

## The Skyline Group

7175 N Pima Canyon Drive  
Tucson, AZ, 85718

direct +520 878 2007  
toll free +800 877 8417  
fax +520 519 2358

[advisor.morganstanley.com/the-skyline-group](http://advisor.morganstanley.com/the-skyline-group)

### James P Dretler

Senior Portfolio Management Director  
Senior Vice President  
Financial Advisor  
NMLS #1279614

direct +520 878 2001

### David Hum, CFP®

Portfolio Management Director  
Vice President  
Financial Advisor  
NMLS #1262203

direct +520 878 2002

### Christopher Graves, CFP®

Portfolio Management Director  
Vice President  
Financial Advisor  
NMLS #1265113

direct +520 878 2003

### Hugo Frausto

Portfolio Manager  
Financial Advisor  
NMLS #1923254

direct +520 745 7074

### Anne Emmerich

Senior Registered Associate

direct +520 878 2007

February 1, 2024

## Questionable Statistics

Examining historical data can be useful in discovering trends.

When past information is collected and compared with more recent information, the differences may, or may not, lead to insights regarding the change of underlying conditions.

For example, comparing auto mileage and prices of cars from the 1970's to those of today may exactly have little relevance because the technological changes and capabilities are too different to be meaningful.

Commonalities like correlation do not necessarily indicate causality.

As of the end of 2022, the 'Superbowl Indicator', which suggests that a NFC victory in the Superbowl predicts a positive S&P 500 Index for the year, has been correct 73% of the time over the last 45 years.<sup>1</sup>

Virtually no one really thinks there is a causal relationship between the Superbowl and the S&P 500, but the result is frequently mentioned in the press near game time.

New and different outcomes can emerge from similar data, or different outcomes from dissimilar data that is incorrectly assumed to be the same. Sometimes this is because the differences have been overlooked due to the use of 'pruning algorithms' where leaving out what we think is 'irrelevant data' might lead us to errors in forecasting.

Mark Twain's saying that, "It's not what we don't know that gets us in trouble. It's what we know for sure that just ain't so."<sup>2</sup>

Among my favorite things that we know ‘for sure’, but may not be true are:

The Home-Owner Equivalent Rent, this statistic is a 35% determinant of the shelter component of CPI ---The Bureau of Labor Statistics surveys homeowners each month and inquires at what price they would rent their current residence. Since 65% of homes are owned by people either outright or with mortgages, their opinion wouldn’t have any effect on their own housing cost or on the housing cost of anyone else, yet it is widely quoted. <sup>3</sup>

Another is the currently well accepted thought (slightly less well accepted since the FOMC meeting of Jan. 31, 2024) is that Federal Reserve Open Market Committee will cut the fed funds rate several times in 2024 as a confirmation that their inflation reduction policies have worked. <sup>4</sup>

The Fed’s mandate from congress is to maintain stable prices and full employment. An interest rate cut in the Fed Funds rate could have the opposite effect—stimulating the economy and increasing inflation. <sup>5</sup>

Creating or even simply promoting a strong economy is not part of the Fed’s mandate. The Fed was set up in 1913 to be the country’s ‘lender of last resort’ in an effort to minimize the destructive crashes and recessions that occurred frequently in the early industrial age due to, some think, the illiquidity caused by the raising of capital to bring in the harvest.

Despite the guesses of the TV commentators about how many cuts the fed will enact this year, the answer may be none or few.

If we have slowly declining inflation, still above their target of 2%, there may be no need to do any further tightening, but also no immediate loosening.

We continue to look to invest in companies that can prosper and thrive in an environment of stable, low, but non-zero interest rates as we have in the past.

In our view, we are returning to normal. It has been fifteen years since 2008 when former Fed Chair Bernanke rescued the mortgage bond market with zero interest rate policies. We don't think this will be repeated. In our opinion, a normal interest rate is a 10-year U.S. Treasury yield of 5% to 6% where it has been historically for most of the last 100 years.

We are also of the opinion, that investing in individual companies and their equities continue to offer opportunity in this environment.

Please call to discuss examples that may fit your individual objectives.

Sincerely,



James P Dretler  
Senior Portfolio Management Director  
Senior Vice President  
Financial Advisor

1. James Chen, 'Super Bowl Indicator: Premise and History', <https://www.investopedia.com/terms/s/superbowlindicator.asp#:~:text=The Super Bowl Indicator is an example of purely fun>,
2. Think Independent, Mark Twain 'It ain't what you don't know that gets you into trouble', <https://www.thinkindependent.com.au/aint-dont-kno>
3. U.S. Bureau of Labor Statistics, 'Measuring Price Change in the CPI: Rent and Rental Equivalence', [bls.gov/cpi/factsheets/owners-equivalent-rent-and-rent.htm](https://www.bls.gov/cpi/factsheets/owners-equivalent-rent-and-rent.htm)
4. 'Stocks End Lower After Fed Signals Rate Cuts Not Imminent', Wall Street Journal, <https://www.wsj.com/livecoverage/fed-meeting-fomc-interest-rate-january-2024>
5. 'Breaking Down the Federal Reserve's Dual Mandate', Investopedia, <https://www.investopedia.com/Federal Reserve>

The views expressed herein are those of the author and do not necessarily reflect the views of Morgan Stanley Wealth Management or its affiliates. All opinions are subject to change without notice. Neither the information provided nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. Past performance is no guarantee of future results.

Information contained herein has been obtained from sources considered to be reliable, but we do not guarantee their accuracy or completeness

Investing in commodities, futures and options on futures contracts entails significant risks. Prices of futures and options on futures contracts may be affected by a variety of factors at any time, including but not limited to, (i) changes in supply and demand relationships, (ii) governmental programs and policies, (iii) national and international political and economic events, war and terrorist events, (iv) changes in interest and exchange rates, (v) trading activities in the underlying assets or commodities and related contracts, (vi) pestilence, technological change and weather and (vii) the price volatility of a commodity or asset. In addition, the futures markets may be subject to temporary distortions or other disruptions due to various factors, including lack of liquidity, participation of speculators and government intervention

Please note that by clicking on the URLs or hyperlinks in the document you will leave a Morgan Stanley Smith Barney LLC website and enter another website created, operated and maintained by a different entity. Morgan Stanley Smith Barney LLC is not implying an affiliation, sponsorship, endorsement with/of the third party or that any monitoring is being done by Morgan Stanley of any information contained within the linked site; nor do we guarantee its accuracy or completeness. Morgan Stanley is not responsible for the information contained on the third party web site or the use of or inability to use such site

The securities/instruments discussed in this material may not be appropriate for all investors. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Morgan Stanley Wealth Management recommends that investors independently evaluate specific investments and strategies, and encourages investors to seek the advice of a financial advisor.

Equity securities may fluctuate in response to news on companies, industries, market conditions and the general economic environment.

Companies cannot assure or guarantee a certain rate of return or dividend yield; they can increase, decrease or totally eliminate their dividends without notice.

Investing in smaller companies involves greater risks than those associated with investing in more established companies, including significant stock price fluctuations and illiquidity.

Bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which is the risk that the issuer will redeem the debt at its option, fully or partially, before the scheduled maturity date. The market value of debt instruments may fluctuate, and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer. Bonds are subject to the credit risk of the issuer. This is the risk that the issuer might be unable to make interest and/or principal payments on a timely basis. Bonds are also subject to reinvestment risk, which is the risk that principal and/or interest payments from a given investment may be reinvested at a lower interest rate.

Morgan Stanley and its Financial Advisors do not provide tax or legal advice. Individuals should seek advice based on their particular circumstances from an independent tax or legal advisor.

Morgan Stanley Smith Barney LLC is a registered Broker/Dealer, Member SIPC, and not a bank. Where appropriate, Morgan Stanley Smith Barney LLC has entered into arrangements with banks and other third parties to assist in offering certain banking related products and services.

The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. The Standard & Poor's (S&P) 500 Index tracks the performance of 500 widely held, large-capitalization US stocks. An investment cannot be made directly in a market index. Morgan Stanley Smith Barney LLC. Member SIPC.