THE NATURE OF TIDES AND CYCLES

UP BEGETS DOWN AND VICE VERSA

APRICUS

We are excited to welcome Lisa McFee, our new operations manager, to the Apricus team. Lisa has over fifteen years of experience in investment management operations. Lisa can be reached at lmcfee@apricuswealth.com

As a result of our growth, Apricus Wealth, LLC has transitioned to oversight by the U.S. Securities and Exchange Commission. We recently emailed to clients Apricus Wealth, LLC's Privacy Policy, Client Relationship Summary, and Advisor Brochure. If you would like a paper copy of the notifications, please reach out to us and we will mail them to you.

While there are many reasons to feel anxious right now—we remain steadfast—Apricus Wealth was built to allow us the time to invest in our relationships with our clients, their families and each other. Jim, Ernie, Susi, Lisa and I each look forward to our next conversation.

With best wishes and gratitude,
Joe, Jim and Ernie

THERE IS AN OLD INVESTMENT SAYING THAT "A RISING TIDE LIFTS ALL BOATS."

Meaning that a good economy will help both successful and struggling businesses. But, it also implies that in a contracting economy, profitable, well-run business will perform relatively well and struggling businesses might not last.

There is no way to sugarcoat the decline in the value of capital assets in the first half of 2022. The S&P 500 declined 16.1% on a total return basis in the second quarter and 19.96% on a year-to-date basis, while the tech-heavy Nasdaq Composite declined 22.4% in the quarter and 29.5% for the first six months of the year. A "normal" haven for avoiding risk, such as the bond market, provided little relief. U.S. Treasury securities experienced their worst outing since 1973, with the 7–10 Treasury Index year declining 10.6% in price and nongovernment, investment-grade bonds down 13.6%. To be clear, broadly diversifying across asset classes provided little protection from the sell-everything markets of 2022.

It is odd to write that we are concerned about full employment and profitable businesses, but it is hard to view employment and corporate margins, which are both at historically optimal levels, and not ask the question: Where next? The good news is that the United States has many advantages that both insulate us from threats and provide opportunity. And, the decline in the stock market has, we believe, created a healthier balance between stock prices and future earnings.

A recession is traditionally defined as a period during which an economy's production, adjusted for inflation and trade, declines for two consecutive quarters. We believe the U.S. has met or is close to this technical definition in 2022, in large part because the adjustment for inflation is a major factor in the calculation. And, there is no question that many Americans are suffering economically. Americans are earning more, and spending more, but buying less.

Our base case scenario is that the U.S. is in a "technical" recession, but enjoying, for the moment, full employment and rising wages. The resilient qualities of our economy are balancing the knock-on effects of procyclical monetary and fiscal policies. We see lower energy prices, food costs, and commodity inputs along with a generally strong backdrop of healthy balance sheets on both the corporate and consumer side as mitigating some of the stress from high prices. Falling energy, food, and commodity prices, along with a contracting world economy, may keep the Federal Reserve from raising short-term interest rates beyond 2022. Consequently, our chief concern that the Fed might contract monetary policy too aggressively is moderating as inflation ebbs.

WHAT YOU DON'T OWN MATTERS A GREAT DEAL. WARREN BUFFET HAS SAID: "ONLY WHEN THE TIDE GOES OUT DO YOU DISCOVER WHO'S BEEN SWIMMING NAKED."

What the Sage of Omaha meant by his quip was that a person's exposure to risk isn't apparent until it's too late. Protecting against market declines is important because a portfolio that declines 20% will need to recover 25% just to get back to even.

The Apricus equity investment process has four pillars that we rely on to help us manage risk and improve our relative returns. First and second, we identify businesses that, by our measures, are quantitatively and qualitatively excellent and, we believe, can stand the test of time. We maintain that identifying enduring business is a requirement for long-term investing.

Third, we develop our own opinion of fair value for every company we consider purchasing, because paying too much for an investment is a sure way to risk capital. Fourth, we construct our portfolios within our risk-reduction framework to manage concentration risk. We are pleased to note that the Apricus Four Pillars Process has, thus far in 2022, performed well in an otherwise difficult period.