

November 5, 2025

Dear Investor,



'This time is different' and AI will propel us to great riches and a glorious life absent hard labor and full of convenience. Markets will rally without impediment, and the S&P 500 could rise to 9,500 (from its current 6,800 level) before taking a breather!

On the other hand, the AI landscape seems rife with accounting fraud, financial innovations like 'circular financing', capital expenditures rates are unsustainable and besides ... there is not enough electricity to deliver anything near what is being touted.

There are your Bull and Bear cases. Those are what makes a market!

In our interim Q3 letter, Part 1, we covered the rise in markets measured in history's preferred money: Gold.

In Part 2, we bring back the performance table from Part 1 (asset returns measured in gold) and lay it beside the Q3 #s in normie fiat terms.

We present charts and diagrams for you to peruse to consider the real story behind narratives. See what you think. Our own history may soon deliver realities not taught in school.

We are 112 years removed from the worst year in the nation's history: 1913

1913 brought us 1) the Federal Reserve monetary system, 2) the IRS and the Income tax, (a lethal duo that parasites your labor and life energy) and the American Medical Association (an enterprise that profits from, perhaps even designs, illness and treatment).

All of the above entities operate through deception and coercion, all consume your stored life energy, 'money'.

Vilified in 1913 were: 1) Constitutional Money (gold and silver) and 2) natural health, remedies, and practitioners. The Founders wanted **nothing** to do with fiat Central Banks.

If these concepts seem heavy or foreign, do not fault yourself (or us or others). Few have time to consider alternatives. Most are suffocated, taxed and consumed by the bloated system, just trying to get by. Others are busy being romanced (or anesthetized) by the debasing currency in which asset prices are measured. The system is designed this way.

We seem to be reaching a point where 'markets' and monetary systems no longer can fool people. When we do, the Fourth Turning event we have often described will arrive.

The task at hand is to accumulate and protect into it: determine the desired level of exposure to risk-assets that can appreciate further as currency is further destroyed but balance it out with some safer assets that will not be subject to the elevator ride down when Faith fails.

No country that issues debt-based money is capable of paying their debt back. All the systems, in Europe, UK, Canada, Japan, China and the BRICS are bankrupt in fiat terms. Hence the stampede towards history's sound money, gold. The government shut-down is exposing all of these problems.

Let's look at some numbers and charts and consider the extreme prices and correlations.

Best Regards,

Mike Sullivan

Detail:

Here are the Q3 returns, priced not in US debt-based fiat dollars, but in gold:

INDEX	Description	Q3	YTD
Standard & Poor's 500	US Based Large Stocks (500)	-10.9%	-20.0%
Dow Jones Industrials	US Based Large Stocks (30)	-13.1%	-23.3%
Nasdaq 100	US Based Large Stocks	-10.1%	-17.4%
Standard & Poor's 400	US Based Mid-Cap Stocks (400)	-13.1%	-28.1%
Russell 2000	US Based Small-Cap Stocks (2000)	-7.5%	-23.2%
Dow Jones Transports	US Based Transportation Stocks	-15.7%	-30.5%
Dow Jones Utilities	US Based Utility Stocks	-12.4%	-20.0%
EAFE International Index	International Large Cap	-13.7%	-13.1%
MSCI Emerging Markets	Diversified Emerging Markets	-8.6%	-10.2%
Commodities	Bloomberg Commodity Index	-15.3%	-25.5%
Gold	Gold (<i>return in USD %</i>)	16.6%	51.3%

Sources: Bloomberg, vanguard.com, yahoo.com

Yes, priced in sound money, gold, we got our clocks cleaned!

Measured in paper printed out of thin air, backed by debt, we look pretty good though!:

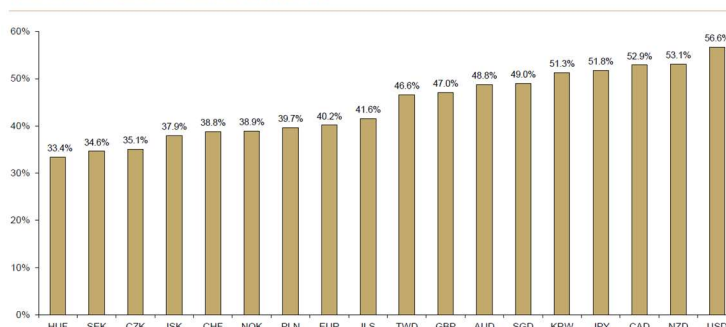
INDEX	Description	Q3	YTD
Standard & Poor's 500	US Based Large Stocks (500)	7.8%	13.7%
Dow Jones Industrials	US Based Large Stocks (30)	5.2%	9.1%
Nasdaq 100	US Based Large Stocks	8.8%	17.5%
Standard & Poor's 400	US Based Mid-Cap Stocks (400)	5.2%	4.6%
Russell 2000	US Based Small-Cap Stocks (2000)	12.0%	9.3%
Dow Jones Transports	US Based Transportation Stocks	2.1%	-1.1%
Dow Jones Utilities	US Based Utility Stocks	6.1%	13.8%
EAFE International Index	International Large Cap	4.5%	23.5%
MSCI Emerging Markets	Diversified Emerging Markets	10.7%	27.7%
Commodities	Bloomberg Commodity Index	2.6%	5.9%

Sources: Bloomberg, vanguard.com, yahoo.com

Gold, with its finite quantity and neutral standing, is history's ultimate arbiter of truth. It is 'honest money', a meaningful yardstick:

All Developed Market Currencies Are Losing Value vs. Gold This Year and the US Dollar Is the Leader of Losers

Gold in Various DM Currencies, in %, 2025 YTD

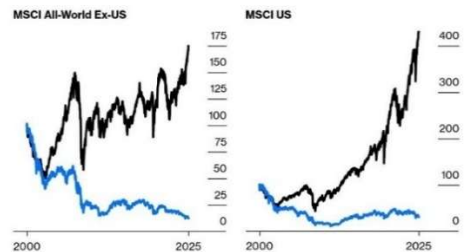


Source: LSEG, Incrementum AG

Gold Removes Stocks' Luster

Denominated in gold, equities have been falling ever since 2000

Index in Gold Terms Index in Dollar Terms



Source: Bloomberg
Data is normalized with factor 100 as of March 24, 2000.

Bloomberg Opinion

Above left, view the YTD performance of gold priced in major fiat currencies from across the world. Gold rising is simply fiat currency being destroyed. Trump and Bessent, despite campaign claims to the contrary, are furthering Biden and Yellen's debt-abuse ... keeping pace to break the fiat money system.

Above right, the black line tracks MSCI All World (ex-US) and US indices *in dollars* (which everyone can understand with some thought), but the blue line shows those indices priced in gold ... stocks have *lost* substantial ground since 2000 as measured by gold. Surprised?

Economic data:

- The latest Price/Earnings ratio for the S&P 500 surged to **25.1 as of Q3 end**, jumping from the 23.8 and 20.3 quarterly readings from the prior two letters ... stretched. Price is precise, but earnings are quite questionable (see AI) and PE may be *higher*!
- PMI Manufacturing Indices all register <50, signifying contraction, except for 'prices' which were 61.9, up. That is 'stagflation': economy contracting while prices still rise.
 - Manufacturing picked up in several regions (northeast) but fell in others (TX).
- ISM Services indices straddle 50, some just below, some just above, except for prices which weigh in at 69.4. Again, stagflation.
- Reported inflation remains mixed. Core Producer Price Inflation is up 2.8%, markets celebrated last month's **-0.1** drop. Consumer inflation still weighs in at 2.9%.
 - Both exceed Fed target of 2.0%. For the Fed to cut rates at just under 3% tells you they are 1) trapped (job losses), or 2) defeated at 2%, thus accepting 3%.
 - Stock owners celebrate (Wall Street). Main Street suffers.
- Retail Sales for September rose +0.6%, much of the rise was from the inflated prices.
- China's move to restrict rare earth metals from the world and Trump's knee-jerk 'Truth' post roiled markets Oct 10th: stocks and bond yields plummeted, crypto got destroyed to the tune of **-\$19B** in losses (accounts wiped out), and volatility reigned.
- Trade and tariff Tit for Tats have largely dialed down, but China restrictions on US Technology signals more severe protectionist moves are not to be unexpected.
- Massive injections are occurring inside overnight financing markets used by the banks. In the last two weeks over \$110B has been pumped in by the Fed, signaling trouble once again, this time due to private credit busts held by and harming banks.
- The Fed meeting in late October reduced interest rates 0.25%, a wild thing to do for a money overlord with costs of living at all-time highs. The 'system' is tense.

Retained faith in the debt-based monetary systems around the globe will give us a shot at reaching the Bull scenario: a rising S&P 500, perhaps even toward the 9,500 targets.

Increased economic activity from companies moving back onshore may lift stocks and other asset prices. We would expect it to benefit both large and small cap stocks, as commodity-oriented investments. As we will see in the AI section, there are many businesses of all types involved in the AI and data center buildout. And importantly, market participants will chase prices higher as long as faith in credit holds out. More of a Bull run can happen.

Flip side: Twenty-two states are now recognized as in-recession. That, coupled with credit strains referenced above, does have potential to beckon the Bear's scenario. As will be seen via the charts, distortions and fragility are abundant. With many retail investors, old and young alike, piling into markets to chase AI riches ... and using leverage and credit to do it ... any serious negative credit event has the potential to hammer things in a hurry. Let's look at some charts and see if we can note any distortions from all this debt and money creation.

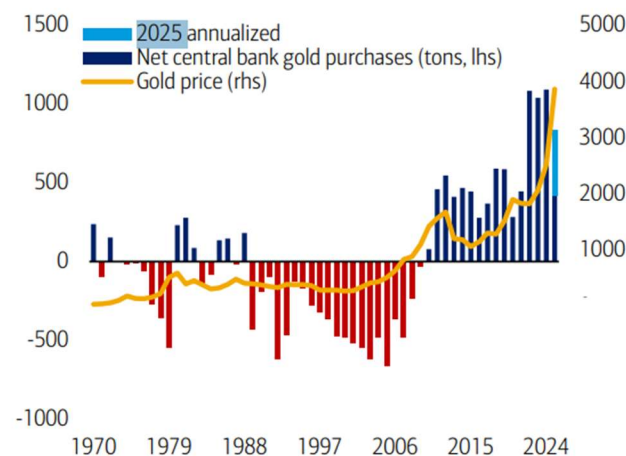
The Charts:

Gold:

We already looked at gold and saw that all fiat currencies are devaluing ... it takes more units of each to buy an ounce of gold. And we noted that priced in gold, stocks have been declining since Y2K, 25 years ago. Here are a couple other gold charts:

Exhibit 25: Central Banks are in their longest gold buying spree

Net gold purchases by central banks



Source: BofA Research Investment Committee, Bloomberg

BofA GLOBAL RESEARCH

Major Central Banks across the globe are stocking up on Gold with a fervor, China in particular ...

... they better! Based on their reported ownership of gold, in ounces, they would need a pretty high price (listed in USD) to back the amount of paper money they have in supply (M2). The race may be to collect as many ounces as possible before a true price is established ...

Gold Price Needed to Back Each Country's Monetary Aggregates, in USD, 2024

Country	Gold Holdings (in Ounces)	M0	M1	M2
China	72,621,510	22,290	124,714	579,621
G8 Euro Area	280,825,646	19,361	39,253	58,016
Japan	27,160,830	27,786	260,555	298,039
Russia	74,900,965	2,426	7,201	14,536
Switzerland	33,389,200	18,022	19,838	30,108
UK	9,962,182	11,957	278,700	379,075
USA	261,498,000	22,497	68,827	79,699

Source: Brent Johnson, Santiago Capital, Incrementum AG

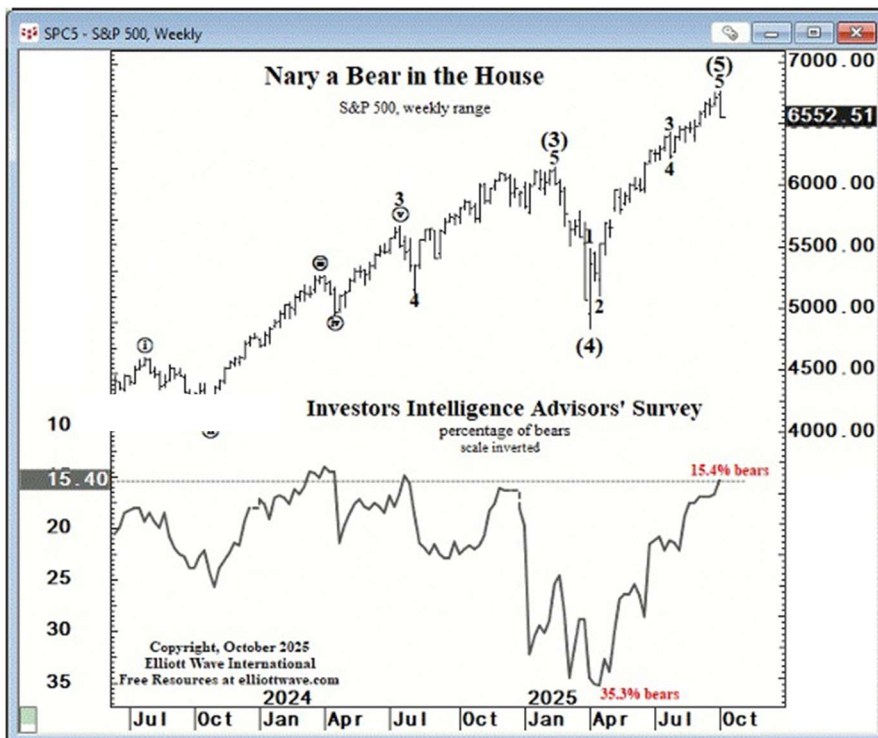
Confidence that the ounces reported each country are actually the amounts 'owned' is modest, but you have to start somewhere.

At the point the world loses faith in debt-based 'fiat', one plausible re-set strategy would be for each country to re-peg their monetary base to assets they actually own. Real assets.

Gold is an obvious choice, hence the accumulation by central banks. As can be seen from the charts above, any price chosen would likely be well above the current 'market price' of roughly \$4,000 per ounce. Instantly, every country's balance sheet would improve.

Anybody ever wonder why Trump constantly crows about 'The Golden Age'??

Market Valuations:



Elliott sees a potential major top. These labels are subject to revision of course as an index moves onward. 'Belief' in quality of revenues and earnings are the key. Should we believe in them? Most investors do (bottom).

Every valuation dot on this chart (except two) comes outside the yellow box, after 1987, when Fed Chair Greenspan cut us loose with the first major money-printing bail-out.

Towards the top and right means we are more egregiously overvalued. The valuation gets worse every year. Ultimately, it will burst, and need to be reset, anchored to things that are real. Fiat money will no longer be trusted, deservedly so.

WARNING

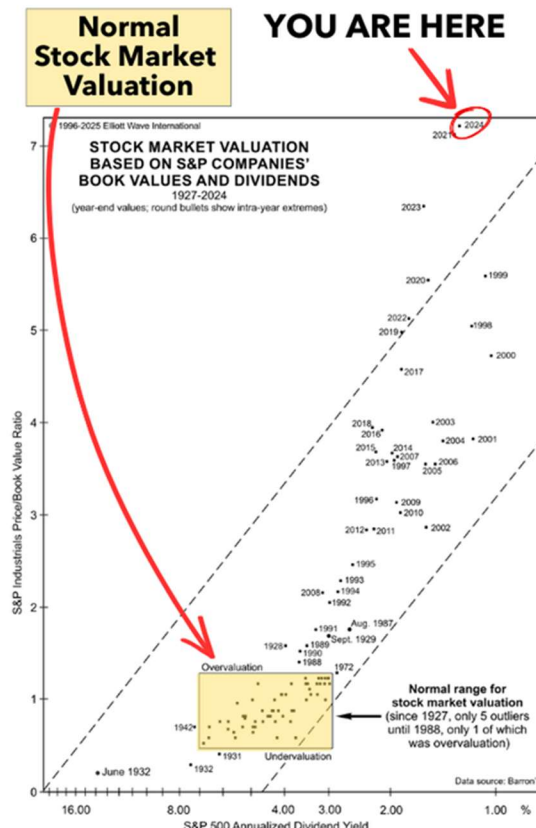


Exhibit 31: The US market has consistently outperformed the rest of the world over the past decade
Market Cap (\$ trillion). Asia incl. Japan



The US equity market, through its tech dominance, has come to dwarf the remainder of the global equity markets.

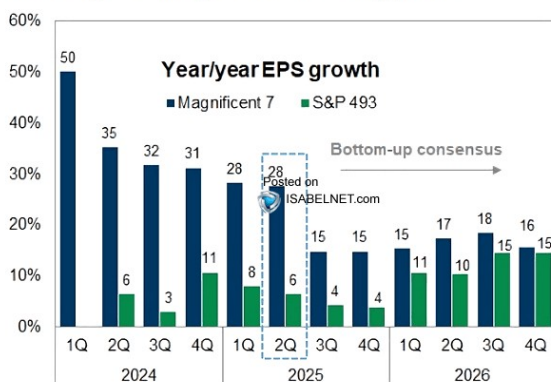
That is a lot of power and advantage in the US, great if it holds. Odds are geo-political relations look to reduce US dominance.

Investors must consider (particularly in light of some of the AI information that follows) how long the rest of the world will depend on US companies for technology.

For the same reasons Trump seeks to bring back critical businesses to US shores, the rest of the world may look for more trusted alternatives amongst themselves. The rising BRICS block of (138+) countries no longer likes being beholden to the US dollar as Reserve Currency. The Sanctions by Biden against Russia, and subsequent abusive confiscation of Russian assets (now being targeted by NATO to finance Ukraine, Russia's war-opponent) present a strong reason for US dominance to be replaced. If that develops, the chart above will see a strong 'reversion to the mean' as US tech companies lose business around the globe.

For now, the US is in the driver's seat and 'market' fate rides very heavily on US Tech:

Exhibit 6: Gap between Mag 7 and S&P 493 earnings growth



The gap between 'earnings' of MAG 7 stocks and the rest of the S&P 500 components is massive (above left).

If we weigh all 500 stocks equally (one share each as opposed to weighted by the size of each company) we see earnings are broadly weak, as weak as they last were in 2008-09 (above right)

Top ten stocks (MAG7+) make up a huge 43% portion of the index. Even for lofty projections (the UN projects AI to be a \$4.8 Trillion industry by 2033), that is an outsized influence for tiny group to hold.

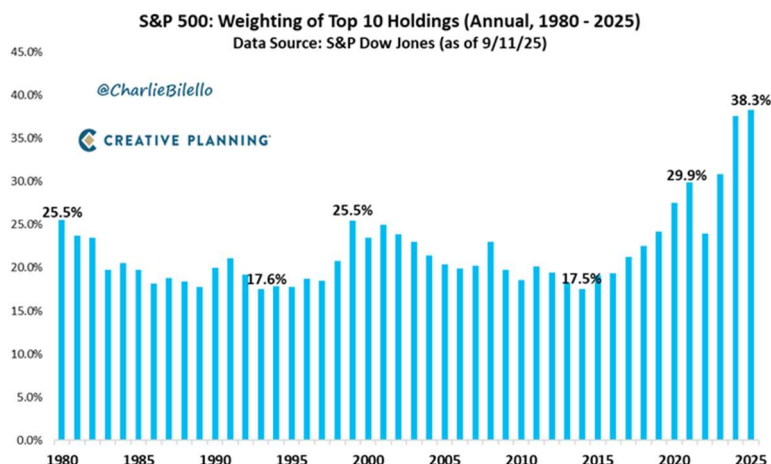
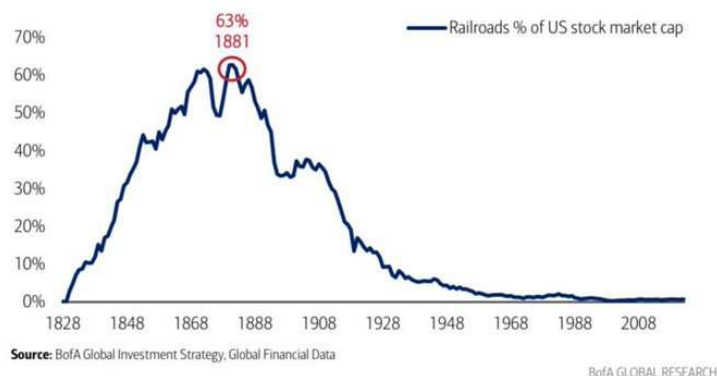


Chart 2: Railroads = 63% of US stock market in 1881... most dominant innovation sector ever
Railroads as % of US stock market cap



The heavy tech weighting is a frequent topic of discussion and concern. For the Bull camp, history suggests it can go even higher ... the railroad era serves as example.

Berkshire Hathaway

Berkshire Hathaway held its investor meeting Saturday November 1st. Warren Buffett and crew posted strong earnings across their active business units. They have also been selling stock holdings for twelve straight quarters (\$6.1B in stocks in Q3), and have amassed \$382 BILLION in cash equivalents and US Treasury holdings.

The 'Buffett Indicator' (market value / GDP) has stretched to its highest valuation ever. Buffett and team obviously either see no attractive values, or they think markets will be going lower.

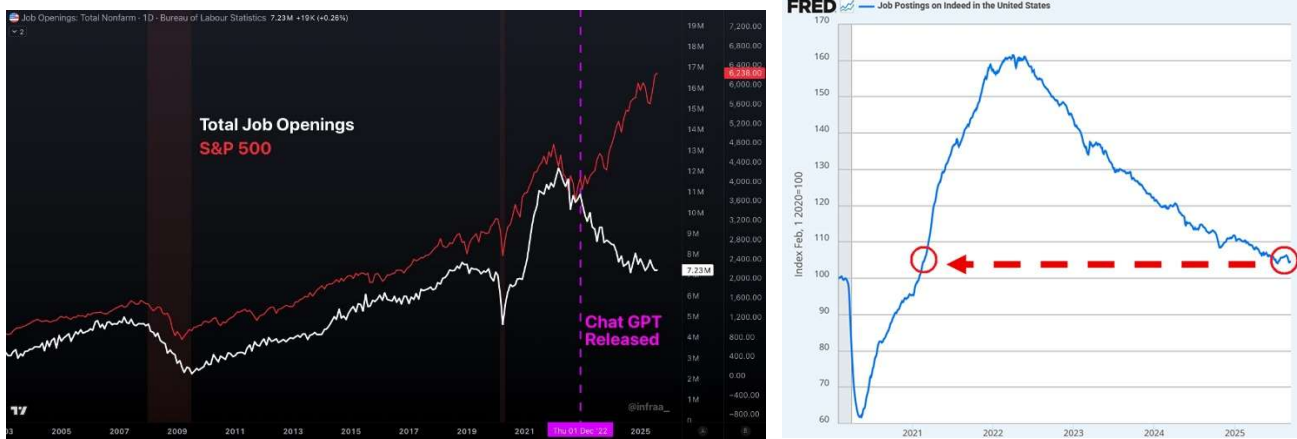


Berkshire Hathaway - Cash on Hand chart (from 1996 to 2025)



AI

AI accounted for 1.1 points of the 3.3% GDP. 43% of the return of the S&P 500 is now the Top Ten, mostly AI leaders. AI is great! Corporate profits are targeting 12%+ ... 5% used to be a good norm. Jobs are at levels last seen during Covid. Stocks love job losses; worker's do not:

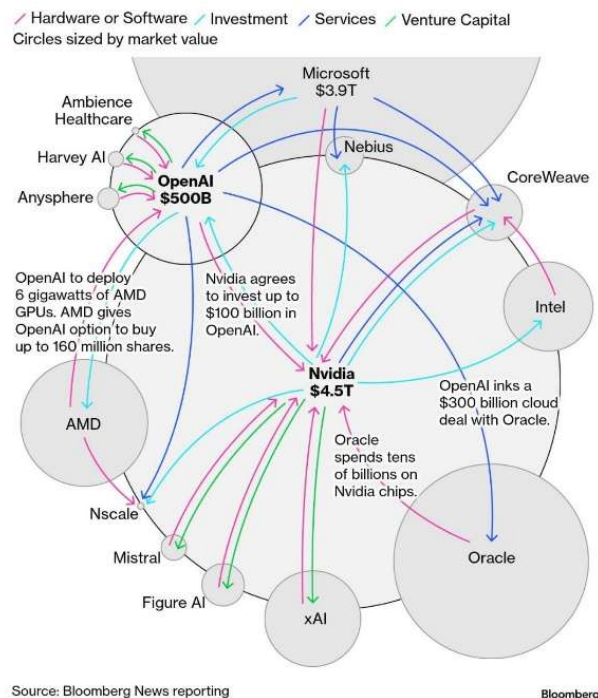


Since ChatGPT launched in November 2022, AI-related stocks have generated 75% of S&P 500 returns, 80% of total earnings, and 90% of capital spending growth. Without AI, GDP would have been flat since then.

“For Americans, these are tumultuous times. Inequality in income and wealth is at historically high levels. Artificial intelligence is reshaping society at an unprecedented pace, prompting layoffs and putting entire professions at risk. According to an estimate by the Brookings Institution, up to 85 percent of current workers in the U.S. labor force could see their jobs affected by today’s generative AI technology. In the future, that percentage could climb even higher.” - Cecilia Elena Rouse www.foreignaffairs.com

Protagonists state “its all tulips”:

Behold the world of ‘circular financing’, where companies in the industry invest their stock, acquire stock of a ‘customer’, or issue debt to loan to ‘customers’ so the new customers can buy their product. All of this works as long as stock values stay high, and the debt is payable. But, if both companies book reciprocal revenue ... then both report earnings, everything is overstated ... which means ‘this time is different because there are earnings’ is false.

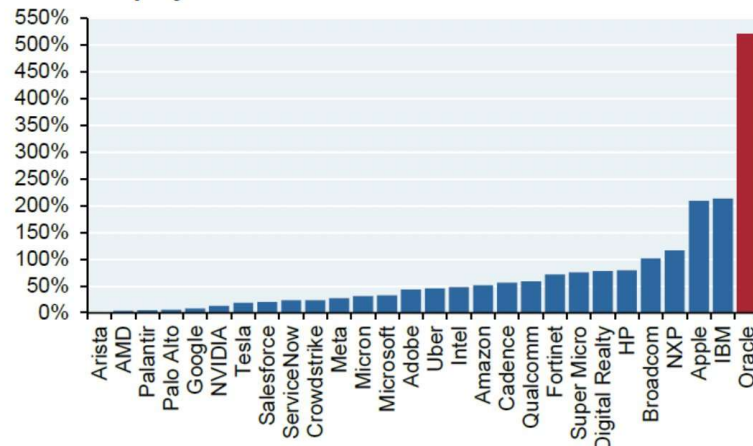


“Earnings” are not cash in many cases, they’re ‘financial innovation’ earnings. A decline in any company’s stock valuation, inability to pay debt through real cash flow, or slowdown in business and the entire house of cards can come down. Explaining the absurdity is JP Morgan:

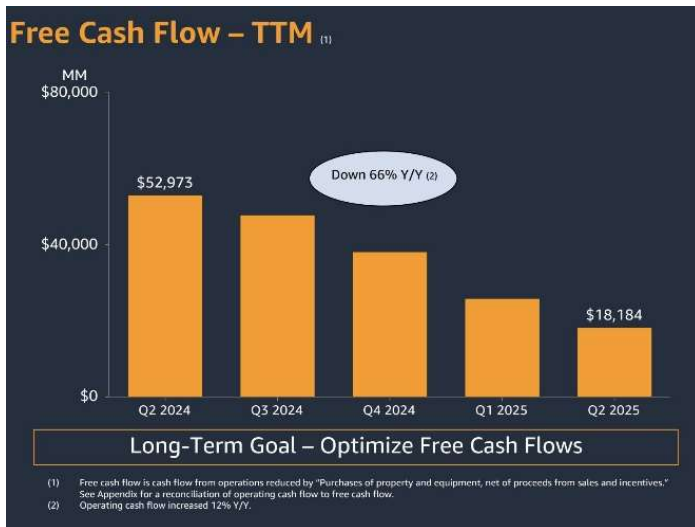
Oracle’s stock jumped by 25% after being promised \$60 billion a year from OpenAI, an amount of money OpenAI does not earn yet, to provide cloud computing facilities that Oracle has not built yet, and which will require 4.5 GW of power (equivalent of 2.25 Hoover dams or four nuclear plants), as well as increased borrowing by Oracle whose debt-to-equity ratio is already 500% (compared to 50% for Amazon, 30% for Microsoft, and even less at Meta and Google. In other words, the tech capital cycle may be about to change.”

Oracle’s jump in market valuation referenced above is insane. More than that, Oracle is the worst key player financially, already holding debt 500 percent of its equity value.

Debt to equity ratios of Direct AI stocks



Source: Bloomberg, JPMAM, September 16, 2025



Meanwhile, while Wall Street pumps these future deals, the Free Cash Flow, actual cash flowing into the AI businesses, is anywhere near keeping up with capital expenditures ...

The poster child for the AI pump, OpenAI, touts it will see revenue triple this year to \$12-13 Billion ... while it is making \$1.4 TRILLION in capital investments!

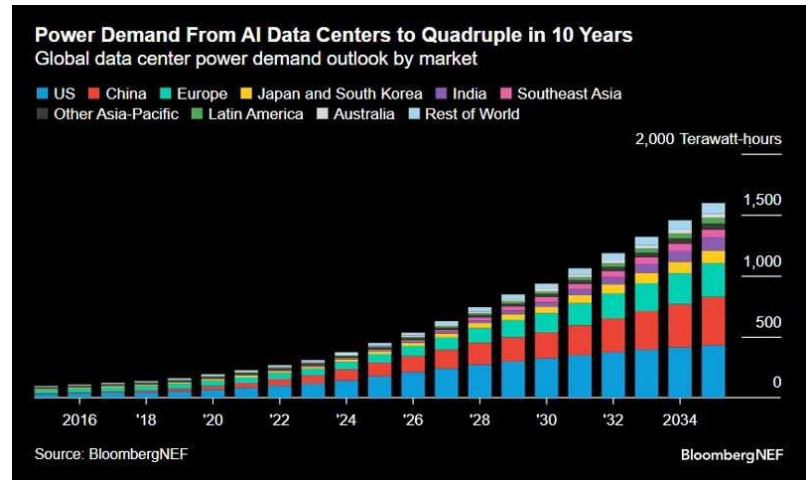
Open AI’s Sam Altman, known not-affectionately as ‘Scam Altman’ was interviewed last week and asked ‘Open AI will earn \$13 Billion in revenue, how does a company with \$13 Billion in revenue make \$1.4 TRILLION in capital commitments? Altman danced, not answering the question, mocking the questioner instead. The non-answer lies in the fact that all these ‘deals’ are ‘future commitments’, not contractual sales. They are future ‘best effort’ intentions.

With Trump and Bessent now at the helm pumping markets via debt, the market is for now accepting these announcements as if they're booked revenue. They're not.

The odds of the asset price rally continuing rests squarely on the validity of these revenue and earnings becoming **real**, and of **cash flow** actually growing, after capital expenditures. One prick in the 'financial innovation' and the bubble may bust.

'Financial innovation' aside, there are substantial structural challenges. Electricity is one.

Demand for power is massive. Skeptics point to supply not supporting the 'deals', and the lag time to create power sources. Investors like the opportunity for companies involved in power generation..



'Customer' Demand

'The Customer is King' is a long-standing small business motto. Somehow, we individuals have ended up with fewer and fewer companies (monopolies) that can just force a decidedly worse customer experience on all of us. Phone prompts and chat bots waste inordinate amounts of our time without any real push back. We accept being required to spend 20 minutes with phone prompts, robots and chat boxes when all we need is an answer to a specific 10 second question. The labor costs of the jettisoned workers are being stuffed down customers throats. Will the deteriorating customer experience last, making CEO's happy? Or will customers push back?

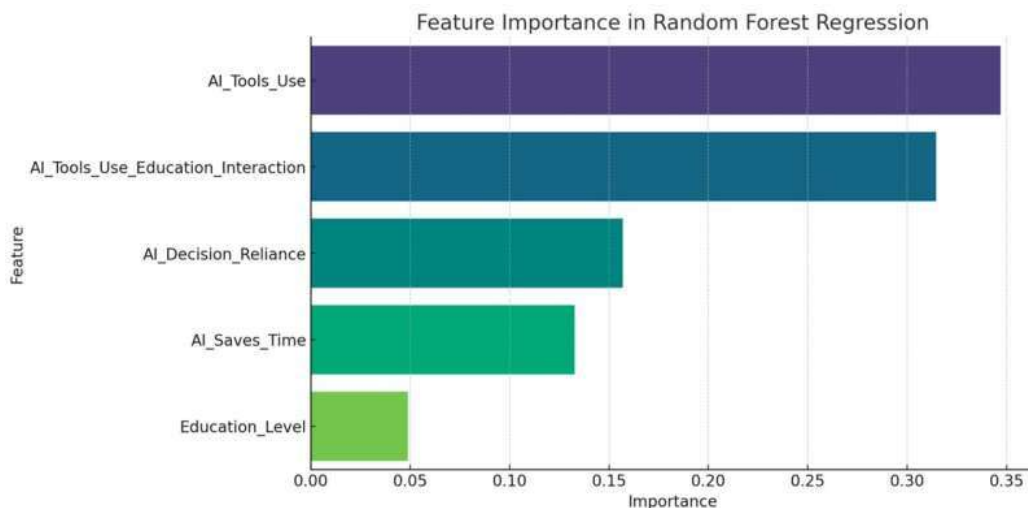
As long as Trump & Co are on a 'no debt-limits' quest to win the AI build-out war, the government customer will drive the AI opportunity. But will the public accept it long term?

The primary attraction of AI for small businesses is the time savings on daily tasks. Small business will need to measure time they save running their business versus time they waste on the vendors they use. The verdict on that value proposition will develop over time.

For the general public, there is a thrill over instantaneous access to 'information'. But recognition is rising that the information provided by leading AI-bots is just centralized narrative blather, not robust true information.

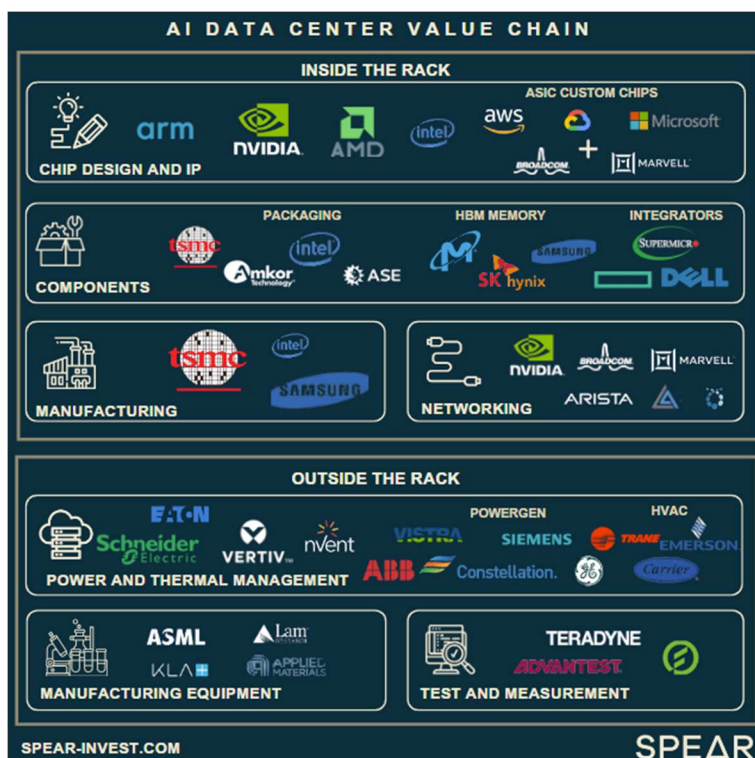
Many studies now show the damage AI does to the critical thinking of our populace.

One such study is from Swiss Business School published at www.phys.org which observes that frequent AI users exhibit diminished ability to critically evaluate information and engage in reflective problem-solving. No surprise.



Why waste time thinking when a quick question gets a quick answer? But, much as calculators and computers diminished mathematical computation skills, so does AI destroy critical thinking.

‘Garbage In / Garbage Out’ is an old adage that nicely overlays AI ‘thinking’. The conclusion one draws is totally dependent on validity of source data. As we well know from bogus economic data, fraudulent covid data, rampant falsities on mainstream ‘news’ channels, truth matters. Tech guru David Sachs warns on fake-info AI danger: <https://x.com/a16z/status/1985413352349413542> Will confidence in AI stand? Time will tell. Nonetheless, while faith in AI persists, so do the opportunities. Here are a few:



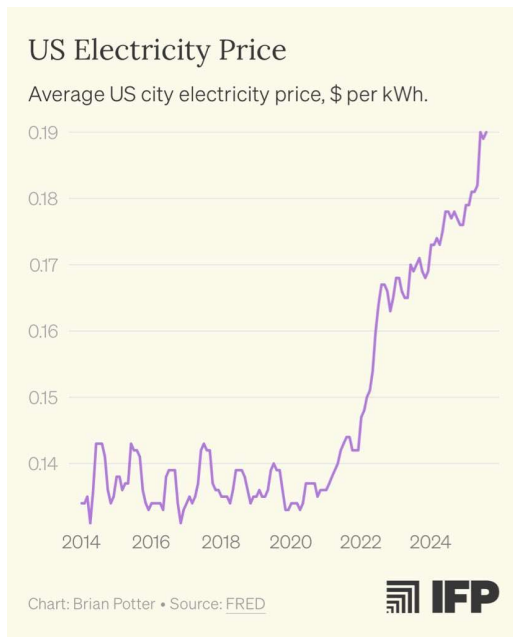
From chips to clouds to bricks, mortar and electricity, the potential economic activity looms large.

The AI focused companies are clearly lifting stock indices. The non-AI businesses fare differently: a tale of two economic worlds exists.

We see above the ‘Hyper-scalers’ leading the way in AI, with everyone supplying them hardware, software, or build-out activities (brick and shovels) following in their wake.

These are technology companies and there are opportunities investing in them (although many have had strong runs already) as well as a number of ETFs that track them. There are also plays in commodities (copper, etc.), brick and mortar, and equipment and construction companies.

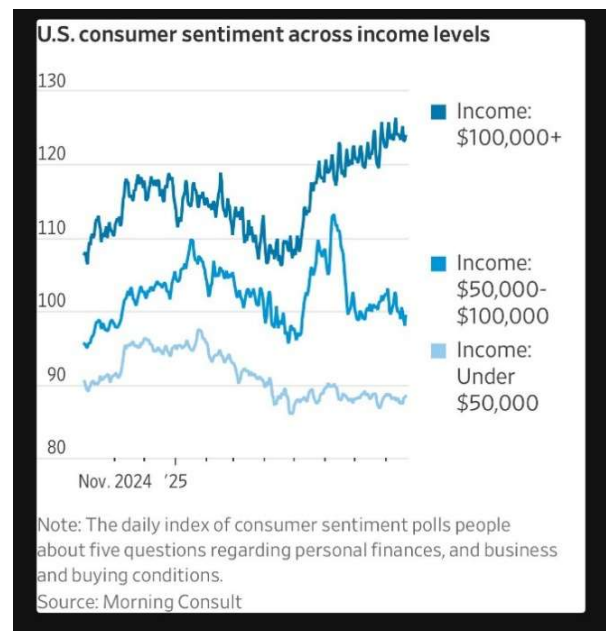
The Rest of the Economy

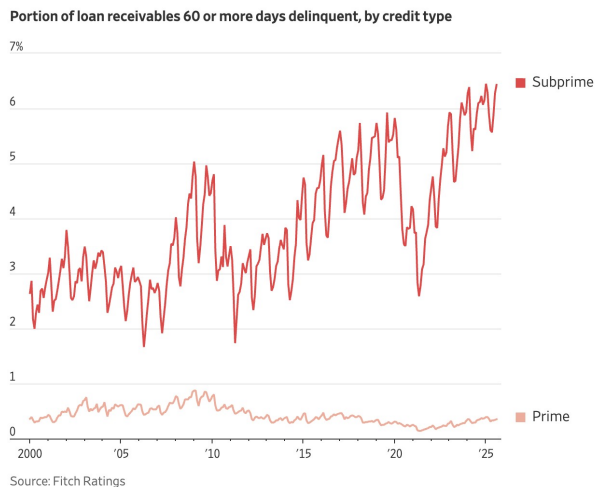


Electric bills of the Middle Class are absolutely skyrocketing. Those who don't own exposure to AI stocks (or any other stocks), along with those who may lose their jobs as a result of AI, are all being forced to subsidize this heavy electric consumption by Big Business.

Corporations get profits, the populace gets the costs.

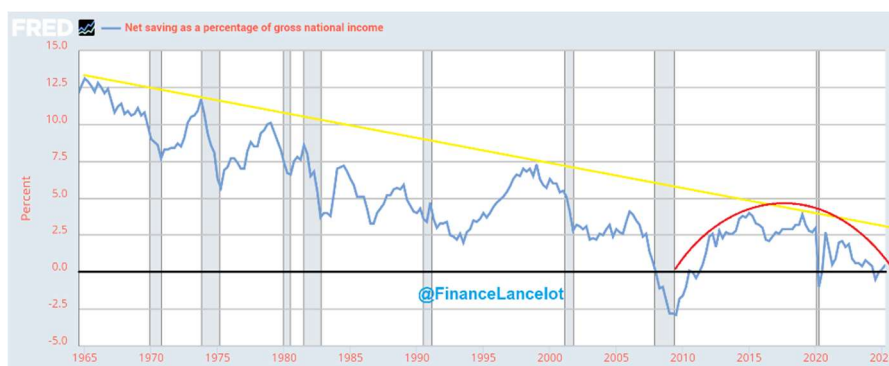
Consumer Sentiment craters for income under \$100k:





Auto delinquencies surge.

Sentiment may be down because Net Savings has gone negative, spending too much on electricity?



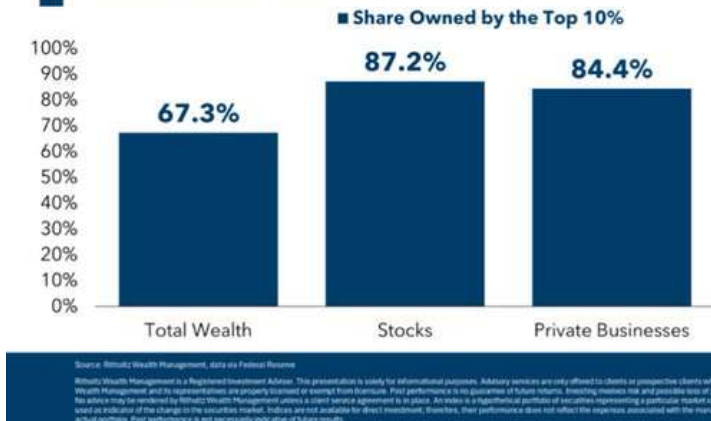
... or the dive in existing home sales may be getting people down?

It would appear the Middle Class is not exactly 'getting its turn' thus far under Trump and Bessent.

Those with retirement accounts and investment accounts exposed to equities may be pleased, but daily life is more difficult for the populace overall and when we speak of record wealth inequality, we refer to plenty of evidence:

The Top 10% Owns 87% of Stocks

Ownership by the Top 10%



*This is 'Fourth Turning',
French Revolution style*

*The economy and markets are
being held together by this
explosion of new debt, and the
resumption of growth in money
supply (left). Much goes to
finance the AI craze.*

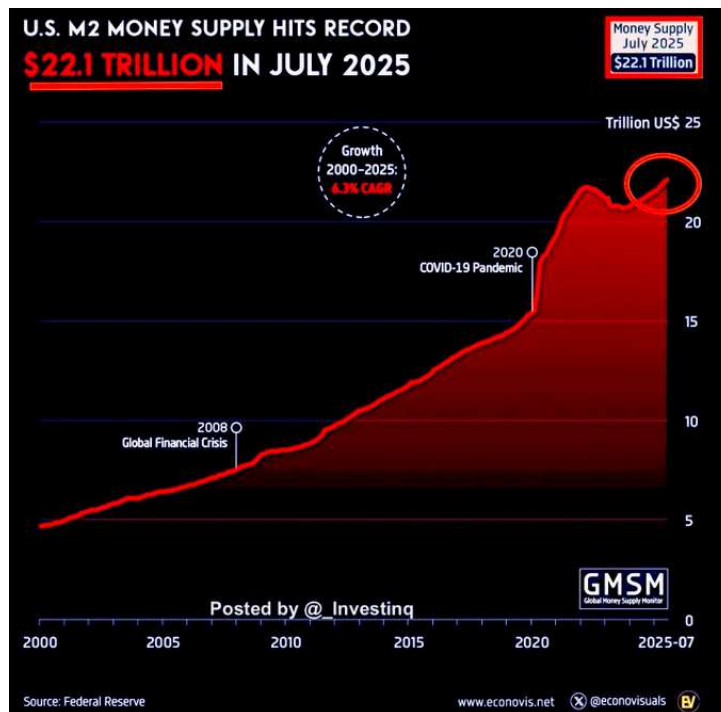
*And, for now asset prices track
right along with Money Supply.*

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Bessent, Trump ... and Global Debt

Trump and Bessent are engaged in Mercantilism, looking to protect (or reclaim our forfeited balance) America through trade, so they say. Trump's 'Art of the Deal' style is chaotic, thus far effective, but has become a recognizable pattern of threatening boldly, stepping back, then offering concessions. It is exhausting to market participants and traders, us included frankly.



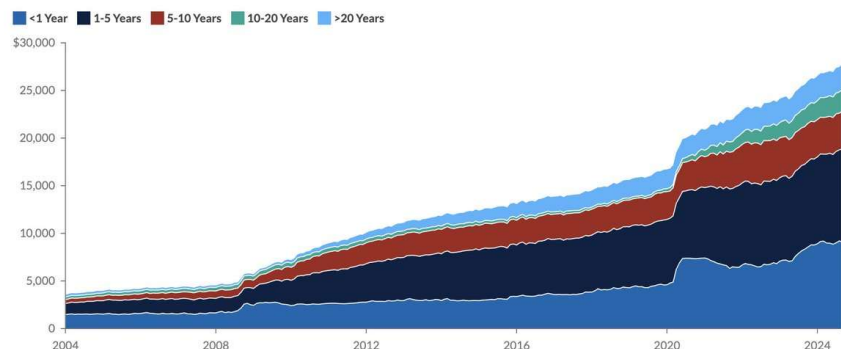
It is inarguable that the winners in this effort are the biggest companies, the ones with global reach, and those holding the largest contracts with the US government. That fits perfectly in Mercantilism. Tech companies that lurk behind AI, data collection, monitoring, Digital IDs, Digital Currencies, censorship and control are primary beneficiaries of government fiat abuse.

Deficit spending has been off the charts since the Debt Ceiling was removed in May. The debt taken on by Bessent (largely short-term debt that will soon have to be re-financed *again*, after he navigates through the \$9 Trillion rolling over between now and March 2026) powers the spending. Government spending becomes corporate revenue, then corporate earnings.

Yellen left Bessent with little choice as he had to deal with massive amounts of debt coming due in his first nine months. Roughly \$9 Trillion rolls over between now and March 2026, hence the call for lower interest rates.

A third of outstanding debt held by the public will mature in the next year

Composition of Debt Held by the Public, by Remaining Maturity (Billions of \$)



Source: US Department of the Treasury • Embed • Download image

PETER G. PETERSON FOUNDATION

One not-totally-implausible possibility is that Trump (a master of bankruptcy through his own corporate adventures) is working to intentionally bankrupt the Federal Reserve. If that is not his intention, he is accidentally well on the way to doing just that. The notion the US can grow itself out of its debt is patently absurd, and certainly Trump knows this.

It is no coincidence that every country has essentially bankrupted itself via central bank abuse of its respective fiat currency. A bankruptcy of the US or Federal Reserve has strong potential to take down all the rest of the central banks.

The eventual solution to worthless money is to re-establish sound money, not on something that has become worthless and deserving of zero faith (like paper money), but on something backed by real assets: **land, real estate, agriculture, oil, food, and of course ... gold.**

We can picture leaders from all of the bankrupt countries, seated around a table, ponying up the real assets they have that are worth something ... the same types of items listed above.

Such a scenario, as head-scratching as it seems, is not entirely implausible in its own right, would lead us back to the world of sound money. The challenge to navigating in that direction would be the level of turmoil involved in the transition.

Sound crazy? Bank holidays already happened in the US in 1933, so do not think we cannot do it again before visiting history. https://en.wikipedia.org/wiki/Emergency_Banking_Act_of_1933

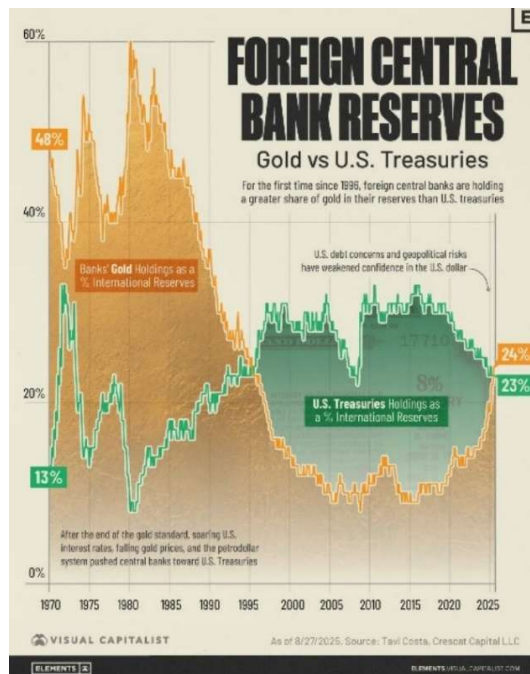
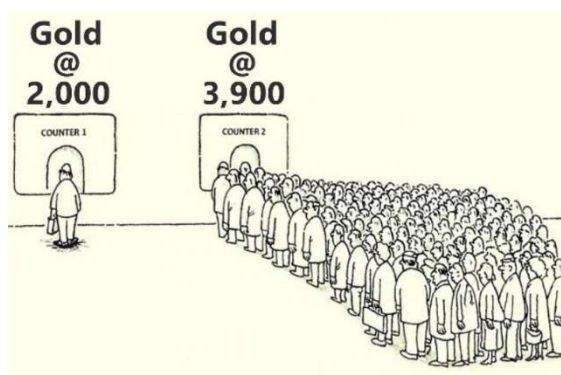
An ominous option that did not exist in 1933, exists now: Digital IDs and Digital Currencies. As indicated, Digital IDs and Digital Currency should be the last thing people of the world should tolerate in our view. They should be resisted at all costs. History dictates mankind cannot be trusted with power (at least not for long). The charts above and the current debt situation validate that point exactly.

In the meantime, as investors, if you noted in the charts the extreme valuations, broken historical correlations and record wealth inequality, we suggest you consider what portion of your portfolio you want in for the 'ride', should the Bullish camp prevail near term.

Also consider the Bearish portion of your portfolio you want sheltered from any surprise overnight headlines.

Either camp can prevail near term.

Do we rally through year end, on our way to 9,500 S&P 500, as Institutional money managers pile in to not lose further ground? Or, do the lofty assumptions and silly deals come undone before then, and send prices back down to realistic valuations?



Go back one more time and look at the performance tables of Q3 indices ... one set priced in gold, the other priced as we know it ... in fiat US dollars.

What might the value of gold be if countries were to 're-set'?

As readers well know, we are in the camp where some precious metals exposure suits just about everyone, if nothing other than some monetary insurance.

What exposure fits you? What risk exposure to stocks fits you? Bonds? Real Estate? Metals? Commodities? Cash?

Call us if we can help you think and allocate through these historic times.

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