



PETERSON FINANCIAL SERVICES

Limited Liability Company ♦ Registered Investment Advisory Firm

*WE CAN PROPOSE
POLICIES FROM
THEORY, OR WE
CAN REVIEW PAST
HISTORY TO
DESCERN WHAT
DOES AND
DOESN'T WORK.*

In This Issue:

- Quarterly Market Recap
- If we turn our back on capitalism in favor of socialism the elites who run it will not give up their control and we may never regain our economic freedom.

Third Quarter 2026

October 1, 2026

QUARTERLY MARKET RECAP

Other than up-and-down market action, not a lot changed last quarter in the macro-economic picture. The Iran War is still not over, energy costs and tariffs have kept prices rising, investors are still attempting to sort out the meaning of the AI revolution, earnings continue to hold up well, the labor market is stable, and the economy is slowly growing.

Some of the major equity indexes made new highs during the period, but have slightly backed off of those now. Small-caps did the worst but tech indexes did the best. This quarter the DJIA fell 2.70%, the S&P 500 gained 2.03%, and the NASDAQ rose 2.47%. The small-cap Russell 2000 shed 7.52%.

Global stocks added 1.60%. But the main thing that was different, is that yields moved up sharply, to a 24-year high, as the Fed started increasing rates to hold back inflation. So, the bond market posted a decline of 3.66% on the Barclay's Aggregate Bond Index.

Typical summer declines occurred, and we're moving into the period where historically the stock market does its best, and if forward guidance and fundamental economic indicators are worth paying attention to, we expect to be fully invested. We still predict gains for the balance of the year, but the upcoming mid-term elections will cause some gyrations and the Middle East situation is fluid and unresolved.

PROSPERITY IS DERIVED THROUGH WEALTH CREATION, SO WE SHOULD CONSULT HISTORY ON THIS

In our previous newsletter we briefly explored a bit of economic history pertaining to government intervention in the American economy. But as human nature is not confined to just our current era, it behooves us to take a look even farther back to see how wealth is created.

In ancient times, there was a distinct pattern of power, wealth and control over others. The Roman Empire used their superior military to invade and conquer other nations, confiscating that wealth and enslaving their people to build things with no-cost labor. In essence, they did not create new wealth; they aggregated the already-created wealth of others. Besides the debauchery of their increasingly immoral society, the fall of that empire was ushered in when they ran out of neighbors to conquer.

As we celebrate our nation's 250th birthday, we can look back at the unique genius of how America's economic blueprint differed. We became the wealthiest and strongest society in an astonishingly fast time period, and we are currently experiencing the greatest period of wealth creation ever known in history. The Forbes 400 list of wealthiest people first came out in 1982 and it took \$100 million to make

that list. Then, the wealthiest American was worth \$2 billion. In today's dollars, those figures are \$346 million and \$6.9 billion, respectively. Last year, it took \$3.8 billion to make the list, and Elon Musk crossed the trillionaire mark this summer!

How could this happen so fast? The simple answer is the microprocessor and the internet. Free market technology reduces the cost of production and new fortunes are spawned. Prior to the Industrial Revolution, land and trade underpinned fortunes, but energy and machine technologies through railroads, windmills, water wheels and more got us to the next level. That brought increased standards of living for everyone, not just the makers of those technologies. In 1781 James Watt patented the rotary steam engine and factory power was scaled to any needed size. Costs declined and profits increased. In the early 19th century factories were limited in size to available land near waterways for shipping, but the steam engine allowed for long-distance shipping, leading to efficiencies of scale and lower delivered unit costs. Soon, railroads moved goods more quickly and cheaply over land. Then, gas lighting and later electricity, eliminated the need for inefficient and unhealthy burning of whale oil and wax, and crude oil was refined into varied distillates like kerosene and gasoline.

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Fortunes were made as economies of scale made everyone's life better. All of this was driven by the profit motive, but now many have ignorantly contorted that into some kind of negative.

Ancient civilizations knew about steel, but it was prohibitively expensive to manufacture. But in 1856 Henry Bessemer invented a process to produce it cheaply that revolutionized virtually every industry. Skyscrapers were born in 1891. By 1945 the first programmable computer was ENIAC and it was faster and more capable than the electromechanical devices it replaced, but it had over 17,000 vacuum tubes, consumed 150 kW of energy an hour, and was the size of a bus. Computing remained expensive due to nodal connection until the silicon chip, or micro-processor, came to market by Intel and Texas Instruments in 1971. That led the cost of data storage, retrieval, and manipulation to collapse.

The two Steves – Jobs and Wozniak, founded Apple Computer, Microsoft provided software to IBM and Bill Gates was then the richest man in the world. Now, your smart phone has more computing power than the entire federal government could have afforded in the 1950s. Sam Walton figured out that cheap computing power could efficiently control inventory, allow for vast purchasing power at the wholesale level and lower prices to customers. Today Walmart has 1.6 million employees. Later, the PC was mated to the internet, and Jeff Bezos understood how to apply it to a new form of retailing and took his tiny bookstore to the stratosphere of online retailing, employing 1.1 million people. Its American customer base alone (and it's all over the world) captures about three-fourths of our population. Free markets build prosperity.

More recently, Elon Musk created SpaceX, which has radically reduced the cost of rocket launches by way of a reusable rocket. This will

lead to even more amazing and unforeseen advances in our lives. Goods and services will now be even cheaper than they are now. And as an aside to that, in economic terms, comparing how expensive something is to what the same thing used to cost, could lead us to think items are more expensive. But that distorts how to view value. We should compare the cost of things by how much work hours it takes us to earn the money to pay for it. By that method, everything we consume is far less costly than it was before, and most of what we now buy with our money didn't even exist before!

And now we have the new frontier of AI, which will even more profoundly alter the digital universe and our economy in ways that may seem scary, but will also be amazing. This is all simply wealth creation, which is capital formation. When we invest in these companies, and the value of those positions in our portfolios grows, we are benefiting from that billionaire's vision, risk, and hard work. Billionaires don't hoard their money in piles in a vault, like Scrooge McDuck. They deploy it into humanity, via capital formation and labor, which are the two fundamental inputs of an economy. They make employees and investors rich, and they engage in philanthropy. Even if they take some of that well-earned money to buy a yacht, that employs people in shipyards, in sales, in crews, and in insurance, support, repairs and service. Unfortunately, many who emerge from our education system fail to distinguish between wealth aggregation, as the Romans employed, and wealth creation and accumulation, as modern-day capitalists employ. Capitalism is merely economic freedom. Why wouldn't we all want to be free? If we lose it due to our ignorance, we may never retrieve it for ourselves and our children.

"One of the great mistakes is to judge policies and programs by their intentions rather than their results."

- Milton Freidman (economist)

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ABOUT PETERSON FINANCIAL SERVICES, LLC

As an aside, we wish to remind our clients of our various services. While we specialize in portfolio management, we continue to provide financial planning and insurance services. Longtime clients may have forgotten this, and newer clients may not be aware of this. Additionally, we build our business through referrals, and much appreciate them. Please keep us in mind as you come across friends, family and colleagues who might benefit from our financial services. We appreciate your business.

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