

# DREAMS

Forming 1973, Van Halen topped the rock charts for a couple of decades. The early years featured the flamboyant David Lee Roth as the bands front man. In 1986, the group was joined by Sammy Hagar. Their first album together, "5150" was packed with radio hits. One single was titled Dreams, the song and video display patriotism and optimism. The United States has some significant challenges ahead. I am confident that we will find a solution. After all, we put a man on the moon.

World turns black and white  
Pictures in an empty room  
Your love starts fallin' down  
Better change your tune  
Yeah, you reach for the golden ring  
Reach for the sky  
Baby, just spread your wings

And get higher and higher  
Straight up we'll climb  
We'll get higher and higher  
Leave it all behind

Run, run, run away  
Like a train runnin' off the track  
Got the truth bein' left behind  
Fall between the cracks  
Standin' on broken dreams  
Never losin' sight, ah  
Well, just spread your wings

Chorus

So baby, dry your eyes  
Save all the tears you've cried  
Oh, that's what dreams are made of  
Cause we belong  
In a world that must be strong  
Oh, that's what dreams are made of

When I sit down on a quarterly basis and bang away on the keyboard, I work to paint a realistic view of the financial landscape. In the financial press Fear and Greed sell magazines. So, beyond the headlines of employment, Inflation and the Federal Reserve, there are many things to consider.

January 20, 2025, the Trump presidency 2.0 was installed. The air is filled with optimism and euphoria. Clients, friends and acquaintances are asking about the impact of policy changes. The stock market has done well into and through the election. Whether it was a Santa Claus rally or something more will play out of the following months.

As I was putting the finish touch on this report, the Artificial Intelligence world was rocked with a report that a Chinese firm produced a highly competitive product. One that took 18 months to build and at a small fraction of what the US giant tech has on the market. **It's VERY IMPORTANT to consider what you own.**

## Shameless Promotion

Patriot Asset Advisors presents the  
Money Minute with Mike Cornell,

Monday's at 5:10pm. Each week, we briefly chat  
about celebrities and money issues on [KOOL 101.7](#).  
Tune in to hear how your favorite rock stars handle  
money.



Regardless of the economic conditions, opportunity exists somewhere in the markets.

Practorian Capital fund manager Haris “Kuppy” Kupperman writes about the Covid response:

<sup>1</sup>“Four years later, we’re still trying to reduce the excess Covid liquidity that the world’s Central Bankers sprayed at literally anyone and everyone who’d oblige by taking it. To a man with a hammer, everything looks like a nail. To a Central Banker, the solution is always more liquidity. To an investor, the lesson has been to hold on for dear life, outlast the crisis, then lever up, because the subsequent liquidity-induced rally will be life-changing.”

For my entire 30 years in the financial services business, we have seen the heavy hand of the Fed and Washington influencing markets. In 1997, the Thailand economy collapsed and spilled into most other economies in Asia. Long Term Capital Management nearly brought down the banking system in 1998. The company was founded by a few Nobel Prize winning economists. They believed that had invented the perfect trading model...THEY HAD NOT. The Fed stepped in with several major banks to be the backstop. As so often happens to those that are over-leveraged, the market w ins.

There have been many, many interventions by the Fed and other Central Banks since LTCM. 9/11, the Mortgage Crisis, Quantitative Easing and Tightening, Covid, and the Interest Rate induce bank crisis of 2022. This names just a few.

For years you have seen the National Debt Clock and heard the discussion about a pending debt crisis. Are we on the doorstep? If so, how do investors and retirees plan? <sup>1</sup> As Kupperman mentioned, the Fed has stood shoulder to shoulder with the banks and at some point, the markets. BUT, is the Fed in a position to do this in the future?

As we discussed in a previous newsletter, bond prices run opposite to yield/interest rates. In 2022, we witnessed the Fed raising rates at a blistering pace to curb inflation. Many bonds mutual funds were down 12-15%. Think about that for a minute. With the 10-year treasury bond yielding (paying) around 4.5%. It would take an investor about 3 years of income to get back to even.

The problem going forward is that bond investors around the world may have the upper hand in determining interest rates on bonds. They may demand higher interest rates as the United States may become a higher credit risk.

The next crisis will likely be fueled by a debt crisis. The stock market’s advances have been the result of a massive accumulation of debt. The bill may come due soon. The report below for the CBO is scary.

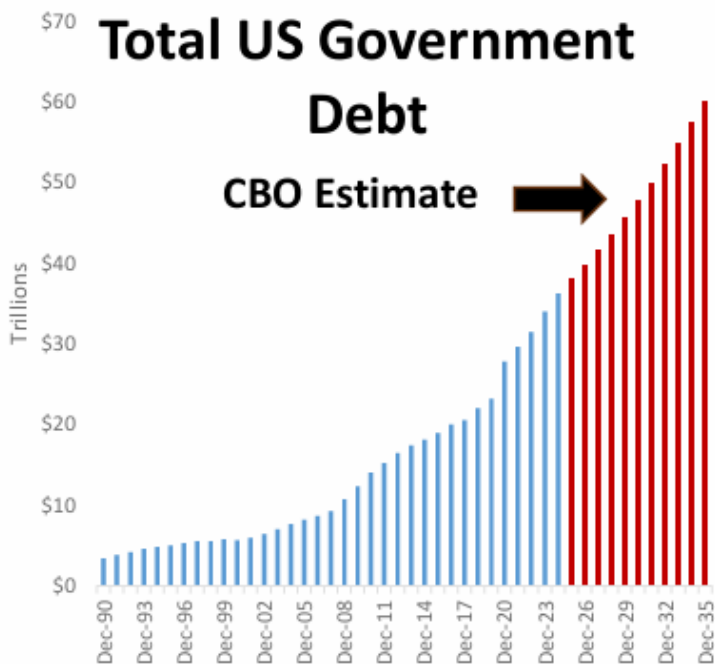
Our friend Larry McDonald reported on January 19, 2025:

Practorian Capital fund manager Haris “Kuppy” Kupperman ponders these questions:

<sup>1</sup> For the first time in almost three decades, I wonder if the rules have changed.

- What if the Fed is no longer there to protect investors?
- What if the Fed will now be forced to penalize investors during the next crisis?
- What if the investing universe is so pre-conditioned that they can’t appreciate the rules changing?

The CBO (Congressional Budget Office) published its latest budget analysis Friday afternoon and actually trimmed its cumulative deficit forecast for the '25-'34 period by \$1T (or 4%). Even with that, the numbers are still astonishing. **They project \$24TR (!) of extra debt in the next 10 years**, with total US government debt reaching \$59Tr in 2035. "Increases in spending for Social Security and Medicare and rising net interest costs push outlays to \$10.7 trillion, or 24.4% of GDP, in 2035 vs 21% the 50-year average." CBO The budget deficit in 2035 is estimated to be \$2.7Tr and the debt held by the public \$52TR, up from \$28TR last year. **Net Interest (the interest paid on government debt) will grow to \$1.8TR vs \$881bl last year.**



Total Government Debt to Reach \$60TR in 10 Years

### Reach for the Golden Ring

**Talk with a Patriot Asset Advisor today about how to:**

**Get Long Hard Assets** - The CBO has the "marketable debt", which is the debt that is available for the public, reach \$52TR. On top of that, we add the "non-marketable" debt which goes to the entitlement funds. Combined the debt will reach \$60Tr in 2035, from \$36Tr today.

### Hallmark of an Emerging Market Economy (Third World Nation)

While the United State is considered the lender to the world. One may ask if we are on a sustainable path: Excessive deficits, money printing, unfunded liabilities, weakening rule of law, arbitrary and highly politicized economic decision making; these are all Emerging Markets traits. If you were a foreigner from a country that suddenly has a questionable relationship with the US, would you want to own assets here? I'd be repatriating them as fast as possible—or at least demanding a much higher risk premium to fund what increasingly appears to be an Emerging Market that's going through one of those periodic crazy phases.

The Gilts (UK Bonds) market collapse should have been a wake-up for everyone, except most investors assumed it was just a UK thing. What if DM markets are now living with EM rules? What if the US is now an Emerging Market but we don't realize it yet?

It may be time to spread our wings and invest in hard assets (ask us how). This group of investments has been left behind in the AI craze but is poised to do well in the new inflationary world

that awaits. The US currency has been a wrecking ball on the world stage. The opportunity rests with a swing of the pendulum. Those areas that have been harmed by a rising dollar may be the benefactor on the other side.

Investors may be wise to broaden their perspective. The enthusiasm on Wall Street often becomes exuberant, as Mr. Greenspan warned a few years back. We favor a contrarian, counter to the mob, approach. Warren Buffett has made a living investing in great companies rather than chasing the latest fad.

Larry McDonald (The BearTrapReports):

<sup>2</sup> “Since September, the Bloomberg Commodity Index has been close to 12% higher, with the U.S. dollar ripping 8% as well. Think about that. Where would commodities be with the greenback down 8%?

... the U.S. dollar's move higher; it's killing Trump's base in the Rust Belt. U.S. exports have become more and more expensive overseas. Now, think about energy buyers across the UK, Europe, and Japan. Oil and gas are priced in dollars, and team “pound, euro, yen” are off 10% since September, with Brent 20% higher from its low to last week's high and front-month natural gas 134% higher.

There is a late Q1 inflation problem screaming higher right now. Relative to the Fed, we expect a far more hawkish ECB, BOJ, and BOE by late February. Now consider the Q1 U.S. Treasury net marketable debt borrowing of \$820B, compared to \$590B last year and \$425B in 2023.

...The bottom line is that Trump's tariff fears are well priced in, and we have surging global inflation risk. The setup is much like January 2022: long commodities and an unattractive take for the Nasdaq 100...”

Is your portfolio out of balance?  
Could you benefit from a portfolio review?

The coming months/few years will be very different from the past. Ignore the bond market forces at your peril. Higher interest rates will not be good for stocks.

Nobody knows how the debt will be handled. I have read a few rumors about different possibilities. The most seems to be some type of collaboration with our trading partners.

Our friends and allies may be “encouraged”, through tariffs and other means, to stand with us and help solve our debt crisis. For decades we have helped them protect their homeland, stood watch over the shipping lanes and afforded them open markets in the US (to our detriment). Our domestic auto business is

decimated, the steel industry is crippled and the electronics business...what business. We will likely ask our trading pals to help resolve the debt we took on to provide their defense.

Times have changed to save our country. Your investment portfolio should take the new world into consideration. The sailing will not be smooth, BUT we are here to help you through.

May the rewards be yours.

1. <https://pracap.com/the-wheels-fall-off/> (12-31-24)
2. BearTrapsReport (1-19-25)