Changes In Latitudes, Changes In Attitudes

The Iconic Jimmy Buffett album released in Jan 1977. It features Jimmy's first hit Margaritaville. Late in life he shared the naming rights with a hotel operator that has opened many properties in the states and across the Caribbean.

Nibblin' on sponge cake
Watchin' the sun bake
All of those tourists covered with oil
Strummin' my six string on my front porch swing
Smell those shrimp they're beginnin' to boil

Wastin' away again in Margaritaville
Searchin' for my long lost shaker of salt
Some people claim that there's a woman to blame
But I know it's nobody's fault

Don't know the reason
Stayed here all season
Nothing to show but this brand new tattoo
But it's a real beauty
A Mexican cutie
How it got here I haven't a clue

Wastin' away again in Margaritaville
Searchin' for my lost shaker of salt
Some people claim that there's a woman to blame
Now I think hell it could be my fault

When I see the brochures for beautiful Caribbean hotels, I sometimes get the FOMO bug (that Fear Of Missing Out). The roller-coaster financial markets may cause others to have a bit of FOMO.

Are we really missing anything at this point? The S&P 500 (the so-called benchmark) has had this experience (according to Yahoo Finance):

- Closing Oct 31, 2021 4610
- Closing Oct, 31 2022 3901
- Closing Nov, 30 2023 4547

Much of 2021 & 2022 we spent at a level below where we are today. What is missing from this picture is the fact that less than 2% of the companies in the S&P 500 are responsible for all gains in 2023. [1] So, for those concerned with FOMO, you haven't missed anything yet.

In the song, Jimmy is heard complaining about the tourists on the island. "Watchin' the sun bake all of those tourists covered with oil". In a derogatory way, some of the Wall Street types refer to the Jon Q Public as "tourists" because they often buy

[1] Forbes
Mediocre 493 May Begin to Match Magnificent 7
Nov 30, 2023
https://www.forbes.com/sites/seanhanlon-1/2023/11/30/medicore-493-may-begin-to-match-magnificent-7/?sh=9827c9b3dc00

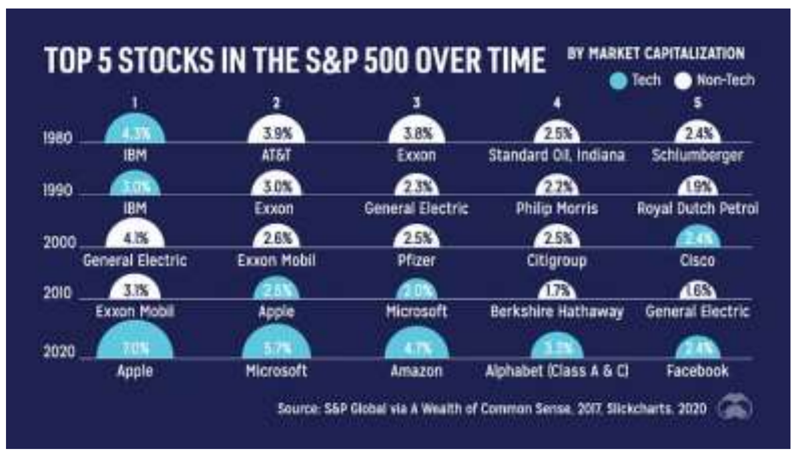
high based on enthusiasm. Then, they sell low as they get spooked out of the markets.

It is our job to put the markets into perspective. We should invest with a long-term perspective seeking attractive risk reward opportunities.   Investments should be rented, not owned…everything can have a value that is too expensive to own and on the buy side, many things begin to look attractive at some price point.

Words from investing legend, Larry McCarthy:

"It takes years to get this, but we MUST use those fears, feelings, and emotions to our advantage. When they start to hit you in the gut, carefully measure the feelings and most importantly the fear. The more fear and emotion you feel, most of the time, that's where you are sitting on the doorstep of an opportunity, an outstanding buying point. And for selling, at the very point you want to give yourself a pat on the back or find yourself talking up your winners with your friends, sell some holdings. Creeping hubris is the best signal to lighten some holdings."

For a couple of years, we have written about the S&P 500 and how the indexes skewed weightings toward a few companies. The index is weighted based on the size of the company in the index.



Today: AAPL-7.1% MSFT-6.5% GOOG (A&C)-4% AMZN-3.3 % NVDA-2.8%

Notice in 1980, the top 5 represented 16.9. Today the top 5 represent 23.7% of the index.

Interestingly, the top 3 companies have a greater weighting today than even the largest company in the index over the past 40 years. In a world that runs on fossil fuel, you must look down to number 11 on the S&P Index to find Exxon, the only energy name in the top 19. Does this strike you as unbelievable?

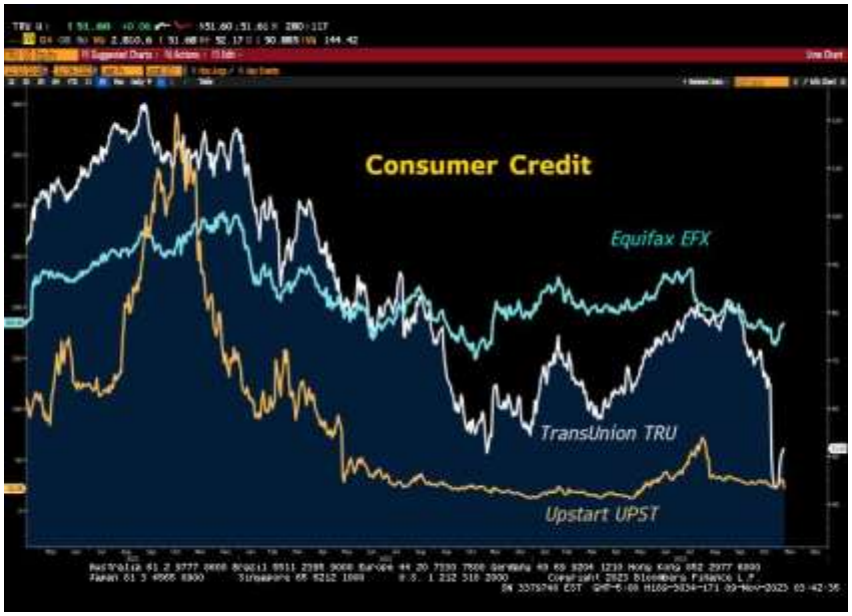
As we have mentioned in previous letters, investing is similar to the hockey analogy of skating to where the puck is headed. Adding new money to the names listed above may be akin to the Greater Fool. In finance, **the greater fool** theory suggests that one can sometimes make money through the purchase of overvalued assets. To make money in these companies going forward someone else has to be willing to pay you more than the amount you invested in the stock. At today's stock prices, do you really want to be the "Greater Fool"?

Consumer Credit is in Recession with Strong Jobs Data??? Since Q4 2021 - Two Years

*These companies face the bottom 80% of consumers, if you listen to the earnings calls (above), it's a telling message.

Upstart UPST -84% TransUnion TRU -53% Credit Acceptance CACC -36% Ally Financial ALLY -37%	Equifax EFX -32% Discover DFS -25% Capital One -22%

Soft Landing or Recession?



*Companies that face the bottom 80% are in recession, it's a fact. UPST (this is an online lender for car loans and personal loans) Said "**Net interest income was negative due to elevated charge-offs in the R&D portfolio and a one-time change in the charge-off process for loans in bankruptcy**. UPST - Loans on the balance sheet were $776 million before the consolidation of securitized loans, down from $838 million last quarter."*

In our view, UPST is getting stuck with some subprime loans, it appears **they are having trouble securitizing loans fast enough, sounds a lot like New Century (a mortgage firm) in 2007. Upstart continues to find itself in a challenging spot as would-be borrowers back away from loans with high-interest rates. Many prospective platform borrowers find themselves unfundable by [Upstart], or only fundable at 30%+ [annual percentage rates], now street analysts say loan demand will remain weak in the near term, and **charge-offs also increased in the September quarter.***

Look at the other Consumer Facing Companies: Victoria's Secret and Best Buy.

We believe that a Change in investor Attitudes is on the horizon. It will come in the form of Changing Latitudes. I am not talking about the crystal sandy beaches and the deep blue waters of the Caribbean. I am referring to the migration of investor capital from the Lofty Tech stocks into the undervalued beaten down smaller companies. As you can clearly see by the charts above, many companies are significantly off their 52-week highs. Some represent a very nice buying opportunity.

The Holiday season is upon us. The markets can get a bit goofy at this time of year. For the past couple of months, much of the trading has involved Tax-Loss selling. Most companies that deal directly with the public have had a challenging year with stock prices declining. The mutual funds, pension funds, insurance companies and endowments are trying to stay invested. They capture the tax loss and often invest in winners of a given year by "Window Dressing" their portfolio.

VICTORY LAP. If you look back at some of our previous letters (available on our website), we pointed out how many of the Wall Street investment houses have blackballed the fossil fuel companies. Some have refused to invest in energy companies for climate reason. Others have attempted to blackmail management and get a seat on the board of directors.

We are happy to report that some of the most egregious Wall Street firms have seen significant outflows of capital. Blackrock, the world's largest investment house and known for investor activism, has seen 12.6 billion in outflow, according to the Motley Fool. I applaud investors for choosing to reposition their money away from Blackrock to do business with more investor friendly mutual fund firms.

Regardless of our individual stances on Climate Change, ESG and DEI (diversity, equity & inclusion), we don't hire mutual fund managers to actively work in an adversarial manner toward corporate America. There is a place for investor activism; it is called a hedge fund, family offices and individuals. Those of us putting money into a Corporate Retirement account didn't sign up for companies like Blackrock to use our money for their investment clout to hammer corporations over climate, diversity, equity, inclusion or any other social cause. The job of a mutual fund house in to work within their prospectus and seek the very best risk – reward investment opportunities…period.

Have a Merry Christmas and thank you for your business.

1. All charts and graphs used in this report are from the BearTrapsReports.