EIN SOF

ADVISORS

July 25th, 2022

To My Clients and Friends,

Friday marked the one-year anniversary of the founding of Ein Sof Advisors, LLC. I chose the name EIN SOF because its literal translation of no end or infinity means a tremendous amount to my mission. Everyone hopes to leave a legacy, and everyone wants to create wealth that will last in perpetuity. It is my job and mission to bridge those hopes and wants with a viable investment solution. Ultimately providing a legacy that will have EIN SOF.

This first year has proven to be a great test of the value-investing approach that I have adopted and implemented for Ein Sof. This philosophy is 90+ years old, but the rationale is timeless. Our job is to actively manage assets. We ensure that we are looking for quality companies and their subsequent debt, purchasing these investments at a fair or discounted price to future cash flows.

As we look for opportunities in this market, we must ask ourselves, how much will earnings contract over the next few quarters when factoring in a higher cost of borrowing or a slowing economy? Are we getting good prices and multiples when we purchase our investments in anticipation of multiple market and economic outcomes?

It is important that we look to previous recessions and bear markets so we can lean on history to give us confidence to either ride out the pessimism or make systematic changes with unwavering discipline.

EIN SOF FIRST HALF

In the first half of this year, as many of you have seen, we took the march bear-market rally (short-term move higher) harvested losses, where appropriate, and built cash positions as high as 50% in some cases. The intention was to be less correlated to the stock market in anticipation of further market decline. We also took positions that would act as hedges to the S&P 500 and Nasdaq. In other words, as the markets declined, these positions would move higher.

These were seemingly conservative decisions knowing that inflation was moving higher, and the Fed would no longer be carrying its easy monetary position after 12 years of stimulating the capital markets. It is important to say that the timing of the events was serendipitous, but the conservative approach in a time of tremendous uncertainty was calculated and strategic.

Before we discuss re-allocating cash or re-balancing portfolios, we must reflect on the first 6 months of 2022.

Yes, it was a gut wrenching first half of 2022 for many. In fact, it was the worst first six months in the markets in over 50 years. Only 1932, 1962, and 1970 provided worse results. The S&P 500 began the year at 4,796 and finished out the first half of the year on June 30th in bear-market territory down -21.3% to 3,772. Over the past few weeks, we have seen confidence buying, which helped the S&P 500 pare back

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some of the losses, closing out the week of June 18th down -17.4% YTD.

This week, we are all asking what the market reaction to the Fed's probable rate hike of 75BPS or 0.75% will be; and if last week's bear-market rally was comparable to March and June's short bursts higher, only to be followed by continued selling.

We talk about the stock market because it is volatile, exciting, and has done right by us for over a decade. At this point, it is our fixed income portfolios that are letting us down, with no tangible data-driven reason for hope. Unrealized losses range from -2% to -10% in conservative bonds, and -10% to -20% in bond ETFs, mutual funds, and high yield credit.

The bond market is leaving advisors forty years in the business speechless. Mentors of mine, who were exiting college or a few years into their practice in the late 1970s, witnessed what could happen when a Fed mismanages the lending markets. Now they, along with their baby boomer peers, are left without an answer as to when their fixed income allocations will rise. Worse, it is possible that they are biting into principal that will damage the calculations they have been doing for retirement over the past 20 years. Most advisors lack the freedom to make independent decisions, which could have allowed them to plan for the first true tightening cycle to hit the credit markets since May of 2008.

There is so much to say about fixed income and what will need to be done in a relatively low-yielding environment to maintain a balanced portfolio, with calculations adjusted to sustain the quality of life you have become accustomed to.

Feel free to reach out to discuss more.

THE DO NO WRONG DECADE

Since the S&P 500 hit a low in March of 2009, we have experienced the DNW investment climate. You could "Do No Wrong" buying bonds, equities, and ETFs, and of course the infamous FANG. In the aggregate, any allocation and strategy would have made money. How do you proceed when all assets, potentially including commodities and energy (to be determined in coming months) are moving lower, and recession is virtually imminent?

The market and all its participants are asking four questions:

1) When will inflation peak?
2) When will the markets capitulate (find a bottom)?
3) Will the Fed bail out the markets if necessary and lower rates as it did in 2015, 2018 and 2020?
4) Will we head into a recession, if we are not already in one, and how bad will it get?

In the aggregate the answer is none of these questions matter. If you are well diversified and do not make any short-term rash moves, you will see values rise in due time.

We have had twelve years of cheap money and a financially engineered bull market, only to be compounded with a global pandemic. What are we left with? 9.1% inflation as of the last reading on July 15th, and a Fed who no longer has the tools to stimulate the economy.

POSITIVE OUTLOOK

That was the negative position or feelings that so many currently have and are dealing with, but as a student of the markets, I am excited for these times. I am eager to teach ways to shift your negative perspectives when looking at your statements or positions, while researching for positive ways to change your allocations. I am looking forward to seizing the opportunities that are and will be presented to us, in a systematic and disciplined way that removes emotion from the equation.

We can look at the results of past economic downturns as a guide for what to do in this market. In October 2007, the S&P 500 reached an all-time high of 1,549.38. That high was not reached again until February 2013. If one invested solely in the S&P 500 ETF, they would have waited 6-years to fully recover their asset values. A portfolio invested in the S&P 500 and left alone as it declined from 2007 highs would be up 155% from those October highs and would have annualized 10.38% as of the close Friday. At the start of this calendar year, one would have been up 209% and would have annualized 13.9% excluding dividends, if they simply left their assets in an S&P 500 indexed ETF.

I can take you back to the recession of 1897, or the Great Depression, where in 1932 you had companies paying dividends that were more than the company's stock was trading for. In 1932, you could buy a company that had earnings of $30.00 per share but was trading for $29.00.

However, in all recessions there are only a few important things to note. If you are going to do nothing, do it with confidence; make sure you are getting paid to wait for the next bull market, that you have great dividend and interest income, and those earnings are being re-invested as prices move lower and/or higher. Re-investing those earnings in down years is how we maximize the compound growth of your assets. This cannot be expressed enough for my younger investors, who's time horizons are 30 to potentially 50 years from now.

If you are making changes with advisors or in your self-managed accounts do not, I repeat DO NOT try and find a bottom in this market.

In May of 2008, many thought the worst was over, that the Bear Stearns collapse and subsequent sale to JP Morgan was an isolated incident. It was not until September 8th, 2008, and the potential failure of Lehman Brothers, that the markets began to realize there was a crack in the framework of the credit markets. From September 2008 to February 2009, the markets were in free-fall. The market found its bottom when the Fed stepped in with the first round of stimulus through the Troubled Asset Relief Program (TARP) in March 2009. In February of 2009, the S&P 500 reached its bottom of 735.09.

The opportunity that was so difficult to exercise and commit to was dollar-cost-averaging back into the markets in those perilous times. In fact, had investors harvested losses in May of 2008 when Bear Sterns collapsed, and began to dollar cost average back into the market in July of 2008 for the next 7 months, their dollars invested at that time would be up 359%, and would have annualized 23.95%, excluding dividends through December 31st, 2021.

The weakened markets in 2008 & 2009 are important to us and the Ein Sof re-allocation process for two reasons:

1) It illustrates the power of re-investing dividends and interest throughout bear markets.
2) It illustrates why dollar cost averaging is the only way to approach a terrible market environment and remove emotion from the process.

The 17-month window from October 2007 to March 2009 was a time in which no one had any answers as to what the low of the markets would be. From Warren Buffett to the president of the United States, and back to you at your home; no one could have anticipated what the Fed, treasury and congress would have to do to back-stop and stimulate the financial markets.

EIN SOF STRATEGY

On July 11, 2022, we started to dollar-cost-average back into equities. Ein Sof has taken a new focus for our clients in that we will be overweight equities to take advantage of the weakness that we are currently experiencing in the stock market.

The dollar-cost-averaging philosophy is simple, but for many, it is very difficult to execute. Every month, we are buying, systematically, back into the companies in the Ein Sof Equity Portfolio. The hard part is continuing to buy if the markets decline further. Harder yet, if the markets begin to move higher over the next 2-3 months, is avoiding the temptation to increase the monthly average (unless economic data justifies these changes), only to have the markets decline after these increased purchases, proving the process inefficient.

The objective is to remove emotion. The intent is to focus on the quality of what we are buying, and what the numbers will look like in 12-24 months.

Market history has shown us that in all recessions, the stock market bottoms first, and the economy follows in one direction or another. 2008 showed us that if you had systematically harvested your losses, and dollar-cost-averaged back into the market from July 2008 until January 2009, you would have captured the worst months of the stock market selloff.

Our goal is very simple: buy great quality companies, particularly those with sustainable earnings and dividends, and get paid to wait until markets move higher. If they recover in the 2nd half of this year we win. If they move lower in the 2nd half of this year, and begin to move higher in 2023, we still win.
In all that time, emotion will not have played a factor, and the discipline will yield a result that will define

the next 5 years of growth in our portfolios!

Starting Ein Sof was 10 years in the making for me, and I am so thankful for your commitment and loyalty. Thank you for your confidence in what we are trying to achieve, and for giving me the opportunity to be of service to you.

If you have any questions, thoughts, or concerns please do not hesitate to reach out.

With Gratitude,

Larry Melcer

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Ein Sof Advisors LLC, CEO

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