Q224 Client Letter

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The resilience of the American economy and consumer supported financial markets in the first quarter of 2024. Short-term interest rates have remained steady while longer-term interest rates have risen, causing quarterly losses in the bond market indexes. Equity markets have advanced, still led by large cap stocks while smaller companies continue to underperform, although the equity rally has broadened.

Our country continues to lead the world in innovation and that has provided productivity gains, which have helped control inflation and supported economic growth. Nevertheless, our economy remains supported by massive government spending which sadly, continues to generate alarming fiscal deficits and seemingly uncontrolled debt accumulation. Our political class has failed to meet our fiscal challenges. Many contend that our path to fiscal instability began in 1971 when Nixon broke our commitment to maintain the gold standard, established by the Bretton Woods agreement at the conclusion of World War II. It seems like a lifetime ago that Bill Clinton actually produced a balanced budget and was paying down our national debt. That progress proved fleeting.

But our present situation can more recently be drawn to 1998 when a major hedge fund, run by experienced Wall Street managers and staffed with Nobel Laureates, made massive leveraged bets that proved ill advised. Rather than allow Long Term Capital Management and its investors to suffer their losses, the Federal Reserve intervened along with Wall Street banks to bail out this massive bankruptcy. This government intervention opened the floodgates to many more bailouts, of increasing size which has in part led to our present predicament. Ten years later Wall Street banks gorged themselves on risky mortgage-backed bonds tied to the housing industry, creating an enormous but illusory economic boom, led by real estate prices. The resulting collapse and bailout were around two hundred times greater than the LTCM rescue. This new crisis saw hundreds of billions of new money and credit created.

Additional billions of dollars were created to support economies during the European debt crisis in 2012. Trillions more were created to support our economy, as well as others, during the COVID epidemic. And yet more money and credit were created just recently to contain the fallout from three large regional bank failures, all resulting from atrocious management decisions. Virtually each successive bailout has been larger than the preceding.

Our deficits and debt are growing faster than our income and our ability to service those deficits and debt. Traditional buyers of our government debt, sovereign nations such as China and Japan, are less supportive today. Consequently, the Federal Reserve has purchased much of our debt and its balance sheet has grown sharply to its highest level in history.

Recent administrations have turned to using the U.S. dollar and financial sanctions to punish adversaries. This is not without consequences. In 2010 Brazil, Russia, India and China formed a consortium to move away from the dollar as the reserve currency of the world, turning to their own currencies to fund trade, as well as their own central bank reserves. Understandably, every U.S. Administration has spurned the significance of this as it reflects a vote of no-confidence in

America. In January of this year the BRICS consortium admitted Saudi Arabia, the United Arab Emirates, Egypt, Argentina and Iran. These countries surround the Persian Gulf and control the Red Sea and Suez Canal, as well as the straights of Magellan. This coalition comprises 46% of the world's population and 37% of global GDP. The G-7 market share remains around 30%. It also contains six of the ten largest oil producing countries and five of the ten top oil consuming nations. The BRICS want a new currency regime and a move away from the U.S. dollar as the world's reserve currency. They are attempting to convert their economic power into political power.

U.S. federal debt grew from 31% of GDP in 2001 to 97% in 2022 and is projected to comprise 115% by 2033. This fiscal year the deficit will amount to approximately 6% of GDP and the Congressional Budget Office projects similar deficits for the foreseeable future. It took our country more than 200 years to accumulate $1 trillion in debt, but we have added more than that each year since 2010 and today we accumulate an additional $1 trillion of debt about every 100 days. Printed money encourages politicians to promise and spend without limits.

Because of our $34 trillion of debt, the recent increase in interest rates, which causes an increase in the cost of servicing the existing debt, will result in interest costs on existing debt surpassing the cost of our entire defense budget for the first time in our history.

The only way the government can 'pay' for this debt is by printing money and I foresee QE (Quantitative Easing) Infinity ahead. Continued deficits will force the Fed to buy massive amounts of bonds, likely lifting equity markets for a while. Central banks will be forced to bail out debt burdened governments.

All reserve currencies have failed. Of the roughly 750 currencies that have existed since 1700, only around 20% remain and all have been devalued. The only reason the U.S. has been able to sustain this fiscal malfeasance is because we maintain the world's reserve currency. To be clear, I am not forecasting the end of the dollar, simply the end of the dollar's dominance as we have known it. This may take years to unfold but the trends are clear, and the implications are large.

It is no coincidence that gold and bitcoin are concurrently rallying to new all-time highs. Gold has a 5,000-year history of maintaining its value and preserving wealth. Global central banks purchased more gold in 2022 than in any year since 1950. Over the past 15 years bitcoin has transformed itself from a speculative instrument to arguably a new asset class and potentially a mainstream financial asset. Bitcoin is a decentralized, autonomous network and a globally 'hard' money alternative to central bank fiat currencies. Bitcoin allows transference across time and space without friction, intermediation, approval or supervision. It is the first successful form of digital cash and digital hard money. It can be viewed as a digital form of gold, or a digital monetary network with a built-in settlement structure. It shifts sovereignty away from governments and toward individuals. Bitcoin is completely voluntary and is not controlled by any governmental authority and is immune from devaluation and debasement. Importantly, the ultimate supply of bitcoin will only be 21 million bitcoins, of which approximately 19.5 million have already been created. The annual growth in supply is 1.9% but this month, bitcoin will experience its fourth 'halving' which will cut the annual increase in supply to 0.95%. Historically, the annual increase in the gold supply is 1.0-1.5%. Fiat currencies are constantly increasing in supply and constantly being devalued in purchasing power.

After contentious opposition from the SEC, and after all its appellate options were exhausted, eleven Bitcoin ETFs (Exchange Traded Funds) were granted regulatory approval recently which opened an avenue for institutional and retail capital to flow into the bitcoin ecosystem, facilitating the digital transformation of capital. When the first gold ETF was approved in 2004, the price of gold rose in price for nine consecutive years in part because it made gold far more investable for retail and institutional investors. The gold ETF revolutionized gold investing and established it as an investable asset class. The same may well be true of bitcoin.

Bitcoin can be viewed as neutral money for an international system that does not give any one country the enormous privilege of issuing the global reserve currency and is not dependent on its performance. Bitcoin is a more attractive store of value than national fiat currencies whose creation was primarily so that their supply could be increased to finance governments. Central banks have been dismissive of bitcoin because it is a direct threat to their control of money, where they have no competition. Internationally, bitcoin serves as a monetary salvation for people forced to transact and save money that is constantly being devalued by governments. Bitcoin has no foreign exchange risk, no counterparty risk and no future growth in its value can possibly increase its supply, unlike any other commodity or currency. The increasing demand for bitcoin is the result of people across the world seeking an inflation resistant store of value. It has all the positive attributes of gold but none of the drawbacks. It is more easily divisible, storable, and transportable. Gold and bitcoin can be viewed as insurance against the folly of incompetent political leaders in the U.S and across the world. Bitcoin provides anyone in the world a degree of economic freedom that was not possible before its creation. No one needs permission to move bitcoin anywhere in the world. It is likely to appreciate in a world growing increasingly reliant on government deficits and a political class seemingly uninterested in correcting this dependence.

The U.S. capitalist system is the world's most innovative and disruptive economic system. We see the emergence of new industries and new technologies that augur for a very bright future. Our present challenges emanate primarily from unsound money and ultimately, we must return to sound money which will restore sound financial values and responsible policies.

As an investor, I must address reality as it is and develop an investment strategy to preserve capital and seek opportunities to grow that capital in a prudent manner. As we enter this new challenging environment for our country, I have positioned portfolios to provide protection as well as growth as the future unfolds. Timing is very difficult to pinpoint but as warning signs increase, I will make further adjustments to protect and grow client wealth. Important changes may be ahead for financial markets, and it is imperative to have a plan to adjust to those changes if they occur.