October 18, 2023

Dear Investor,

Last quarter, we wrote about **'LEVERS'.** You know … those really big stocks that can lift an entire index like the S&P 500 up if only a handful or two of them surge? The point of our Q2 letter, when a mere seven stocks delivered the appearance that all was rosy in the markets, was that market **hype** was strong, not 'the real economy'. Wall Street's mouthpiece-TV did their job, greed then beat out fear, and many investors cast aside visible risks for pursuit of profits. Markets pulled back in Q3 however, and Q4 is a bit rocky at the start.

In the red, year-to-date as of Friday the 13th however were Russell 2000 (Small Cap), 7-10 Year Bonds, Utilities and Commodities. Mid Caps and the Dow were negative a few days ago, but creeped back barely positive as of the 13th.

We have seen many Wall Street shenanigan market cycles where financial media WS surrogates rotate themes of euphoria, then panic, as large Wall Street players move those large levers, and smaller traders try to follow along. We'll touch on the Magificent Seven lever stocks again briefly, but more important headwinds exist in our view:

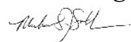
- Economic WW3 continues: BRICS vs G7, and East vs West monetary systems
  - US Treasuries are offering attractive yields relative to recent history, but the Fed may not control all the levers anymore
- Real WW3 may be evolving: Ukraine/Russia, Israel/Middle-East, and China/Taiwan may be percolating in the background
- Inflation has turned back up, driven by factors from the economic and real wars
- Corporate Earnings and Forecasts are beginning, (very) early indications are not as bad as feared by market Bears … health of consumer and business credit may drive direction.
- Most of the consumer public and indeed corporate decision makers are blissfully unaware of the topics we cover: monetary history, economic world war risks, and concerns about the loss of personal liberties and related systemic impacts.

Read that last bullet again. That particular point likely drives time-tables. We believe we are past the easy days of the fiat-money game, potentially late in a Fourth Turning cycle. Only time will tell for how long, or even if, central bankers can pro-long the fiat debt-based experience that we have lived within. Importantly, Central Bank Digital Currency is the last thing any enlightened investor should ever allow. Central bankers deserve to be in charge of nothing in our view.

One Wall Street catch-phrase we do agree with is '***diversify***'. We believe in that for sure. We do our best with monies placed or trapped in the paper world, but well understand risks and rewards of assets outside it. The steps people around the country take to fortify themselves has changed dramatically, prudently even, and we're glad to see that.

As the saying goes, "we live in interesting times". Amidst the turmoil and the proliferation of fake news, corporate and government corruption, and an escalating coercive environment … we look forward to the fourth quarter. May it be a smooth one!

Best Regards,



Mike Sullivan

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Detail

2023 Q3 results took a breather from Wall Street 'Lever stocks' game. Here are YTD results:

INDEX	TYPE	Q3	YTD
Standard & Poor's 500	US Based Large Stocks (500)	**-4.1%**	**11.7%**
Dow Jones Industrials	US Based Large Stocks (30)	**-2.8%**	**1.1%**
Nasdaq Composite	US Based Large Stocks	**-5.5%**	**26.3%**
Standard & Poor's 400	US Based Mid-Cap Stocks (400)	**-3.6%**	**3.0%**
Russell 2000	US Based Small-Cap Stocks (2000	**-2.5%**	**5.0%**
Dow Jones Transports	US Based Transportation Stocks	**-4.2%**	**11.8%**
Dow Jones Utilities	US Based Utility Stocks	**-11.2%**	**-15.6%**
EAFE International Index	International Large Cap	**-5.3%**	**5.0%**
MSCI Emerging Markets	Diversified Emerging Markets	**-4.2%**	**0.1%**
Commodities	Bloomberg Commodity Index	**1.8%**	**-8.2%**
7-10Y US Treasury Bonds	10 Y Us Treasury Bonds	***0.9%***	***0.9%***

Sources: *Bloomberg, vanguard.com, yahoo.com*

Here are your bullet-point market and economic highlights for Q3:

- Lever-Stock loaded Nasdaq rolled over **-5.5%** in Q3; other major indices went with it
  - Note the lagging Dow, Mid and Small indices rolled less as they never quite followed the Levers up. Small companies live in the real economy.
- Interest rates continued to surge, bond prices were knocked down again. A Bear Market Rally (BMR) remains a viable possibility where October '22 lows get visited.
- Regarding the 'economic WW3', the BRICS met in August. While not backing a new currency with gold as speculation considered, BRICS members did announce they would begin to trade directly using their own currencies, no longer using USD.
- BRICS countries have been joined by many oil-producing countries: Russia (of course), followed by Iran, Vezuela and even Saudi Arabia. That potentially kills the 'petro-dollar', the privilege the US held since Kissenger cut a deal with OPEC in the '70s .
- The Fed *says* it may keep hiking, only recently dispatching some Fed heads to say 'maybe they've done enough'. They're good at 'saying things', not much else. The Fed is now rather handcuffed, partially from their own money-printing escapades, but also because BRICS countries have withheld oil supply. Add in Israel vs Middle East and higher oil costs mean higher everything costs. The Fed cannot print oil.
- The 10 Year Treasury yield (drives home & car loans, etc.) was **1.51%** at 12/31/2021
  - Rates over 3.00% dramatically impact borrowing costs and asset prices.
  - The 10 year stands at 4.70% as we go to print (**up** from 3.84% last letter).
  - In 2022, US Treasury Bond prices saw the worst YTD decline since 1788.
- Housing is holding up in fewer regions now. The rollover in real estate should continue, even in strong states like Florida where demand remains strong.
- Here is the housing example we have tracked through the rate-hike cycle, updated:
  - A $400k house, financed at 4% for 30 years (the rate in Jan 2022) costs $1,909 over 360 payments, with $287,532 in interest going to the banking cabal.
  - A $400k house, financed at 7% for 30 years costs **$2,661** over 360 payments, with $558,216 to the cabal.
  - $400k house, financed at **8%** for 30 years, costs $2,935, **$656,687** cabal cost.
    - **Added** cost from 4% is **$369,155** in interest. Getting the picture??!!

- To keep the payment at the $1,909 monthly cost from back in January 2022, the $400k house would now have to drop to **$270,165**
  - The price drop would be $129,835, a decline of **-32.5%**
  - 'House prices won't drop like that' is the built-in instant reaction from homeowners. Yet, roll back three years and note the price did exactly the opposite, rising from $270k to $400k. In a vacuum, emotions removed, math suggests it should do exactly that. Whether it does or not depends on human behavior, which is driven by the Fed's money printing activities.
- In 1913, median house cost was $6,121, or 296 ounces of gold, then pegged at $20.67 per ounce. In 2023, median house cost is $410,000 per the National Association of Realtors. With gold priced at $1,885 per ounce today, a house costs only 217 ounces. For those who argue the S&P 500 outperforms gold, we suggest you reprice it in terms of gold. Gold is a 'store of value', insulated from the Fed's money printing. And if gold were ever unleashed from its manipulations, based on the growth in the money supply it could be priced anywhere from $5,000 to $21,000 per ounce. Interesting?
- The CPI inflation metric has been celebrated during the 2023 rally … because its **rate of growth** was coming down. Newsflash: it has still been ***growing***. We expect growth to stop, perhaps even usher in shrinking prices (deflation) as the Fed succeeds at its objective of knocking people out of work, thus taking money out of their hands.
- Fundamentally (which is what used to matter), earnings are now being reported. The landscape ahead is still not favorable, but early reporters are so far better than feared. The Fed manipulating rates 'higher for longer' has not really been priced into earnings expectations, as we suggested last quarter. We note the earnings trend is still lower as seen below … note forecasts are still looking for growth to return in Q4, but numbers have been lowered every month:

Date	3Q23A/E EPS Growth	4Q23E EPS Growth	1Q24E EPS Growth	2Q24E EPS Growth
2/1/2023	-0.36%	-	-	-
3/1/2023	-1.27%	2.80%	-	-
4/1/2023	-0.76%	2.99%	-	-
5/1/2023	-1.45%	2.50%	-	-
6/1/2023	-1.46%	1.69%	3.01%	-
7/1/2023	-2.02%	1.32%	2.27%	-
8/1/2023	-2.88%	0.78%	1.41%	-
9/1/2023	-3.80%	0.64%	1.74%	6.76%
10/1/2023	-4.70%	0.63%	1.63%	6.73%

Source: The Earnings Scout

Some early earnings releases arrived from the major Wall Street banks on Friday the 13th. JP Morgan revealed: 1) the Consumer seems to be holding up, albeit by paying higher prices for goods funded by record credit card expenditures, and 2) the bank-bail out of the collapsed banks in March boosted earnings of major banks: Tax-payer funded corporate welfare. Again.

PepsiCo followed, just announcing their higher prices for Pepsi and other goods helped their revenues and earnings hold up so far. Current market valuations will require the Consumer to hold up, navigating credit card balances that are at all-time highs, credit card rates at highs, stimulus checks gone, student loan payments due to resume. That is a very tall order.

Let's drill down and take a look at some of the potential game changers for asset markets.

Game Changers:

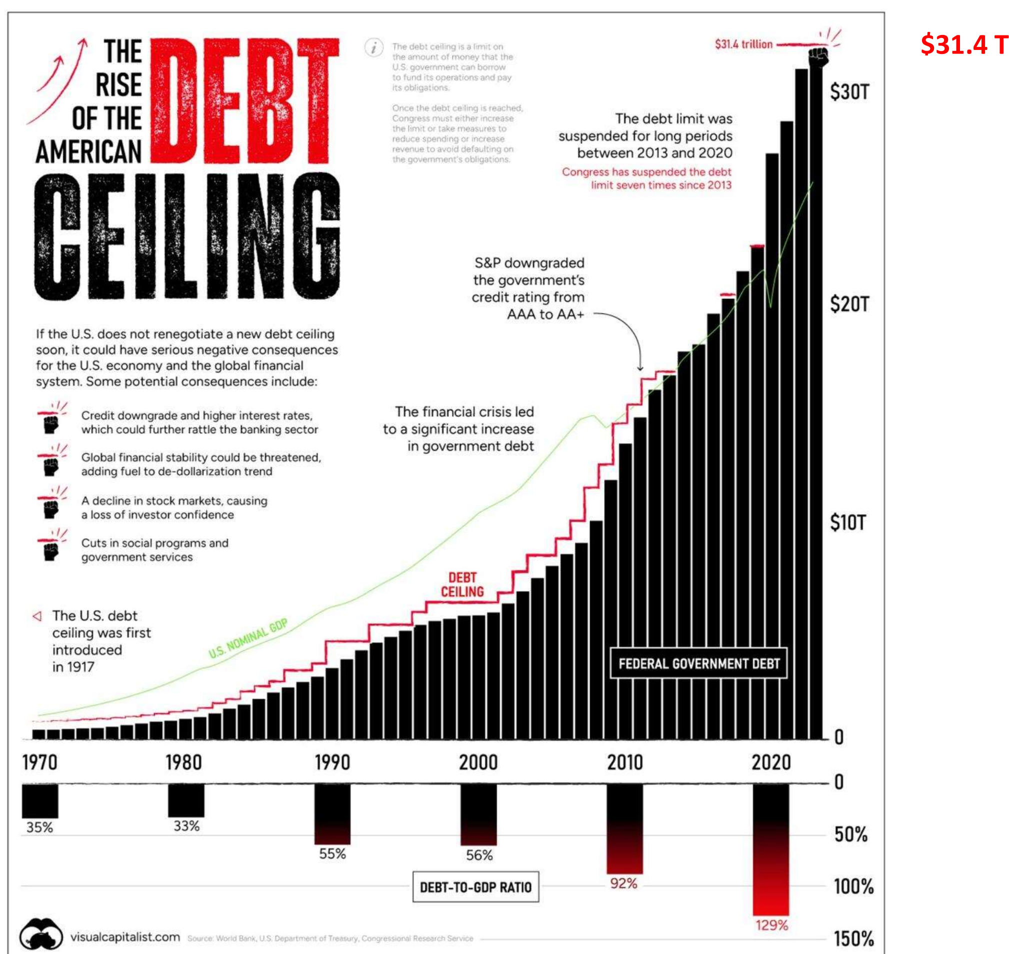
Regardless of earnings reports and corporate forecasts, we see the US now in a potential spiral. Numerous factors are at play, but underneath it all we can count on one thing: If the national ship is destined to sink, we can count on the people we ***allowed*** to sink it to work in one last pillage. (After all, if your entire career has been based on deceiving and exploiting people for your own benefit, why would you not pillage everything possible before it explodes? You would. And if history provides any lessons (to those who can break past false narratives), you would then count on some form of carnage to distract everyone from the real cause.

History is written by the victors, however, and make no mistake: the victors are always the fiat bankers and those that do their bidding (knowingly or unknowingly). Always.

So, the game goes on. Here are a few of the Game Changers that have the potential to make the phrase 'this time its different' come true, but not in a good way for most people:

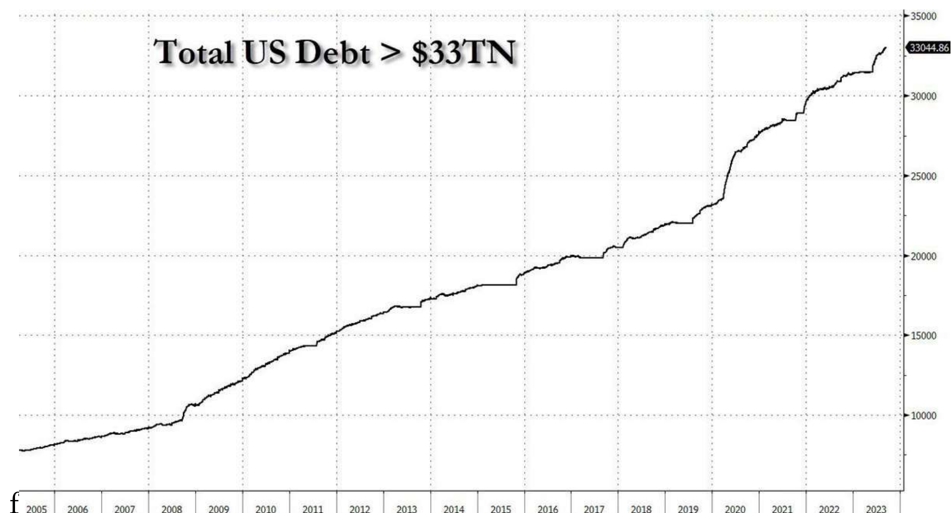
1) Debt

After the usual farcical theater in Washington DC, the debt-ceiling was once again raised. Actually, it was eliminated altogether! Have a look at the situation ***before*** it was eliminated.



Note $31.4 Trillion was the high water mark. Today we exceed $33.5T, an increase already of **<u>$2.1T</u>** … in a few short months. Sums of money in the trillions exceed comprehension, yet that level of spending is unchallenged by a public that does not understand it is ultimately going to cause great hardship. It already ***<u>is</u>*** causing massive hardship as people struggle to survive underneath the inflation caused by relentless central bank fiat-destruction.

Half-truths in the public schools program Americans to believe there is a separation between Congress, the Treasury, and the Federal Reserve. Even intelligent industry colleagues fall back on that fiction, then waste their time arguing about whose fault it is: 1) the Fed, 2) Congress, 3) or the Treasury. 6th grade civics books are written by the victors, remember? And, again, the victors are the fiat central banks. When the three entities listed all personally benefit, ***they all work together***. That is precisely why we have so many charts that look like the one below … which goosed the $31.4T to $33.6T in no time flat.



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Source: Zerohedge

Note the spike on the top right? At the end of September, the debt jumped $500 Billion in just 18 calendar days: One. Half. Trillion. … 18 days.

Congress is completely out of control, and their actions shout quite clearly they care not about history, nor consequences. **Treasury** Secretary (former **Fed** Chairwoman) today announced that as soon as the **House** got a Speaker in place, the **White House** was ready to go with more aid to Ukraine and to Israel. Simultaneously, the long-standing policy of having Americans pay their cost for evacuation remains in place, yet those pouring illegally over the Southern border in the US get free aid, transportation, and housing around the country. Can you see all of the 'separate' entities (underlined) at work together?

2) **BRICS**

Back to the BRICS issue: When the US decided it was a good idea to impose sanctions on Russia, the current admin chose to weaponize the US Dollar. Until that point USD was **respected** as the Reserve Currency used to settle global trade. The BRICS announcement that they will trade directly in their own currencies will vastly reduce usage of (demand) for US dollars. Those dollars will naturally flood back to their location of issuance: the US.

We watch other countries collapse when printing so much of their own money it loses value, and thus other countries don't want to use that currency. We are likely a fair distance from that outcome since so many countries own US dollars, but their desire to return them to us will likely have an effect here as dollars return home. Americans will still use US dollars, but we may find it takes even more of them to buy things from other countries: **inflation**.

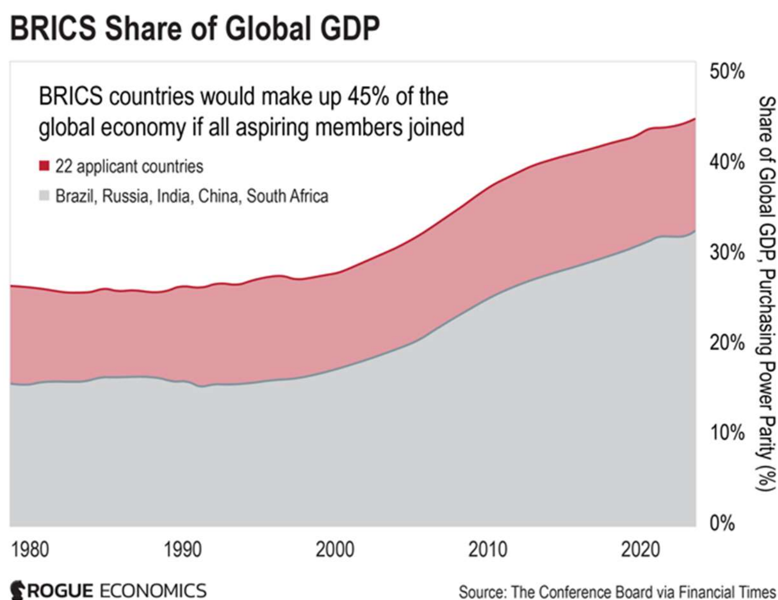
Let's ponder the Sanctions on Russia: that easily foreseeable result was either accidental or it was a strategic act of self-destruction. Anybody with a functioning brain could have at least predicted the world would not stand for ***weaponization*** of USD, so we do have to at least consider that it was strategic. As stated previously, sanctions on Russia were endorsed by the G7 global western-central-bank-cabal countries, but **not one** of the BRICS endorsed them. Instead, they opted out of usage of our US Dollar in trade … a big problem for us.

Some introspection by Americans might also recognize that the United States has engaged in 30+ wars since World War II, each one seemingly less successful and infinitely more expensive. The US has driven NATO to violate the **one** treaty requirement that Russia insisted upon since WWII: no missiles near the Russian border. The US (or rather the 'leadership' we have settled for) has broken our word time and time again.

Research can reveal that Ukraine's label as a 'cesspool of corruption' has reason. More problematic, family members and business associates of US politicians litter the boards of Ukrainian energy companies and other suspect businesses. Filtered through Big-Tech search engines, corruption stories can be labeled 'debunked' or 'conspiracy theory', but you can find plenty of stories elsewhere that substantiate that not just Hunter Biden received funds (there are records of numerous wires and payments), you also can find connections to Romney, Pelosi, Kerry and countless other US politicians. Do a fair, balanced review, we recommend it. Draw your own conclusion, Corruption certainly would explain a lot.

In the meantime, what matters is this: the BRICS know exactly what is at stake living under a weaponized reserve currency, and thus the US weakened itself massively as a nation. The dollar losing 'Reserve' status will adversely affect every one of us … while potentially corrupt politicians from both sides of the theatrical 'aisle' enrich themselves. It seems the BRICS countries (who we know have their own dirty laundry as well), may have drawn the line at the US dollar being weaponized. Period.

Here is a picture of the leveling playing field the US and its allies in the G7 no longer dominates, US hegemony is nearly gone:



Not only does the line-up of BRICS countries challenge the G7 for GDP supremacy, they hold something like 60% of the world's population. Good move, those sanctions, eh? (We know … the teleprompt reading swamp-puppets on TV news somehow don't share these cheery facts.)

3) <u>Housing</u>

Home prices are still at completely unaffordable levels. Many people cannot afford houses at these price levels, and the likely (necessary) price direction is down. But … due to all the monetary hi-jinx, real estate values are still pinned at all-time highs:

US housing market valuation Zillow

8% mortgages have existing homeowners trapped in their homes if they hold a mortgage. Many will stay put for a time, not wanting to have to refinance a new house at much more expensive rates. That predicament keeps the supply of houses available tight, which in turn keeps prices up, at least for now.

As the economy slows, another supply of houses will come available: the houses purchased when mortgage rates were on the floor, now being rented out via VRBO and AirBNB. VRBO has 1.5 million units listed in the US alone, plenty of them debt-financed.

Until house price-points break to the downside, the Fed cannot lower rates. Once they do lower them, it will be because the damage has been done. Housing is such a major component of the economy, when prices begin to drop, and the Fed response is to lower rates, buyers will wait as both factors migrate in their favor. That is when price drops accelerate.

4) <u>Fiat Games</u>

Another 'fiat-factor' to consider is statements coming out of China that they are considering pumping more stimulus in their economy. In recent history in fiat-world, new money supply has encouraged big-money traders to chase asset prices. That has yet to change to this point, no matter how much debt all of the fiat-countries have amassed. Healthy or not, Chinese stimulus presents a possible tail-wind for stocks that may counter-balance the Fed's tightening activities to some degree.

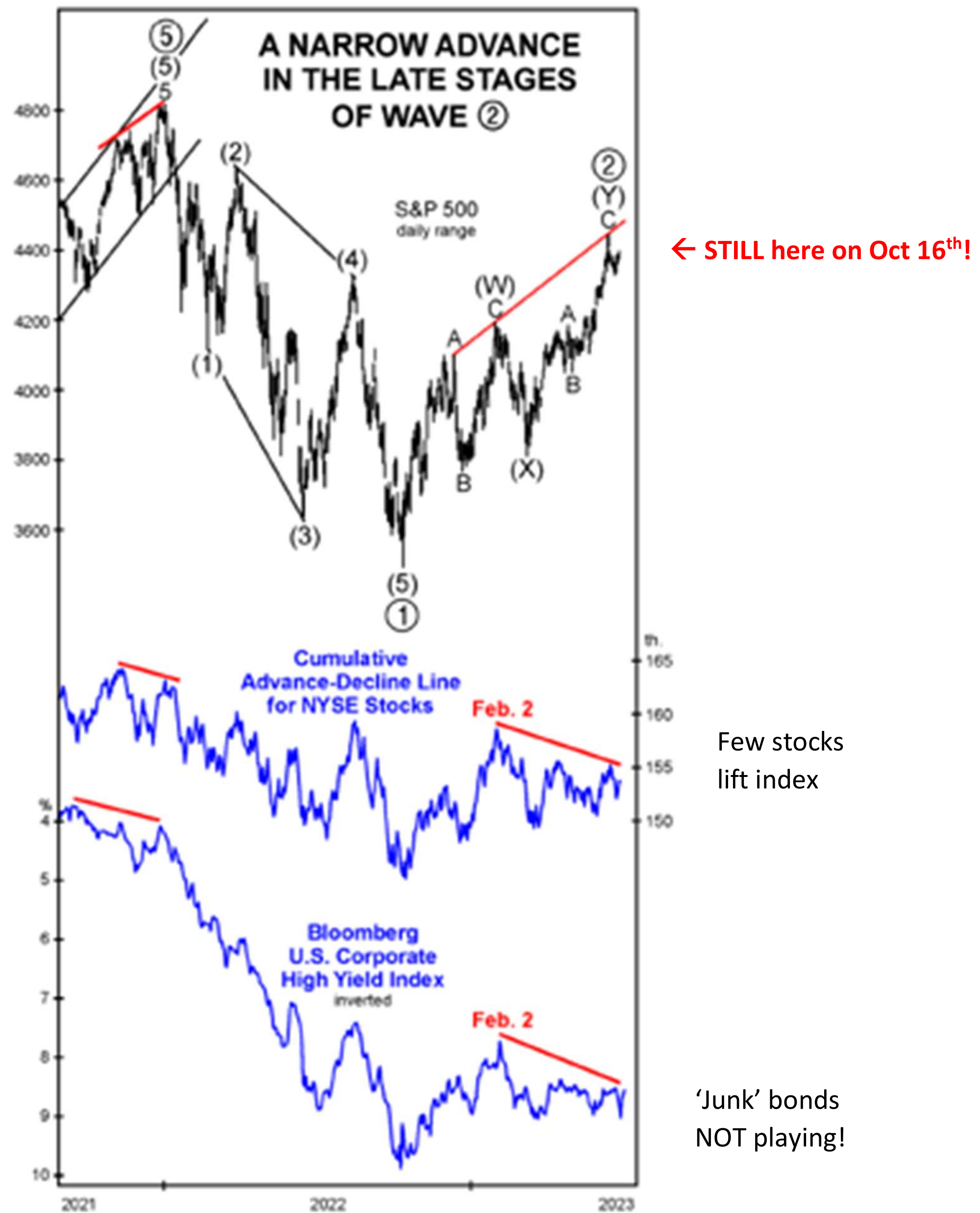
Fiat- games are increasingly like whack-a-mole. The back-door bank bail-out Yellen cooked up in March (BTFP) has a one year life-span, ending March 11th 2024. The bond-losses on the banks' books were papered over to the tune of $800B, with banks secretly borrowing $107B as of Friday the 13th. The US Treasury and other bonds held on bank balance sheets have suffered heavy losses due to the Fed hiking rates (to counter the inflation the Fed itself caused by printing money and forcing low interest rates), so the BTFP allows those troubled banks to borrow more money from the Treasury, using the bonds on their own balance sheets as collateral (but valued at 100 cents on the dollar), instead of being forced to sell them at deep losses. If that sounds like bank-crony-capitalism to you, you nailed it.

Another game (okay, from here on, when you read the word 'programs', substitute 'games') is the flow of money that moves to and from markets via the Treasury General Account and/or the Reverse Repurchase Program, a short-term overnight funding 'program'. Both programs result in money flowing in and out of accounts, then in and out of other assets which include stock and bond markets.

Nonetheless, while we think the odds are high that there will be a price to pay in stock and real estate markets, the Chinese stimulus is a potential support, and we know that the Fed and Treasury are always ready to roll out another 'program'. Amidst all of this, the Fed 'pause' on rate hikes may potentially be only temporary one, and it may be fruitful to wait until damage the Fed has fostered from all this tinkering materializes in the real economy.

History tells us that stock markets typically bottom two or three quarters **after** the Fed begins to ***lower*** rates. We have not even officially stopped hiking yet.

Importantly, many factors line up to provide a reasonable probablilty that more downside lieas ahead. We shared the chart below in Q2. It suggested we were lined up quite well for a 'Leg 3' down, following a ***seemingly*** strong rally. The circled '1' and '2' legs we experienced since ***the top*** at the end of 2021 suggested a Bear Market Rally might be ending.



Source: Elliott Wave, from Q2 Letter!

If we check in on a more recent chart, here is how things look as of October 13th: Note we are exactly at the level we were at the end of Q2, as illustrated on the prior chart. Modest movement, possibly a Wall Street 'bull trap', enticing buyers to sell to at higher prices.

The rally October 9th thru 16th, on the Chinese stimulus and ' the Fed may be done with rate hikes' ***still*** has us below 4,400 on the S&P 500 … exactly where we were in the Q2 letter. We know that most companies (the 493 components that were net 0% June 1st) are still struggling. Over-extended Consumers may well tap out in the face of 8% mortgages, all-time high credit card balances and credit card rates, and the resumption of student loans, most of which are $200-$299/mo.

The circled '5' on the top left of the chart represents market highs, year-end 2021. The circled '1' at the bottom (just left of center) represents the 2022 October lows. The 'B' in parentheses in March is the back-door bail-out of the banks whose balance sheets were crushed by the Fed itself. The surge upwards from March (B) was on the backs of those Lever stocks, not the broad market. Thus, the circled '2) reached in July may well indeed be the top of a Bear Market Rally. If so, 'look out below'.

<u>What to Do?</u>

A shelter in the storm historically was, first, US Treasuries, then high quality corporate bonds. As rates decline (which they ultimately would be expect to at some point since the economy is not likely sustainable at current rates), bond prices rise. In panics, bond prices rise even further due to demand by investors seeking safety. When demand exceeds the supply of bonds that owners wish to sell, prices are bid up even more. As of today, only Uncle Sam can print money to pay back its lenders (the bondholders), corporates cannot do that.

The conundrum with US Treasuries is that as BRICS and other countries dump their holdings of Treasuries, that downward pressure on bond prices keeps yields (including the interest rates portion of the yield) high. So … we have **big** opposing forces at play.

The Economic WW3 is a new wrinkle for anyone reading this letter.

Last, a word on the CPI (Consumer Price Index) that came out October 12th on top of the Producer Price Index reported on the 11th. Prices are ticking upward for both once again, something markets should not like very much since jumps in CPI and PPI do open the door for rate hike pauses (never mind rate cuts) any time soon.

Source: Zerohedge

We live in a world of haves and have nots, and it is increasingly visible that the Fed enriches the few at the expense of the many. The many bear the cost (inflation), the few enjoy the inflation of asset prices … until everything falls apart, that is.

What we do know is that asset markets are largely the land of the 'haves', and these markets ***must*** have cheaper money, and a constant stream of it. Congress must also have a constant stream of new money to throw around, much of it ending up in the companies that comprise the market. Perhaps your research leans you towards the possibility Congress is just corruptly throwing money overseas where it can be laundered back to an elite crony-network. Perhaps not, and you prefer the idea this is all well-intended but hard-to-track stuff. Regardless, the amounts are stunningly high, and the high rates on the escalating debt that funds this aid combines to be a sure-bet formula for destroying a country. Once any country starts getting all of its growth from debt, it becomes impossible to stop without everything collapsing. Somewhere close to that neighborhood is where we believe we are. The debt surge after the 'ceiling' was removed, and the spike in interest rates that is accompanying the spike in debt are tell-tale signs of exactly such a situation… whether we like it or not.

We do not expect the Fed to tell the truth, their system is set up so they actually cannot. We do not expect politicians to halt the spending, they will not. Rather, we expect them to use a mess of sorts to create a diversion so they can sneak out the side door or point fingers.

With the headwinds in mind, and a perspective on monetary history, we maintain a cautious overall posture for traditional paper assets like stocks and bonds. They may be attractive again at some point, but we don't think it is here. That said, we have work in hand on assets that seem more fairly valued than others, and exposure to equites aligned with clients' preferences. We are on the look out for pull backs in prices of real assets that tend to get caught up in any paper market mess. We think the adage of 'don't time the markets' is long in the tooth. The chant that 'all assets rise in the long run' has been fully dependent on an era of fiat money printing in place since 1913. Remember, its not the asset 'price' that rises, it's the destruction of the currency (as measured by the quantity of fiat dollars it takes to buy the assets).

Mike Maloney of goldsilver.com likes to point out, “the failure rate of fiat empires is 100%”. Go back and revisit our bullet on houses-priced-in-gold in 1913 versus now.

The Fed has turned markets into a game. Nothing more. It is an important game, but a game nonetheless. Paper assets can still be managed with the goal to grow but protect, and values can increased as measured by the paper dollars, but the easy days are behind us, If you are not up to speed on Central Bank Digital Currencies, invest some time and get there.

We’ll do the best we can assisting clients with their assets, navigating the world of fiat whack-a-mole, seeking prudent moves in the paper-wealth markets, and consulting on the role of real and other assets in financial plans.

Call us if we can be of assistance at (614) 698-0333.

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