

April 1, 2025

Dear Clients and Investors,

In the first quarter most asset classes faced strong headwinds because of uncertainty around the new administration's plans for tariffs on our trading partners imported goods into the US. The street is waiting on the tariff announcements due at 4pm on Wednesday April 2nd. Here is how asset classes did in Q1 2025.

DJM - Dow Jones Moderate U.S. Portfolio Index	- .8%
IVV -S&P 500 Equity Index:	- 4.5%
RSP - S&P 500 Equal Market Cap Weight Index:	- 1.0%
EFA - Europe, Australasian and Far Eastern Equity markets:	+8.1%
AOM - S&P Target Risk Moderate Index (Stock/Bond mix):	+1.1%
AGG - I-Shares US Investment Grade Bond Index:	+2.1%
GLD – Gold:	+18.8%
FBTC - Fidelity Bitcoin Index ETF:	- 9.1%

So where do we stand as we head into Q2 2025? Investors are nervous right now, as anxiety about tariffs and the strength of the US economy build. As outlined in my January 1 Outlook Letter I believe that concern is justified at this time. Specifically contributing to this uncertainty are the following two main issues. 1. Trade. Dealing with the trade deficits with our trading partners. In 2024, the United States experienced a significant increase in its trade deficit. The combined goods and services deficit rose by \$133.5 billion (17%) from the previous year, reaching a total of \$918.4 billion. 2. Our annual operating federal budget deficits. As of April 1, 2025, the United States continues to experience significant fiscal deficits. In fiscal year (FY) 2024, which ended on September 30, 2024, the federal budget deficit totaled \$1.8 trillion, an increase of \$138 billion (8%) from the previous year. This deficit resulted from total government spending of \$6.75 trillion and revenues of \$4.92 trillion.

Bottom line: the above dual deficits are unsustainable, the current administration understands this and is determined to deal with both deficits together at speed. No wonder investors and Americans are anxious. In the past, during previous major financial crises the pattern was always the same and that was for the Federal Reserve to come to the “rescue” by printing more dollars to save the day. These dollar printing rescues have reached their end point due to the accumulated deficits of 37 trillion resulting in annual interest payments of over 1 trillion dollars. The Federal Reserve’s ability to lower interest rates is curtailed by the persistent inflation which is a direct result of the excessive money printing and deficits.

This approach has worked in the past, unfortunately all good things must come to an end and from my observations of what is occurring in Washington today, that time has come. Some would also call this a financial death spiral where interest expense is consuming a growing percentage of the budget squeezing out regular budget spending categories. This may sound like an extremely dire scenario, and it is. My continued concern is that we have waited too long

to address these financial deficits/disruptions. As I have written often, the numbers don't lie. One quote comes to mind:

As Ayn Rand famously said, "You can ignore reality, but you cannot ignore the consequences of ignoring reality",

As I wrote about in January, Treasury Secretary Bessent and President Trump see a "Global Economic Reordering" occurring soon and their plan is for the US to be leading the way and directing that path forward. There are so many moving parts to this "Plan" and it involves deficits, tariff's, interest rates, taxes and the dollar and its role in international trade as the worlds reserve currency.

The global monetary system seems to be edging closer to its next great reset – a phenomenon that history has repeatedly proven to be both inevitable and transformative. Over the past century and a half, we have witnessed recurring cycles of stability followed by instability, collapse, and eventually renewal. Each era of monetary order, from the Gold Standard to today's Floating Exchange Rates, offers insights into the dynamics of these transitions.

Preparing for change, adapting to new frameworks, and anticipating the ripple effects across economies and markets are essential strategies for navigating this uncertain financial future. The history of monetary resets teaches us that change is not only inevitable – it is an opportunity to build a system that better reflects the complexities of an evolving world. I believe that this reset was put in motion following the Great Financial Crisis which occurred in 2009 and have been anticipating this reset ever since.

One criticism I have of the Trump Administration is not on strategy but on the execution and timing. The strategy is the correct one in my view, but under the best-case scenario, we are quarters or years from these projects coming to fruition, while the interest on the US debt/GDP 120% does not sleep! Trying to "DOGE" the US Government before devaluing US debt/GDP, extending the tax cuts and allowing de-regulation to stimulate economic growth risks an economic crisis that leaves the US with lower stocks, higher 10year US Treasury yields, higher deficit to GDP, higher unemployment and likely lower GDP also known as Stagflation.

Well, that's probably enough negativity for one quarterly newsletter! Where does this leave us as investors and US citizens with a big stake in the above dynamic? Is there a way out of this financial crisis? Yes, thanks to the strength and dynamism of the US economy and US corporations. The US is the best house in a very bad world neighborhood. If executed properly a positive outcome is still quite possible. Free market capitalism is a better bet than socialist or communist economic models for a positive economic solution to the worlds fiscal/financial problems.

In the meantime, as always, I will be monitoring the US economy and company profits to determine the best allocations for our portfolios. Ongoing concerns about inflation and the strength of the US economy have pushed gold prices to record highs. Gold is viewed as a safe-haven asset, with demand typically increasing during periods of economic uncertainty, high inflation and a weaker US dollar. Investors are nervous right now, as anxiety about tariffs and the strength of the US economy build. Given this backdrop, we will continue to focus on the stocks of high-quality companies that have a long history of generating steady profit and cash-flow growth.

Where am I optimistic and see opportunities in 2025 and beyond?

- US Markets – in general over foreign options.
- Record Household net worth. Total American household net worth stands at a record-high 169 trillion.
- Onshoring with increased factory construction, jobs and foreign direct investment coming into the US.
- Strong corporate earnings and cash flows enhancing investments and shareholder returns via dividend increases and stock buybacks.
- Productivity enhancement because of AI and its growing dominance in the technology space by US firms. We seem to have entered a new era of technological advancement and productivity growth resulting in a new technology productivity boom mostly dominated by US corporations.
- Record US energy production. Record liquified natural gas and oil exports to our allies overseas.
- A nuclear power renaissance and re-building the US power grid.
- The Utility Industry will benefit from increased energy demand and infrastructure buildout.
- Gold as an inflation hedge

Overall, I continue to favor high-quality, large-cap, dividend paying, US based multi-national companies with strong balance sheets. We love businesses with irreplaceable brand names, wide moats, high margins, grow their dividends, and have modest debt. Risk/reward now favors equities over fixed income. T-Bills, select REIT's, MLP's, and specialized bond/income funds look good as income producers. I believe that our portfolios are well positioned to produce consistently attractive long-term risk adjusted returns while preserving capital. I will remain vigilant, assume little, and continue to follow the investment guidelines that we know, through experience work in the medium to long-term. Please do not hesitate to give me a call to discuss the above analysis.

Sincerely,

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