PASI NEWS
since 1977

Volume 47 - Number 4 Winter 2023

Professional Advisory Services, Inc.
2770 Indian River Blvd. – Suite 204 • Vero Beach, FL 32960
(800) 847-7274 • (772) 778-0552 • fax (772) 770-2979

Reflecting on a Journey

by Ken Ligon III

“The woods are lovely, dark and deep, But I have promises to keep, And miles to go before I sleep, And miles to go before I sleep." Robert Frost.

With a mixture of heartfelt emotions, I share this announcement of my retirement from Professional Advisory Services, Inc., effective June 30, 2024. What an extraordinary journey this has been, spanning 36 years and encompassing parts of five decades.

I graduated from Stetson University in 1982 with a BBA in Business Administration. After working for two major corporations on the West coast of Florida, in 1988 I got the phone call I dreamed of, inviting me to interview for a position at PASI. At that time, we had $50 million in Assets Under Management (AUM) and five employees; today we’ve reached $1.1 billion in AUM with clients residing in more than 30 states, overseen by a team of 13 employees. I can only imagine how proud our dearly departed founders, Ron Jaffe MD and Ken Ligon Sr., would be at the success of the firm and how many clients we have helped reach their financial goals.

I will be taking the next six months to help transition my relationships to our other portfolio managers. Our team are all experienced, well-trained, tech-savvy professionals overseen by Carol Bieber and David Jaffe MD. A fresh perspective often brings an opportunity for growth and innovation. *“It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change.”* Charles Darwin

This marks a time to appreciate the journey, celebrate accomplishments and acknowledge the people who made it possible. I’m genuinely grateful to our clients who have placed their trust in me over these many years. Investment advising is not merely about managing wealth, it’s about building relationships. I’ve been fortunate to forge wonderful friendships that will last a lifetime. There are few careers where your efforts have such a profound impact on people’s lives. Some of my fondest experiences involve witnessing a client progress from investing their first dollar to achieving financial security, often extending beyond themselves to second and third generations, many of whom continue as PASI clients.

The good news for you is that I'm departing at a time when PASI has never been stronger. My partners Carol and David remain committed to long-term management roles. I'm extremely proud of what we have accomplished together and I'm confident they will continue to build on this legacy. Further, our investment team boasts deep talent with chartered financial analysts (CFAs), certified financial planners (CFPs), and experienced professionals with advanced business degrees. Reading biographies of highly successful individuals often reveals a universal theme – they surround themselves with the best and brightest. One of my most significant contributions to the company has been recognizing, recruiting, and retaining such talent.

I would be remiss not to acknowledge our support staff, the unsung heroes of our company. They make everything run smoothly, navigating the challenges of sophisticated technology, staying abreast of complex rules and regulations, and maintaining our culture of professional, personalized service.

I've walked with hundreds of clients as they've moved into retirement; now I can appreciate the angst many have experienced. Will I have enough money for my lifetime? Will I lose my identity? What will I do with my time? Personally, I don't have any major plans. I'll have time to read those books I always intended to read, play more golf, exercise, and travel. My wife Kim and I are blessed with nine grandchildren, and Poppy looks forward to being more involved in their lives. This isn't the end of the road; new possibilities are waiting to be embraced.

Again, I'm deeply grateful to our clients and my associates who have challenged and inspired me and have given me the opportunity to play an integral part in your personal and financial lives. I look forward to hearing about your continued success.

Market Update –*A Magnificent Year*

by David A. Jaffe, M.D.

As 2022 drew to a close, the financial markets outlook for the New Year looked anything but promising. First and foremost, after misjudging the less than "transient" nature of erupting inflation, the Federal Reserve voiced its commitment to slaying that dragon by doing "whatever it takes", aggressively raising interest rates to slow the economy. Investors anticipated a "hard landing", the almost inevitable arrival of a recession as a consequence of the Fed's actions.

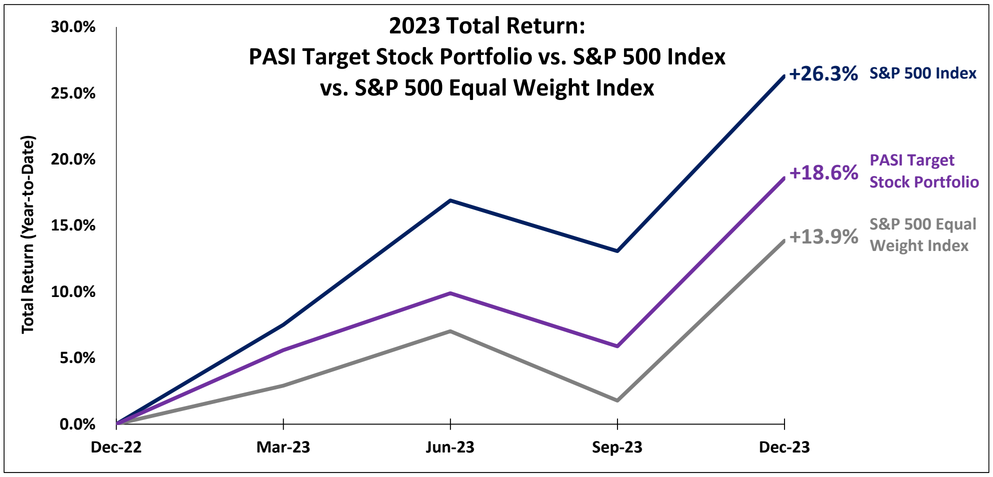
Analysts predicted that the Fed would "break something", and break something they did. Plunging bond values (a consequence of escalating interest rates) unhinged the capitalization of several regional banks, most notably Silicon Valley, Signature, and First Republic, leading the Fed to protect uninsured depositors to stabilize the banking system. The housing market ground to a halt as 30-year mortgage rates more than doubled from the historically low levels of recent years.

Concurrent with worries about the interest rate environment, the war between Russia and Ukraine, and in October the attack on Israel by Hamas, created fear and uncertainty regarding the risk of contagion and potential global consequences. It would be rational to expect the worst for stock investors facing such domestic and global turmoil. And of course, as the stock market proves again and again, the seemingly rational assessment is often wrong.

The broad stock market did, in fact, stagnate through the first three quarters of the year. At the end of September the *equal-weighted* S&P 500 had advanced a mere 1.79%. That fact, however, was distorted by the stock market returns of seven standouts. As we have written in previous newsletters, the so called "Magnificent Seven" drove published stock market returns for most of the year. Largely due to their participation in the expected explosion of Artificial Intelligence (AI), Apple, Microsoft, Amazon, Alphabet (Google), Nvidia, Tesla, and Meta (Facebook) propelled the widely cited "market-cap weighted" S&P 500 (stock market value of the company influencing its contribution to the overall index return) such that at the end of the third quarter, that measure had gained 13.07%.

The fourth quarter of 2023 saw growing investor confidence and a resultant broadening appetite for stocks of all flavors, as inflationary gauges suggested that the Fed's work was succeeding. Measures of consumer confidence and employment remain strong, indicating that the Fed may in fact pull off the elusive "soft landing", slowing the economy and moderating pricing pressure while avoiding a recession. The market-cap weighted S&P 500 ended the year with a Magnificent gain of 26.29%, while the equal-weighted S&P 500 advanced 11.87% in the fourth quarter alone, ending the year with a return of 13.87%. Meanwhile, the PASI composite stock portfolio ended the year up 18.57%, tacking on 12.00% in the fourth quarter (all S&P and PASI returns include reinvested dividends).[1]

[1] Please see additional PASI Performance and Index disclosures on page 8.



Source: Professional Advisory Services, Inc. and Bloomberg L.P.

Are we out of the inflationary woods? Has the Fed in fact engineered the elusive "soft landing"? It's too early to judge. The full impact of an interest rate tightening cycle may not manifest for as long as two years; many analysts warn that a recession is still likely. Expectations for the profits of the Magnificent Seven are very high, and their stock prices reflect these lofty expectations, leaving stocks in the AI universe vulnerable to a stumble. Positively, Fed communication has led investors to anticipate interest rate *cuts* of at least 0.75% in 2024, while corporate profits are rebounding from year earlier levels, a potent combination for continued stock price appreciation. Of course, as the Magnificent gains of 2023 should remind us, the stock market has a way of consistently making fools of market seers. Own good companies, stick to your discipline, and do your best to tune out the noise. That strategy has rewarded PASI clients for 47 years now!

America's Astonishing Wealth

by Nathan Polackwich, CFA

Driving home from Virginia after visiting family last year we stopped at a new mega gas station/country store chain called Buc-ee's off I-95 south of Jacksonville. Outside the entrance was a sign advertising their employees' wages that stopped me in my tracks.

For some perspective, the $16 an hour made by a Buc-ee's cashier works out to $33,000 a year while department managers earning $31 an hour make about $64,000.[2] Then, of course, there are the various other managers all earning a salary of at least $100,000 a year and potentially much more.

The wages paid at Buc-ee's are eye-popping and an indication of the staggering income gap America has achieved relative to the rest of the developed world. In fact, if we look at household disposable income per capita, the U.S. is on top at $62,300. The next best is Luxembourg at

[2] I'm assuming employees work 40 hours a week and 49 weeks a year (they get three weeks paid vacation!).

$59,700 and then Switzerland at $52,000. The European Union overall comes in at $41,500. Canada is at $43,600, while Japan is at just $33,900.[3]

This significant income disparity is apparent when comparing average wages for different jobs as well. In the U.S. the average doctor makes $339,000 a year. By contrast, the average U.K. physician makes £72,000 ($91,000 U.S. dollars). And this difference doesn't just reflect the U.K.'s nationalized healthcare system – the average U.K. engineer and software developer each earn about half as much as their American counterparts (roughly $50,000 vs. $100,000 per year).
Looking at average salaries across the European continent, Canada, and Japan we see similar income gaps for most occupations. The only major country where the average pay typically looks a little better than the U.S. is Switzerland, but Swiss tax rates and cost of living are both significantly higher, which is what makes their comparable household disposable income lower than the U.S.

The salient point is that America is so rich that its car wash managers can make as much as (or more) than doctors in most other developed nations. What's our secret? A few years back the Harvard Business Review concluded that America's uniqueness reflects:[4]

- An entrepreneurial culture where risk-taking is encouraged.
- A hardworking ethos and a tax system that encourages working more hours.
- A supportive financial sector with an active venture capital industry and decentralized banking system that provides ample funding for new and expanding businesses.
- World class research universities.
- Energy independence (we produce more energy than we consume).
- A less regulated labor market with little union representation (just 11% vs. 23% in the European Union, for instance).
- Less burdensome regulation in general and a decentralized political system where states must compete to attract businesses.

In short, American workers are among the most productive in the world thanks to our risk-taking and industrious values, largely supportive government policies, and structural advantages like our financial system, universities, and natural resources. These strengths have resulted in the highest household disposable income in the world and by far the largest, most innovative companies from tech giants like Google and Apple to innovative retailers like Walmart and Home Depot, restaurants like Starbucks, manufacturers like Caterpillar, and healthcare behemoths such as Johnson & Johnson and Pfizer. When it comes to business, the United States is in a class of its own.

We're also as wealthy as we've ever been, something that can be difficult to appreciate in our daily lives. But imperceptible changes each day can add up to massive differences over time. Looking back to 1970, for instance:

- Americans spent just 26% of their total food costs at restaurants. Today, that figure is greater than 50%, and our options, from ethnic foods to craft beers to fancy coffees have expanded dramatically.

---

[3] This includes all after-tax wages and income including government transfers such as public healthcare and adjusts for pricing differences between countries.
[4] Feldstein, M.S. (2017) "Why the U.S. Is Still Richer Than Every Other Large Country", *Harvard Business Review*, April 20.

- Only 21% of Americans flew on a commercial plane each year vs. 44% now. Relatedly, in 1990 only 4% of Americans had a valid passport. Today, 48% do.
- Houses are more expensive relative to income, but in 1970 the average house was just 1,500 square feet, had one bathroom, and lacked central air conditioning (half didn't even have a window unit).
- Only 1/3rd of households had more than one car vs. almost 60% today, and cars are now much safer, more energy efficient, and technologically advanced.
- Speaking of technology, we're also all walking around with a smartphone in our pocket that's exponentially more powerful than the guidance computers used by NASA in the 1969 Apollo 11 mission that put a man on the moon.

When thinking about how the world has changed even since I was growing up in the 1970s and 1980s, I'm reminded of the opening line from the novel "The Go-Between," by L.P. Hartley:

"The past is a foreign country; they do things differently there."

For 2023, mean household income before taxes in the U.S. is expected to have surpassed $105,000. The median household (the mean is more impacted by the super-rich) will have reached about $76,000. So even American families in the 50th percentile of income are doing extremely well, particularly relative to the rest of the developed world.

The affluence of the average American does, however, have a downside. Most Americans can afford to purchase a wide range of goods from nice vehicles to "smart" appliances to exotic foods to huge flat screen televisions to designer clothes. But because of our wealth, it's become increasingly difficult to find someone to provide a service – like childcare, plumbing, or auto repair – at an affordable price. If most people are well-off, who's left to cut our grass, serve our food, or fix our homes? Certainly, not anyone that's going to be underpaid for their time.

Cheap personal services require a sizable underclass, reminiscent of the conditions in Victorian England where even middle-class households commonly employed at least one live-in servant. Obviously, it's better that people are richer and inequality less pronounced, but that does mean you're likely to have a harder time getting someone to come out and clean your gutters, at least until these guys are ubiquitous:

Disclosure

Professional Advisory Services, Inc. may, from time to time, have a position in securities mentioned in this newsletter and may execute transactions that may no longer be consistent with this presentation's conclusions. Reference to investment performance of the PASI composite stock portfolio is made gross of expenses. For formal performance disclosure with net returns please contact our office.

S.E.C. Compliance

Pursuant to the Investment Act of 1940 and specifically Rule 204-3 thereunder, a registered investment adviser shall annually deliver or offer in writing to deliver upon written request to each of its advisory clients a disclosure statement prepared in compliance with the requirement of this rule. Part II of Form ADV complies with this rule and you may request a copy by calling or writing our office.

In February 2003, the SEC also adopted new rules requiring investment advisers to annually offer a copy of their Proxy Voting Policy. In January 2021 Professional Advisory Services, Inc. contracted with Broadridge Financial Solutions to vote proxies with respect to client holdings. Voting will be solely in the client's best interest with the primary goal of long-term enhancement of shareholder value. Records of each proxy vote will be retained for five years. You may request a copy of our complete Proxy Voting Policy and details of the service from Broadridge by calling or writing our office.

Under SEC Rule 204A-1, Investment Advisers are required to adopt a Code of Ethics. Professional Advisory Services employs a Code of Ethics and Business Conduct which outlines our standards of conduct in dealings with clients, staff, regulators and business associates. The Code provides guidelines to prevent the misuse of material non-public information. All officers and employees receive a copy of the Code, which they acknowledge in writing. They are educated in the meaning of all aspects of the Code through compliance meetings and are required to comply with it. Individuals are instructed to raise issues internally if they believe malpractice has occurred or is likely to occur, without fear of recrimination. Professional Advisory Services is committed to maintaining and enforcing the Code. Records relating to the Code will be retained five years beyond effective dates of use per current SEC regulations. You may request a copy of our Code of Ethics and Business Conduct by calling or writing our office.

Additionally, the SEC issued Regulation S-P on June 22, 2000. The operating premise of this ruling is to effect compliance with the Gramm-Leach-Bliley Act which prohibits the sharing of any nonpublic personal information with any nonaffiliated third party unless the firm has provided initial notice of its privacy policies. The ruling requires we provide a copy of our Privacy Policy to our customers on an annual basis. A copy of our Privacy Policy is included with this newsletter.

Performance Disclosure

To obtain a detailed analysis of Professional Advisory Services, Inc.'s (PASI) historical performance, inclusive of gross and net results from our balanced accounts and performance data for our segregated asset classes, please contact our office at 800-847-7274. It is important to note that PASI performance data presented in this newsletter is stated before the deduction of fees and in the context of each article. For a clearer understanding of the impact of fees, please refer to the following disclosures including a hypothetical example based on the maximum PASI investment management fee.

The **PASI Stock Portfolio** includes the reinvestment of dividends; and is reduced by brokerage commissions but is gross of Professional Advisory Services, Inc. fee, which is described in Part II of form ADV, available upon request. Our fee is a maximum of 1% and decreases based on assets under management. As an example of fee impact, over a ten-year period, $100,000 invested in stocks growing at 8% per year would increase at the end of ten years to $205,419 net of 1% fee versus $220,804 gross return.

PASI Stock Portfolio Benchmark: The ***S&P 500 Index (Market-Cap-Weighted)*** is an unmanaged index of the 500 leading publicly traded common stocks in the U.S., including reinvestment of dividends. This index is weighted according to the market capitalization of each participating company. As a result, companies with larger market capitalizations exert greater influence on the index's overall return, reflecting their proportionate size to the overall market.

Other Indices

The ***S&P 500 Equal Weight Index (Equal-Weight)*** is an unmanaged index of the 500 leading publicly traded common stocks in the U.S., including reinvestment of dividends. Designed to be size-neutral, it assigns equal weight to each participating company, irrespective of their market capitalization. This approach equally captures the influence of each company on the index's overall return relative to its individual performance, providing a balanced reflection of the collective market activity.

PROFESSIONAL ADVISORY SERVICES, INC.
PRIVACY POLICY FOR CLIENTS

While information is the cornerstone of our ability to provide superior service, our most important asset is our clients' trust. Keeping client information confidential and using it only as our clients would want us to are top priorities for all of us at Professional Advisory Services, Inc.

Clients will be provided with our Privacy Policy annually. Potential clients will receive a copy of our Privacy Policy.

1) We will safeguard, according to strict standards of security and confidentiality, any information our clients share with us. We maintain physical, electronic and procedural safeguards to guard your nonpublic personal information. These safeguards include password protection for server and workstations, 24/7 video surveillance, encrypted data back-up, a virtual private network (VPN) for secure remote access to the PASI network by authorized PASI personnel, secure ShareFile utility for emailing sensitive documents, and monitored secure shredding for document destruction.

2) We will permit only authorized employees, who are trained in the proper handling of client information, to have access to that information. Employees who violate our Privacy Policy will be subject to company sanctions.

3) We gather nonpublic personal information about you from the following sources:
    - Information we receive from you on an application or other form
    - Information you provide us in client meetings or other forms of communication such as fax, e-mail, letter, and telephone
    - Information about your transactions with us and your designated custodian

4) We will not reveal nonpublic client information about you to anyone, except as permitted by law, or as authorized by you as the client.

5) Whenever we hire other organizations (third party) to provide support services, we will require them to conform to our privacy standards or agreed upon privacy standards in writing.

6) We will strive to keep client files complete, up-to-date, and accurate. We will provide our clients with this account information when requested.

7) If you decide to close your account(s) or become an inactive customer, we will continue to adhere to the policies and procedures as described in this notice.

December 2023