July 24, 2024

F3 ADVISORS
(614) 698-0333

Dear Investor,

> “Stock prices have reached what looks like a permanently high plateau.
> – *Professor Irving Fisher, October 15, 1929*

A New York Times article published the following day elaborated on Fisher’s comments:

“After discussing the rise in stock values during the past two years, Mr. Fisher declared realized and prospective increases in earnings, to a very large extent, had justified this rise, adding that ‘time will tell whether the increase will continue sufficiently to justify the present high level. I expect that it will... While I will not attempt to make any exact forecast, I do not feel that there will soon, if ever, be a fifty or sixty-point break below present levels such as Mr. Babson has predicted.’ While the tone of his address proper reflected a moderate optimism, in the informal questioning that followed Professor Fisher fell into an almost unqualified optimism. In reply to one question, he declared that he expected ‘to see the stock market a good deal higher than it is today, within a few months.’”

The most meaningful communication we can deliver this quarter is to request you reflect on the historic paragraph above, then join the company of your own thoughts for five minutes or so before you read another word in this letter.

Best Regards,

Mike Sullivan

The quote by Irving Fisher is not a prediction. It is, however, well-intended perspective with market multiples at stretched levels, thin market leadership and sentiment at high levels.

We often discuss the ***"Fourth Turning"*** principle covered in the book of the same name by Strauss and Howe. We are also often asked how such 'Turnings" can occur, how people can not see it coming. Our answer is … 'we're in it'.

The world's most successful investors agree. The challenge is knowing the timing.

Warren Buffett, Seth Klarman, Jeremy Grantham and David Hunter all agree we are in a Super Bubble. Buffett and Klarman manage the process by accumulating substantial sums of cash and awaiting the decline by identifying target companies whose stock they might acquire during the decline. Grantham is similar, but manages the downside. Hunter looks to more aggressively time the exponential upside, then get off the ride and position to the downside to profit there too.

Santiago Capital's Brent Johnson is in Hunter's camp, acknowledged by his '**Dollar Milkshake Theory'**. The Dollar Milkshake theory suggests 1) there is really no better alternative than the US Dollar, and 2) the US currency will suck up all of the liquidity from the rest of the world's paper currencies as they collapse first, with the US dollar and US assets lurching higher until it too collapses.

We are of the belief that we are in that phase recognized by Hunter and Johnson.

Pattern Recognition makes it increasingly hard to argue the notion we are in a late stage of a Fourth Turning. Asset markets repulse in Turnings, as socio-economic mailaise sets in. An increasing number of people recognize that damage (in the form of loss of trust) has been inflicted heavily on virtually ***all*** of the major institutions that govern society:

- Government – officials 'elected' to represent the people (not leaders, servants)
- Law Enforcement – Department of 'Justice' and the three letter agencies
- The Courts
- HealthCare
- (mis)Education
- Election Integrity
- Religious and Societal Tolerance
- The Constitution
- Monetary Soundness

The last item of course funds all the bullets. Before we venture into the world of monetary (un)soundness, let's discuss how frustratingly obvious it is that the constant messaging to the broad public of one, two, or three word labels or phrases is such an effective method of influencing or controlling the thoughts of the majority of the public, thus their behavior:

- "Safe and Effective" ("Safe and Effective", "Safe and Effective" …)
- "Most Secure Election Ever"
- "Scandal Free Administration"
- "It's the Economy Stupid"
- "Magic Zig-Zagging Bullet"
- "Lone Wolf Shooter"
- "Conspiracy Theorist"
- "Convicted Felon" (now "Prosecutor vs the Felon")

The constant ***repetition*** of one, two or three words is sufficient to convince many, silence many more, and thus maintain the status quo.

On July 13th we witnessed a nearly successful assassination attempt on a presidential candidate. Like or hate candidate Trump, his message has been one of toppling a corrupt 'deep state' and handing the country back to its people. Echoing Trump's message on that key topic (although disagreeing on many others) is Robert Kennedy Jr. Both had Secret Service protection withheld from them. The Secret Service lied about that, but its verified.

Saturday's assassination attempt targeted Deep State Objector #1, Trump. Deep State Objector #2, Kennedy, has also had attempts on his life. (Apparently being the #3 candidate. and having lost both a father and and uncle to assassination are not sufficient reason to be protected.) Since the shot, Trump and Kennedy have had conversations about collaborating.

Previously uninvited warmonger candidate Nikki Haley (staunch supporter of endless wars, and soundly rejected by GOP voting constituents) chose to offer her electors to Trump for a convenient speaking slot, secured one hour before the shot was taken./ With Biden's resignation, Haley's PAC switched their backing to Kamala Harris. There is absolutely nothing normal about the Butler PA assassination attempt, it matters not whether you are pro-Trump or anti-Trump. JFK was a Democrat. Both oppose the swamp.

Enter 'Lone Wolf' and magic zig-zagging bullets: the public accepts the nonsense. Slippery (roof) slopes, and impossible 'coincidences' galore are the narrative again. It is sufficient to pacify most of the public, but outside of mainstream media, retired law enforcement personnel and former military snipers are speaking left and right about the absurdity of the narrative. Absurd.

The Secret Service Director fittingly resigned after obfuscating the entirety of a Congressional hearing, trying diligently to remain un-accountable for a disastrous job performance. Most Washington bureaucrat crooks and failures obfuscate and dodge accountability successfully. Director Cheatle failed, appropriately resigning this week.

The level of visible utter bullshit is reaching a crescendo.

That is Fourth Turning stuff, no doubt.

Nonetheless … we now have one dementia-laden candidate that clearly made no decisions, replaced by a similar candidate that didn't even make it through the first primary in 2020. The other candidate was almost killed by bullet, but had a swamp-successor in Nikki Haley conveniently looming in the wings at RNC. Notice the pattern? …

Calling George Carlin and his famous bit: '*you have no **choice**, what you have is **rulers***'

'Freedom' is pretty clearly an illusion now as freedoms are visibly dissipating fast.

Let's have a look at what some of the other institutions above are up to this Fall:

international
Bird Flu Summit

CONFERENCE
Oct 2-3, 2024
WORKSHOP
Oct 4
Washington, DC

Show you care. Meet your planning deadlines. Engage staff & suppliers and learn how to work with community, state, & federal agencies to survive & recover from a pandemic.

Learn How to Plan
Make everyone a stakeholder.
Spell out roles and responsibilities.

Protect Your Community
Know your resources.
Test them against your toughest scenarios.

Know How To Respond
Recognize problems earlier.
Make the right decision faster.

Plan To Continue
Keep the business alive.

Concurrent Breakout Session #4:
Emergency Management Services

- Prioritizing Antivirals and Personal Protective Equipment for Essential Workforce
- Overcoming Reduced Response Capacity and Staffing Issues
- Protecting Emergency Response Operations Centers
- Managing Supply Chain Interruptions and Establishing Stockpiles
- Handling Panic and Maintaining Public Order

Concurrent Breakout Session #5:
Law Enforcement Agencies

- Ensuring Law Enforcement Personnel Health and Safety
- Safeguarding Vaccine and Essential Goods Delivery
- Managing Surge in Crime During Pandemic
- Controlling Social Unrest and Public Disorder
- Implementing Isolation Measures in Correctional Facilities

Concurrent Breakout Session #6:
First Responders: Fire Department

- Protecting Fire Department Personnel Health and Safety
- Transitioning into All-Hazards Incident Management Responders
- Conducting Mass Vaccination Efforts
- Enforcing Quarantine Measures Effectively

Concurrent Breakout Session #7:
First Responders: Public Works

- Ensuring Public Works Personnel Health and Safety
- Managing Traffic and Transportation during Crisis
- Maintaining Water and Sanitation Services
- Ensuring Stability of Communication Networks
- Addressing Telecommunications Network Overloads

Concurrent Breakout Session #8:
Hospital and Emergency Medical Services

- Prioritizing Antivirals and Essential Resources
- Allocation Planning for Supply Chain Interruptions and Establishing Stockpiles
- Addressing Reduced Response Capacity and Staffing Challenges
- Maintaining Operations with Decreased Workforce
- Safeguarding Emergency Operations Center Functionality

Reasons to Attend the Summit

Over the three days of Conferencing you will experience:

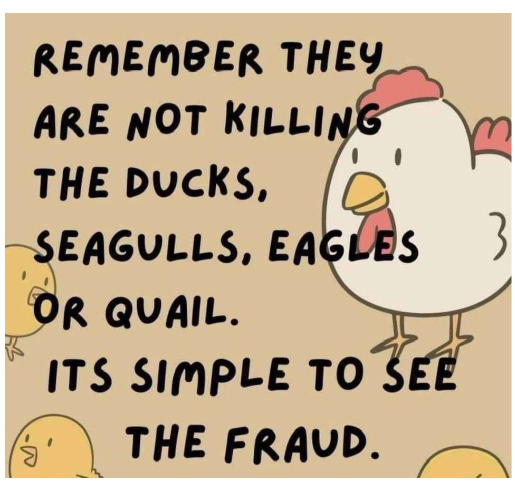
- 11 Keynote Presenters sharing their experiences and insights
- Poster Sessions
- 54 Concurrent breakout sessions and presentations on testing, prevention, treatment and risk communication.

Call to Action
As we navigate through these uncertain times, it is imperative for governments, healthcare organizations, and international stakeholders to collaborate effectively. The International Bird Flu Summit serves as a platform for knowledge exchange, innovative strategies, and collective action.

Register Today! **Ensure that Food Supply Remains Safe**

Web: www.SyllabusX.com **Call:** 703-466-0011 **Email:** info@birdflusummit.com

For the Pattern Recognition crowd, simple memes speak truths. Here is one:



Pattern Recognition by itself is a touchy issue: humans are famous for seeing patterns that are not there. Math and data points come in handy in that situation, but are rarely offered via main stream 'news' sources. Search for stories about extinguishing birds in the non-food categories. See any? Watch for actions proposed against food-animals and pets instead.

ALL of our clients have had enough of the non-stop hysteria. Many see it is manufactured, we believe rightfully so. With events like the Bird Flu Summit scheduled, and the 'security failure' assassination attempts, we have to wonder: are we prepared for more of this?

Throughout history, every fully exploited fiat monetary system implodes. Crisis, of course, always preceeds or follows that monetary event. And history also shows that many of the crises are deliberately manufactured. Are the endless hysteria put in our faces noticeable?

Man's self-interest always follows the same cycle, reaches the same stage, and culminates in chaos. The Garden of Eden started it all, with man, … a serpent, and … an Apple.

Since man will always fail to temptation, fiat money is ***always*** exploited, and fiat money systems always ultimately fail. The most cunning, self-interested humans gravitate to seats of power, then abuse that power (and fiat) through exploitation and deceit. Always.

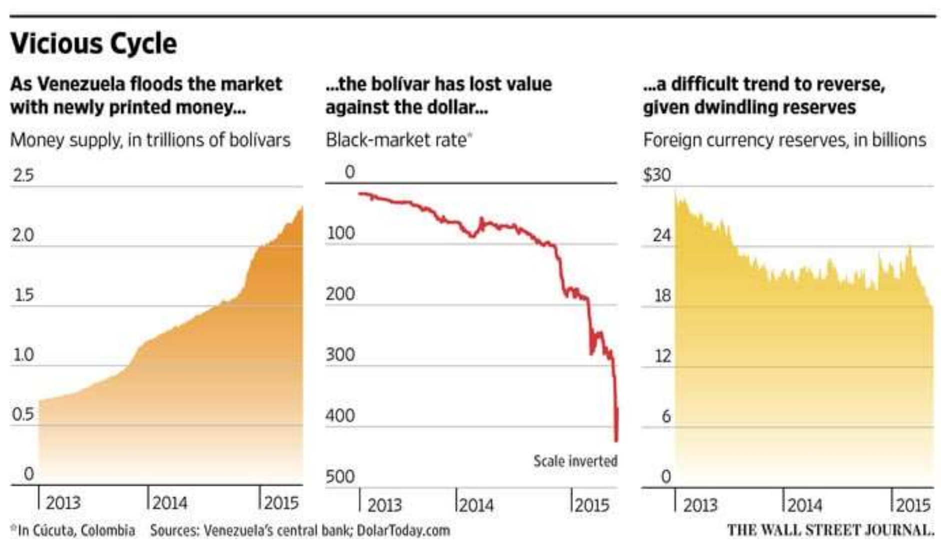
This latest market levitation is somewhat surprising, but in hindsight it should not be so. Current market levitation looks exactly like it did rolling into the Covid hysteria.

We reached a point where no event or issue … not attempted assassinations, not political overrides of the public's preferred candidates, not wars, not middle class repression, not election thefts overseas, and not the endless actions of visibly corrupt institutions could stop the currency destruction that shows up in rising asset prices. Perhaps that changed this week. Or perhaps its just yet another Wall Street head fake. They know Yellen will pillage more from the Treasury at the end of July. Yellen is a fierce political animal, despite the pretending otherwise. She believes she has no limits … one of history's useful idiots.

Recent asset price levitation follows Brent Johnson's 'Dollar Milkshake Theory' which works simply because when currency units are doubled, so should asset prices double. Simple.

Late stage currency abuse results in exponential moves in asset prices. $1,000,000,000,000 in debt ($1T) is now being generated every 100 days. The number is so large, nobody can even think properly about it. Perspective is lost.

Outside perspective does exist, however. Below is how such a cycle works in other countries:



‘Funds’ are being used to pay people to attend conferences like the one on page 4, to fund experimental gain-of-function ‘research’, then to fund hospital administrators, doctors, nurses, pharmacists and so on … to ‘save us’ from the very viruses they cooked up.

Funds are being used to send endless military equipment and troops (yes, troops), towards Russia’s border.

And, funds are being used to transport and receive newly arrived unvaccinated, unmasked, unknown people to and through the southern border … then transport, feed and house them in cities across the US. Funds are being used to invite these new arrivals into the social security program after only a few weeks (that you have paid into your entire life) and to position them to ‘vote’ … to receive more of the same.

All of those funds find their way into corporate revenue. And the corporations receive it eagerly, despite the carnage populations across the world experience as a result.

The hysteria of the day pumps the revenues, then the stocks of the companies that benefit most. In 2008 (and again now) it was housing stocks (see Toll Brothers and DH Horton). In 2020 it was vaccine and pharmacy stocks (See Pfizer, Johnson & Johnson) and Lockdown technology stocks (see Zoom and Docusign), along with most other stocks as Trillions were printed out of thin air. In 2023 and 2024, it is AI, semi-conductor and supporting Technology stocks (as jobs are eliminated, chatbots promote false narratives, and tracking and censorship boom).

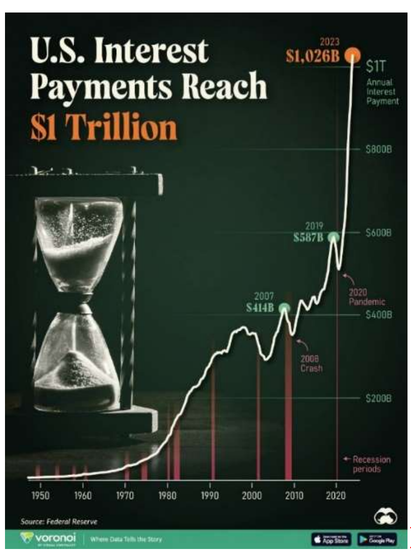
Residents of the now-chaotic cities have begun to push back. Go search for the outcry of the black community in Chicago asking why new entrants are housed and fed while local residents struggle with homelessness, despair, and violence including the 100 shootings over Fourth of July. Search for similar news in other cities crushed by this orchestrated chaos.

Then look to France and their recent election fiasco, the UK and their debacle, and just work your way country by country worldwide. Does it look like governments serve their people?

All of this activity is accompanied by appeals to your ‘humanity’ … but shame if you object.

If you spend four or five hours exploring all of the above, and you come to the conclusion we are not in a late chapter in a Fourth Turning, we compliment you on your commitment to hopefulness and serenity.

Switching to the economy and ‘markets’ … this folly is costing more and more:



Look Healthy?

Fourth Turnings, those major upheavals that occur amidst designed tumultuous events, occur when exploitation by the corrupt can no longer be sustained. When the public awakens to the fact they have been relentlessly lied to and exploited (and that 'yes', there are *that many* people serving their self-interests involved) the Turning arrives. You can bank on it.

The hard part is identifying precisely when that Turn will occur.

Detail

2024 Q2 started out rough with April giving back much of Q1's gains. At the end of April, Yellen's Treasury raked another $755 Billion in new debt from our kids' future. That debt-money funnels into all of the institutions and economic activity referenced earlier in the letter: war, stimulus, immigration expenditures, job-eliminating technologies and the like. Much of it went again to the Tech overlords that now gather, monitor and control most of the transactional activity that occurs through the internet and the cloud.

INDEX	TYPE	Q2	YTD
Standard & Poor's 500	US Based Large Stocks (500)	4.3%	14.5%
Dow Jones Industrials	US Based Large Stocks (30)	-1.3%	3.8%
Nasdaq Composite	US Based Large Stocks	8.3%	17.0%
Standard & Poor's 400	US Based Mid-Cap Stocks (400)	-3.5%	5.3%
Russell 2000	US Based Small-Cap Stocks (2000)	-3.3%	1.0%
Dow Jones Transports	US Based Transportation Stocks	-4.5%	-3.0%
Dow Jones Utilities	US Based Utility Stocks	3.6%	2.8%
EAFE International Index	International Large Cap	-0.2%	4.0%
MSCI Emerging Markets	Diversified Emerging Markets	5.0%	5.9%
Commodities	Bloomberg Commodity Index	2.9%	2.4%
10Y US Treasury Bonds	10 Y Us Treasury Bond Yield	-0.3%	4.34%

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

Let's start by answering the obvious question: can markets keep going higher? YES.

Further climbing will not occur, however, due to health of the average consumer, health of the banks, health of the commercial real estate markets nor much else fundamentally sound.

It will occur because the fiat-masters, Janet Yellen and Jerome Powell, continue to tinker and abuse the quantity of currency units put into circulation. And it will occur because their tinkering incentivizes market participants to chase rising prices. Jerome took the stage for an interview last week to announce the Fed will remain 'data-dependent' for now, (between episodes of patting himself on the back). The markets want rate cuts … at all-time-highs!

Here are some key points, completely disconnected from fundamental soundness, but directly in line with the illusion that most prefer, in particular Wall Street participants:

- The latest Price/Earnings ratio for the S&P 500 is at **23.5**, fundamentally very over-valued. Levels slightly below this range were greeting with substantial sell-offs.
- Commerical Real Estate is imploding across the country. Buildings purchased just a few years ago are selling at 30% to 60% discounts to those prices.
- Residential Real Estate has cooled in some regions, holds firm in others, but in all regions stands well out of the reach of most of our children. The supply of houses remains tight with many people stuck in their low rate mortgages, unable to move.
  - Lowering of rates will release some of the trapped supply, prices can then fall.

- Banks that lent funds (largely regional banks) have notable damage to their books.
    - Rates on US Treasuries remain in the 4-5% range across one to ten year terms. The losses on the banks' books are still almost as large as they were when the US Treasury essentially bailed out what the FDIC could not in March 2023.
- Corporate Debt has reached $14 Trillion, much of it needs to be re-financed this year.
- The ratio of the largest tech overlord companies to broad indexes is historically high.
    - Big Wall Street banks have recently noted the AI spend is not worth the save.
- Consumer debt remains high particularly underneath the Top 10% of wealth owners.
    - Delinquencies are surging as savings and stimulus has dried up.

None of cheery points above will matter with Yellen at the helm. At least it won't matter until the world gives Yellen's activities a 'no-confidence' rating. We are not there yet.

Where we are, is smack dab in the middle of Santiago Capital's Brent Johnson's '**Dollar Milkshake Theory'**. The Dollar Milkshake theory suggests 1) there is really no better alternative than the US Dollar, and 2) the US currency will suck up all of the liquidity from the rest of the world's paper currencies, lurching higher until it too collapses.

For now, our sizable economy with the world's dominant companies will attract foreign money as it flees its own shores. That is what is happening: foreign currencies convert to US Dollars, then park that money in US assets, both stocks and in the US Treasury bonds that are paying these high rates. It is a self-fulfilling cycle that works until it does not.

While one would think that prudence would win out over greed (and students of history would refrain from participating in their own ultimate demise), we seem to have given mankind too much credit. It is quite possible we finish history's spectacular boom/bust cycle.

Were Yellen not pillaging the future to float markets, all of the bullets above would matter, and likely in very short order.

Here are a few visuals to support the bullet points above:

First, our look at fundamentals is from Earnings Scout. Every time we exceed 21, we're pricey, and a decline, often sizeable, is around the corner.

S&P 500 PE multiple over time

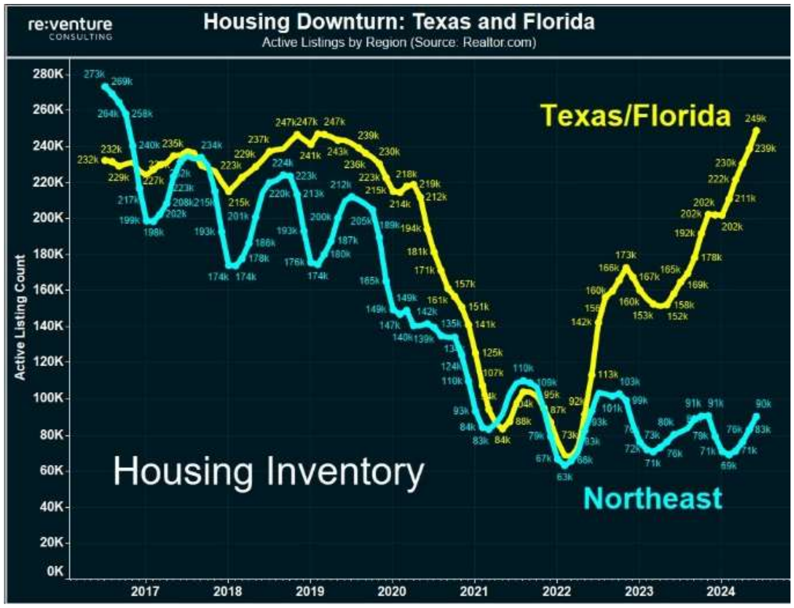
Date	*P/E FY1 EPS Est	S&P 500
1/1/2019	12.95x	2,506.85
2/19/2020	17.54x	3,386.15
3/23/2020	11.85x	2,237.40
1/3/2022	21.19x	4,796.56
7/8/2024	23.31x	5,567.19

- The S&P 500's price-to-earnings (PE) ratio based on the consensus FY 2024 EPS estimate rose to 23.31x from 22.92x last week.
- S&P 500 EPS estimates are falling and will continue to fall. This means all future stock gains require multiple expansion. If EPS estimates can fall at lesser rates in 2Q 2024 earnings season, this multiple expansion will be justified.

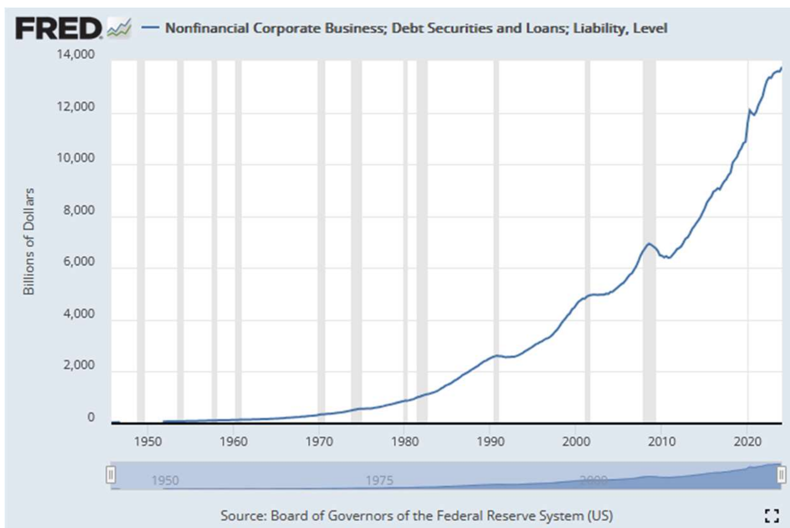
An 'unexpected' event, whether bird-flu or assassination or global computer outage like that going on today, could easily pull the P/E ratio in to a 'normal' range at 18x, or 'scared' range of 13x. 18x (18 times) current earnings gives us SPX of 4,298 … a **-22%** decline, and a 'scared' event P/E at 15x drops us to 3,582 … a **-36%** dump.

With the lawlessness that currently prevails, either could occur. Or neither.

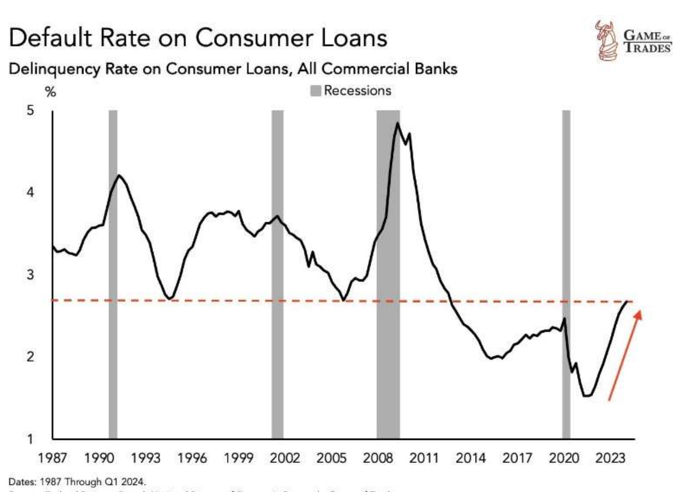
Housing: Eventually, trapping people in homes with 7% mortgage rates backfires.



Corporate debt … a troubling expansion (absent Fed/Treasury monetary hi-jinx).



Consumer Debt: Now topping \$1.6T, delinquencies and defaults have begun to rise.



Record wealth inequality continues to expand so America's largest stakeholders in equities are eager for rates to be lowered, heralding the market's celebration of an economic 'soft landing'. (The fact that higher asset prices lead to higher inflation is a conundrum not worried about by those in the top 10%.)

On the left, Central Banks now begin easing globally … at all-time highs as measured in the various fiat currency units. On the right, stock investors clamor for those lower rates to pump asset prices even higher (even with stocks at all time highs) … whereas in the past the Fed has eased only after the negative economic consequences have come home to roost.

The distortions become obvious with a little glance back at history. Below, we see how the largest stock (AAPL or NVDA presently) compares versus a 75th percentile stock … then, in light blue, the weighting of the top 10 stocks, now at 34% of the market. **<u>We're above 1929</u>**:

Exhibit 9: Periods of extreme market concentration during the past century

Universe consists of US stocks with price, shares, and revenue data listed on the NYSE, AMEX, or NASDAQ exchanges. Series prior to 1985 estimated based on data from the Kenneth French data library, sourced from CRSP, reflecting the market cap distribution of NYSE stocks

Source: Compustat, CRSP, Kenneth R. French, Bloomberg, Goldman Sachs Global Investment Research

Other asset classes have also risen in price measured in fiat-dollars as well: Gold is history's preferred asset in times of monetary demise. Following is a quick perspective on gold:

Gold prices, silver prices, the ratio of gold to silver, and miners are all in demand now. When fiat fails, mankind turns to items they trust. Precious metals meet that criteria.

We'll conclude with the prior Q&A: Can we go higher? Yes.

We live in interesting times. The investing decision is straight forward: how much do you want to risk allocated into a likely negative ultimate outcome? Can it be 'timed'?

For lasting wealth for yourself and your family, we suggest journaling the next few years. The reason Fourth Turnings occur is because a fifth generation has lost access to all the people who actually experienced the preceding Turning. Capture that context!

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