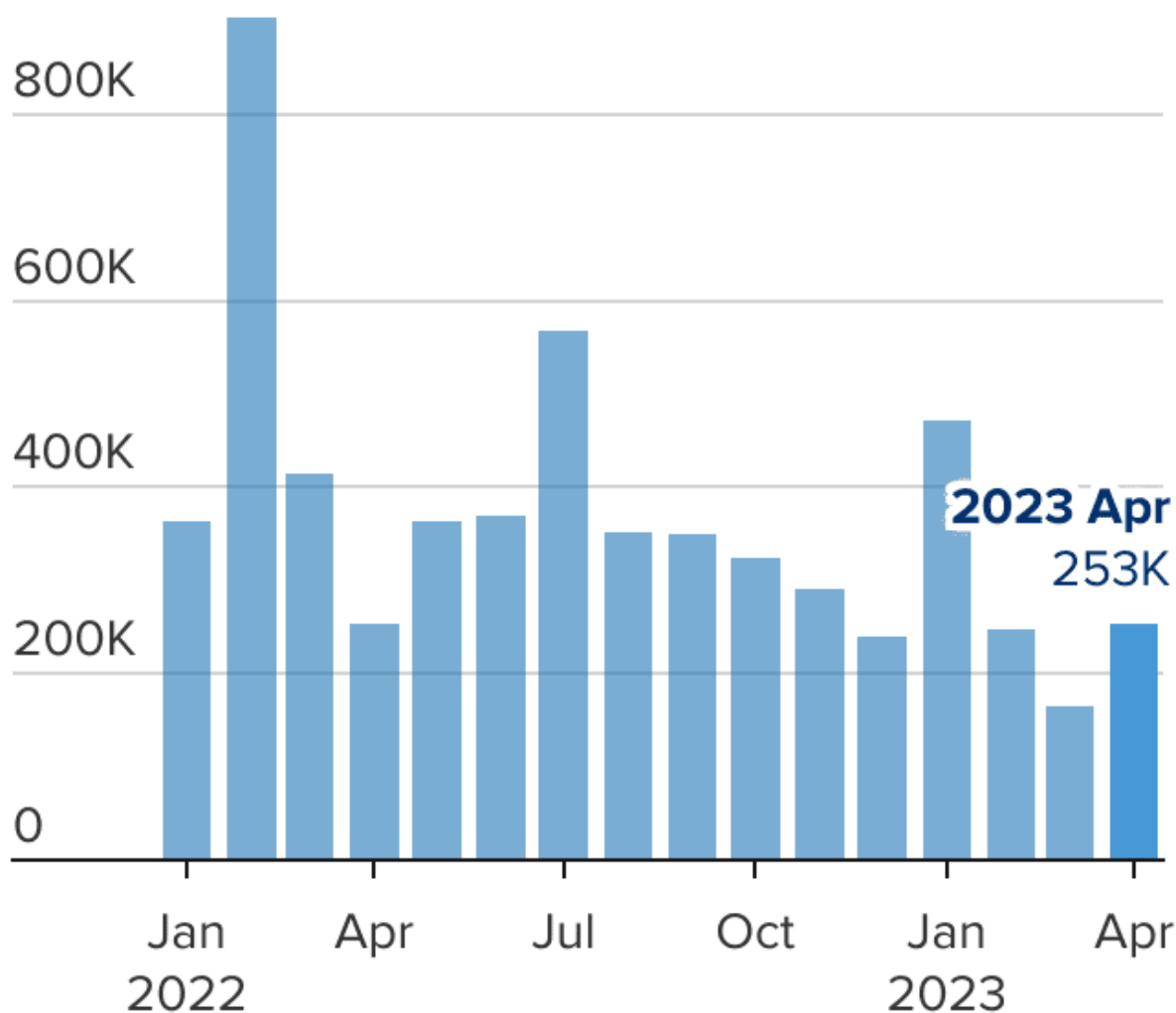


Chart: Gabriel Cortes / CNBC

Source: U.S. Bureau of Labor Statistics via FRED

Data last published May 5, 2023



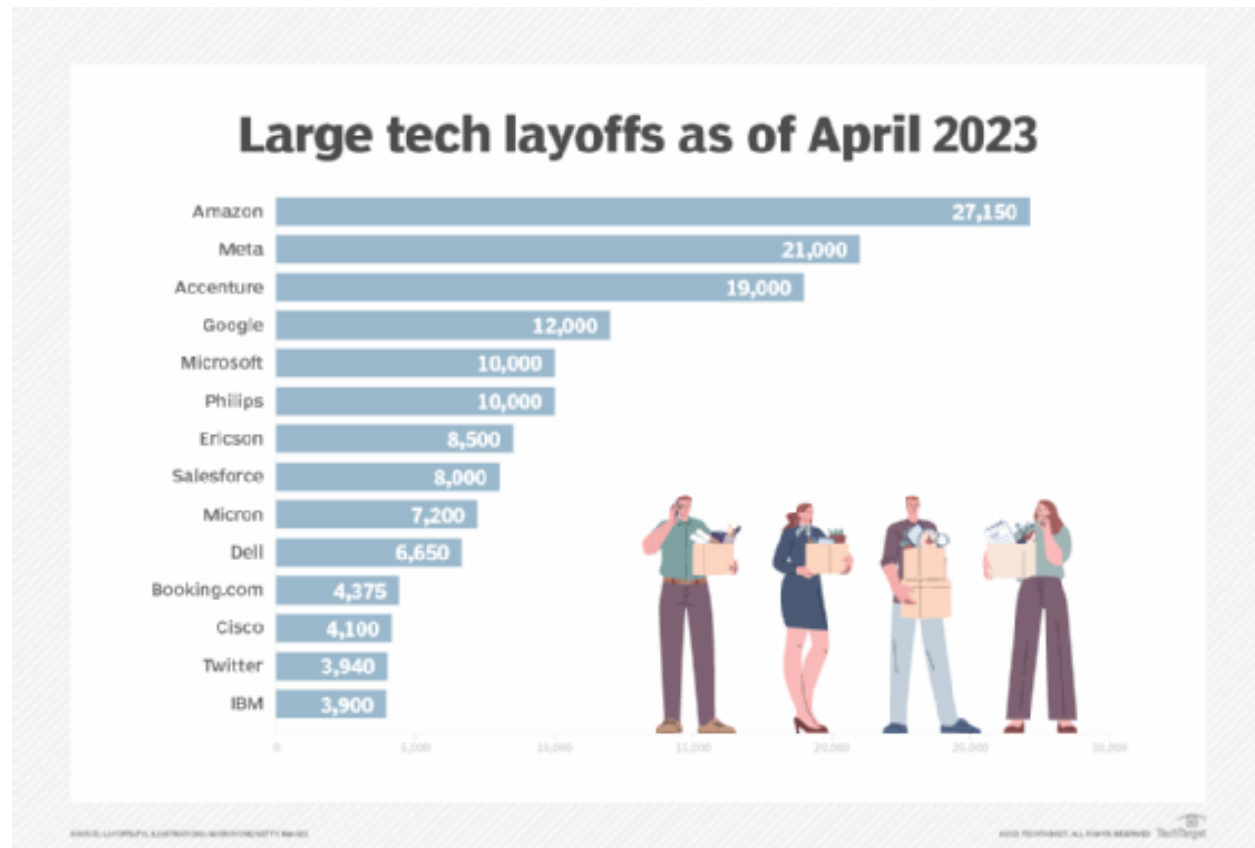
And the unemployment rate keeps ticking lower, ever so slightly. But notice, just as everyone else has, for this data series, it's usually brightest before the dusk, not darkest before the dawn. And 3.5% has been just about where it bottomed right before each of the last three recessions.



Last week Microsoft announced that they were putting a freeze on wage increases for the full year. This was based partly on concerns over where the global economy was headed, more importantly, there was mention of spending money to gear up for a year of spending on artificial intelligence initiatives.



And since I've run this image in the past, or one like it, might as well stay consistent. While these may look like big numbers, all in they are less than 150,000 live bodies working. IBM at 3,900 layoffs isn't even a number worth passing on. I mean, come on, there are 300,000 working for Big Blue worldwide.



The annual Buffett/Munger fest came and went last week and once again, Chuck let loose. For those of us in the investment management business, we must process his quip that we are in aggregate, 'fortune tellers or astrologers who are dragging money out of their clients' accounts'. But he also offered up his own self-deprecating comments that he lived in a perfect time to be a common stock picker. Further adding 'Our success was by and large the result of low interest rates, low equity values, and ample opportunities'. Ahh, to be born at the right time.



There has been much speculation about what impact the runoff from this year's record snowfall out west is going to have. We've seen a decent amount of agricultural damage in California, and this year 90% of the State was under a flood watch, while only 2% of the state's population had flood insurance.



Now it's Chevron's turn to deal with it. The company's Bakersfield heavy oil facility is being shut in and levees are being built up ahead of the pending rise in the Kern River. There is too little production to make a difference in crude prices, but it's an interesting situation, nonetheless. The discovery well where oil was first found lies in the upper left portion of the photo and is about 20 feet from the water. I went looking for it on my 45th birthday. True story.



On a personal note, next week after working the farmers market scene in San Francisco, I'm headed to Lake Tahoe to help clean up an old family property that has too many felled trees laying around. After, I'm headed east to Montana to get in front of any risk that the 100 Year Flood shows up two years in a row. Peak runoff should be mid-June, which is the good news. The bad news, this guy's place is a well hit three wood away from where we call home. Wish me luck.



Back to where I started this week's piece, the epidemic of loneliness, and how it's impacting the mental health of a whole host of people, present company included at times. I lost a dad to the mental pounding isolation caused during Covid, and he called his own exit at the end. But he was a good man, a kind man. 'Stay gold'



This week the Surgeon General, Dr. Vivek Murthy released 70 pages on the cause, effects, and ideas for getting out of this malaise, the subtitle of which is 'the healing effects of social connection and community.' Read it, just as I plan to, ['The Epidemic of Loneliness and Isolation'](#). With a high degree of certainty, laying out sandbags with my fellow Red Lodgians, and doing our best to keep the town safe, should fill my need for social connection and do the community some good.



“Take care of yourself. You’re the only one you’ve got.”