SIGNS

Sitting down to pen this note, Jon had to remind me that Tesla covered the tune I am referencing. He recalled that in 1971 "Signs" was recorded by The Five Man Electrical Band. The rockers in my era listen to the Tesla version. I believe the song rings true of today's financial markets as some investors choose to ignore the "Signs".

And the sign said "Long-haired freaky people need not apply"
So I tucked my hair up under my hat and I went in to ask him why
He said "You look like a fine upstanding young man, I think you'll do"
So, I took off my hat, I said "Imagine that. Huh! Me workin' for you!"
Whoa-oh-oh

Sign, sign, everywhere a sign
Blockin' out the scenery, breakin' my mind
Do this, don't do that, can't you read the sign?

For those who are Patriot clients, you are very well diversified, and we have taken your risk tolerance into consideration as we built your portfolio. It is challenging if not impossible to time the investment market. In today's world, information appears to move at light speed. It is with that caveat that we bring you our report.

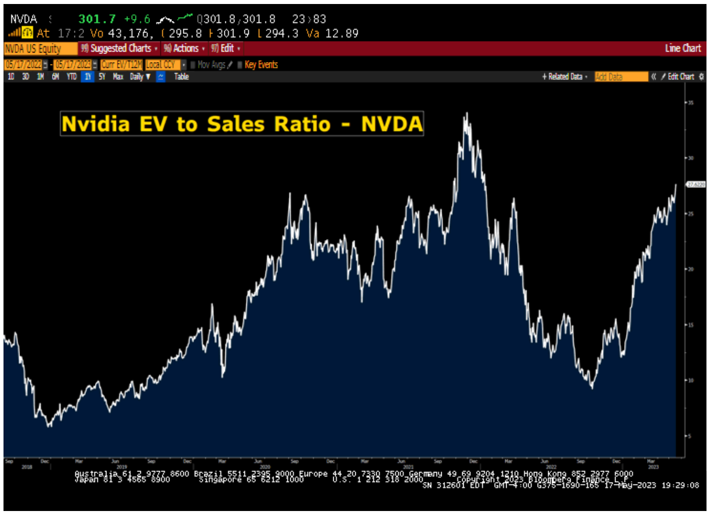
The signs are everywhere, and the gamblers don't seem to care...until they do! It would appear to be Groundhog Day as the Big 8 (Facebook, Amazon, Apple, Netflix, Google, Microsoft, Nvidia & Tesla) have been on the march all year with Artificial Intelligence all the rage. As you recall, 2022 was a very challenging year for the Tech Giants. These rallies from a market sell-off are nothing new. Many of you are old enough to remember the "DotCom" sell-off early this century, others of you were not investors at the time.

Allow this chart to sink in for a couple of moments.
"Lots of counter-trend rallies were north of 20% into the 2003 bottom. Right as the financial media declared a 'new bull market', markets would reverse hard the other direction." Bear Traps Report June 8, 2023

We do not believe that a New Bull Market has formed, yet. There are many telltale SIGNS we point to for confirmation of our opinions.

Artificial Intelligence is today's "DotCom" moment. Any company that can tether itself to the AI story is getting noticed. Share prices seem to climb without reason.

Nvidia Enterprise Value to Trailing Sales Sky High (as of May 18, 2023)



*EV (Enterprise Value) to Sales Ratio is a key metric for professional traders. Often the EV vs Sales Ratio is 2X-3X. When it comes to Nvidia, Wall Street Jockeys Gone Wild... At 28x sales, insanity rules (***$764.3B Equity Market Cap vs. $26.9B sales***)- Bear Traps Report.*

What is Enterprise Value? According to Investopedia:

Key Takeaways

- Enterprise value -to-sales (EV/sales) is a financial ratio that measures how much it would cost to purchase a company's value in terms of its sales.
- A lower EV/sales multiple indicates that a company is a more attractive investment as it may be relatively undervalued.
- This measurement is considered more accurate than the related price-to-sales because EV/sales take into account a company's debt load.

Compare Nvidia with our old friend Chevron (a stock we have owned for several years). We will look at the Enterprise Value, Sales and EBITDA* (Earnings Before Interest, Taxes, Depreciation, and Amortization). Numbers as of May 18, 2023 – Bear Traps Report.

Nvidia NVDA:	EV $ 721B	Sales $ 26B	EBITDA $ 7.5B
Chevron CVX:	EV $ 299B	Sales $ 232B	EBITDA $ 59B

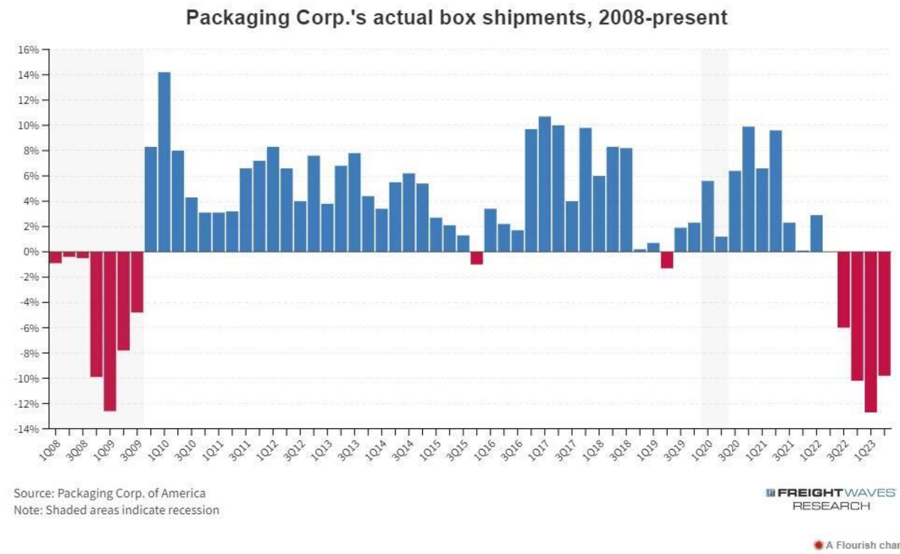
Is the investment world completely nuts or is it just an anti-fossil fuel bias? Chevron, with nearly 9 times the annual sales and an EBITDA value of over 7 times, has an enterprise value of less than 50%. The lesson is don't cry wolf when you get wounded in this goofy market.

Could cardboard be the canary in the coal mine? Is it foreshadowing rough times ahead?

Harald Malmgren, writes: *"I long remember White House meetings with Greenspan explaining the current state of the US economy based on that day's cardboard box orders--his definitive coincident indicator cardboard boxes were Greenspan's primary current indicator of economic activity."*

**Harald Bernard Malmgren is a scholar, ambassador, and international negotiator who has been a senior aide to US Presidents John F. Kennedy, Lyndon B. Johnson, Richard Nixon, and Gerald Ford, and to US Senators Abraham A. Ribicoff and Russell B. Long, United States Senate Committee on Finance.

As depicted in the corrugated chart to the right, the box business is a solid predictor of troubled times. In the day of home delivery, it would make sense to revisit that chart. <u>The year over year number doesn't point to a bull market</u> post Covid and soundly contradicts recent market activity.



Patriot investors enjoy a nice recovery without the drama of the Nasdaq market. The bond market is once again paying a decent interest rate. This can provide a good buffer to volatility brought on by the Stock/Equity markets. As mentioned above, the big indices have been carried by the AI craze. But, quietly much of the Real economy has suffered a good bit.

It is anyone's guess if the Real Economy names have hit rock bottom, but it is certainly at a point where we believe it makes sense to tiptoe back into great companies. We would suggest leaving the AI business to the gamblers, at least for the next several months.

For those who need more evidence, I will share with you the following chart provided by The Bear Traps Report and produced by JP Morgan Asset Management.

We defined PE Ratios in the previous report. The chart on the left shows the 10 largest companies in the S&P 500 with a PE of 29.3 (historically very expensive). The top-right chart shows the 10 largest companies now represent over a 30% weighting in the index, so the other 490 companies make up the other 70%. In the bottom-right chart, the rubber meets the road.

The recent earnings of the 10 companies show them to be grossly over-priced vs the other 490 companies.

The Fed's interest rate hikes are cracking the Commercial Real Estate market!

On the Commercial Real Estate front (one of the biggest concerns on Wall St), things are looking bleak. We would contend that this will bleed into the economy and markets over the coming months. To make our point clear, here are a few recent transactions:

Baltimore: 1 South Street recently sold for 24 million (the 2015 purchase price 66 million).* Balt Sun
1 E Pratt Street just sold for 25 million (purchased for 80 million in 2018).** Bisnow.com

NYC: 1740 Broadway (Blackstone hands over keys and defaults on a 308 million loan Mar '22)
11 multifamily properties owned by Blackstone with a value of $270 million close to default with private investors and big institutions on the hook.

These new higher interest rates will play havoc in many ways. Commercial Real Estate mortgages will be challenged when they refinance the debt. Landlords are struggling to find tenants. Just look at these properties in NYC:

Hudson Yard 2.5 million Sq Ft Available
1 Penn Plaza 645,000 Sq Ft Available
2 Penn Plaza 1.3 million Sq Ft Available
2 Manhattan West 2 million St Ft Available
5 Times Square 70% vacant
20 W 35th St $41 million dollar mortgage default
452 Fifth Ave HSBC fled for less space at Hudson Yards
220 W 42nd St Vacant Tower now housing Migrants

More SIGNS for caution…the Black Swan in Washington.

Bruce Hornsby and the Range, the Bangles, Whitesnake, and Starship lit up the airwaves – It was the summer of 1987. The S&P 500 peaked on August 25th, up 39% off the January lows - a beast of a bull was running wild. Bears were humbled. U.S. 10s started the year near 7% and kissed 10% by Q3. As each month passed, real rates became too much for equities. Soft landings just get you higher real rates and equity market returns since 1985, are more than ugly in Q3 with a risk-free rate of 5% or more. After last year's mauling, cash is very tempting for equity investors up 33% (S&P) since October. That said---

In 2023, the real black swan is in Washington. The United States federal budget for fiscal year 2023 runs from October 1, 2022, to September 30, 2023. The government has been funded through a series of three temporary continuing resolutions. In 1H 2023, Dems juiced spending, up 10% year over year. Their plan is an attempt to push recession risk past the 2024 presidential election. So far so good. The GOP knows this and with gasoline 45% off the December lows, 4.8% year-over-year CPI is a tough sell. Inflation still feels a lot higher for most voters. The GOP-led House will try and force a fiscal cliff. For 2023, the Congressional Budget Office (CBO) estimated in May that the federal budget deficit will total $1.5T — about $160B larger than in 2022. But tax receipts are coming in light, this number could bleed higher. We are looking at $3T for 2020, close to another $3T in 2021, $1.5T in 2022, and potentially $1.7T for 2023. Since Covid, that's over $9T of deficit spending with Powell and the gang trying to fight inflation? The Republican-controlled House will force a government shutdown by early October and the solution will be a deal to cut spending in 2024. Once again, everything is going to come down to the 75-year-old, fiscal conservative Joe Manchin (D) in the Senate. He is up for re-election in 2024 and has nothing but his legacy to prove. **With the highest conviction, we think equities start to price in this risk over the next 30 days. It's NOT the government shutdown, it's the spending cuts that follow plus a risk-free rate near 5% that's the problem.**

*Since 1973, the annual deficit has averaged 3.6% of GDP. In CBO's projections, deficits equal or exceed 5.5% of GDP in every year from 2024 to 2033.

We believe that we are at the door of some type of recession. We also believe that we have our clients well positioned to meet the challenges ahead. Remember, the night is always darkest before dawn and the same could be said for the investment markets. The key to successful investing is sound advice, time, and diversification. The Federal Reserve is committed to breaking inflation. Those heavily invested in the Major indexes should seriously evaluate their strategy going forward as the SIGNS for turbulent water is everywhere.

We know this note may cause concern and anxiety for some of you. We would be happy to field your questions and share actionable ideas. First, inflation is high and may go higher. You can now earn a solid return on cash. We have safe HIGH YEILDING cash ideas for you that will not put your safe money at the mercy of the stock market. Secondly, we have actionable items for navigating these challenging economic times. We are here to help.