

MONONGAHELA CAPITAL MANAGEMENT

PERCEPTIONS

2nd Quarter, June 30, 2022	6/30/2022	% Change 2nd Quarter	% Change Year to date
Dow Jones Industrials	30,775.43	(10.78) %*	(14.44) %*
S & P 500	3,785.38	(16.10) %*	(19.96) %*
Russell 2000	1,707.99	(17.20) %*	(23.43) %*
BC Aggregate BD Index		(4.69) %	(10.35) %
10 YR. Treasury Yield	3.01 %		
30 YR. Treasury Yield	3.18 %		

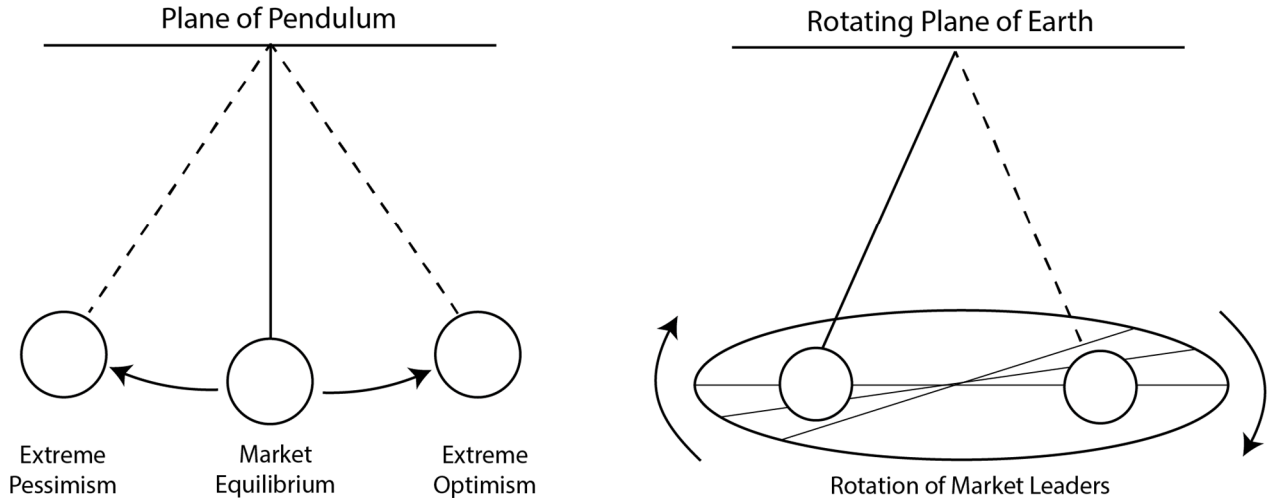
* Includes reinvested dividend

Foucault's Pendulum

In 1939, the Buhl Planetarium and Institute of Popular Science opened on Pittsburgh's North Side. While the Planetarium's domed theater and siderostat telescope were the main attractions, the Buhl also housed a Foucault pendulum. Léon Foucault, a French physicist, designed and exhibited the pendulum in Paris in 1851. A unique feature of his pendulum was a specially designed pivot that allowed the pendulum to swing back and forth in any direction around the vertical. A grandfather clock in contrast swings in a particular plane. His experiment made it possible to demonstrate the rotation of the earth in a laboratory environment. A Foucault pendulum swings back and forth and the earth rotates beneath it. The Pittsburgh Foucault set 108 wooden pegs in a circle around the pendulum and in a thirty-six hour period, the bob would knock down all of the pegs, approximately one every twenty minutes. The actual rate of rotation depends on the latitude. At the North Pole, the rotation is once every twenty-four hours; in Paris, every thirty-two hours; in Pittsburgh, every thirty-six hours and at the equator, the pendulum does not rotate.

As the bear market claws its way through investment portfolios, consider the pendulum as a metaphor for the extreme market swings we are currently experiencing. Bear markets usually occur when there are structural changes in the economy. With the long-term secular changes in inflation and interest rates, new leadership will emerge. Market sectors like Consumer Staples and Healthcare are performing relatively well, with stocks like General Mills and Eli Lilly & Co. making all time new highs in June. Conversely, the Information Technology and Communications Services sectors, leaders for almost a decade in a low interest non-inflationary environment, are underperforming. There is a temptation to simply buy the fallen leaders, but as the earth rotated under Foucault's pendulum, other sectors may be better positioned for the rebound when it occurs. While bear markets are painful, they provide an opportunity to make changes and adjust portfolios in the evolving economic environment.

Foucault's Pendulum in Motion



Since 1979, we have remained committed to our investment philosophy that the best long-term portfolios are built on the foundation of individual securities in a carefully diversified portfolio. Price discovery, a labor-intensive research process, is necessary to identify intrinsic value and be prepared to buy securities at a discount when the opportunity arises. The best values and returns going forward are purchased in periods of extreme pessimism and the most productive sales occur in the bullish extremes.

Today, the pendulum of the market is swinging towards extreme pessimism. No one knows with certainty the point at which the pendulum will begin to swing back to equilibrium, nor the nature and leadership of tomorrow's bull market. However, some great businesses have become priced well below our identified intrinsic value, creating a margin of safety for purchase. We don't know when or how the market will rebound but owning these discounted individual stocks now should yield positive results when that shift occurs. As the markets have become untethered from a long period of artificially low interest rates and low inflation in the first two quarters of the year, the art of security analysis lies at the heart of a well-grounded investment strategy.