

“When plunder becomes a way of life for a group of men in a society, over the course of time they create for themselves a legal system that authorizes it and a moral code that glorifies it.”

Frederic Bastiat (1801-1850), French economist, author of “The Law”, 1850. IMAGE SOURCE: The Institute of Rothbard

EXECUTIVE SUMMARY

SECTION 1	PAGE REFERENCE	1	IMAGINE HAVING A RETAIL BUSINESS AND YOUR LARGEST CLIENT (BY FAR) GOES ON AN UNPLANNED EXTENDED VACATION.
			▶ 85% of net job growth and 33% of all aggregate demand were Government-Dependent in 2024 ¹ . A curtailing of Government Spending (aka DOGE) will likely move those numbers.
			▶ As we asked in our December Newsletter: Can sustained austerity measures survive in an age of the prolific money printer? A reader of history would likely remain skeptical.
SECTION 2		2	ALL OF THE HALLMARKS OF A LATE-STAGE CYCLE CONTINUE TO PLAY OUT WITH US LARGE-CAP GROWTH STOCKS IN PARTICULAR.
			▶ Net flows by Foreign Investors reached an all-time high for the quarter ending Jan-2025 ² . This lot is notorious for arriving to a party after it had already started to break up.
			▶ We are seeing the combination of investor euphoria and deteriorating relative strength for large-cap technology - the driving force for the near 16-year old bull market in stocks.
SECTION 3		5	REGARDING A STEALTH BULL MARKET: HAS A CAPITAL ROTATION CYCLE ALREADY STARTED YEARS AGO?
			▶ Recent developments in a number of relational patterns are leading to an increased probability that a rather stealth rotation (in market leadership) has been underway for a bit.
			▶ With the weakening US dollar Index, International Equities have shown relative price strength in recent months. It's still too early to know if this could be real or another head-fake.

SECTION ONE

THE PATH TO AUSTERITY - WITH ONE HAND TIED BEHIND THE BACK

CAN EFFORTS TO TAKE THE PUNCH BOWL AWAY BE SUSTAINED WITH THE MONEY PRINTER THAT REMAINS IN “READY MODE”?

In our December Newsletter, we wrote about the “tough path” that lied ahead for the incoming administration. To date, it appears that the financial markets are starting to come to grips with a perceived “chosen path” - the forging of a two-lane road toward fiscal austerity alongside the goal to on-shore a greater percentage of productive capacity. Although the argument can be made that a strong foundation for long-term economic growth would generally include a smaller government and larger industrial base, the degree to which underlying variables would need to change could be quite disruptive to economic growth prospects in the short-to-intermediate term.

Hence, our overall thesis on the subject remains unchanged as the “path to put the genie back into the bottle (in pursuit of a more sound monetary system) would most likely include a level of pain that may not be politically viable.”

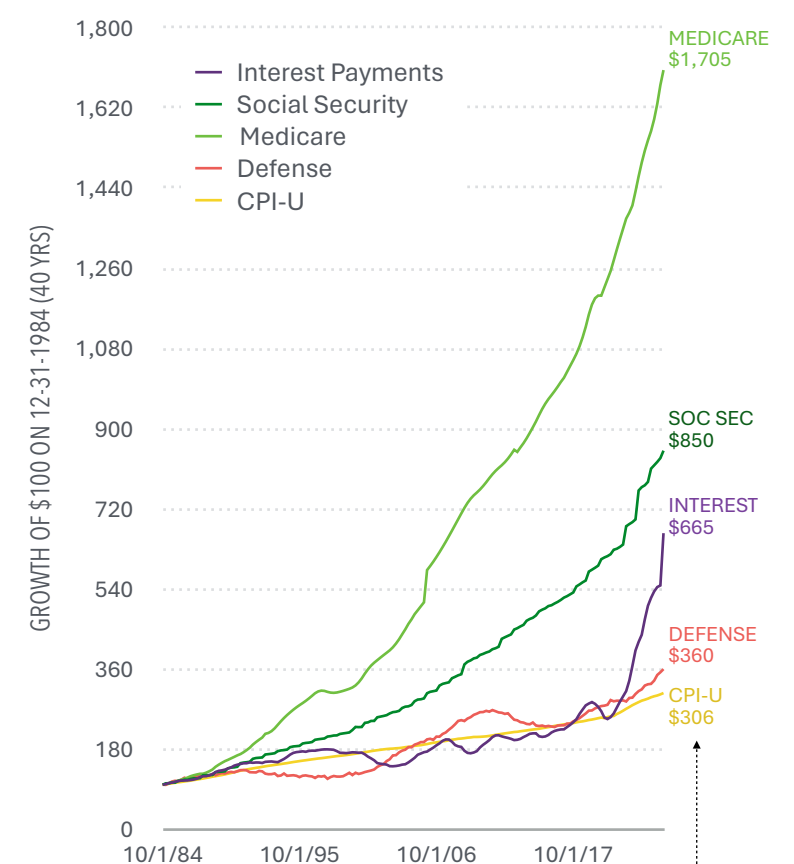
“THE MARKET AND THE ECONOMY HAVE BECOME HOOKED, BECOME ADDICTED, TO EXCESSIVE GOVERNMENT SPENDING, AND THERE’S GOING TO BE A DETOX PERIOD,”

/ US TREASURY SECRETARY SCOTT BESSANT, MARCH 7, 2025

To exemplify just how deep the US fiscal hole has become, none of the austerity talk (aka, actions of DOGE) have focussed on the big four expense items on the US balance sheet (outside of overt fraud): Social Security, Medicare, Defense and Interest Payments on the Debt. As noted last December, these four items already eclipse all federal revenues by hundreds of billions. That spread could actually increase as nearly 10 trillion in debt matures alongside the potential for tax revenues to falter somewhat as widespread cuts to Federal employment negatively weighs on aggregate demand. Putting aside the apparent imbalance, a typical Federal worker makes over \$125k versus \$89k³ for a full-time private sector worker (including benefits). Hence, every laid-off Federal worker would equate to 1.4 laid-off private sector workers from a strict economic calculation.

The case can certainly be made that a good amount of wasteful spending exists within the myriad of federal bureaucracies, and a more efficient government would lead to higher productivity over time. However, the journey along such a road will perhaps be viewed as the least politically expedient in a generation. Again, we would continue to discount an increased potential for a coming “pivot”. Is the battle between a “left tail” and “right tail” outcome (see page 7) just getting started?

BIG FOUR EXPENSE ITEMS IN THE US FEDERAL BUDGET
GROWING AT 2X THE OFFICIAL INFLATION RATE SINCE 1984
DATA SOURCE: ST. LOUIS FEDERAL RESERVE (01.31.2025)



These four items account for well over 100% of all Federal Revenues, and each has grown over the official inflation rate (CPI-U) over the past forty years. We remain on the side that there is insufficient political capital needed to seriously address these expenses - at least on this side of a currency crisis.





SECTION TWO

WHEN 10x BECOMES THE TARGET OVER 10%

TRACKING THE SEEMING "CASINOFICATION" OF THE INVESTMENT CLIMATE

BEWARE OF MISSION CREEP: WITHIN AN EXTENDED PRIMARY UPTREND (FOR RISK ASSETS), THE RISK-APPETITE OF AN INVESTMENT HOUSEHOLD TYPICALLY GRAVITATES TO A HIGHER PLANE. BEFORE IT MAY BE FULLY APPRECIATED, AN INVESTMENT MANDATE ORIGINALLY DESIGNED TO BE MODERATE IN NATURE CAN FIND ITSELF IN THE FAR LEFT LANE OF THE HIGHWAY. THIS MAY BE A GOOD (RE: MARKET CYCLE) TIME TO CHECK THE TIRES AND CHANGE THE OIL.

As we've stated on a number of occasions, humanity typically defies itself in recurring fashion when it comes to maintaining a "prudent" investing approach throughout an entire market cycle. As humans, we often weigh the most recent pleasurable experiences over otherwise traumatic episodes of the past. Hence, within a mature bull market cycle, we tend to forget what happened before (the bull market started) and for some reason extrapolate the prospects for the future in a rather straight line. This "strategy" can work for a bit until it doesn't, and when it doesn't it has the potential to lead to an existential crisis for an investment household.

For over a decade and a half, any level of prudent diversification for a US-based investor has largely been a drag on overall returns. That data suggest that there is a widespread movement toward increased risk-taking combined with the increased usage of cap-weighted (mostly passive) index funds. This has likely created a self-reinforcing cycle benefiting those who simply remain concentrated in the largest components of the most popular market proxies (e.g., NASDAQ, S&P 500).

Throughout this period, each corrective force has arguably remained relatively benign and brief - thereby extending this virtuous cycle. However, as valuations have risen to nearly unprecedented levels, and long-term price trends have long departed from their means, the margin for error has shrunk quite measurably. Hence, we are left with a situation (today) where a potentially valuable lesson may soon be learned by those who (using a rear-view mirror) thought prudent diversification was having a portfolio divided evenly between the NASDAQ and the S&P 500. Never mind that this combo would have been dead money for over a twelve year period not too long ago (Jan-2000 to March-2013).

CONTEXTUALIZING THE CURRENT MARKET ENVIRONMENT

TRACKING 18-MONTH ROLLING RETURNS OF THE S&P 500 INDEX

SOURCE: TRADINGVIEW MONTHLY RETURNS / JANUARY 2, 2014 TO MARCH 14, 2025 / DIVIDEND DATA FROM SAINT LOUIS FEDERAL RESERVE



"SMALL TRADERS" HAVE BEEN ALL-IN

TRACKING THE LEVEL OF SPECULATION AMONG "SMALL TRADERS" (2014-2025)

SOURCE: SENTIMENTRADER.COM / SMALL SPECULATION INDEX / AS OF 03.11.2025



The manner in which this level of speculation may be unwound can be instructive in helping to discount the chances that the bull market in US Large-Cap Growth (principally Tech) may still have a long way to go in nominal and relative terms. This is a variable worth close monitoring at this stage in a market cycle.

- ▶ **Small Investors:** Individual investors (as a whole) have been historically notorious for acting on emotional swings - and essentially buying-high and selling low in an unrelenting fashion. The folks at Sentiment trader track cumulative trading levels for options contracts less than 1,000 underlying shares - where virtually no professional traders or money managers would trade at such low denominations. By honing in on this group, we can maintain a rather high confidence level when monitoring the actions of this group through contrarian lens.
- ▶ **Small Speculative Positioning Index:** Tracks the net position of small (non-reportable) traders in S&P 500, Nasdaq 100 and DJIA index futures, full contract and e-min, adjusted for position size & index value. / Sentiment Trader

OUR TAKE REGARDING INCREASED RISK-TAKING:

THEY TYPICALLY OCCUR DURING INFLATIONARY PARADIGMS

"Social norms also changed dramatically with the French turning to speculation and gambling. Vast fortunes were built speculating and gambling on borrowed money."

Revolutionary France's Road to Hyperinflation / Mises Institute, 12-2013 / Frank Hollenbeck

Using 18-month rolling returns, the S&P 500's price momentum peaked in the late summer of 2021. Although the index had surged to new highs through February of 2025, the rate of change had noticeably declined.

Perhaps the increased usage of online investing, and online gambling has infected the manner in which individual investors "manage" their investment portfolios today. More are seemingly trying to win the lottery rather than employing anything close to resembling a "turtle wins the race" philosophy.

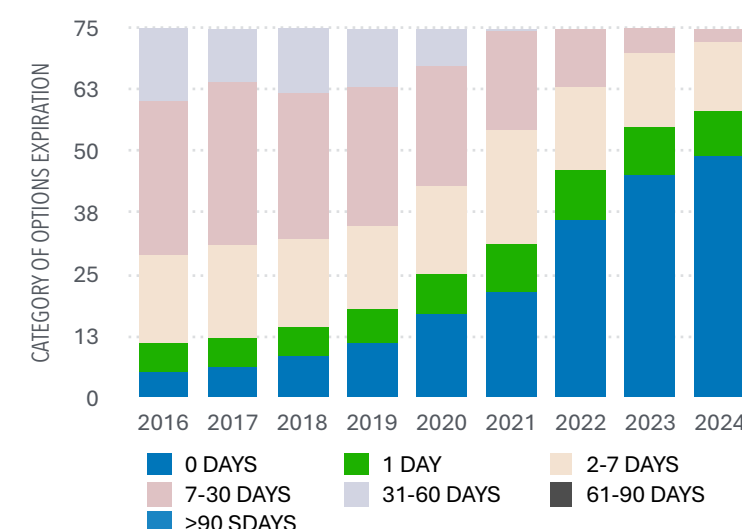
Not only are retail investors assuming the most margin debt since the November, 2021 high for the NASDAQ, they have also been continuing to shorten the maturity of their options bets (with nearly 60% of trades now expiring inside a two-day span (see chart below).

This type of increasingly aggressive behavior is consistent with our thesis regarding generally elevated risk-taking occurring within an sustained inflationary paradigm.

CHARTING THE GROWING TREND TOWARD SAME-DAY OPTIONS

ZERO DAY OPTION VOLUME HAS GROWN 10x OVER THE PAST DECADE

SOURCE: CBOE.COM / AS OF DECEMBER, 2024



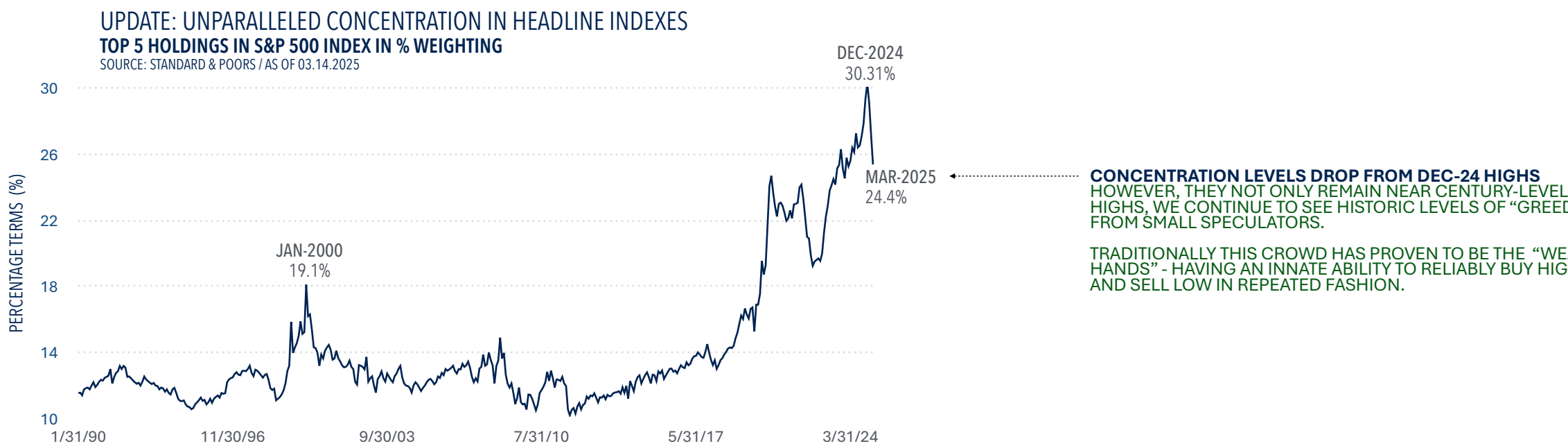
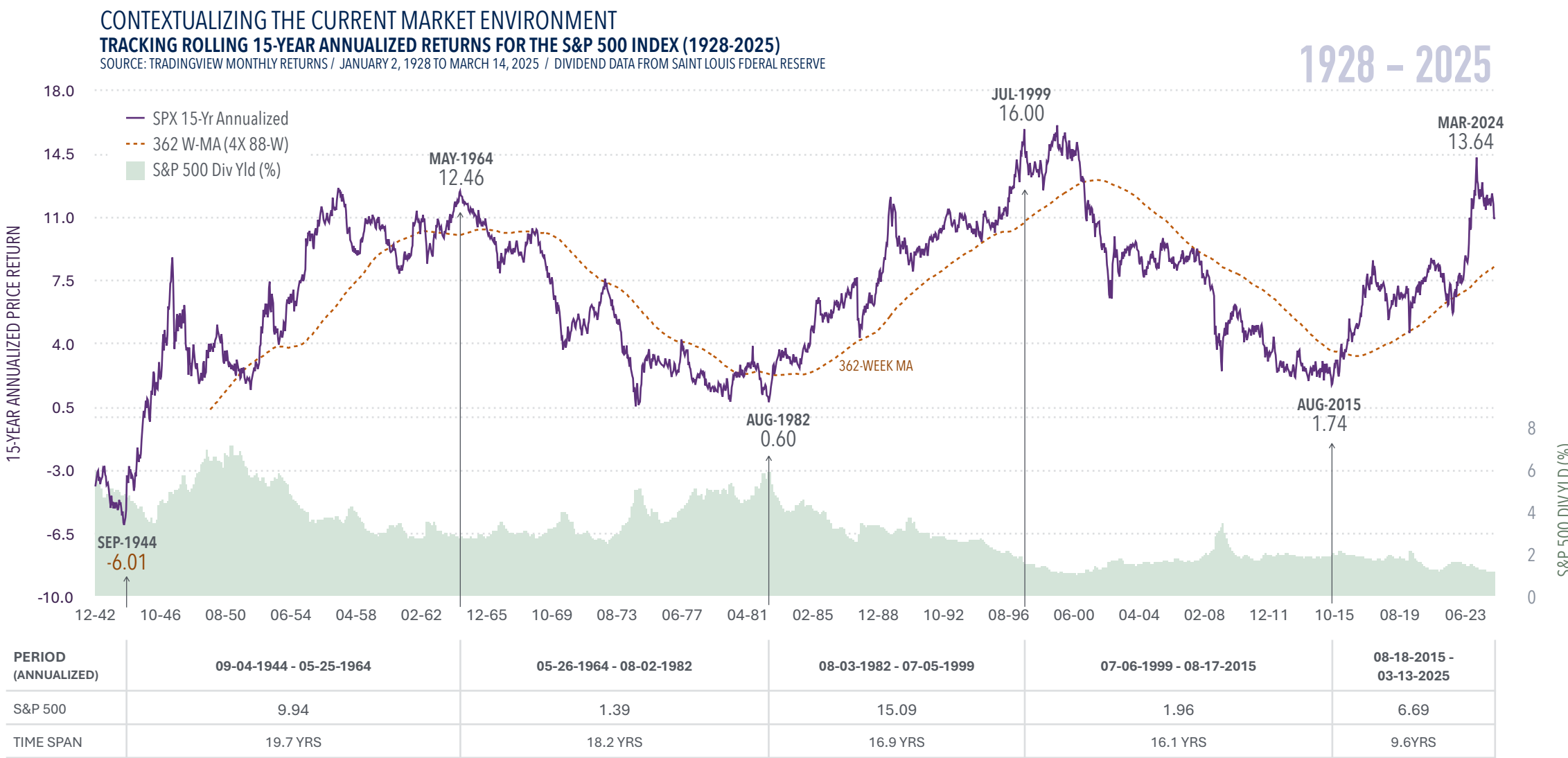


SECTION TWO
WHEN PORTFOLIO MODELING AND RESPECTIVE EXPECTATIONS ARE ALIGNED WITH A MACRO MARKET CYCLE
FIGHTING THE URGE TO APPLY HINDSIGHT INTO THE CONSTRUCTION OF AN INVESTMENT PORTFOLIO

MULTI-DECADE BULL MARKETS DON'T DIE EASILY, BUT: ALTHOUGH IT REMAINS TO BE SEEN WHETHER THE PRIMARY TREND FOR US LARGE-CAP STOCKS IS IN FACT IN JEOPARDY, ONE CAN MAKE THE CASE THAT THE RISK/REWARD PICTURE IS QUITE DIFFERENT THAN WHAT WAS SEEN IN PERIODS LIKE 2015 AND 1982 (SEE CHART BELOW). FROM OUR PERSPECTIVE, THERE IS A DEFICIT OF CONTEXTUALIZATION BEING APPLIED IN THE INVESTMENT SERVICES INDUSTRY AT LARGE.

In a period where returns for US Large-Growth stocks in particular have been rather stellar for as long as most may choose to remember, as humans we would tend to dwell less about the process by which those results may have been earned. Moreover, the longer a bull cycle can extend, less attention is paid to the standard deviation (aka volatility) of returns. Hence, it's the case that the most concentrated and generally most risky "strategies" often become the most rewarded and grow more widespread - right to a material inflection point. It's interesting to ponder that the terminal point in a bull cycle (for an asset class) is typically the very point at which the investing public is generally positioned at its most aggressive posture. Thinking this through, this is the time in which AUM for inverse funds are at multi-year lows, when dedicated short funds have either just shut down or in the process of closing shop, and when margin debt alongside the AUM for leveraged-long stock funds are eclipsing all-time highs.

If investors were to truly appreciate the cyclical nature of a macro investment environment, they may be able to notice that these signs are in play today. We constantly work to maintain a mindset that quantitatively contextualizes matters (preferably in real-time) through a repeatable process designed to be more opportunistic at times and more defensive at others - all within a probabilistic framework. We've previously noted that a cyclical peak for US Large-cap equities may already have occurred. Although it's still too early to be certain, one may be wise to ask the questions "what if?" and "what can be done in just case?"





SECTION TWO
HAVE US LARGE-CAP GROWTH STOCKS ALREADY CEDED MARKET LEADERSHIP?
DESPITE THE HYPE AND BOATLOADS OF NET INFLOWS, MEGA-CAP TECH STOCKS HAVE UNDERPERFORMED SINCE LAST SUMMER

APPRECIATING THE PROBABILITIES: THE COMBINATION OF SEEMING EUPHORIC POSITIONING (BY RETAIL INVESTORS) ALONGSIDE DETERIORATING RELATIVE PERFORMANCE LEAVES OUR WORK SKEPTICAL OF THE POTENTIAL THAT LARGE-CAP US STOCKS WILL ONCE AGAIN RESUME A GLOBAL LEADERSHIP POSITION IN A SUSTAINABLE MANNER. FROM STRICTLY A PSYCHOLOGICAL STANDPOINT, TWO OF THE MOST IMPORTANT TEMPTATIONS TO RESIST ARE:

- **The Temptation To Succumb to the “Clairvoyance” of Hindsight:** This temptation can compel the affected to prospectively abandon systematically-designed processes due to impulses of either of Fear or FOMO. Although a probabilistic approach by its nature will not yield perfect results, a consistent application can allow for proactive and timely decision-making to occur - being potentially beneficial more times than not. It is the inconsistent application to which that can more likely do more harm than good.
- **The Temptation of the Desire to be Part of the Herd:** When solitary confinement can lead to clinical insanity, human beings presumably have no greater behavioral need than to have a companion or to be part of the herd. It is a long-running survival instinct that helped our ancestors manage the disproportionately low chances of making it to adulthood. However, when it comes to finance, this desire clashes with the basic cyclicity of a market cycle - often yielding signals at essentially the wrong times. Having a mechanism to quantify the “feelings” of the herd (in real-time) can be an instrumental component of long term success.

TRACKING WANING MOMENTUM FOR THE MEGA-CAPS
CHARTING THE S&P 500 INDEX WITH RATIO OF LARGE-CAP TECH vs. THE EQUAL WEIGHT STOCK INDEX
SOURCE: TRADINGVIEW DAILY RETURNS / DECEMBER 29, 2017 TO MARCH 14, 2025



OUR TAKE REGARDING:
THE CURRENT PRICE DECLINE IN THE US STOCK MARKET

Substantial market tops can be indistinguishable from otherwise “healthy” corrections during impulsive declines resembling what we’ve seen of late. This is the time to revisit one’s investment mandate, we’d gather - especially considering the level of gains likely achieved in recent years.

7.9%
THE SPREAD BETWEEN THE SPX AND ITS 88-WEEK MA HAS FALLEN BY MORE THAN HALF SINCE LAST JULY (THE MOST RECENT HIGH SPREAD OCCURRED ON JULY 1, 2024 - 22.3%)

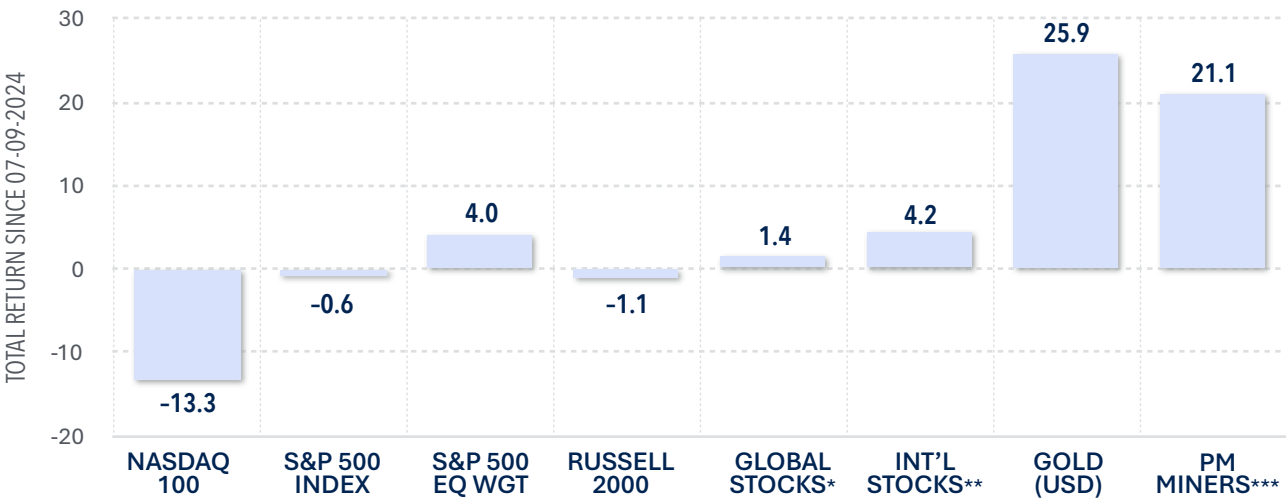
ONE SHOULDN’T BE SURPRISED TO SEE THE SPX “TEST” THIS MOVING AVERAGE IN H1-2025. IF THAT WERE TO OCCUR, IT REMAINS TO BE SEEN IF THAT WOULD MARK AN IMPORTANT LOW FOR THE INDEX.

JULY 9, 2024
NASDAQ 100 FORGES A MATERIAL RELATIVE HIGHPOINT SINCE LAST JULY, MEGA-CAP TECH STOCKS HAVE UNDERPERFORMED THE EQUAL WEIGHT S&P 500 BY 17 PERCENTAGE POINTS.

Even though US Large-Cap equities have lagged for the year-to-date, retail investors have continued to pile substantial net flows into the sector (see below).

We find it just as compelling that the best-performing sector (precious metals miners) of 2025 has actually had to endure significant outflows so far this year.

MEASURING INDEX PERFORMANCE SINCE JULY 9, 2024
COMPARING TOTAL RETURNS OF ASSET CLASSES SINCE THE RELATIVE TOP FOR LARGE-CAP TECHNOLOGY STOCKS
SOURCE: TRADINGVIEW DAILY RETURNS / JULY 9, 2024 TO MARCH 13, 2025



DEFINITIONS:
* GLOBAL STOCKS: MSCI ALL COUNTRY WORLD INDEX
** INT’L STOCKS: MSCI ALL COUNTRY WORLD INDEX EX-US
*** PM MINERS: PRECIOUS METALS MINERS / XAU GOLD MINING INDEX

Net ETF Fund Flows (Sorted by Asset Class)		
Asset Class	YTD Total Return	YTD Net Flows (\$MM)
Precious Metals Miners	28.43	(1,856)
International Large-Cap	10.71	2,470
Commodities	4.01	1,163
Emerging Markets	6.52	2,384
US Large-Cap Value	(1.85)	5,840
US Large-Cap Core	(4.64)	34,820
US Large-Cap Growth	(8.17)	17,912
US Small Cap	(8.99)	(79)

DATA SOURCE: YCHARTS.COM / AS OF 03.14.2025



SECTION THREE

PREPARING FOR THE POTENTIAL OF A CAPITAL ROTATION EVENT

SHOULD CURRENT TRENDS CONTINUE, THE LONG-TERM IMPLICATIONS COULD BE PROFOUND FOR NEARLY ALL ASSET CLASSES

PLAYING CHECKERS OR CHESS? THE IMPORTANCE OF KNOWING WHAT GAME IS BEING PLAYED.

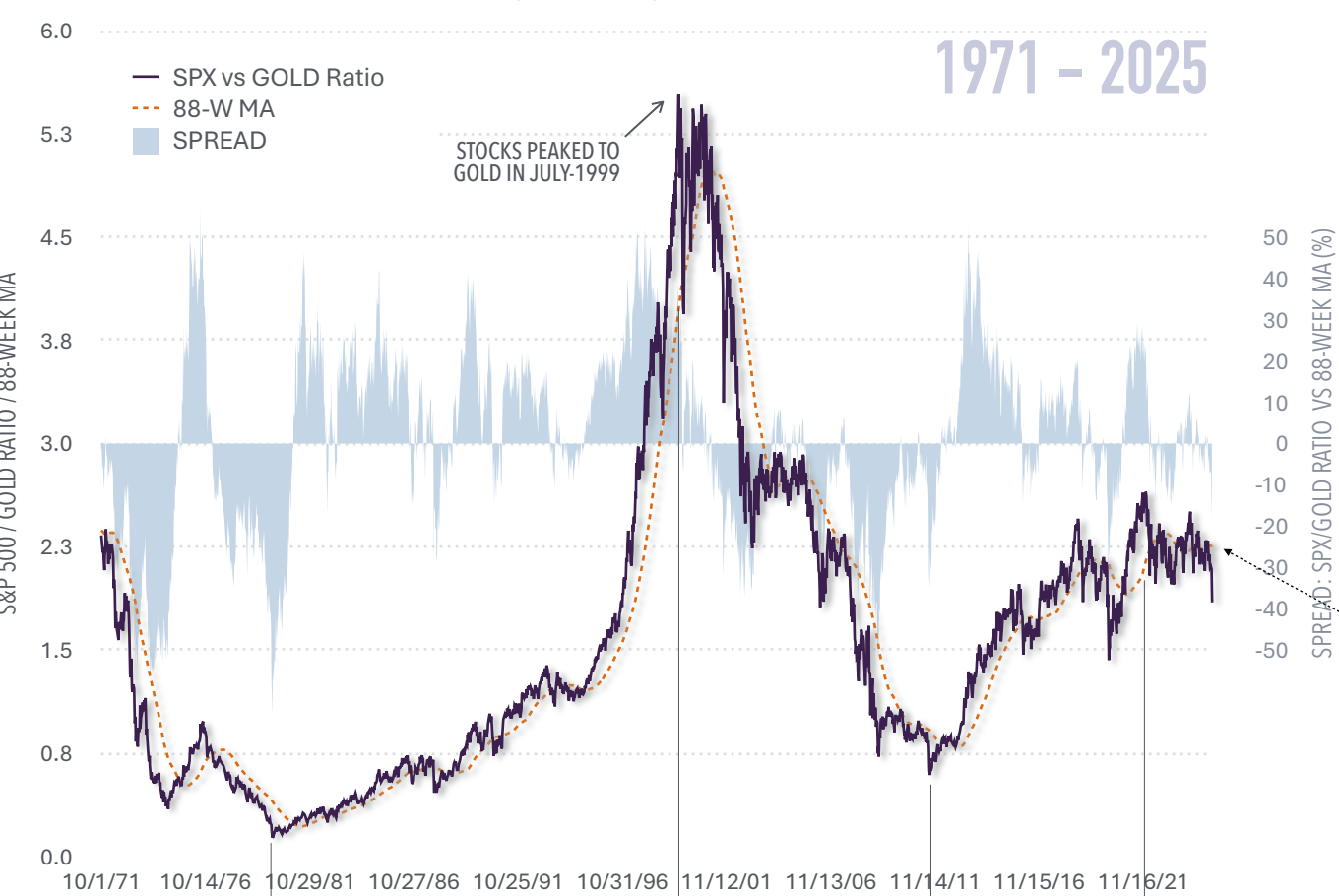
Even though the boundaries to unlimited money supply growth were lifted in 1971, US policy interventions were kept largely in check up until the “response” to the bursting of the DOT.COM bubble in the early 2000s. Ever since, unprecedented levels of monetary and fiscal accommodation have been infused into the economy - to the tune of nearly \$30 trillion. Today, we have an economy that has become hyper-reliant on continued financial repression (artificially low interest rates) - where broad expectations for an “easy button” encompassing all sorts of bailouts just to keep the current system afloat.

Arguably most that are paying close attention to the macro picture over the years would not find the statements above controversial. Yet, through the examination of continued inflows into bonds funds (now over \$6.5 Trillion since 2009) mixed in with a continued widespread adherence to the traditional passively-inclined portfolio framework, we believe that a vast majority of the investing public remains anchored to the “old set of rules”. One could make the case that a principal reason for the seeming relentless adherence to this old set may be due to the inordinate associated costs to “adapt”. The apparatus of today’s investment services industry has evolved over the years for scale up to the Trillion Dollar level. As such, we would challenge that true customization (down to the individual household level) is ultimately compromised.

MARKET TREND ANALYSIS (QUADRANTS)

S&P 500 vs. GOLD RATIO / 1971 TO 2025 (BOTTOM TABLE: ANNUALIZED RETURNS OF S&P 500 & GOLD)

SOURCE: TRADINGVIEW DAILY RETURNS / OCT-1971 TO MAR-2025 (PERIOD: 53 YEARS)

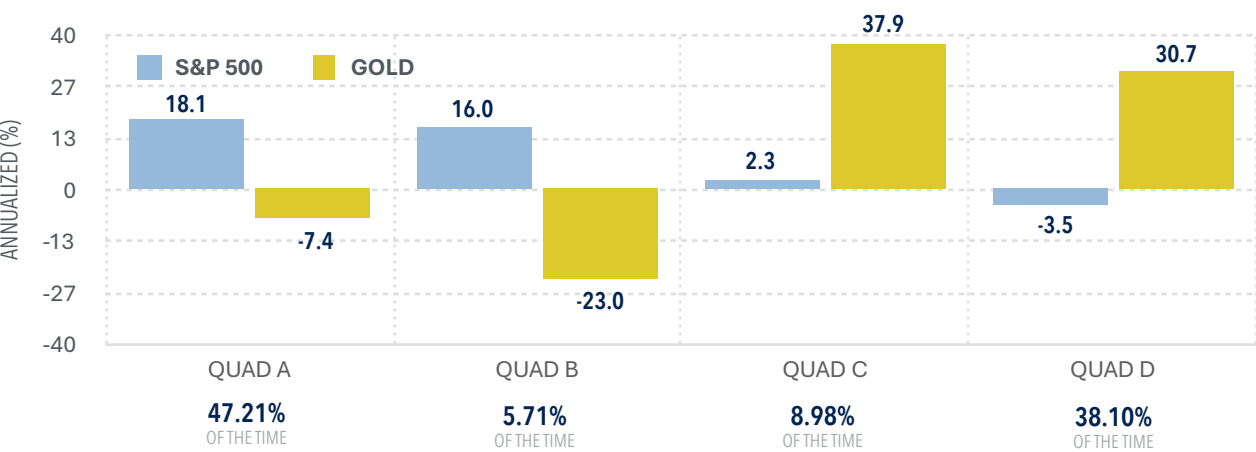


PERIOD (ANNUALIZED)	10/4/1971 - 1/21/1980	1/22/1980 - 3/29/2000	3/30/2000 - 8/22/2011	8/23/2011 - 1/4/2022	1/5/2022 - Present
S&P 500	1.48	13.75	(2.55)	14.66	4.54
GOLD	43.14	(5.29)	18.35	1.12	17.00

MARKET TREND ANALYSIS (QUADRANTS)

S&P 500 vs. GOLD RATIO / 1971 TO 2025 (PRICE RETURNS FOR THE S&P 500 & GOLD)

SOURCE: TRADINGVIEW DAILY RETURNS / OCT-1971 TO MAR-2025 (PERIOD: 53 YEARS)



SINCE JANUARY, 2000:

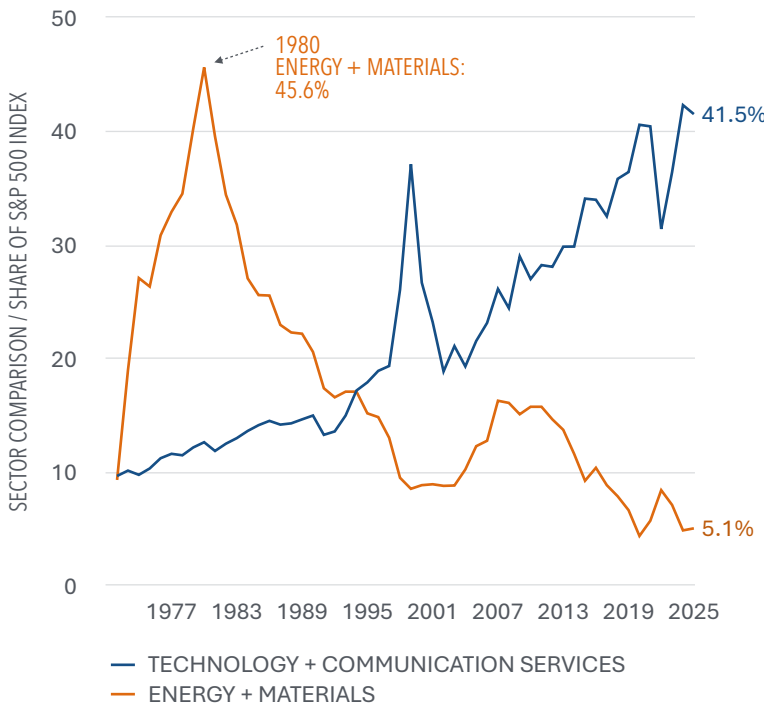
COMPARING THE PRICE RETURN OF GOLD vs. The S&P 500

Gold (in US Dollars) has more than tripled the price return of the S&P 500 Index with a 936% to 284% margin respectively. Yet, only 1/50 US households have more than a 5% weighting to Gold these days.

SKATING TO WHERE THE PUCK MIGHT BE...

TRACKING CHANGES TO S&P 500 INDEX COMPOSITION (1974 - 2025)

DATA SOURCE: STATISICA.COM



FEBRUARY 19, 2025

SPX vs GOLD RATIO MOVES INTO QUAD D
THE RATIO ALSO BROKE BELOW PREVIOUS SUPPORT LEVELS DATING BACK TO 2021.

DELINEATING BETWEEN DIFFERENT SEGMENTS OF A MARKET CYCLE

53-YEAR PERIOD: 1971 TO 2025 | S&P 500 RETURNS (SPX vs. GOLD RATIO)

SOURCE: TRADINGVIEW DAILY RETURNS / FEB-2012 TO MAR-2025 (PERIOD: 8 YEARS)

ANNUALIZED RETURN FOR SPX (TOTAL PERIOD): 7.82%

POSITION RELATED TO MOVING AVERAGE	DIRECTION OF MOVING AVERAGE				ABOVE BELOW
	QUAD A	RISING	FALLING	QUAD B	
	% OF TIME	47.21	5.71	% OF TIME:	
	SPX CAGR	18.1	16.0	SPX CAGR	
	GOLD CAGR	-7.4	-23.0	GOLD CAGR	
	SPX CAGR	2.3	-3.5	SPX CAGR	
	GOLD CAGR	37.9	30.7	GOLD CAGR	
	% OF TIME	8.98	38.10	% OF TIME	
QUAD C					QUAD D





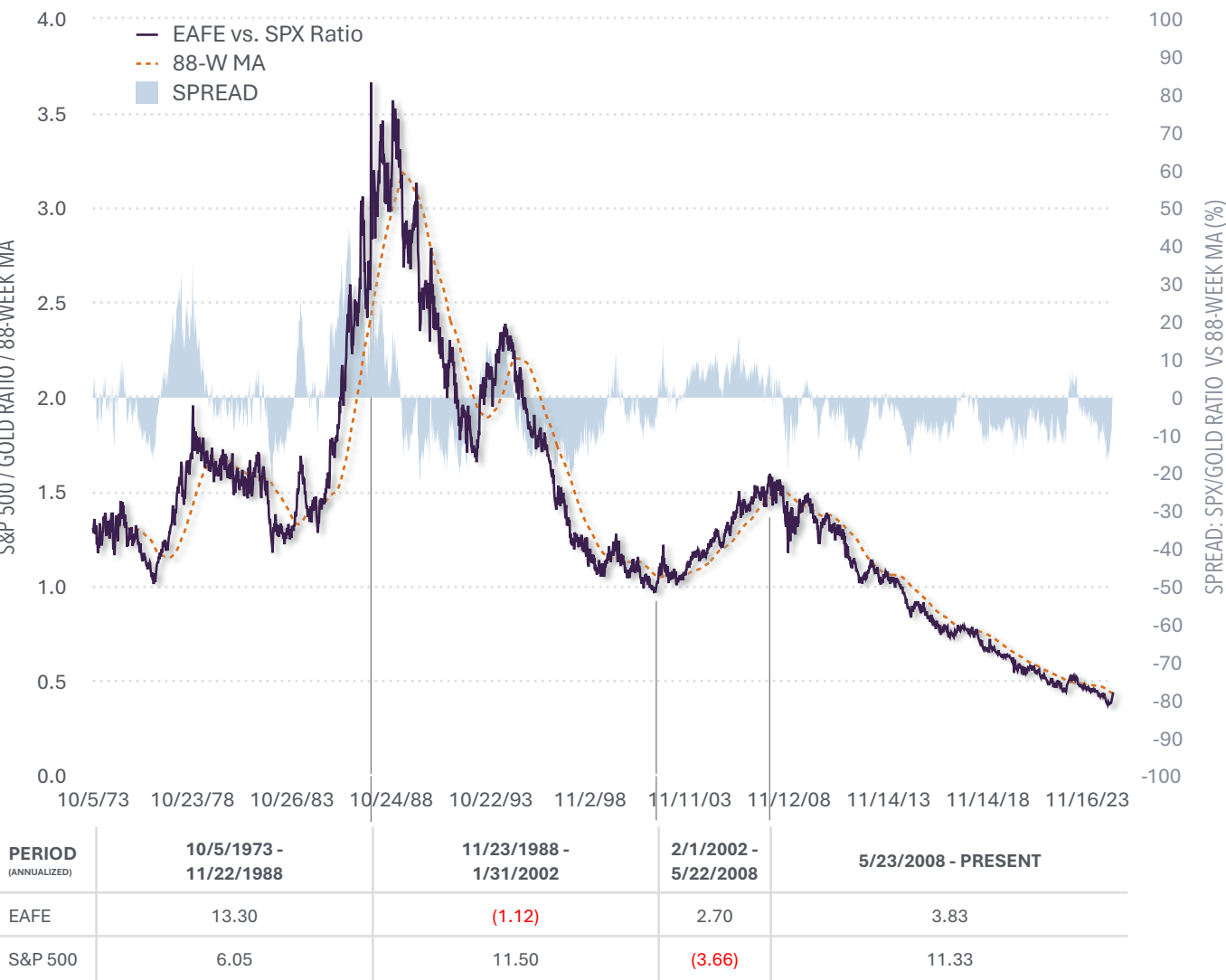
SECTION THREE
WHERE LONG-TERM OPPORTUNITIES MAY LURK
REMAINING PATIENT FOR MACRO CONDITIONS TO BE SUPPORTED BY THE RELATIVE TRENDS

RE: INVESTING, THE CONCEPT OF PATIENCE IS AN UNDER-APPRECIATED SKILL: FOR MANY YEARS, FUNDAMENTALLY-DRIVEN ANALYSTS AND INVESTMENT STRATEGISTS HAVE ARGUED FOR INCREASED EXPOSURE TO INTERNATIONAL STOCKS AS THEY REPRESENTED SUBSTANTIAL VALUE IN RELATION TO US STOCKS IN GENERAL. HOWEVER, EACH AND EVERY SYSTEMATIC APPROACH TO INCREASE ALLOCATION TO INTERNATIONAL OR TO REBALANCE ASSETS HAVE ONLY WEIGHED ON RETURNS FOR WELL OVER A DECADE.

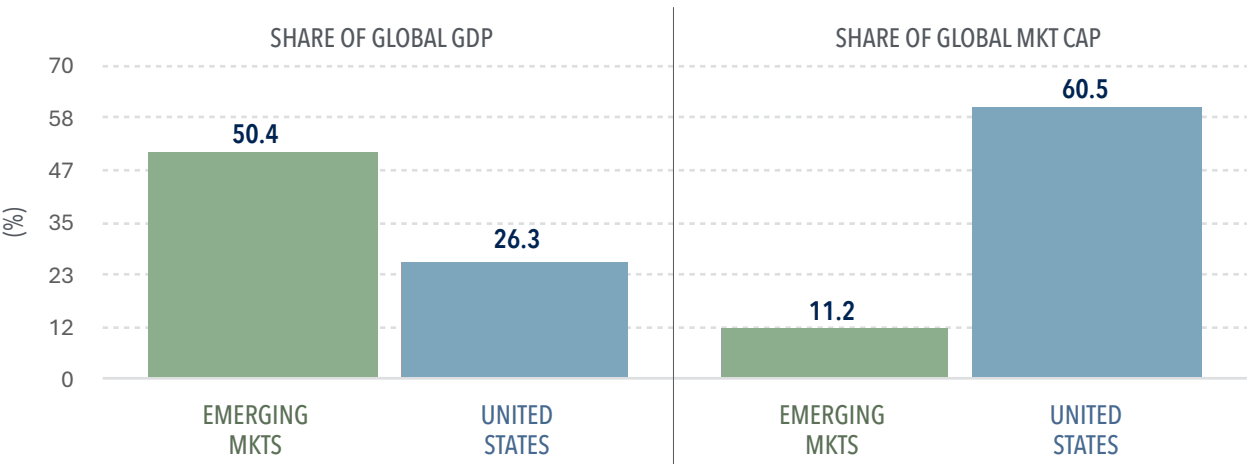
Although we have maintained exposure to international instruments throughout the years, our relative strength work has informed us to keep our non-US holdings to generally minimal levels and in a sustained manner. We’ve been keen to add exposure to the Rest of the World, but have been hesitant to make a substantive move without supporting evidence through relative strength analysis of the price trends (see chart below to the left). With such a deep and long underperformance cycle, one doesn’t necessarily need to show up to the ballgame at the top of the 1st inning.

- INTERNATIONAL STOCKS HAVE UNDERPERFORMED US STOCKS BY ~160 PERCENTAGE POINTS SINCE 2008
- THEY ARE ABOUT 1/2 AS CHEAP THAN US STOCKS ON A FORWARD P/E BASIS
- BUT THEY HAVE BEEN CHEAP FOR A DECADE AND A HALF
- RELATIVE TRENDS FOR INTERNATIONAL STOCKS HAVE RECENTLY TURNED HIGHER - BUT IT’S STILL EARLY

MARKET TREND ANALYSIS (QUADRANTS)
RATIO: MSCI EAFE Index vs S&P 500 Index / 1973 TO 2025 (BOTTOM TABLE: ANNUALIZED RETURNS OF EAFE & S&P 500)
SOURCE: TRADINGVIEW DAILY RETURNS / OCT-1973 TO MAR-2025 (PERIOD: 53 YEARS)



EXAMINING THE DISCONNECT
ARE US STOCKS “OVER-REPRESENTED” IN TERMS OF MKT CAP TO GDP?
SOURCE: MACRO-MICRO - WORLD STOCK MARKET CAPITALIZATION / JANUARY-2025



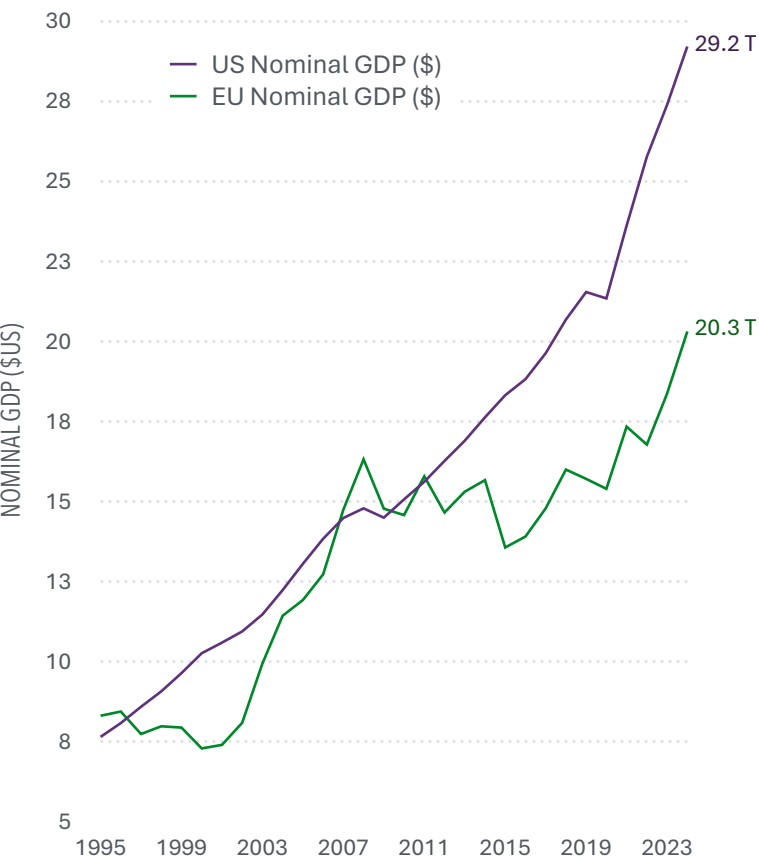
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What if:

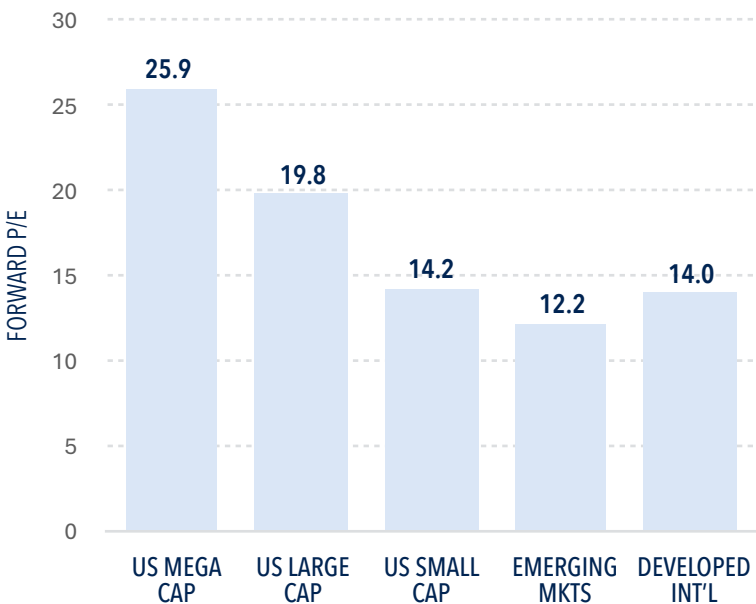
The domestic push towards increasing “Government Efficiency” inside the US Government contributes to eventually pulling the EU down a similar path?

Having Four concurrent Presidents, it can be argued that there is a preponderance of low hanging bureaucratic fruit within the current structure of the European Union.

FALLING BEHIND: TRACKING NOMINAL GDP GROWTH
THE EU HAS SHRUNK BY NEARLY 1/3 VS. THE US SINCE 1995
DATA SOURCE: ST. LOUIS FEDERAL RESERVE (01.31.2025)



WIDE SPREAD IN FORWARD EARNINGS MULTIPLES
FOREIGN STOCKS MARKETS HAVE BEEN CHEAP VS. US STOCKS FOR A DECADE+
SOURCE: YARDENI ECONOMICS / MARCH-2025





RE-PRINTED PAGE FROM OUR DECEMBER-2024 NEWSLETTER
RULES-BASED SYSTEMS CAN YIELD UNPREDICTABLE RESULTS WHEN THE RULES MARKEDLY CHANGE

When it comes to finance, everything is a ratio. Prices and values are quoted with a numerator and a denominator. Although most effort is arguably spent analyzing the numerator in an equation, we would contend that the denominator deserves more scrutiny today especially. What if the sharp increase in valuations (for most financial assets) is more about the denominator falling in value than the numerator rising? That’s a contention we made well over a decade ago - with the idea that equity-centric and real assets could serve as a “release valve” resulting from overt fiscal and monetary accommodation (from nearly all central banks).

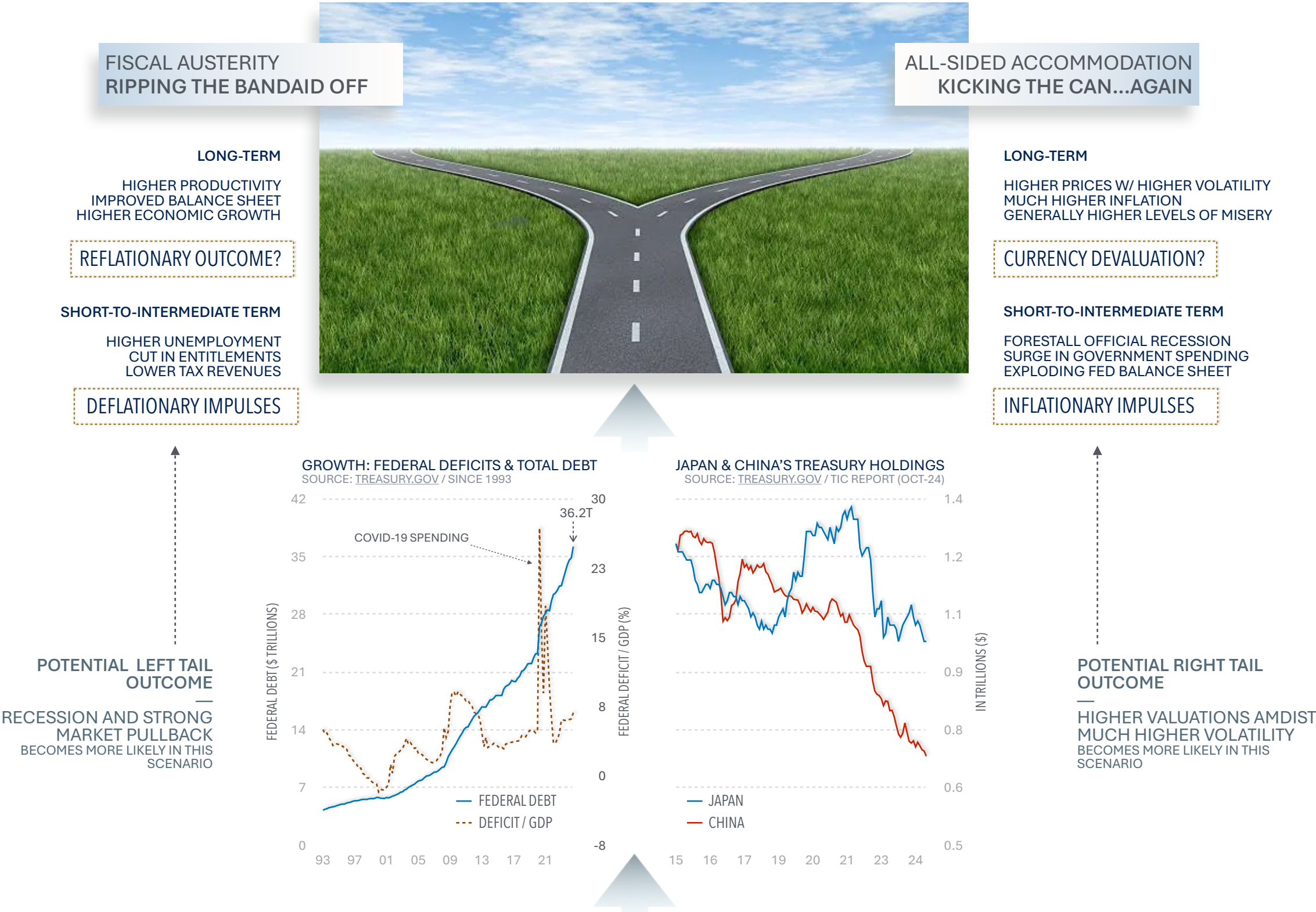
THE MATH IS GETTING TOUGH TO IGNORE...

JUST 4 BUDGET ITEMS ALREADY SURPASS ALL FEDERAL REVENUES: TOP FOUR US FEDERAL BUDGET ITEMS (DEC-2024) / US DEBT CLOCK / ST. LOUIS FEDERAL RESERVE

SOCIAL SECURITY		MEDICARE / MEDICAID		DEFENSE		INTEREST		TOP 4 SPENDING:		TAX REVENUES		SURPLUS / (DEFICIT)	
1,509,760	+	1,846,499	+	956,823	+	1,116,960	=	5,430,042	-	5,100,673	=	(329,369)	

This “alternative” perspective would contestably explain historical extremes for valuations in broad equity indices, prices for luxury residential real estate, tuition levels for secondary schooling, labor expenses for repairs + maintenance, healthcare costs, grocery prices, etc. Given structural imbalances embedded into the state of fiscal and monetary affairs, we have searched the history books for instances where a policy of sustained austerity was pursued in effort to repair the construct of the financial system - **we found no examples**².

Pandemic-related spending probably accelerated the endpoint with regard to when a “decision” will need to be made. When such a path is chosen, we would submit that the results may be quite disparate (see below). The level of associated noise may seem deafening at times as this process works its way out in the coming period of time - which leaves our quantitatively-derived work to remain focussed on the signal through the noise.



An Arguably Tough Decision Lies Ahead for Policy Makers
(Unsustainably-Increasing Debts - While the Largest Foreign Holders are Now Net Sellers)

2. Policies enacted during the Great Depression by Hoover & Roosevelt led to a long-running deflationary depression - but most of the long-running effects can be attributed to a series of missteps from overt micro management of the economy. / A MONETARY HISTORY OF THE UNITED STATES, © 1963 / book by Milton Friedman and Anna Schwartz

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In a fee-based account, clients pay a quarterly fee, based on the level of assets in the account, for the services of a financial advisor as part of an advisory relationship. In deciding to pay a fee rather than commissions, clients should understand that the fee may be higher than a commission alternative during periods of lower trading. Advisory fees are in addition to the internal expenses charged by mutual funds and other investment company securities. To the extent that clients intend to hold these securities, the internal expenses should be included when evaluating the costs of a fee based account. Clients should periodically re-evaluate whether the use of an asset-based fee continues to be appropriate in servicing their needs.

The investments and strategies presented may not appropriate for every investor. Individual clients should review with their advisors the terms and conditions and risks involved with specific products or services.

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Past performance is not a guarantee of future results. There is no assurance that any investment strategy will be successful. Investing involves risk and investors may incur a profit or a loss.

Technical Analysis is a method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume. Technical analysts do not attempt to measure a security's intrinsic value, but instead use charts and other tools to identify patterns that can suggest future activity.

Relative Strength is a measure of price trend that indicates how a stock is performing relative to other stocks in its industry.

An Exchange-Trade Fund (ETF) is a security that trades an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. ETFs experience price changes throughout the day as they are bought and sold. Inverse ETFs seek to provide a return that is inverse or opposite of the performance of its benchmark often to provide a hedge against securities held in a portfolio. To accomplish this goal inverse ETFs may use margin and sell securities short in addition to investing in various derivative instruments. These funds are not suitable for all investors and are intended for short holding periods. There is no assurance that the funds will achieve their objectives and an investment in a fund could lose money.

Asset allocation and diversification does not guarantee investment returns and does not eliminate the risk of loss.

Remember, when investing in mutual funds or exchange-traded and index funds, please consider the investment objectives, risks, charges, and expenses associated with the funds before investing. You may obtain a fund's prospectus by contacting your Financial Advisor. The prospectus contains this and other information, which should be carefully read before investing.

Rebalancing a non-retirement account could be a taxable event that may increase your tax liability.

The price of equity securities may rise or fall because of changes in the broad market or changes in a company's financial condition, sometimes rapidly or unpredictably. Equity securities are subject to "stock market risk" meaning that stock prices in general may decline over short or extended periods of time. Standard deviation is applied to the annual rate of return of an investment to measure the investment's volatility.

Investing in fixed income products are subject to certain risks, including; interest rates, credit, inflation, call, prepayment and reinvestment risk.

Investing primarily in securities of small and mid-sized companies have historically had greater share price volatility than funds that invest in large companies. In addition, investments in these types of securities may be less liquid, which may negatively affect a fund's returns.

International investing involves a greater degree of risk and increased volatility. Changes in currency exchange rates and differences in accounting and taxation policies outside the U.S. can raise or lower returns. Also, some overseas markets may not be as politically and economically stable as the United States and other nations. Investments in emerging markets can be more volatile. Investments in commodities may have greater volatility than investments in traditional securities, particularly if the instruments involve leverage.

Dividends are not guaranteed and will fluctuate.



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