

INVESTMENT CHRONICLES

A MEMBER BENEFIT *from* **PORTER & CO.**

PORTER & CO. INVESTMENT CHRONICLES

Welcome to *Porter & Co. Investment Chronicles*, our guide to the most important and interesting stories from the worlds of investing, finance, and economics that's available exclusively to Partners and Porter & Co. Select members.

Each month, my team and I share the most valuable insights we come across from the hundreds of sources we regularly read and review – hedge-fund letters, annual reports, Securities and Exchange Commission (“SEC”) filings, investment newsletters, newspapers, X (Twitter) threads, conferences, podcasts, and more – and digest them into one carefully curated, easy-to-read resource.

With *Investment Chronicles*, you'll have your finger on the pulse of the markets without having to spend hours scouring the internet each day.

You can navigate each issue using the hyperlinked **Table of Contents** below. All content also includes links back to the original source when possible, so you can easily dig in for more details, to see a larger version of a chart or image, or to learn more about accessing paid content.

We hope you'll come to think of *Investment Chronicles* as a highlight of your subscription with Porter & Co. We think it is the most comprehensive expression of our goal as a business: to give you the information we'd most want if our roles were reversed.

Porter Stansberry
Stevenson, MD
June 2024

Note: Quotes, transcripts, and excerpts are generally reproduced as they appear in the original.

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THE FIVE

The Most Important Charts We're Watching This Month

The forward price-to-earnings (P/E) ratio of the S&P 500 is nearing levels that have preceded significant broad market declines in the past ([from Otavio \(Tavi\) Costa via X](#))...

Exhibit 3: S&P 500 P/E multiple – aggregate index vs. equal-weight
as of June 13, 2024



Source: Goldman Sachs Global Investment Research

The large-cap, tech-focused Nasdaq 100 Index has become extremely “overbought” – over the past seven years, similar extremes have led to meaningful stock market corrections (from Ben Calusinski via X)...

Nasdaq is now the most overbought since right before Volmageddon in 2018

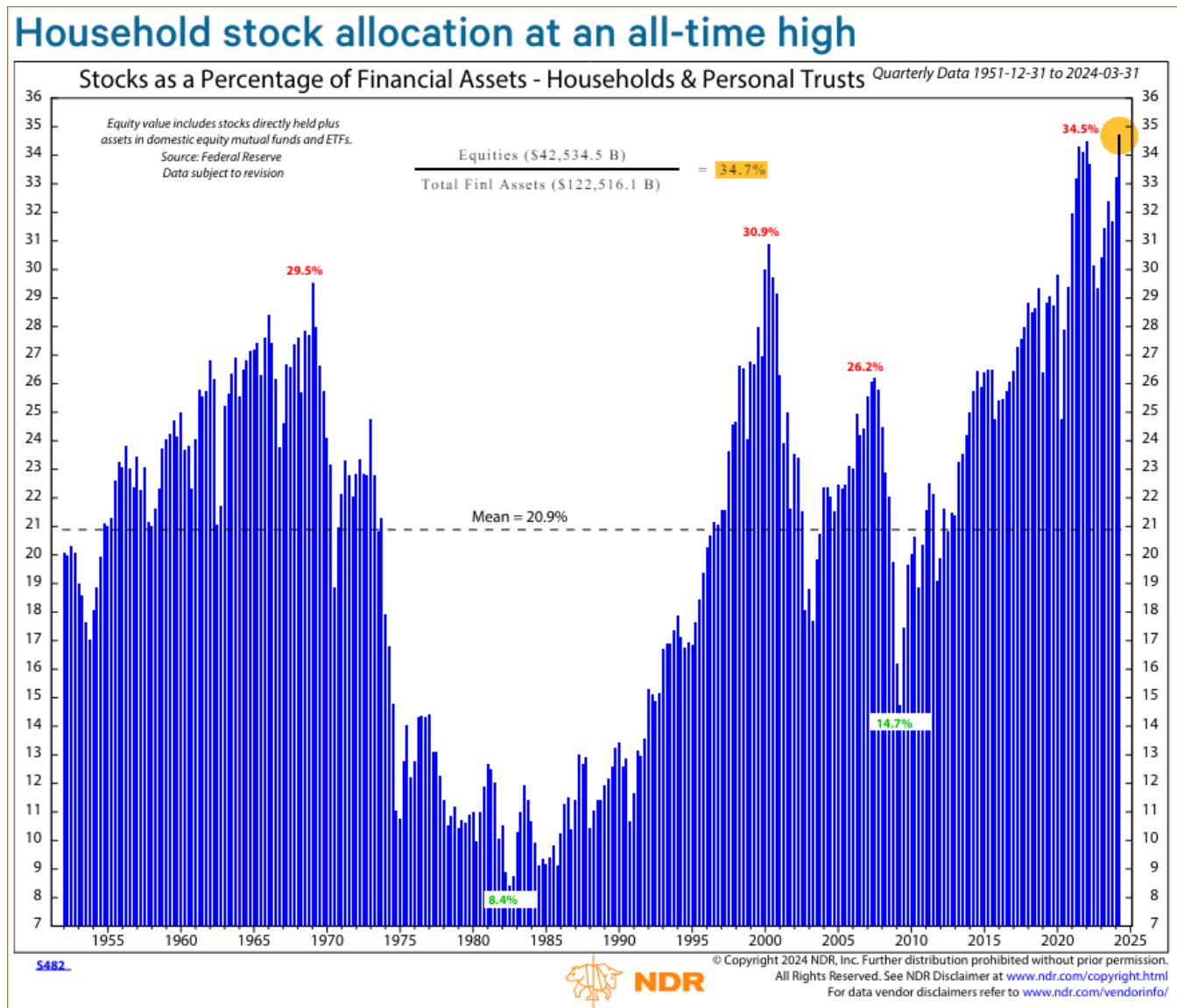
I did a 7-year correlation analysis and found that every time Nasdaq has hit 80+ on the Daily RSI, it has led to a correction

The smallest? -3.94%

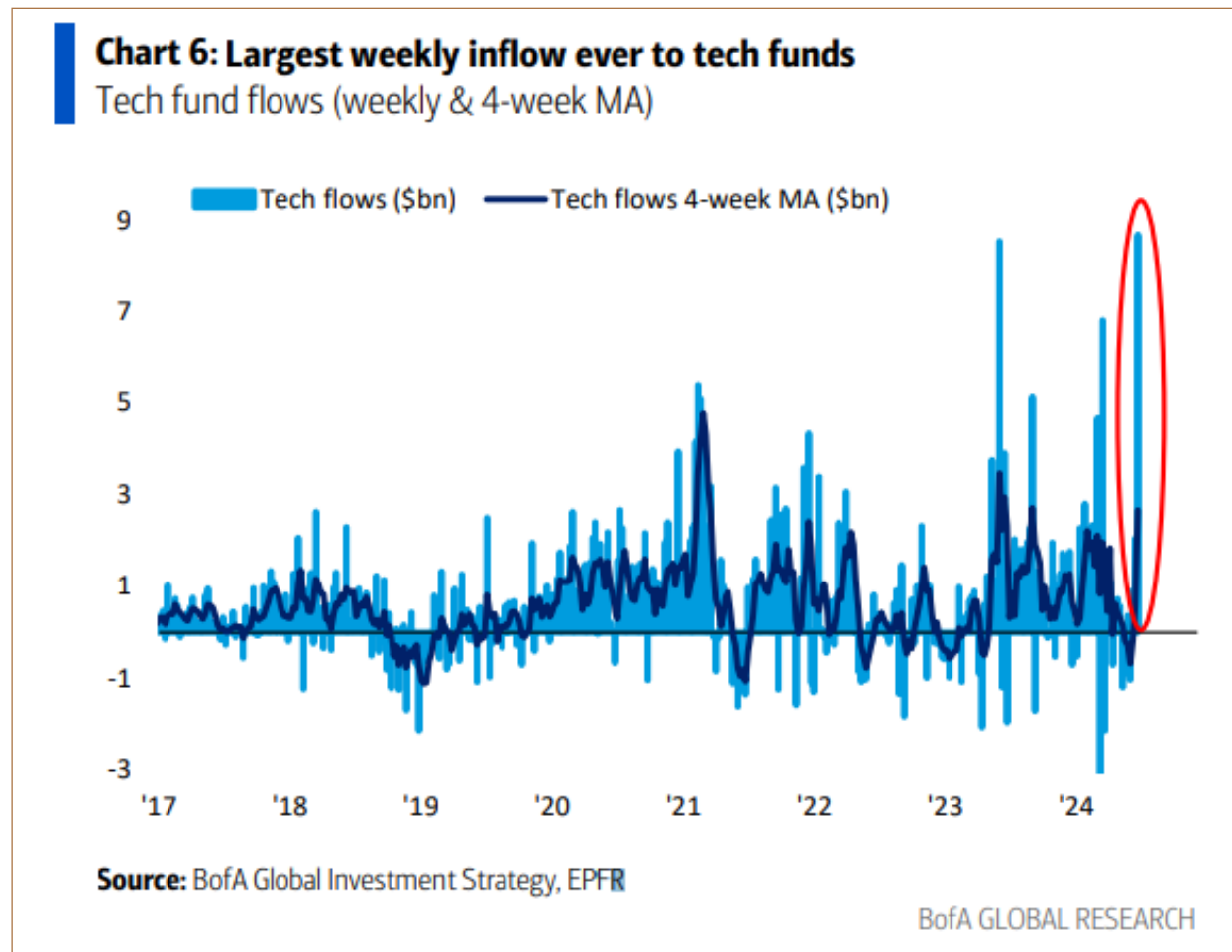
The largest? -30.50%



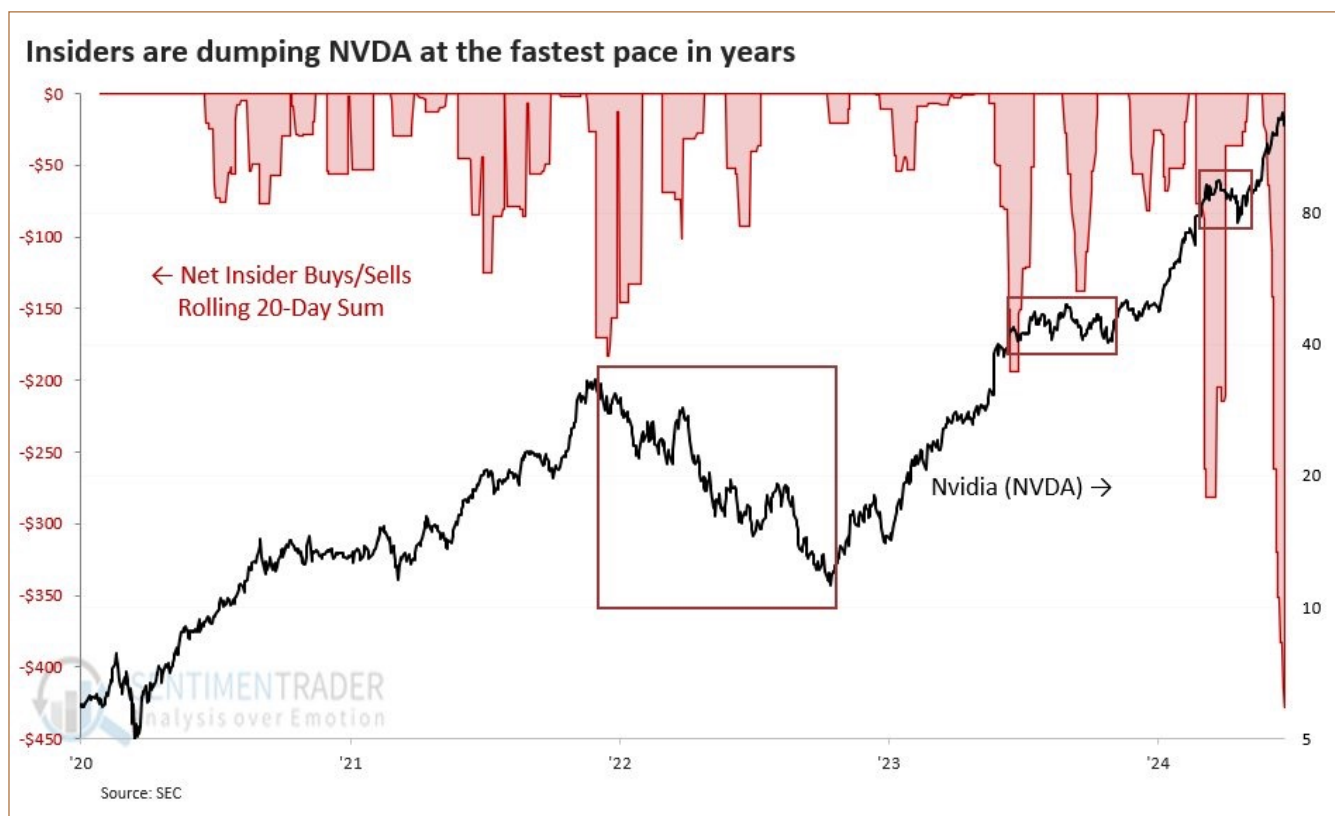
Previous record highs in U.S. household stock allocation were a bearish long-term omen for stocks (from Kevin Gordon via X)...



The week of June 17 brought the largest weekly inflow to tech funds on record (from Mike Zaccardi, CFA, CMT via X)...



Parallel-processing leader Nvidia (NVDA) has accounted for a huge percentage of the broad market's gains over the past several months. So it's concerning to see company insiders selling shares at the fastest pace in years **(including nearly \$100 million by CEO Jensen Huang in one week alone** – his largest cluster of sales in 19 years) **(from Jason Goepfert via X)...**



ECONOMICS AND MARKETS

Why Federal Reserve rate cuts may not work this time like they have in the past (from TXMC via X)...

At the end of a business cycle the Fed lowers rates to stimulate credit growth. This is the all important refinancing channel - where borrowers trade in old debts for newer, less expensive debts, which frees up new capital for spending. It is a powerful, classic mechanism for digging the economy out of recession.

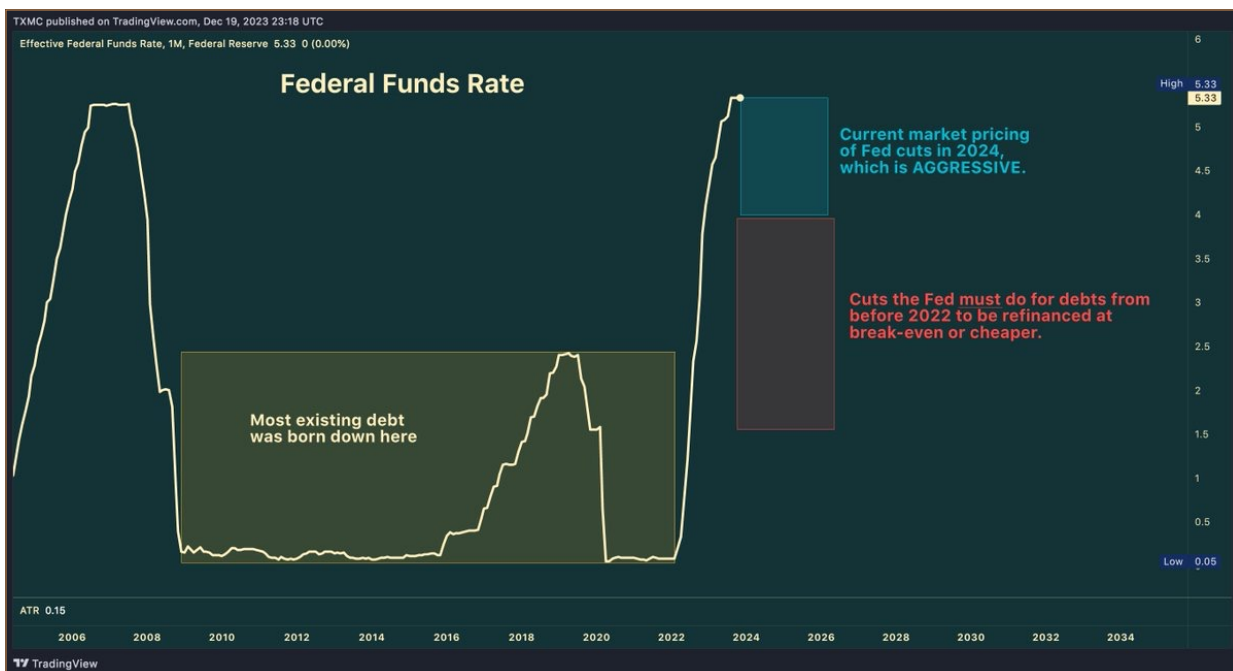
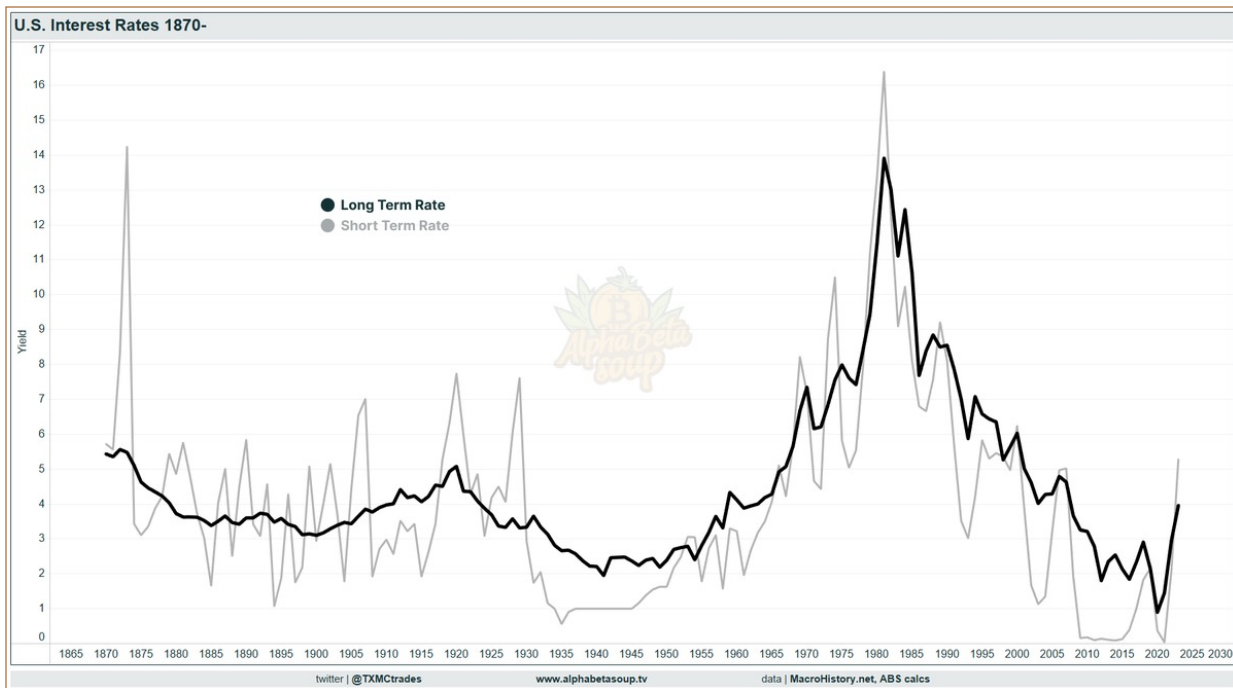
For 40 years this was enabled by interest rates continually breaking new lows in each subsequent crisis, thanks to Paul Volcker's aggressive 1980s fight against inflation that *created the potential* in the first place.

Here we are today with millions of borrowers still holding debts from the 0% era- just a few short years ago. They haven't refinanced. They aren't borrowing. Look at home sales, mortgage originations, business loans, credit card usage rates. They are in a holding pattern waiting for Papa Fed to slash rates again so their burdens can ease.

Ask yourself - what happens to that refinancing channel if rates CANNOT go lower than they were before because the prior low was ZERO? What happens to those debts? Those borrowers that need relief?

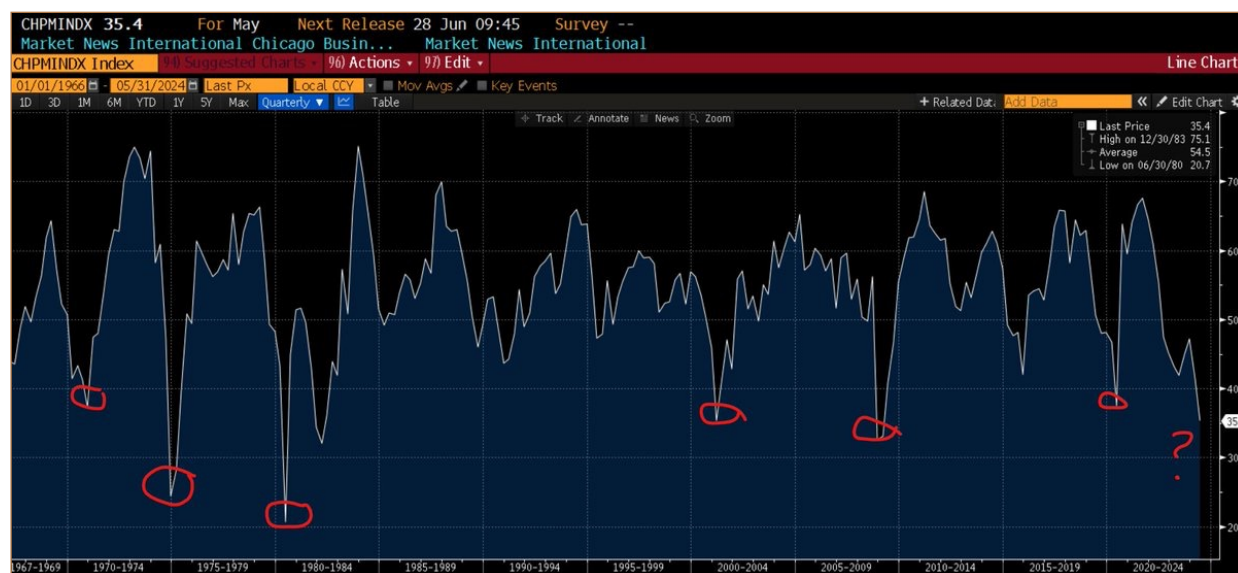
Chances are the refi channel won't be able to stimulate the way it did before because the prior low was as cheap as capital can possibly be. Anything short of ZERO again represents a long-term net increase in borrowing costs versus the previous era.

I don't see much conversation about this at all.



The Institute for Supply Management (“ISM”) Chicago Business Barometer – also known as the Chicago Purchasing Managers’ Index (“PMI”) unexpected fell deep into contraction territory last month ([from Special Situations Research Newsletter \(Jay\) via X](#))...

I’ve never seen Chicago PMI this low WITHOUT a recession or economic slowdown...



Signs suggest the economy is now starting to slow for the first time since 2020 ([from Kuppy's Event Driven Monitor](#))...

We're changing our tune a bit here at KEDM. After spending years alone in the desert thinking that Fiscal trumps everything else, and laughing at all the recession lunatics who were shorting at the lows in 2022, we now feel that our desert island is getting a bit crowded. Too many Macro bros suddenly agree with us.

Inflation always causes bifurcation and a lower overall standard of living. For the first time since the lows in 2020, we think that things may actually be deteriorating a bit in the economy, particularly for the bottom 1/3 of consumers. We know that once this starts, it gets worse. It is said that termites eat upwards from the bottom of a CDO's cap structure, and the same goes for the living standards of a nation's population. It starts with the peasants, but soon, the middle class also feels the pinch. The signs are there, all sorts of retailers have been missing Q1 numbers. Casinos, reporting more real-time monthly data, are having a rough Q2. And you know it's bad when tech bros start cutting back on their SAAS spending.

Of course, during an inflation, particularly an asset one, the top 5% do just fine, with the 0.1% having the best of it. Everyone else sort of gets shredded. Though, this will only play out in slow motion as so many Americans own their own homes.

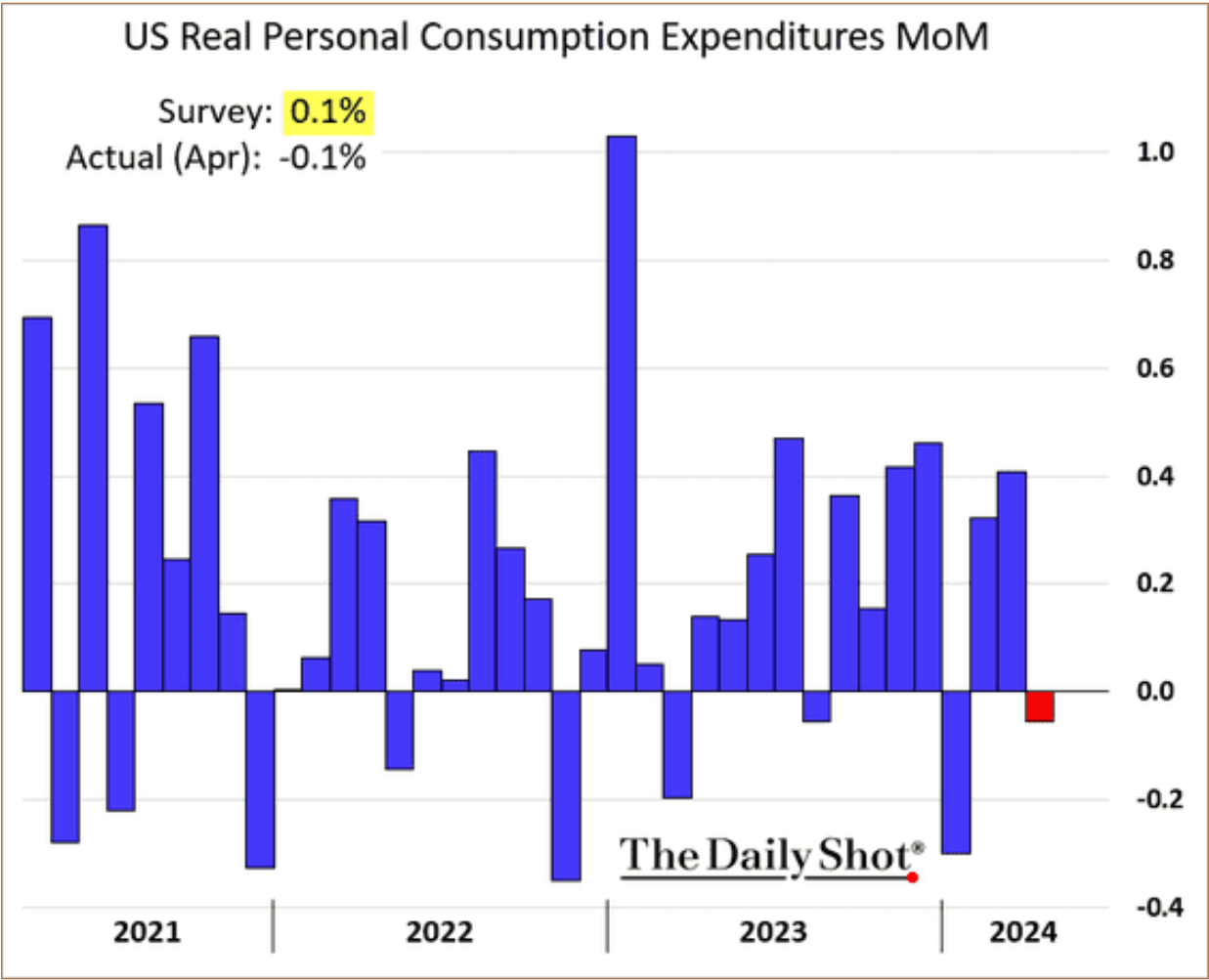
We're not calling for a crash. Rather, we see all sorts of sectors that are starting to experience headwinds—a slowdown if you will. We see financial products starting to detonate and that's usually the cue. We think it's time to cut back. Last week's theme at KEDM was 'harvest season.' We keep harvesting non-core and illiquid positions. Want to high-grade the book. Summers tend to be violently sideways, and we don't want to get whipped around. Meanwhile, these coming US elections look to be an absolute klusterfuk.

Our plan is to cut back, and then go on vacation. We want to come back in October, fresh in mind and ready to play whatever chaos there is during the elections. By then, we think the consumer economy will be leaking more obviously, and there will be an actual trend to things. We think certain sectors are going to be more immune to this, maybe even pro-cyclical. We plan to stay long inflation, and chaos. Most of the rest of it is a sale...

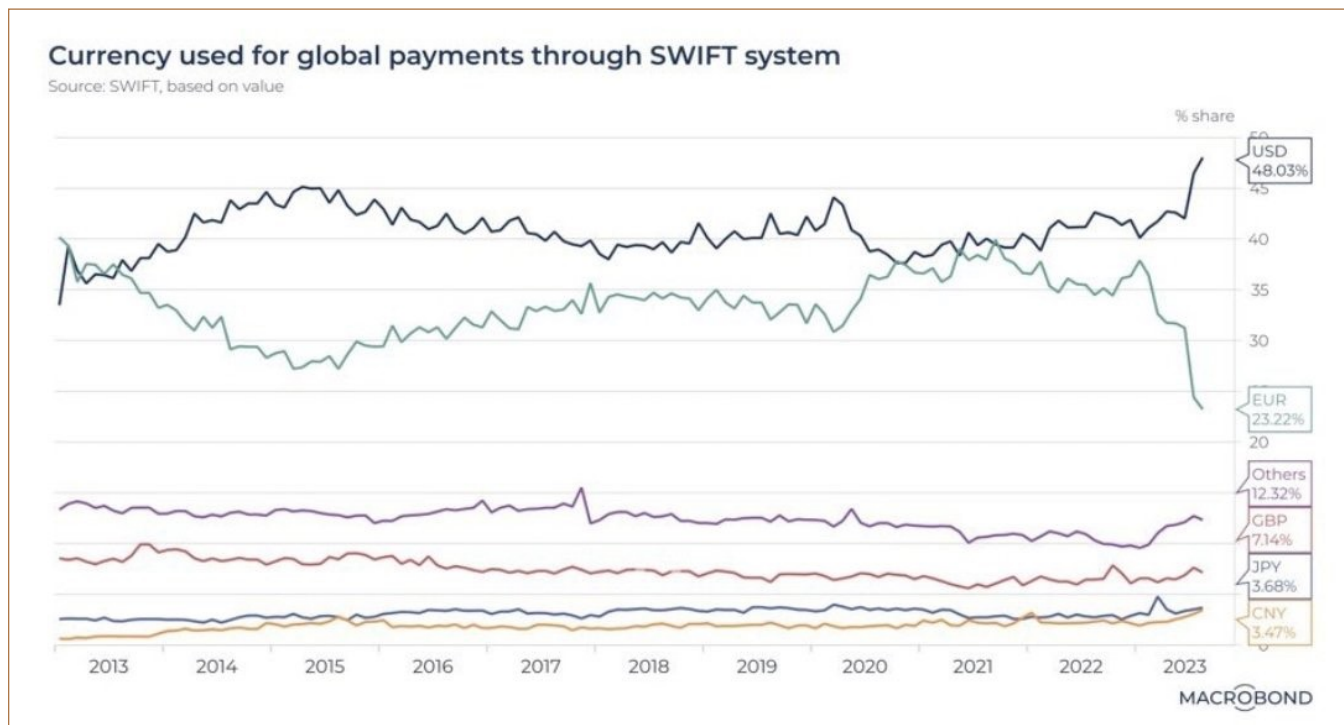
We know they're going to have to stimulate at some point, but there's also a coming fiscal crisis, and a duration crisis. How do you print into a bond market that's going no-bid??

[Continue reading here](#) (subscription required)

Real consumer spending unexpectedly fell in April, indicating a slowdown in U.S. economic activity ([from The Daily Shot](#))...



No signs of de-dollarization in transactions: The U.S. Dollar is now used in 48% of global payments, the highest level in over a decade ([from Win Smart, CFA via X](#))...



The U.S. may be “sleepwalking toward WWII in the South China Sea” ([from Asia Times](#))...

China’s announcement of its intention to enforce a law that would arrest foreign nationals venturing into waters it claims in the South China Sea (SCS) may be the trigger for a direct military confrontation with the United States. The regulation, known as the Administrative Law Enforcement Procedures for Coast Guard Agencies, will come into force on June 15, 2024.

Violent incidents between US ally, the Philippines, and China, have been ratcheting up in recent months. Dramatic film footage by Britain’s Sky News showed several large Chinese Coast Guard vessels pounding a smaller Philippine Coast Guard ship with powerful water cannons in disputed waters surrounding the Scarborough Shoal.

Shortly before, US President Joe Biden met with Philippine President Ferdinand Marcos Jr and Japanese Prime Minister Fumio Kishida in Washington DC to discuss regional security. Biden affirmed “iron-clad” support for the Philippines under the auspices of their mutual defense treaty, including protection of coast guard vessels that come under armed attack in the South China Sea.

Since the treaty requires that an “armed” attack be reported to the United Nations Security Council (UNSC) in the first instance, China’s use of water cannons, even though potentially lethal, has to date not been construed as such. Certainly, the Philippines did not submit a report of the Sky News-filmed incident to the UNSC.

Nonetheless, at the Shangri-la Security Dialogue in Singapore held at the end of May, Marcos stated “If a Filipino citizen was killed by a willful act, that is very close to what we define as an act of war. Is that a red line? Almost certainly.”

This red line will become even redder from June 15 as any arrests made under China’s enforcement of its new law are likely to be carried out at gunpoint, heightening the risks of a deadly incident.

Marcos Jr has characterized China’s enforcement of the law as “escalatory” and “different” from anything Beijing had previously imposed in the contested and strategic maritime region, of which China claims nearly 90% under its nine-dash line.

Should Manila be forced to invoke its mutual defense treaty for American assistance, it would not be hard to imagine Chinese coast guard vessels being quickly confronted by US warships currently patrolling the region to enforce freedom of navigation.

Biden would likely have to respond affirmatively in that event, otherwise risking concerns from already nervous American allies with whom Washington has formal security pacts – not least being the North Atlantic Treaty Organization (NATO).

Moreover, in underscoring Washington's focus on the Indo-Pacific at a time of spiraling tensions in the South China Sea, US Defence Secretary Lloyd Austin stated at Singapore's Shangri-la Dialogue that "despite these historic clashes in Europe and the Middle East, the Indo-Pacific has remained our priority theater of operation."

In turn, Chinese Lieutenant General Jing Jianfeng scornfully replied that the US Indo-Pacific strategy was intended "to create division, provoke confrontation and undermine stability."

In light of Austin's pronounced refocus on the Indo-Pacific, it seems likely that any request for US military assistance by the Philippines would be viewed positively in Washington, probably gaining overwhelming bipartisan support from Democrats and Republicans in Congress.

Interestingly, one of Washington's staunchest allies, the United Kingdom, having significant naval resources deployed in the South China Sea, may be girding itself for such an eventuality.

UK Prime Minister Rishi Sunak's sudden and unexpected announcement of a July 4 election date – at the very least signifying Britain's shared interests with those of America's on its Independence Day – came in tandem with a proposal for national service, ostensibly in preparation for war and possibly in particular in the South China Sea.

Aside from the disastrous global financial and economic shock waves likely to arise from any direct US-China military confrontation, it may be a conflict Washington is preparing for, subject to one principal constraining factor: any direct military confrontation being contained exclusively within the South China Sea region.

It may not be such a far-fetched scenario when one considers the 1950-53 Korean War. During this conflict, around two million US servicemen fought fierce battles against three million Chinese and 100,000 Soviet troops, alongside their respective South and North Korean allies.

Yet it was a conflict contained by then-US, Chinese and Soviet leaders, Truman, Mao and Stalin, respectively, within the territorial limits of the Korean Peninsula, deliberately avoiding spillover into the broader global context of the then-young Cold War.

Hopefully, ongoing diplomacy in various areas of cooperation between the US and China will prevail and a direct military conflict, including a limited theater war, will be averted. But a peaceful outcome should not be taken for granted.

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Is deglobalization a myth? (*from Foreign Affairs*)...

A consensus is emerging that the world is cleaving into blocs—not only geopolitically but economically, too. In 2020, the economist Douglas Irwin wrote that “the COVID-19 pandemic is driving the world economy to retreat from global economic integration.” In the years since, how to manage this purported deglobalization has been a consistent theme at World Economic Forum meetings; in May, an Economist cover depicted a map of the world physically fracturing into competing economic blocs. The associated story presumed that deglobalization is a long-term certainty, arguing that it is becoming “visible in the economic data, as investors reprice assets and redirect capital in a less integrated world.” Last week, a Bloomberg columnist piled on, concluding that “global trade and finance are fragmenting into rival and increasingly hostile blocs, one centered on China and extending into the global South and another around the United States and other Western countries.”

But there is a problem with the assumption that deglobalization is a fact on the ground: the data does not fully back it up. As evidence of continuing deglobalization, observers often cite phenomena such as the United States’ reluctance to establish new free-trade deals, the debilitation of the dispute-settlement system overseen by the World Trade Organization (WTO), the proliferation of new national measures restricting trade, and declines in both short- and long-term capital flows from their past peaks. The COVID-19 pandemic certainly did reveal that economic interdependence carries risks, and the efforts Russia has made since 2022 to use its natural gas pipelines to influence the G-7’s response to its invasion of Ukraine—as well as the many sanctions the G-7 has imposed to try to weaken Russia’s economy—have highlighted the vulnerabilities that can arise when countries trade across geopolitical divides. But a closer look at economic data shows that even though governments have increasingly adopted policies aimed at strengthening their own resilience, the world economy is still evolving to become more, not less, globalized in key ways—and more dependent on Chinese supply in particular.

Global trade surged during the pandemic, and the world’s trade with China accelerated rather than slowed. A pandemic-era shift toward goods and away from services partly accounts for the acceleration. But the growth in trade with China also reflects the fact that China is simply producing things—high-tech exports such as electric vehicles, wind turbines, solar panels, and vital electronic and battery components—at a price point few can match. Between 2019 and 2023, China’s manufacturing surplus rose by about a percentage point of global GDP; it is now far larger than the surpluses run by Germany and Japan, the world’s other manufacturing powerhouses.

There is also less to the fall in capital flows than meets the eye. The decline in foreign direct investment (FDI) after 2016, for example, largely resulted from specific changes in tax regulations that led to a big reduction in the use of special-purpose vehicles in Luxembourg, the Netherlands, and a few other key European tax centers. And that tax simplification has not blunted one of the less savory forms of globalization: trade and financial flows that appear to serve only as a vehicle for multinational tax avoidance.

The now pervasive misperception of the world's economy has consequences. Policymakers' efforts to defend globalization by equating more global trade flows with increased efficiency tend to ignore the ways reality is more complex: for example, even those pursuing a healthy form of globalization will need to work to reduce multinational corporations' tax avoidance. More fundamentally, if observers downplay the extent to which the world's economies are still integrated, they will underestimate the cost of actions that would fracture the world economy, such as launching a conflict over Taiwan or a unilateral U.S. retreat from trade. World leaders must take steps to increase their economies' resilience, but they must first understand those steps' true costs.

TRADING UP

The idea that the world's economy is deglobalizing took hold after the 2016 election of U.S. President Donald Trump. In his rhetoric, Trump repudiated the post-World War II bipartisan consensus around the value of free trade. And he also made some genuine policy shifts: pulling out of the Trans-Pacific Partnership (TPP), renegotiating the North American Free Trade Agreement to tighten the rules of origin for the trade of automobiles, and introducing tariffs on roughly three-fifths of the trade between the United States and China.

But globalization has deep roots by now, and such bilateral trade policies did little to change its fundamental trajectory. New trade deals and tariff programs always get a lot of ink. In reality, the changes in tariff rates in modern free-trade deals tend to be small, as most tariffs are already low or zero. Countries lacking preferential access to the U.S. market can still do incredibly well with the WTO's standard trade terms. In fact, U.S. imports from Southeast Asia have soared in the past half dozen years. The Southeast Asian members of the TPP increased their exports to the United States much more rapidly after Trump withdrew from the TPP than they had been able to before.

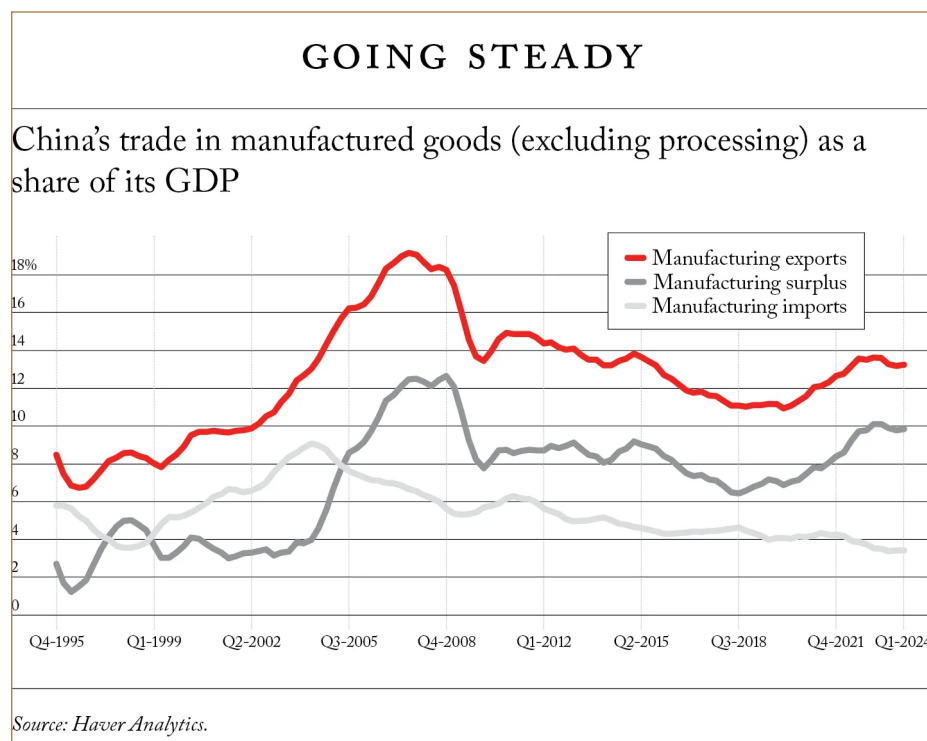
Any serious discussion of what drives trade must extend beyond tariffs and trade deals. The value of currencies also factors into trade flows, as do worldwide patterns of saving and investment. The dollar has remained strong since the United States withdrew from the TPP, and American consumers have not hesitated to buy foreign goods, helping drive the growth in U.S. imports.

Chinese exports to the United States are down since the 2018 introduction of the Trump tariffs, as are China's reported holdings of U.S. Treasury and government-backed agency bonds. But those indicators are poor measures of these two economies' true interconnection. When considering the impact of the United States' much-ballyhooed bilateral tariffs on Chinese products, it is important to look beyond U.S. data showing a fall in direct imports from China and pay more attention to data from China itself. Surprisingly, those data reveal a much smaller decline in direct trade with the United States and a steep rise in Chinese exports to countries that are now exporting more to the United States. Careful studies of the impact of the Trump tariffs by the Bank of International Settlements and the economist Caroline Freund have found that the most important effect of bilateral tariffs was to lengthen supply chains, not to shrink overall global trade or to reduce the United States' fundamental reliance on Chinese-sourced critical inputs. More Chinese parts now head to Malaysia, Thailand, and Vietnam—and to a more modest degree, Mexico—for final assembly. The underlying dependence on China is less visible, but no less substantial.



In fact, since the introduction of the Trump tariffs, China's economy has become only more central to world trade. The data points here are often overlooked by American and European commentators, but they are unambiguous. Over the five years between the end of 2018 and the end of 2023, China's exports of manufactured goods increased by 40 percent, from \$2.5 trillion to \$3.5 trillion, much more than the roughly 15 percent increase between 2013 and 2018.

Although China's ratio of exports to GDP fell in the years following the global financial crisis, exports have once again become a crucial driver of Chinese growth. After discounting imports of parts, China's exports of manufactured goods increased from around 11 percent of GDP before the pandemic to 14 percent of GDP in 2022. Predictions that this increase would turn out to be a one-off pandemic-related surge have not been borne out: although export growth slowed in 2023 as consumer spending diminished worldwide, it has now recovered, with export volumes growing by over ten percent in the first quarter of 2024. China's manufacturing surplus has increased even more dramatically, rising from a low of around six percent of China's GDP in 2018 to a stunning ten percent in 2023.



China's post-pandemic export boom undermines the argument that the world's economy is deglobalizing. For all of China's economic weaknesses, it can still produce goods at a scale that no other country can match. After the end of a property boom that lasted more than a decade, China responded to weakening internal demand by investing more in the production of manufactured goods for export. Consider the trajectory in one prominent sector: automobiles.

Historically, China was not a major auto exporter. But as domestic automobile demand trended downward, China went from being a net importer of automobiles to the world's largest exporter of them in just three years. This export wave is not about to weaken: China can produce at least twice as many internal combustion cars as it needs to meet shrinking domestic demand, and the country's leading electric car manufacturer, BYD, is doubling its production capacity to ramp up exports. It is hard to think of a more potent symbol of China's steadily growing integration with the global economy than the enormous fleet of car carriers BYD now has on order from Chinese shipyards.

DODGE BALL

U.S. policymakers are rightly concerned that the world has become too reliant on China for supply, particularly with respect to clean energy and green technology. In a mid-May speech, Lael Brainard, the director of the U.S. National Economic Council, put it well: "China's industrial capacity and its exports in certain sectors are now so large that they can undermine the viability of investments in the U.S. and other countries. ... Markets need reliable demand signals and fair competition for the best firms and technologies to be able to innovate and invest in clean energy and other sectors. The Chinese government has made clear that China's massive investments in electric vehicles, solar panels, and batteries are an intentional strategy to effectively capture these sectors."

Chinese policymakers should be equally worried that their country's economy has become too dependent on the world for demand. But they do not appear to be. Chinese leader Xi Jinping's policy of supporting "new productive forces," together with his perhaps surprising resistance to "welfarism," has yielded an unbalanced domestic economy that increasingly must externalize its internal distortions. China's surplus in manufacturing has risen as much relative to world GDP in the last few years as it did during the first China shock following the country's accession to the WTO, when a surge in Chinese exports and a sharp rise in China's manufacturing surplus displaced workers across the world's advanced economies. As a share of the world's GDP, China's manufacturing surplus now substantially exceeds any other country's recorded surplus since the end of World War II.

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Higher interest rates have created 63 “problem banks” and \$517 billion in unrealized losses, FDIC says ([from Business Insider](#))...

More than a year after the downfall of Silicon Valley Bank, higher interest rates are still putting pressure on the US banking system.

According to the Federal Deposit Insurance Corporation's first quarter report, the US banking system is sitting on a collective \$517 billion in unrealized losses and has 63 “problem banks.”

Those losses have been sparked primarily by a surge in interest rates over the past two years, which have driven down the price of fixed-income securities held by banks.

Unrealized losses held by banks increased by \$39 billion in the first quarter relative to the fourth quarter of 2023.

“Higher unrealized losses on residential mortgage-backed securities, resulting from higher mortgage rates in the first quarter, drove the overall increase,” the FDIC said.

Mortgage rates have been on the rise since the start of the year, with the 30-year fixed mortgage rate rising from about 6.6% in early January to just over 7% today, according to data from Freddie Mac.

“This is the ninth straight quarter of unusually high unrealized losses since the Federal Reserve began to raise interest rates in the first quarter 2022,” the FDIC said.

From 2008 through 2021, the US banking system's unrealized losses and gains on investment securities ranged from as much as \$75 billion in losses to just under \$150 billion in gains.

Meanwhile, the 63 problem banks in the first quarter represent an increase of 11 banks from the fourth quarter of last year. The FDIC categorizes problem banks as banks that have a CAMELS composite rating of four or five.

The CAMELS rating measures the financial strength of a bank through six categories, including capital adequacy, assets, management capability, earnings, liquidity, and sensitivity.

The rating system ranges from one through five, with one representing a high-quality bank requiring the least degree of concern, and five representing the weakest performance and requiring the highest degree of supervisory concern.

Total assets held by the 63 problem banks in the first quarter was \$82 billion, according to the FDIC, suggesting that most of the problem banks are smaller in size.

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Bombshell report claims the government wildly overstated job growth last year (from Robert Burgess via X)...

Bloomberg Eco out with a jarring report, saying monthly nonfarm payroll prints likely overstated job growth last year by 730,000.

US INSIGHT: 'Unexpected' Spark for Fed Cuts Hidden in Plain View

By Anna Wong (Economist)

(Bloomberg Economics) -- Asked after the May 1 FOMC decision what factors might lead officials to cut rates earlier than planned, Fed Chair Jerome Powell cited an “unexpected” deterioration in the labor market – even though he saw little chance of that. But we think just such a surprise is in store.

Several Fed officials seem to believe the labor market is still tight, but we estimate, based on more comprehensive measures, that monthly nonfarm payroll prints likely overstated job growth by 730k last year – with hiring maybe even falling below zero in October. Much of the downward revision was due to a surge in business closures, even as new business formation slowed sharply in the second half of the year – factors the payroll prints don’t take into account.

We see the same factors at work this year. Adjusted for those distortions, we estimate the true pace of job growth currently is below 100k per month – substantially below the 242k three-month average pace in the printed establishment survey report. By the end of the year, the printed level of nonfarm-payrolls for 2024 likely will overstate true employment by at least one million – with more than half due to the BLS’s model for estimating business formations and closures.

Goldman Sachs predicts a “wall of money” will enter the market next month ([from Bloomberg](#))...

A flood of cash from passive equity allocations will pour into the stock market in early July, setting up a continuing rally through the early summer, according to Goldman Sachs Group Inc.'s trading desk.

“New quarter (Q3), new half year (2H), this is when a wall of money comes into the equity market quickly,” Scott Rubner, Goldman's global markets division managing director and tactical specialist, wrote in a note to clients Wednesday.

In addition, share prices should benefit from strong seasonal trends and rising engagement from retail investors. “I am seeing a re-emergence in retail traders during the summer, they tend to come around in July,” he wrote.

Since 1928, the first 15 days of July have been the best two-week trading period of the year for equities, and they tend to fade after July 17, according to Rubner. The S&P 500 Index has been positive for nine straight Julys, posting an average return of 3.7%. The Nasdaq 100 Index has an even better record, posting gains in 16 straight Julys, with an average return of 4.6%, he noted.



Source: Goldman Sachs FICC and Equities

By Rubner's calculations, roughly nine basis points of new capital gets put to work every July. For this year, that would be \$26 billion based on \$29 trillion in passive assets available for investment.

"The bar for being short equities right now is very high given these upcoming flows and random market dynamics," Rubner wrote.

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This indicator suggests the bull market is starting to crack (from McClellan Financial Publications Chart in Focus)...



The SP500 is up to a new all-time high, but the NYSE's Advance-Decline (A-D) Line is not confirming that. This is a sign of trouble, because it means that the concentration of buying in certain big cap stocks which drive the major averages is not being confirmed by what the rest of the market is doing.

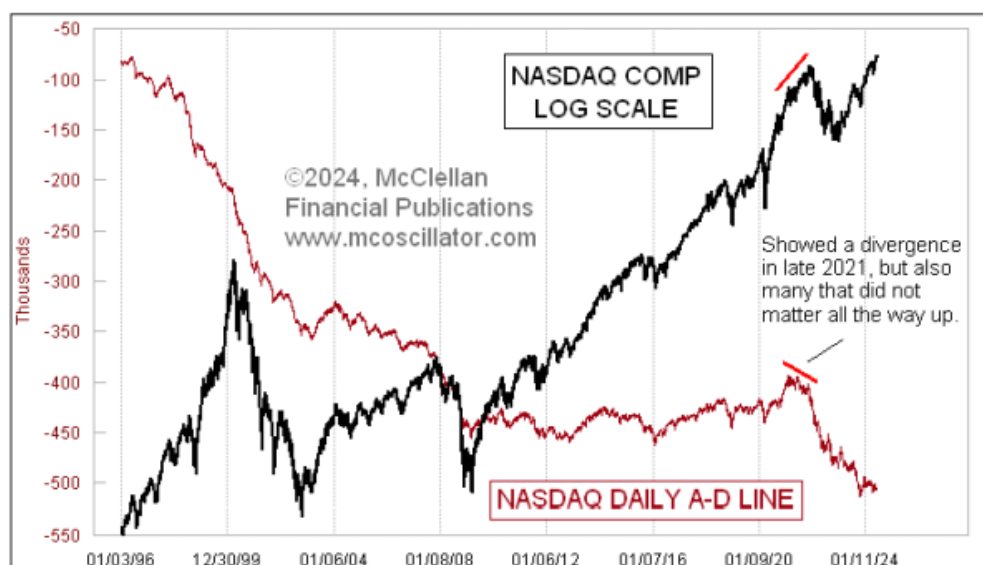
A cumulative daily A-D Line is calculated by tabulating the number of stocks going up every day (Advances) and subtracting the ones who close down (Declines). That daily A-D difference is known as "the daily breadth". An A-D Line is a running tabulation of all prior data, and it changes each day by the value of the daily breadth number.

Most of the time, the NYSE's A-D Line will echo what prices are doing. That is the normal behavior. But I watch the NYSE's A-D Line carefully all the time, because historically a bearish divergence like what we are seeing now has been a big sign of trouble. Most price indices are dominated by the largest capitalization stocks, but every stock gets an equal vote in the A-D Line.

That can be useful because when liquidity starts to dry up, it typically affects the smaller capitalization stocks first. That poor liquidity eventually comes around to bite the big stocks. So the A-D Line functions like the canaries in the coal mines of Newcastle 200 years ago, being more sensitive to the bad gases, and providing an early warning of impending problems for the coal miners.

A-D Line studies can also be useful because it is hard to manipulate those data. While it may be possible for big traders to manipulate a single stock, or perhaps even the big stocks which move the major averages, it is functionally impossible to manipulate all of the stocks (unless you are the Fed, doing quantitative easing).

I prefer the NYSE's A-D Line because it has a much better track record of working. The Nasdaq's A-D Line, by contrast, is a horrible indicator because of its persistent bearish bias.



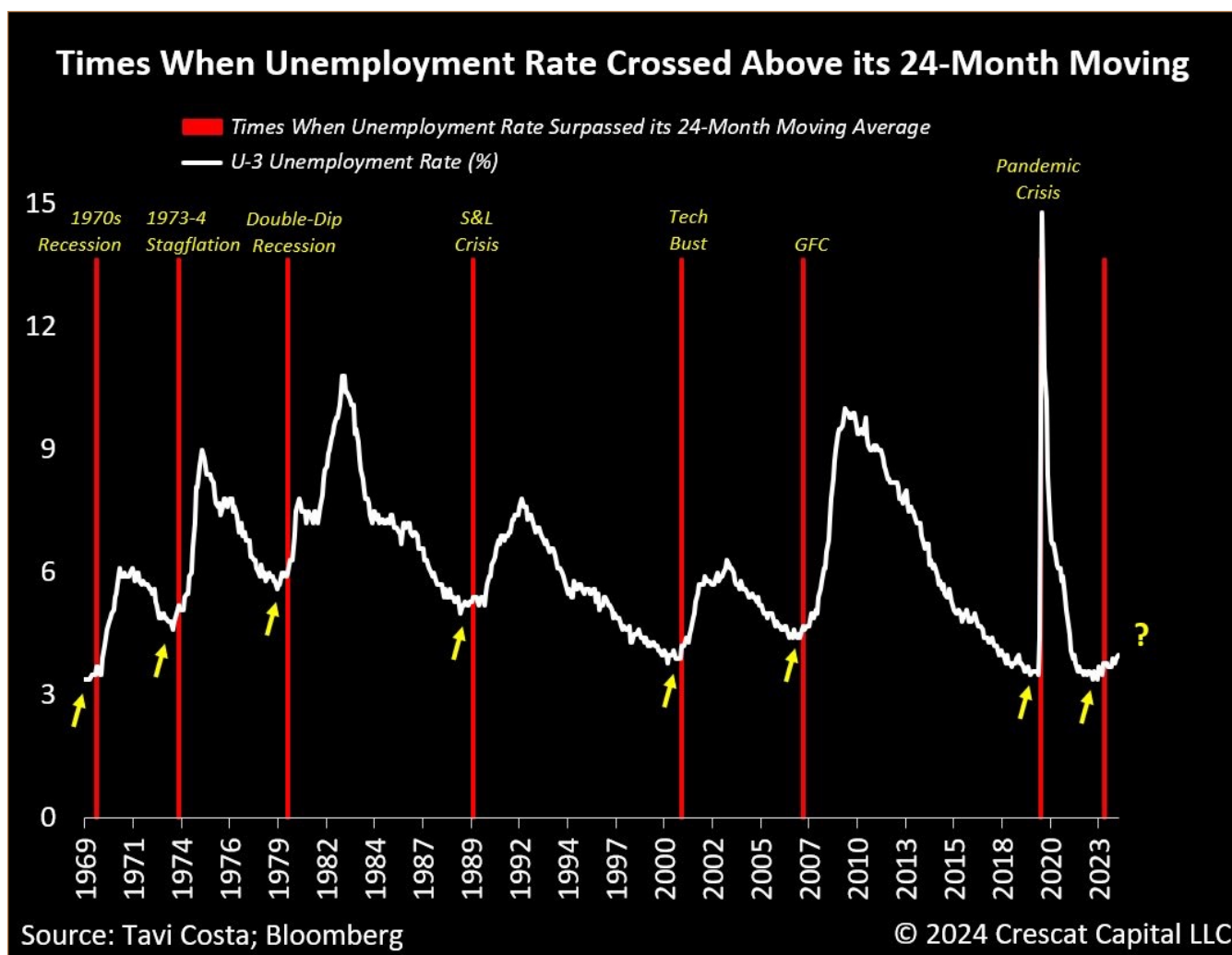
The listing standards for stocks are looser on the Nasdaq than on the NYSE. So a stock which is going to go from IPO to broke is more likely to be listed on the Nasdaq. And every day that its share price spends on the way from the IPO price to zero, that stock is contributing to the Declines column of the data. The Nasdaq Composite Index is currently making new all-time highs, but its A-D Line is near its all-time low readings. This is not unusual.

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This reliable signal suggests the labor market is about to weaken significantly (from Otavio (Tavi) Costa via X)...

The rise in unemployment rates yesterday highlights the critical importance of this macro signal, which has consistently predicted severe downturns in labor markets.

If history is any guide, this is the beginning of an upward trend in unemployment rates, not the end of one.



History suggests Nvidia's recent stock split could be a bearish omen for its share price **(from Adam Khoo via X)...**

Nvidia (NVDA) split its stock 10 for 1 on 7 Jun 2024. It split its stock 5 times prior to that

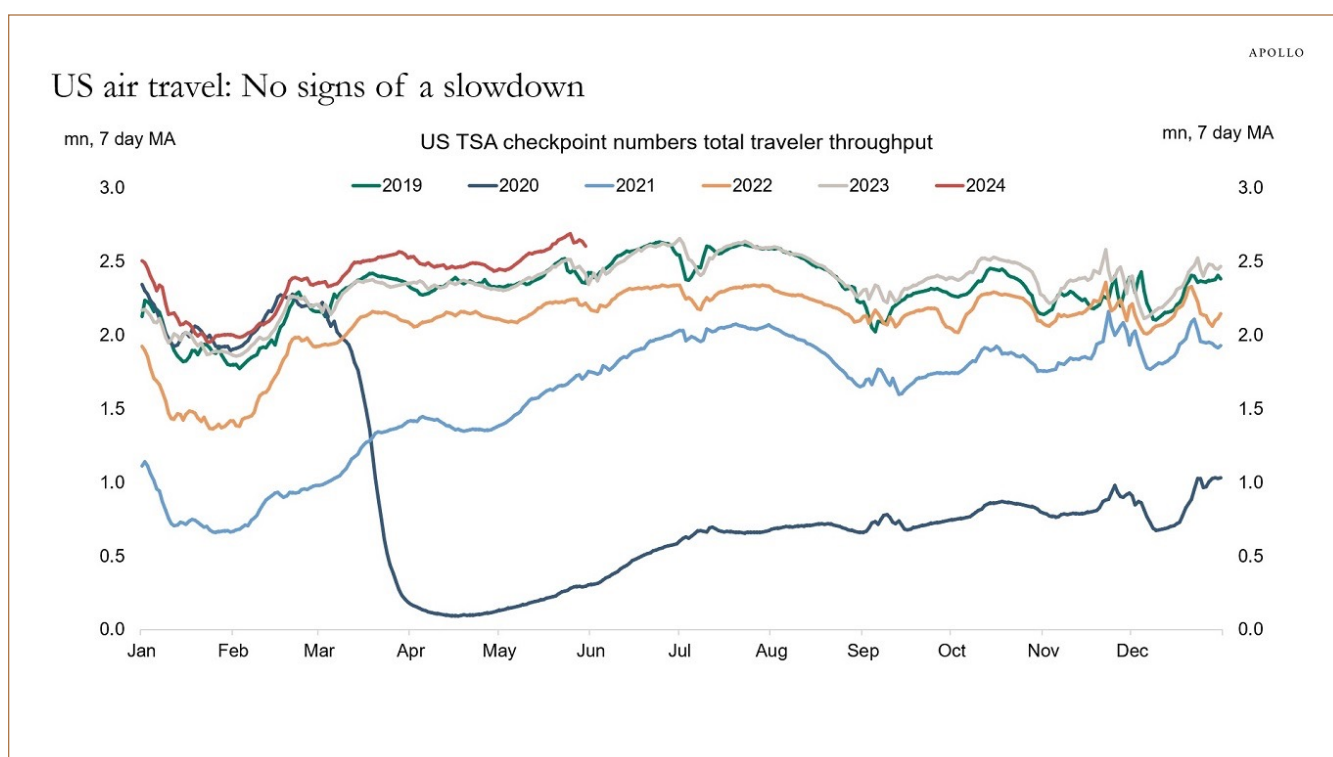
After its first 2 splits (Jun 2000, Sep 2001), the Dot com crash occurred. After the next 4th split on Sept 2007, the Great Financial Crisis occurred. After the 5th split on Jul 2021, the Bear Market started. None of it is their fault, just bad luck timing.

Will they be lucky the 6th time round?



Transportation Security Administration (TSA) checkpoint data show U.S. travel remains strong (from Apollo's The Daily Spark)...

The TSA has daily data for the number of people scanning their boarding pass with a TSA agent, and it continues to show no signs of the economy slowing down, see chart below.



Source: TSA, Bloomberg, Apollo Chief Economist

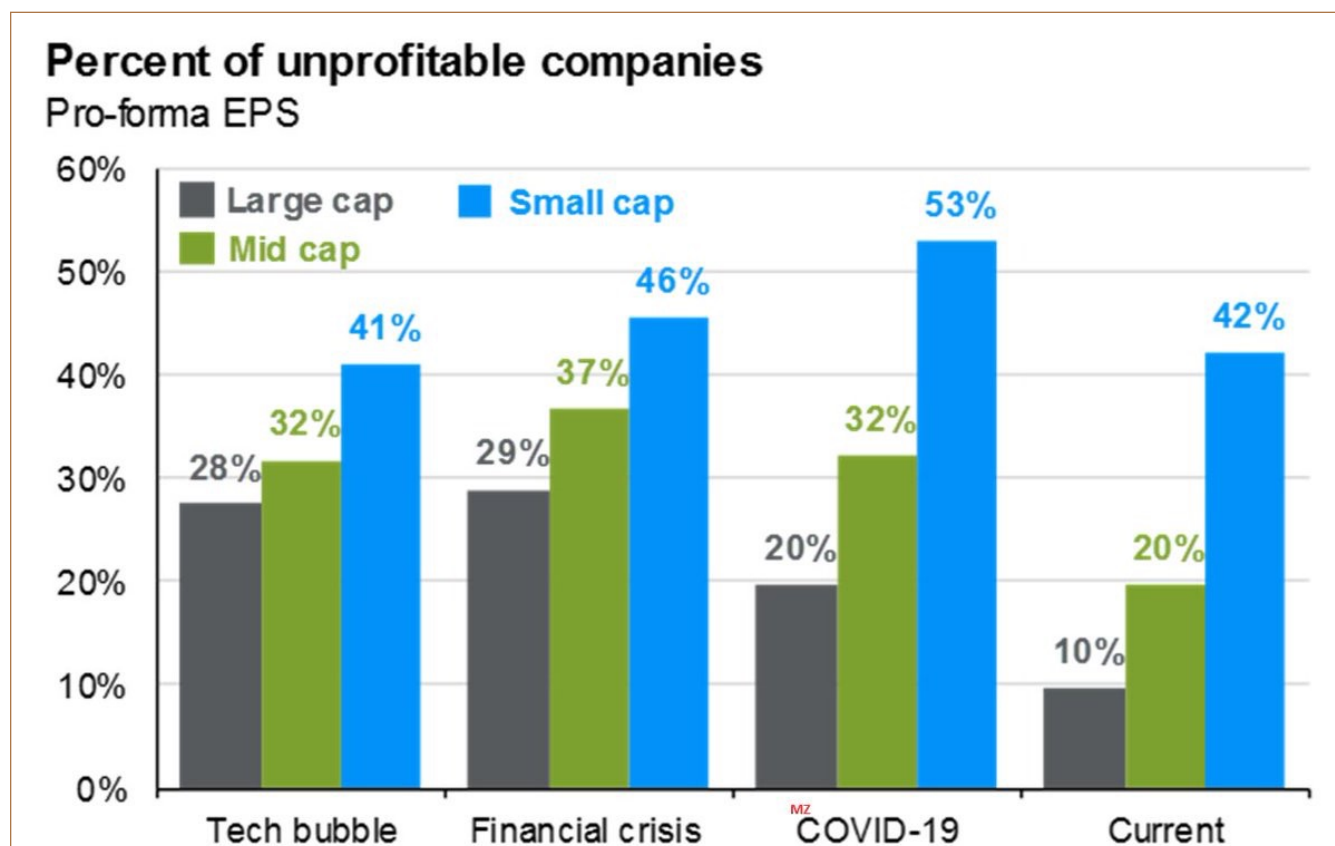
Defensive sectors aren't sending a bearish signal yet (from Ryan Detrick, CMT via X)...

People ask all the time what will change my bullish stance and I always say when the defensive stuff starts leading.

Great chart from @HumbleStudent that shows we aren't seeing this yet. Yes, utilities have done well, but other parts of the defensive trade haven't caught a bid yet.



Over 40% of small-cap firms are currently unprofitable ([from Mike Zaccardi, CFA, CMT via X](#))...

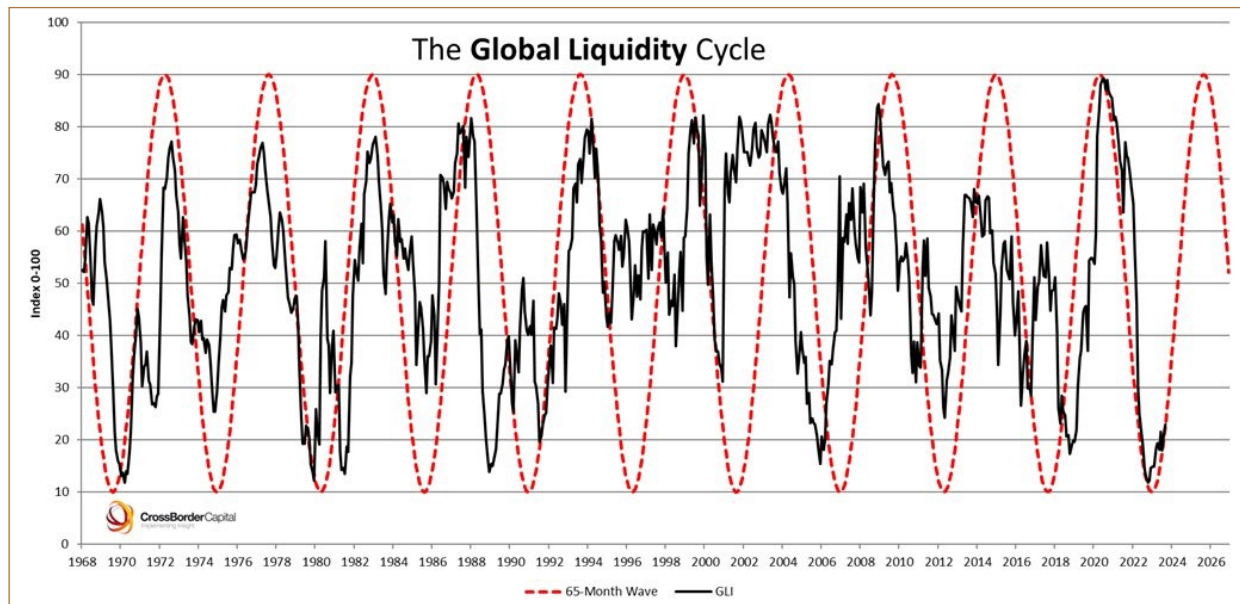


This may be the single most bullish chart for risk assets today (from Peruvian Bull via X)...

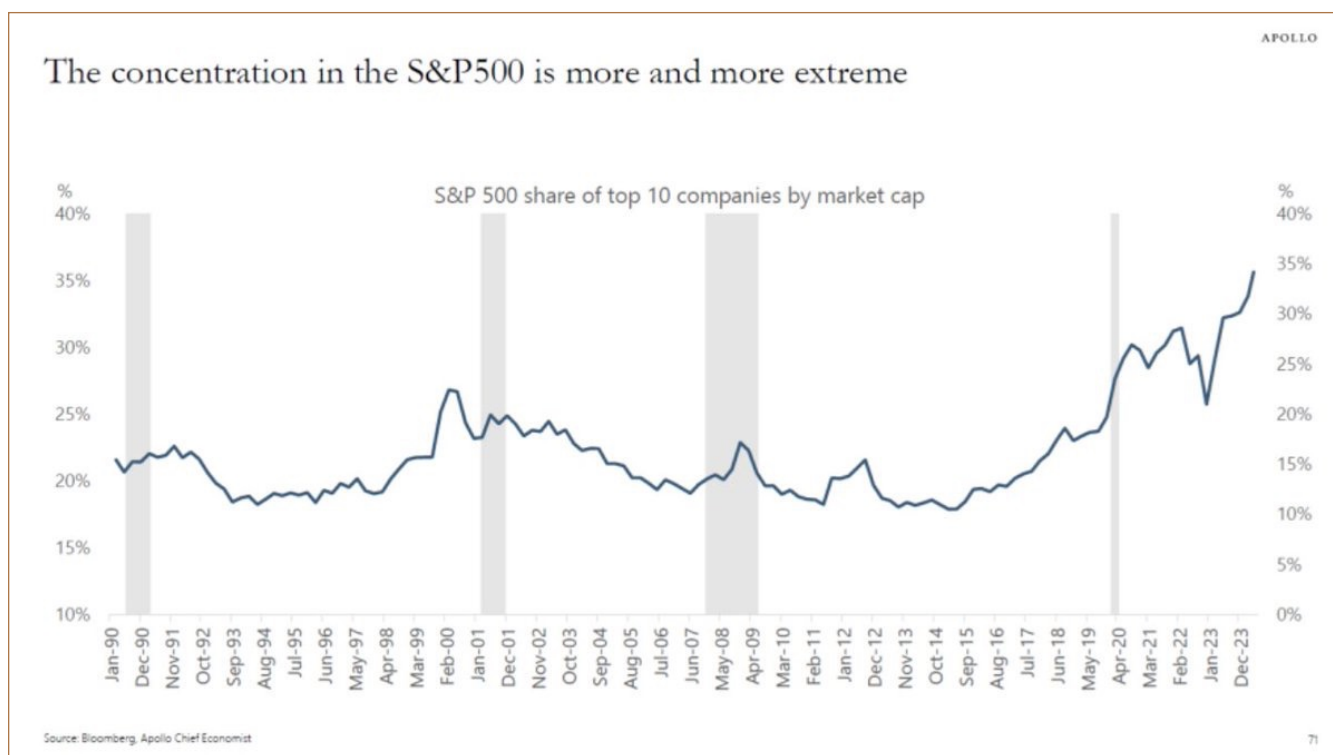
evidence for the doubting

global liquidity works on a cycle. just like kondratieff waves, credit cycles, or population trends.

we're about to enter a time of increasing global liquidity again. this chart via the great @crossbordercap



The top 10 stocks in the S&P 500 now make up a record-high 35% of the index's value ([from Lisa Abramowicz via X](#))...



The bottom line on the reported death of the petrodollar this month (from UBS Insights)...

Google Trends is reporting an astonishing spike in searches for “petrodollars” in the past two weeks, to the highest on record. This is apparently because of a viral story that on 9 June Saudi Arabia failed to renew a secret 50-year deal with the US to keep oil priced in dollars.

The US and Saudi Arabia did establish a Joint Commission for economic cooperation in June 1974. This aim was to help Saudi Arabia spend its sudden glut of dollars on US products. In July of that year, Saudi agreed to invest oil dollars in US Treasuries (this was kept confidential until 2016).

Oil has always traded in non-dollar currencies. In January 2023, Saudi indicated it was happy to negotiate oil sales in other currencies. The possibility changes little for financial markets. Saudi Arabia’s riyal remains pegged to the dollar, and its stock of financial assets are dollar focused. The dollar’s reserve status depends on how money is stored, not how transactions are denominated.

This is a reminder of confirmation bias. The story seems to have started in the crypto world. Many crypto speculators desperately want to believe in the dollar’s demise. Confirmation bias encourages people to ignore what is realistic if their prejudices are seemingly confirmed. This is a poor investment strategy.

Pensions piled into private equity. Now they can't get out ([from The Wall Street Journal](#))...

Private-equity and pension funds seemed like a match made in heaven. U.S. companies and states handed over control of some worker retirement savings. In exchange, they got a promise of high returns after a decade—and often received healthy cash payouts in the years before that.

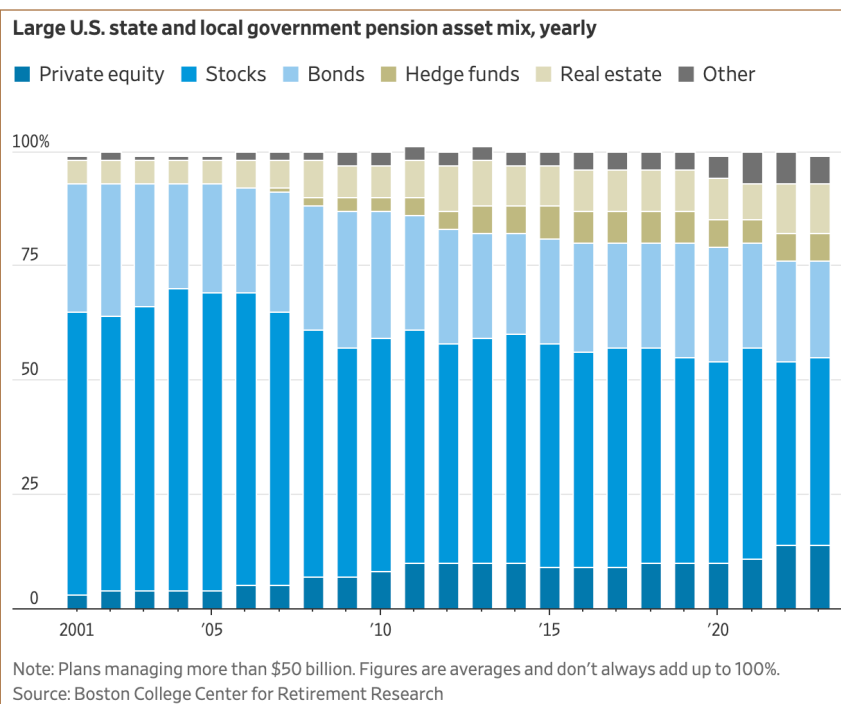
Now the honeymoon is over. The payouts have dried up, creating an expensive problem for investment managers overseeing the savings of workers retired from big corporations and state and city governments.

To keep benefit checks coming on time, those managers are unloading investments on the cheap or turning to borrowing—costly measures that eat into returns. California's worker pension, the nation's largest, will be paying more money into its private-equity portfolio than it receives from those investments for eight years in a row. The engine maker Cummins took a 4.4% loss in its U.K. pension last year, in large part because it sold private assets at a discount.

It is the latest cash crunch to befall retirement funds that have piled into hard-to-sell investments in search of high returns, and spotlights the risks as Wall Street is trying to sell those investments to wealthy households.

"You've got a lot more money out and going out than is coming back, and I think that's causing a lot of angst," said Allen Waldrop, Alaska Permanent Fund Corp. private-equity director.

U.S. companies and state and local governments manage around \$5 trillion in pension money. Large public pension funds have an average 14% of their assets in private equity, while large corporate pensions have almost 13% in private equity and other illiquid assets such as



private loans and infrastructure, according to data from Boston College and JPMorgan Chase. Much of the money was committed when low bond yields were dragging down retirement portfolios.

But as private equity has grown, its lead over traditional stocks has narrowed. And during the decade before the investments pay out, it can be hard to trust interim estimates provided by fee-seeking managers.

Pensions, sovereign-wealth funds, university endowments and other institutions often promise their money to private-equity managers for a decade or so. Over that time, the managers draw down the cash and use it to buy companies, then overhaul and sell them. Those sales and the resulting cash distributions to investors have slowed markedly as high interest rates have made buying and owning companies more complicated and expensive.

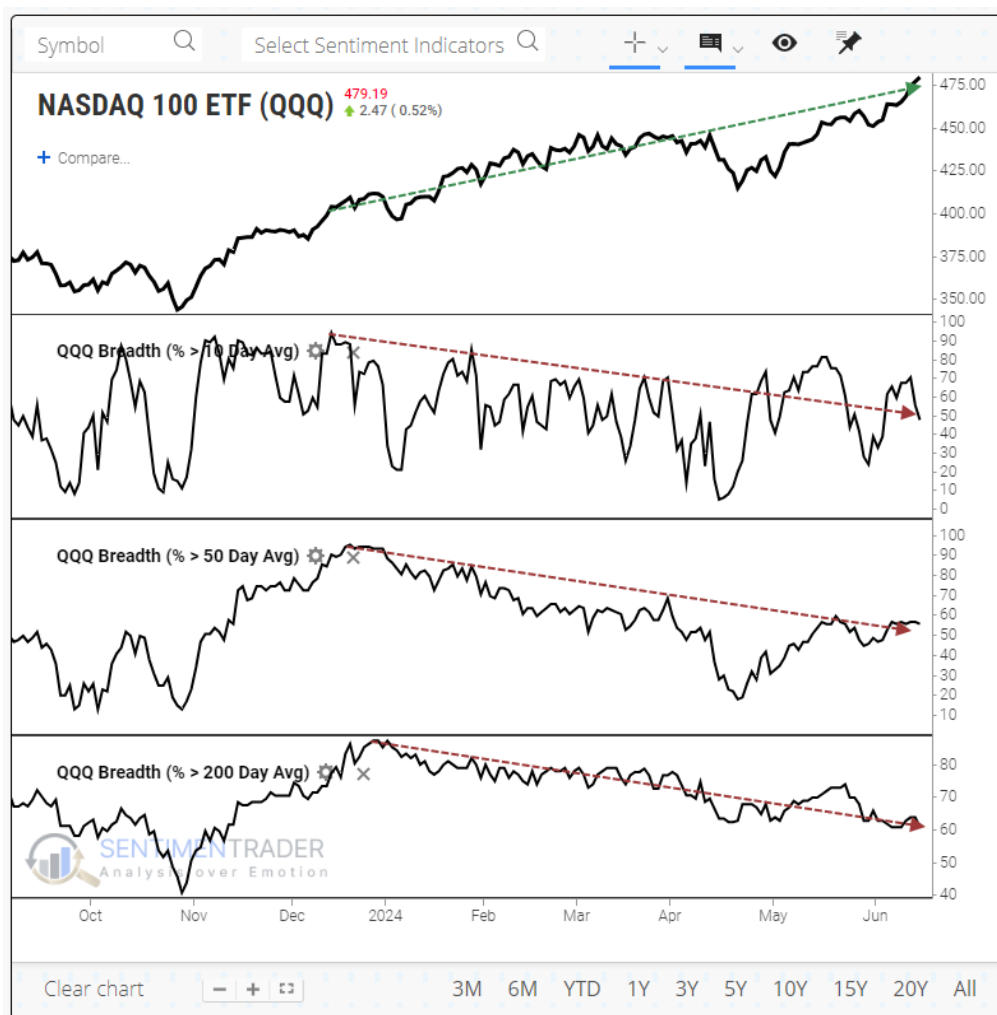
[Continue reading here](#) *(subscription may be required)*

The Nasdaq 100 Index is experiencing a rare – and worrisome – “breadth divergence” ([from SentimenTrader via X](#))...









The Nasdaq 100 continues to notch record high after record high. Many of its stocks are not only lagging, but they’re falling to monthly, quarterly, or even yearly lows and below their 10-, 50-, and 200-day moving averages.

This is not normal. In fact, it’s never happened before to this degree.

There is a possibility that the average stock will catch up to the index, that is not how things usually pan out. Almost never, in fact. Risk is high in that index.

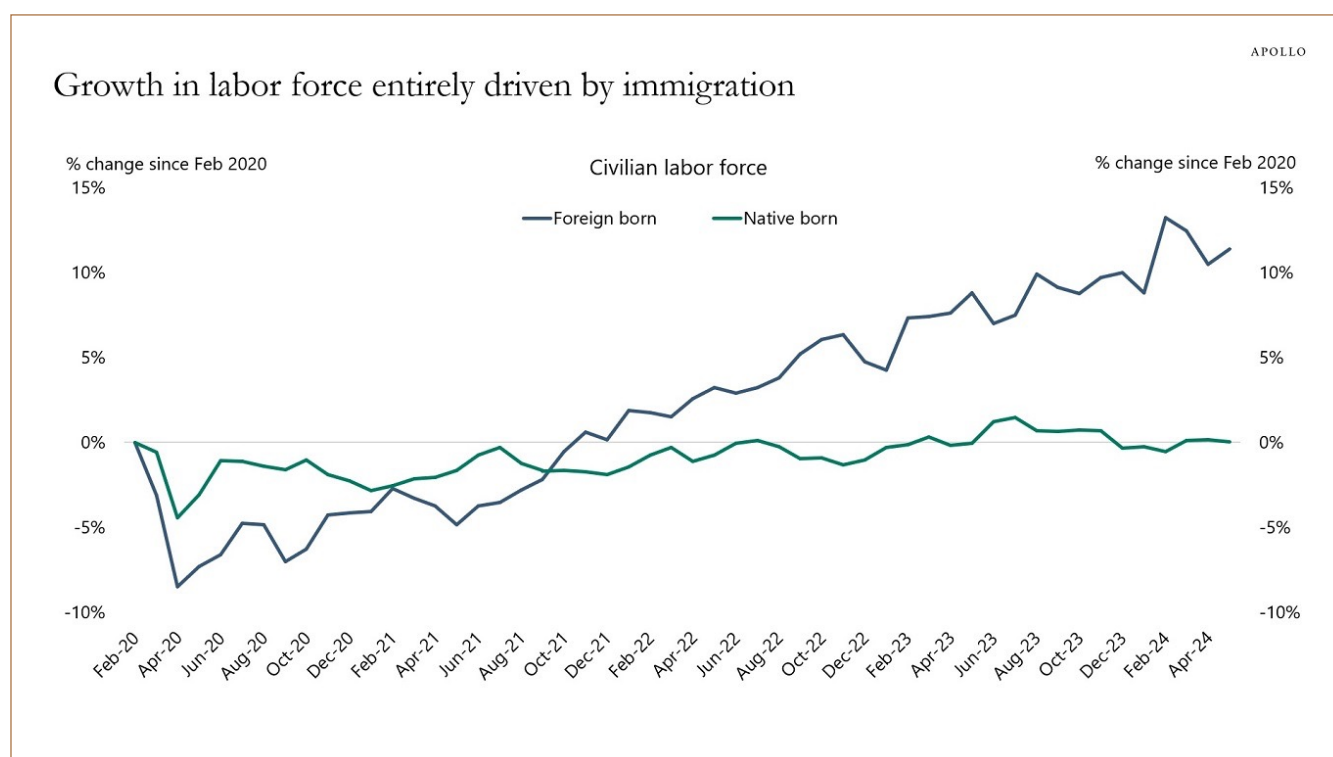


Nvidia (NVDA) became the most valuable company in the world this month ([from Trung Phan via X](#))...

	Name		M. Cap		Price		P
☆	 NVIDIA 1 NVDA		\$3.345 T		\$136.02 ▲ 3.85%		
☆	 Microsoft 2 MSFT		\$3.314 T		\$445.96 ▼ 0.54%		
☆	 Apple 3 AAPL		\$3.279 T		\$213.86 ▼ 1.30%		
☆	Alphabet (Google) 4 GOOG		\$2.160 T		\$175.68 ▼ 1.73%		
☆	Amazon 5 AMZN		\$1.894 T		\$182.09 ▼ 1.07%		

Since 2020, all of the growth in the labor force has come from immigration ([from Apollo's The Daily Spark](#))...

The foreign-born labor force has grown 11% since February 2020, and the native-born labor force has remained unchanged over the same period, see chart below.



Source: BLS, Haver Analytics, Apollo Chief Economist

Japan's century-old Norinchukin Bank becomes the latest casualty of "higher for longer" ([from Bloomberg](#))...

For years, it was best known as Japan's CLO whale — a \$357 billion investing giant with seemingly insatiable appetite for yield in an era of rock-bottom interest rates.

Now Norinchukin Bank has become one of the biggest casualties of an entirely different financial world — where higher-for-longer borrowing costs are exacting a painful toll on the market's weakest hands.

The agricultural bank surprised the market this week by saying it would sell \$63 billion of low-yielding US and European government bonds that had become unprofitable to hold after the firm's shorter-term funding costs jumped. The unlisted firm warned that losses this fiscal year may swell to 1.5 trillion yen (\$9.5 billion), triple an estimate made less than a month ago.

While Norinchukin and the Japanese government have expressed confidence in the bank's ability to weather the losses, the episode is a reminder of the dangers still lurking in the financial system 15 months after the collapse of SVB Financial Group's Silicon Valley Bank. Signals from the Federal Reserve and other central banks that they are in no rush to cut rates have caught out many investors betting on more aggressive moves.

That's creating a tricky landscape for institutions like Norinchukin, which piled into US and European sovereign bonds on the expectation that falling rates would spark a debt rally after two years of declines. The bank is now overhauling its portfolio, selling off a third of its sovereign holdings and shifting to other types of assets, including collateralized loan obligations and domestic and overseas bonds.

"It is surprising that they didn't hedge interest-rate risk," said Philip McNicholas, Asia sovereign strategist at Robeco Group in Singapore. "It may have been that they had high conviction regarding Fed and ECB cuts and initially thought it was just a temporary delay."

Norinchukin isn't the only bank suffering from wrong-way bets on rates. SVB collapsed early last year after its massive portfolio of long-dated bonds lost value as interest rates soared. The losses sparked a run on deposits that eventually spread to other regional lenders including Signature Bank and First Republic Bank.

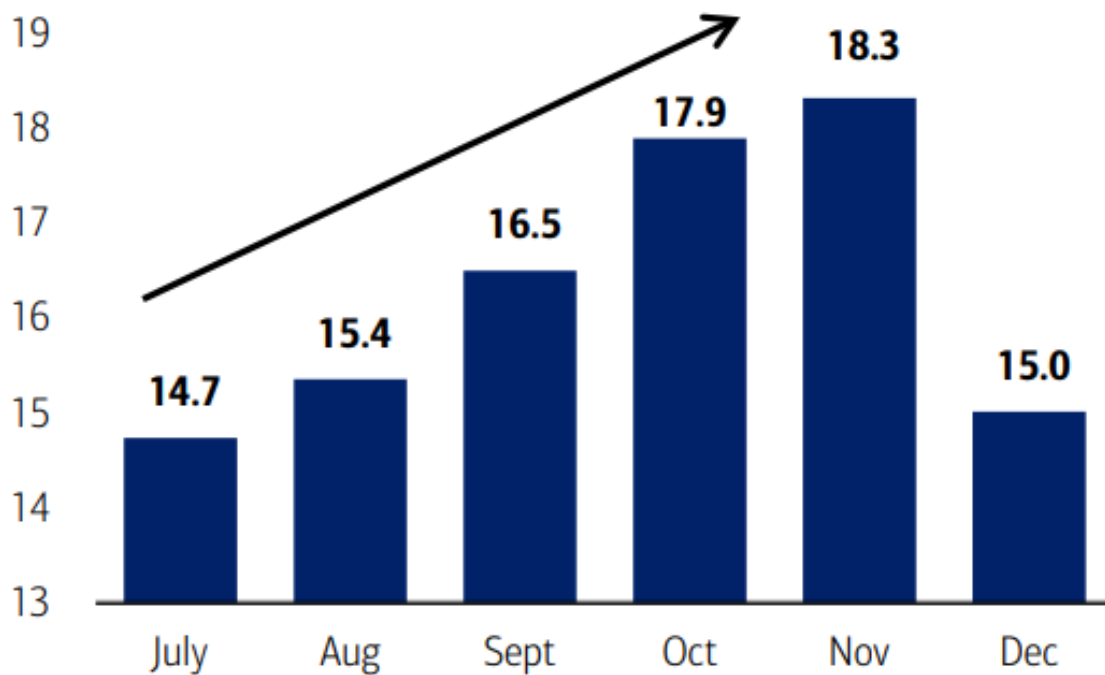
More recently, the higher-for-longer rates have led to paper losses at many banks and fund managers. The Fed has yet to move this year, even though the market was pricing in 150 basis points of cuts as recently as December. US banks had \$516.5 billion of unrealized losses in their securities portfolios at the end of March, according to regulators...

[Continue reading here](#) *(subscription may be required)*

History suggests volatility is likely to move significantly higher over the second half of the year ([from Mike Zaccardi, CFA, CMT via X](#))...

Exhibit 3: 25% increase in volatility from July-Nov of election years

Average monthly volatility (VIX 1990-present, monthly average of daily S&P 500 return volatility 1928-1989) for US election years since 1928

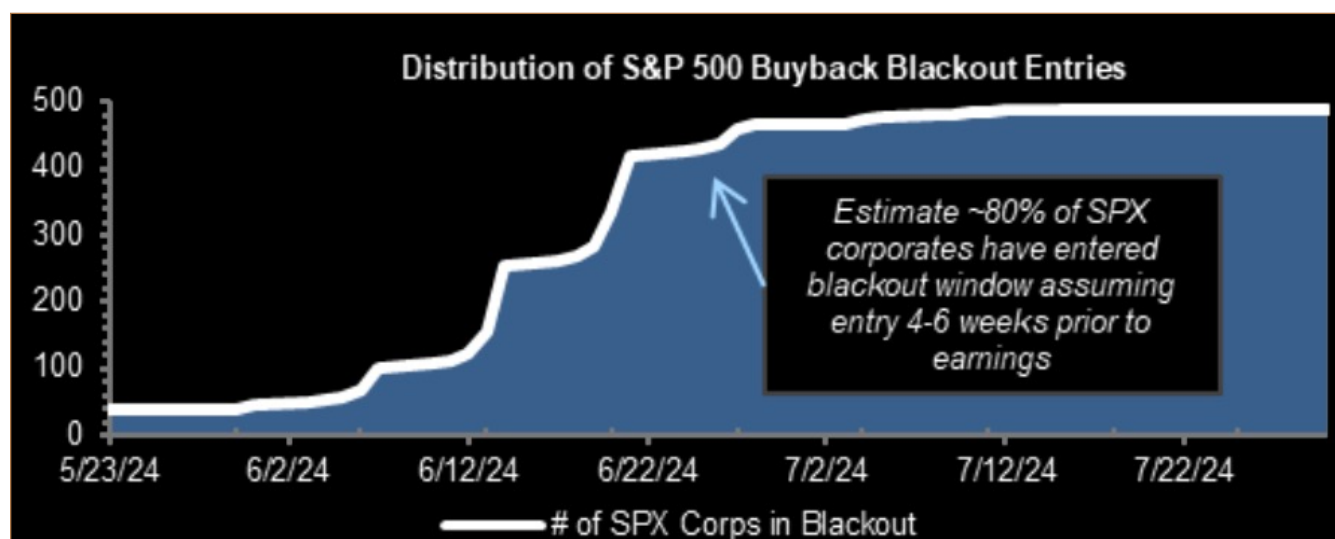


Source: Bloomberg, FactSet, BofA US Equity & Quantitative Strategy

BofA GLOBAL RESEARCH

Nearly all S&P 500 companies have entered the share buyback “blackout window” ahead of earnings season, which means the market is losing a huge source of equity demand for the next month or so ([from The Market Ear](#))...

The big buyback VWAP bid is taking a pause. GS projects around 80% of the SPX is in their blackout window, growing to 90% by the end of the week.



THE LEGENDS SPEAK

Wisdom and Insight From the World's Greatest Investors

This classic warning from veteran market technician Walter Deemer – written at the peak of the dot-com bubble in March 2000 – still holds some valuable lessons for investors today ([from Walter Deemer's Market Strategies and Insights](#))...

INTRODUCTION

During my now 36-plus years in this business, I've never seen anything even remotely comparable to the current chasm in the stock market between New Economy and Old Economy stocks; the NASDAQ, which rose 85% in 1999, has risen another 16% so far this year while the Dow-Jones Industrial average (whose 30 components happen to earn more than all of the NASDAQ stocks combined do) was recently off more than 14%. But it is not the unprecedented market chasm that prompts this piece -- it is the accompanying arrogance on the part of all too many New Economy (aggressive growth) managers, as demonstrated in such things as the writings of James Cramer of TheStreet.com and the utterances of a seemingly-endless parade of hedge fund managers on CNBC. These managers sneeringly inform those unfortunate souls who are not invested in the same Cisco's and Qualcomm's as they are (or, more likely, in the same JDS's and Xcelera's as they are) that "Old Economy stocks are relics of the past; if you don't own the Cisco's and Qualcomm's of the world, no matter what their valuations may be, you're living and investing in the past, not the future. This is the way it is and this is the way it's going to be from now on." (The logic of the subset of managers who are well aware that this kind of thing can't last, but are cocky enough to think they can get out before the final whistle blows -- even though they readily admit that most players won't -- needs no further comment on my part.)

While the first part of the foregoing observation "this is the way it is" -- is clearly true, we vigorously disagree with the second part "this is the way it's going to be from now on". We are hardly about to quarrel with the idea that Cisco (to pick on what is on the verge of becoming the biggest company in the world in terms of market capitalization) is a better company than, say, Sears; quite obviously, it is. But investors are not buying Cisco, the company; investors are buying Cisco, the stock -- and what seems to be lost

on the part of many of the aforementioned money managers in their “buy-the-New Economy” reasoning process is the fact that just because Cisco is a better company than Sears, Cisco is not automatically a better stock, too. Relative valuations must also be considered.

THE CASE FOR “NEW ECONOMY” STOCKS: WE’VE HEARD IT BEFORE

One of the biggest justifications the aforementioned money managers cite for owning the New Economy stocks -- at any price -- in lieu of everything else is the Fed’s current stance on interest rates. Although higher short-term rates are almost a certainty, the New Economy stocks, their argument goes, are pretty well insulated from the Fed’s harmful effects; it is really only the already-beleaguered Old Economy stocks that will be adversely impacted by them. Part of my problem with this line of reasoning, though, is that I’ve seen this movie before. And it doesn’t end happily. Back in 1972-73, at the height of the Nifty Fifty era, one of the biggest justifications that was cited for buying big, high-quality growth stocks (at any price) was that those stocks were the ones that were the most insulated from the high interest rates and high inflation that were then ravaging the globe, and no price was too high to pay for the growth and safety they offered. I can still remember going into John Bennett’s office one day at Putnam during the height of the Nifty Fifty era and asking him how he could justify our owning J&J at its then-grossly-inflated multiple. John puffed on his pipe, then responded: “If you look at their earnings out seven years from now, the stock’s not really all that expensive.” (John also counseled “In a bull market, rent a kid!”, which turned out to be a rather prophetic comment as it regards the current investment climate.)

Now I will be the first to admit that conditions during the Nifty Fifty era were far, far different than they are now; in 1973, for example, inflation and interest rates were both in double digits. But the arrogance on the part of all too many money managers was disturbingly similar: “The Nifty Fifty stocks are the ones that will grow come what may, and are the ones that are most insulated from the interest-rate and inflationary pressures. The Nifty Fifty stocks are therefore the stocks you MUST own -- at any price”. Relative valuations were not even considered. I well remember an incident at Putnam during the height of the Nifty Fifty era when the Putnam Advisory Company -- which was every bit as big a Nifty Fifty player as Morgan’s Carl Hathaway (Hathaway just got all the media coverage) -- was bringing in new accounts almost daily. As a result, the advisory managers made frequent trips to the trading room to deliver a stack of buy tickets for their Core List stocks and a stack of sell tickets for the stocks they had inherited. One afternoon, John Maurice, a card-carrying contrarian and one of the best and most astute money managers I have ever worked with (he managed the Putnam Growth Fund) looked at the

advisory manager who had just brought in the latest stack of buy and sell tickets, and said "Do you mind if I ask you something?"

"Sure."

"Do you ever wonder if U. S. Steel, which you're selling at five times earnings, might possibly be a better stock than Baxter, which you're buying at 50 times earnings?"

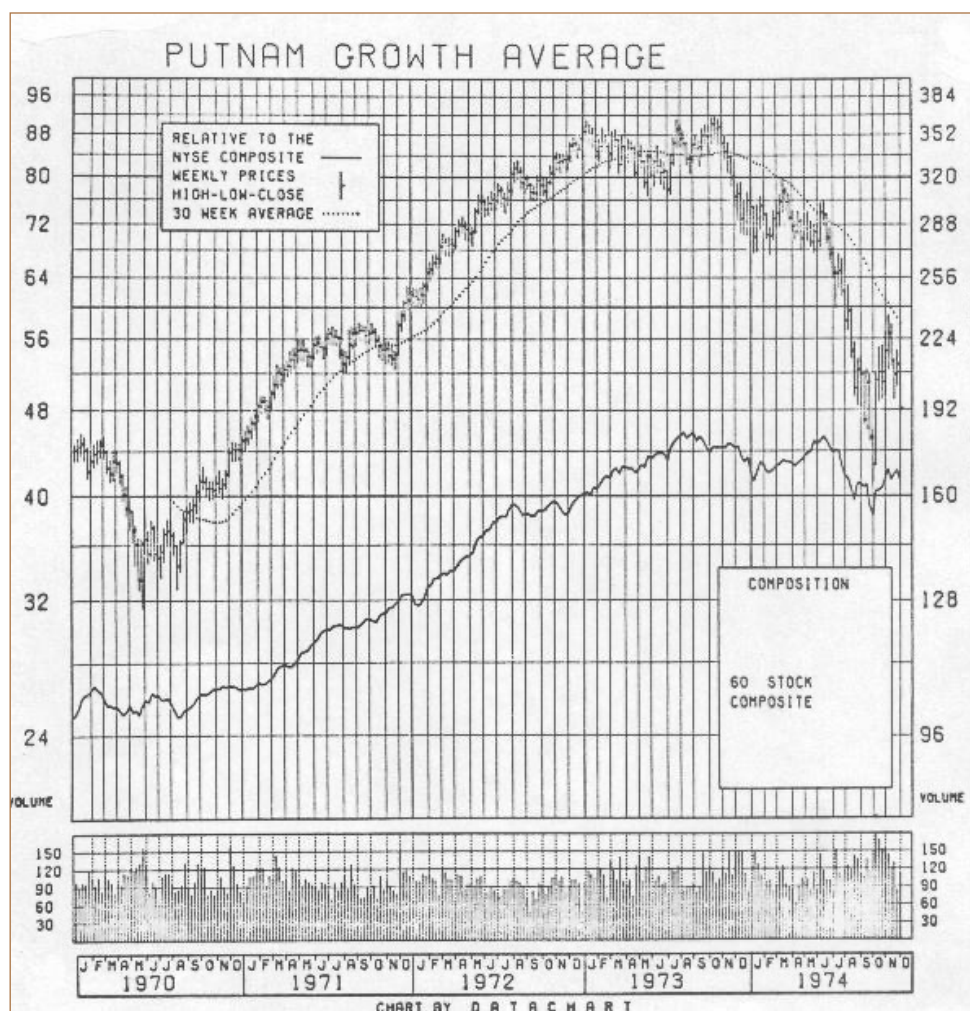
"No," came the instant reply. "We were sold to our new client as a growth stock manager, and a growth stock manager we shall be."

But -- the deeply-depressed U. S. Steel WAS a better stock to buy in 1973 than the immensely-exploited Baxter. Not only that: the money that came flooding into growth stock managers in 1973 and 1974 because of the sensational past performance of high-quality growth stocks departed just as quickly towards the end of that decade, due to the persistent underperformance of those very same growth stocks.

Investors have thus seen money forced out of value shops and into growth shops before. I know how the story ended in the mid-1970's -- and there is absolutely no question in my mind that the currently-still unfolding saga is going to end comparably at some point. The (unanswerable) question, of course, is just WHEN the pendulum will start swinging the other way (as well as what the force or forces will be that cause it to start to do so). It is probably a good idea for all of us, though, to keep in mind that no pendulum swings in the same direction forever, either in the physical world or on Wall Street.

Final note #1: The Nifty Fifty performance which crested in 1973-74 caused John Neff, so I am told, to come within one quarter of being fired at the time. Neff stuck to his style of investing, though, and his fund subsequently performed so well, and got so big, that it had to be closed to new investors 15 years later. Carl Hathaway's did not.

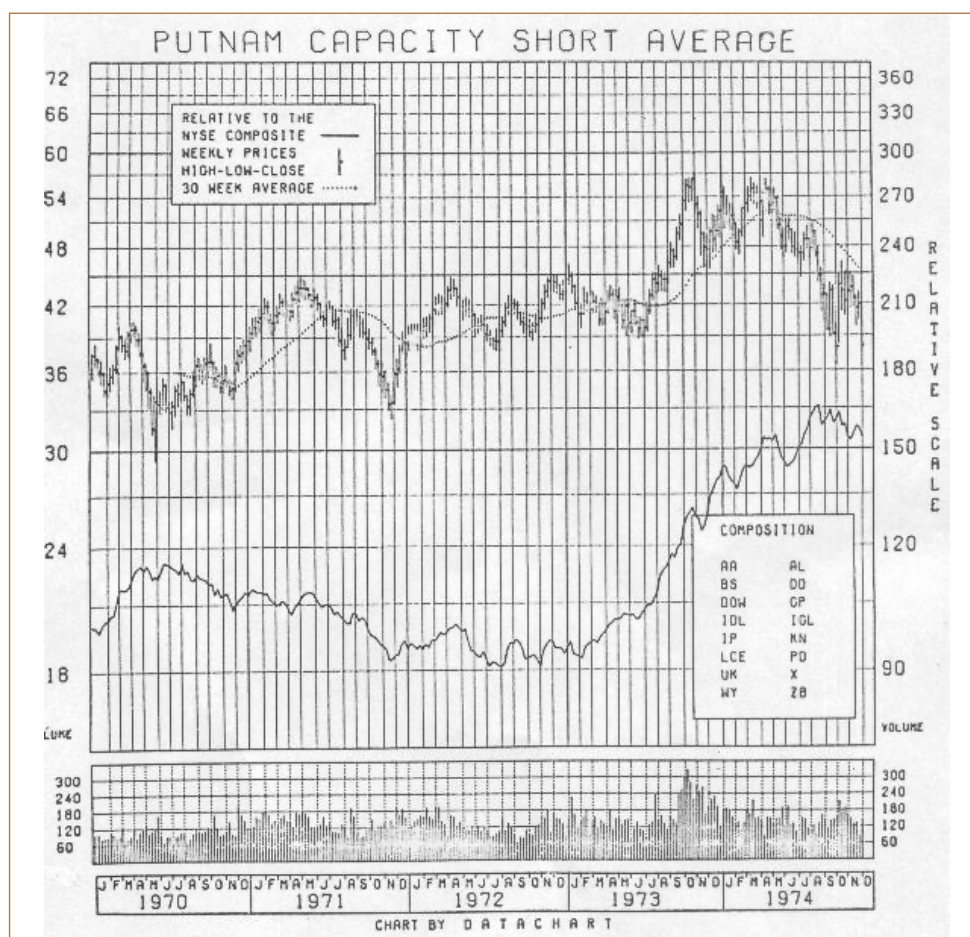
Final note #2: According to the February 21st issue of Pensions & Investments: "Growth stocks outperformed value stocks by 125 percentage points during the past 18 months, representing a 6.8 standard deviation or an event that should occur only once every 285 billion years, according to AXA Rosenberg." That's right; BILLION.



THE “NIFTY FIFTY” TOP (1973-74)

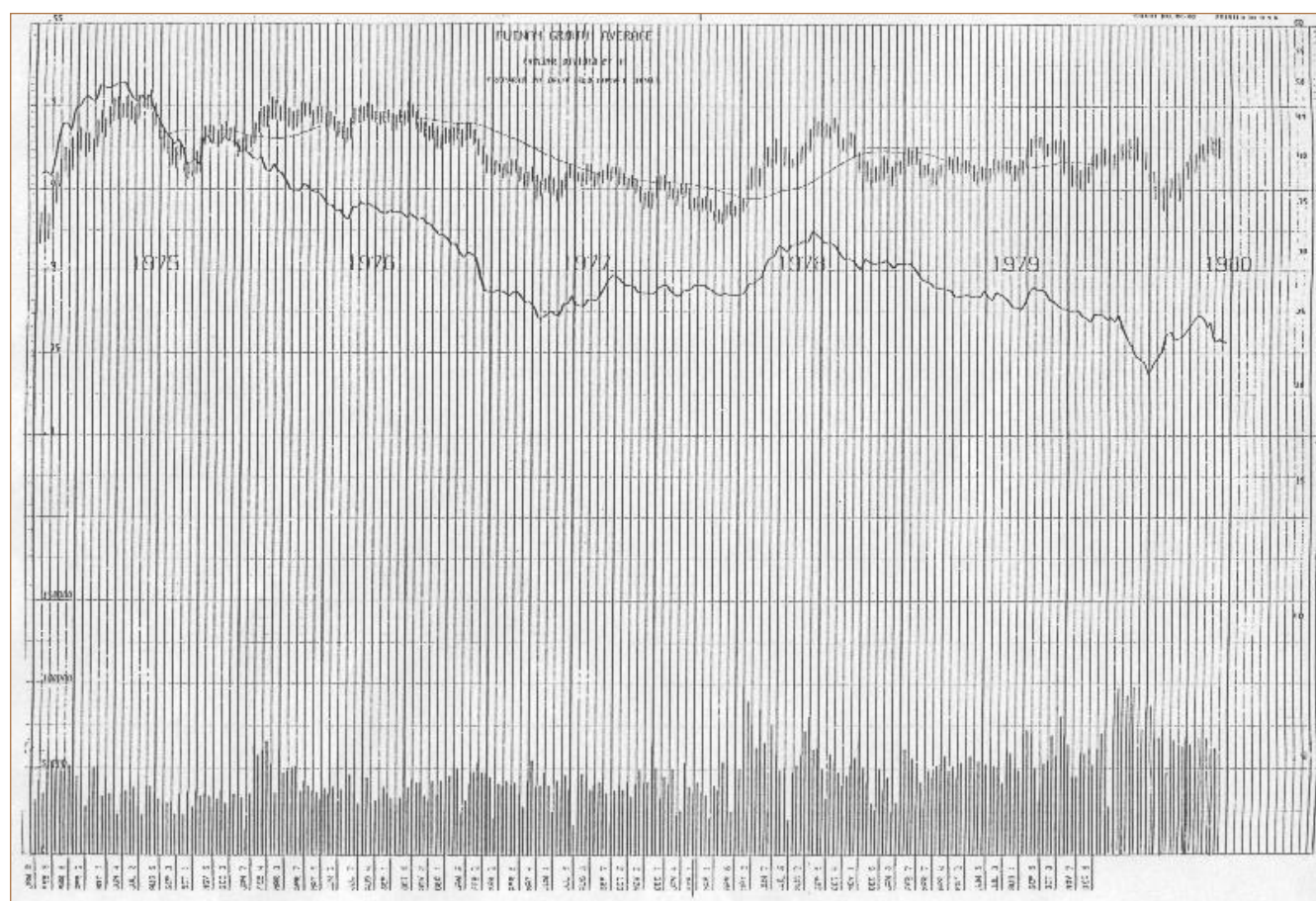
And just what did the Nifty Fifty look like back then? The chart on the next page is a weekly chart of the Putnam Growth Average from 1970 through the end of 1974, exactly as it appeared in one of my regular weekly reports at the time (the solid line on the chart, as well as on the other charts in this report, is a relative strength line). The Putnam Growth Average is thus not a “reconstructed” index of growth stocks -- it is the “Nifty Fifty” universe we were actually using back then. (There were, in fact, actually sixty stocks which met all three of our criteria for inclusion: 1) A billion-dollar market cap; 2) A five- year growth rate of at least 15%, and 3) Consistent earnings growth; no single quarterly earnings point could be more than 20% away from a least-squares line drawn through the past five years of quarterly earnings.)

As I said, conditions were completely different then than they are now, so I am not at all sure if we will see a top pattern anything like the Nifty Fifty one this time around. But that Nifty Fifty top is about all we have to go on, so we might as well take a look at it; as you can see, the price top took some ten months to develop, from January until October of 1973, while the top in relative strength was made during an eleven-month period, from August of 1973 through June of 1974. The conclusion, then, at least based on this one and only example, is that growth-stock tops are broad, drawn-out affairs.



And what about value stocks in 1973; the U. S. Steel's that Putnam were dumping at five times earnings to buy Baxter at fifty times? We had an index called the "Putnam Capacity-Short Average" to track the basic industrial/commodity cyclical sector, which was as depressed an area as you could get in an already-depressed market (in an effort

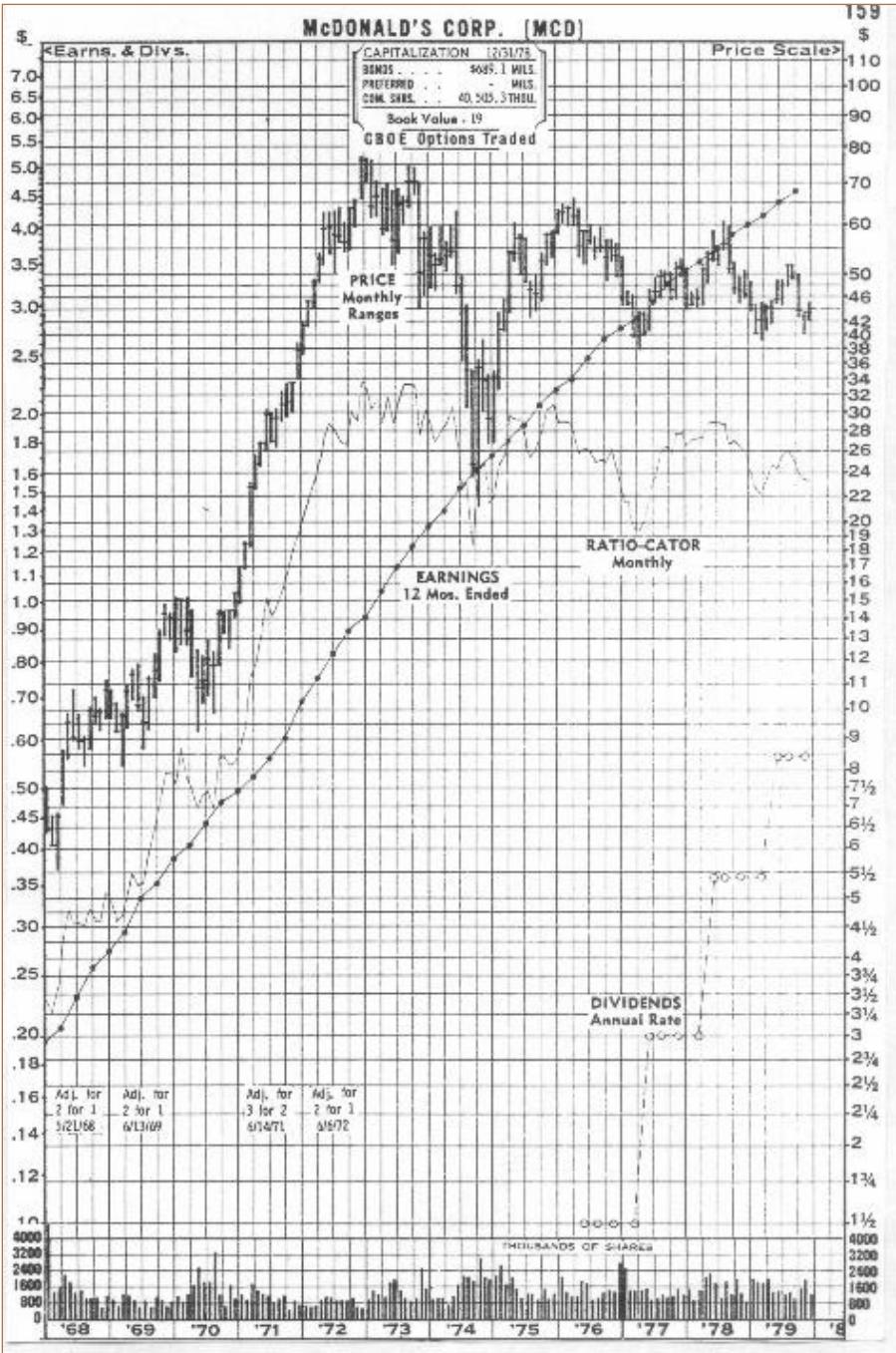
to draw attention to the stocks, we called it the Capacity-Short Average to highlight the fact that many basic industries were running out of excess capacity back then). This, too, is a “real-time” chart from the end of 1974; note its soaring relative strength line during 1973 and 1974 and the fact that the index itself barely broke its 1973 low in 1974 while the DJI was tailspinning from 800 to 580.



THE REALLY TRAGIC PART OF THE NIFTY FIFTY STORY

The really tragic part of the Nifty Fifty story, though, was not what happened to the stocks during the 1974 bear market. The really tragic part of the Nifty Fifty story was what happened to them in the months and years afterwards, as shown by the more recent (but still contemporary) chart of the Putnam Growth average, this one from 1980. As you can see, the stocks

underperformed throughout 1975, 1976 and 1977, and, following a brief rally in 1978, the underperformance resurfaced and lingered on for another couple of years.



It was this long period of sustained underperformance that ruined growth stock managers and which set up the eventual bottom in growth stocks. The chart of McDonald's is classic (but by no means unique); the stock went from 75 to 40 from 1973 until 1979 -- without the company missing a single quarterly earnings number. Even more catastrophically, McDonald's P/E multiple went from 75 times trailing earnings in 1973 to less than 10 times earnings in 1979 despite the fact that the company maintained a 25% earnings growth rate, compounded, throughout the entire period.

(And just how widely was this underperformance predicted? Well, as part of our quarterly investment policy review at Putnam, I brought in leading advocates from both sides to make their cases, then let the money managers decide who was right. In 1975, though, I could only find one person who was willing to come in and tell us that growth stocks would underperform for a period of years -- Don Hahn.)

CONCLUSION

As I said at the outset, what prompted this piece is the arrogance on the part of all too many New Economy (growth) managers who sneeringly tell everyone who is not invested in the same Cisco's and Qualcomm's as they are that "this is the way it is and this is the way it's going to be from now on. The Old Economy stocks are relics of the past and if you don't own the Cisco's and Qualcomm's of the world, no matter what the price, you're living and investing in the past, not the future." Again: we are not about to quarrel with the idea that Cisco is a better company than, say, Sears; it is. But investors are not buying Cisco, the company -- investors are buying Cisco, the stock, and what seems to be lost on the part of many money managers is the fact that just because Cisco is a better company than Sears does not automatically make Cisco a better stock, too.

To put it even more bluntly: The question that must be asked here is at what price Sears is a better buy than Cisco -- and "Never!" is NOT an acceptable answer. The money managers who are in the "My Cisco, right or wrong!" camp and who will not consider alternative investments no matter how low those alternative investments get nor how high Cisco goes -- are doomed to eventual disappointment, just as the Nifty Fifty managers, the managers who bought and owned the finest companies in the world at the time, were doomed to eventual disappointment twenty-seven years ago. The question is "when?" -- not "whether?"

N. B. None of the foregoing is meant to knock growth stock investing per se; clearly, growth investing IS currently working -- and working unbelievably well. In addition, given our comments

in our regular reports regarding small growth stocks (and the fact that our own money is invested in a small-cap growth-stock fund), we suspect that growth investing will continue to generate superior performance for some unknowable time to come. My quarrel is with the money managers who 1) think that investing in growth stocks, no matter what their price, is the ONLY way to go, now and forevermore, and 2) refuse to consider alternative investments under any circumstances. For all I know, Cisco may be a better stock to own than Sears for a long, long time to come. But there IS a limit somewhere, and investors must thus keep on comparing Sears to Cisco even if the answer keeps coming up "Cisco is still the better stock to own."

Open-mindedness is one of the signs of a great investor. Arrogance is not.

Details from Berkshire Hathaway's "lost" 1987 annual shareholders meeting ([from Kingswell](#))...

CNBC's invaluable archive of Berkshire Hathaway annual meeting videos and transcripts only dates back to 1994. Meaning that decades' worth of Q&A sessions with Warren Buffett and Charlie Munger are seemingly lost in the mists of time.

Needless to say, this saddens me.

But, thankfully, all is not lost. A handful of fragmentary reports from these early meetings still exist — mostly via the *Omaha World-Herald* and the *University of Berkshire Hathaway*. Often just partial quotes, paraphrased questions and answers, and the like — but beggars can't be choosers.

Basically, what I'm saying is that there isn't too much to work with here. That was the case for the 1985 and 1986 Q&A sessions, too.

Nevertheless, I'm back today with everything that I can find on Berkshire's 1987 AGM.

This certainly cannot claim to be the definitive account of the '87 meeting. There are, no doubt, holes big enough to drive a truck through. But, absent a time machine, it's the best I can do to compile all of the available information from that day.

I very much hope that this will prove helpful to Berkshire students far and wide.

On May 19, 1987, approximately 500 shareholders filed into the Witherspoon Concert Hall at Omaha's Joslyn Art Museum for the Berkshire Hathaway annual meeting.

That Tuesday morning, Warren Buffett and Charlie Munger sped through the formal proceedings in a matter of minutes — before opening the floor to questions from shareholders for the next two to three hours.

The *Omaha World-Herald* noted that "Buffett constantly made humorous remarks while consuming Cherry Coke" — which, I must admit, is a pretty apt description of these Q&A sessions.

Well, without further ado, here's everything that I could dig up from this (very) early episode of the Warren & Charlie show...

(1) Will Berkshire Hathaway ever split its stock?

"I have a stockholder friend of mine who is 60," said Buffett. "I just sent him a telegram on his birthday that said, 'May you live until Berkshire Hathaway splits.'"

The implication being, of course, that it never will.

If only immortality could be won so easily.

Buffett's reluctance to split the stock was the same then as it is today. Berkshire already has the exact group of patient, long-term shareholders that he wants — and it's "a hard group to upgrade".

(2) Would splitting the stock help Berkshire get listed on the New York Stock Exchange?

Back in 1987, Berkshire's stock was traded on the over-the-counter market. At least in part because its unusually large share price (already north of \$3,000) all but ruled out inclusion in the NYSE.

"A couple of people from the New York Stock Exchange came out three or four months ago [to try to convince me to list on the NYSE]," Buffett told shareholders.

In those days, stock was typically purchased in 100-share "round" lots — which would be prohibitively expensive at Berkshire's lofty price. And, if someone wished to buy a smaller amount (known as an "odd" lot), they got nickel-and-dimed with extra fees.

So Buffett asked the NYSE to allow Berkshire to sell 10-share round lots as a compromise. "The New York Stock Exchange wants us," he said, "but not the 10-share round lot. It wouldn't work as 100 share trades."

He sounded like he preferred the sedate pace of OTC anyway. "The less stock traded," he said, "the better job we've done. That's not an attitude the NYSE likes."

- The New York Stock Exchange agreed to Berkshire's terms the following year and the Omaha-based conglomerate officially joined the Big Board on November 29, 1988 — with 10-share round lots instead of 100.

(3) Are there advantages to spinning off parts of Berkshire?

"I don't think it's easier to administer two public companies instead of one," said Buffett.

(4) Will you repurchase shares to boost Berkshire's value?

"It would have to be significantly discounted from its intrinsic value," said Buffett.

"Berkshire's stock trades close to its intrinsic value [right now]."

If that were to change, he said, “we’d repurchase some stock — but we don’t want that to happen.”

(5) Did your advertisement in the *Wall Street Journal* last year lead to any deals?

In 1986, Buffett placed an ad in the *Wall Street Journal* in search of companies to acquire — because tax changes coming at the end of the year made it a particularly advantageous time for owners to sell. He sought businesses worth at least \$100 million and with \$10 million of after-tax earnings.

And while he got a lot of responses, the vast majority were not a fit. “If you run an ad for a chihuahua,” said Buffett, “you get a lot of collie replies.”

(An example of a “collie reply” was the Mississippi woman who tried to sell Berkshire her antebellum mansion. Or the man who wanted to offload his NYC newsstand.)

Buffett admitted that about five of the responses intrigued him, though none led to a deal. Nevertheless, he hoped that the advertisement made an impression on would-be sellers and might pay off down the line.

“The ad cost \$47,000,” he said. “*The Wall Street Journal* is expensive. Even though it didn’t work, people will remember the ad.”

Until then, though, Berkshire would go back to business as usual. “We have a sophisticated acquisition policy,” Buffett said. “We wait for the phone to ring.”

(6) What kind of businesses are you looking for?

“I’d like to buy something for a penny, sell it for a dollar, and have it be habit-forming,” he laughed.

Sadly, such unicorns are few and far between. “I don’t find any stocks that are attractive to me [right now].”

(7) Would you invest in a foreign corporation?

“We had a few inquiries from Canada,” he said, “but it’s unlikely we’ll buy anything outside the United States.”

(8) What’s going to happen with inflation?

“At some point,” said Buffett, “we will see lots of inflation. We will not profit from it — and we’ll try not to be destroyed by it.”

He believed that the U.S. government would continue to print more money as needed, thereby fueling further inflation. “If you had a printing press in your basement and you had some problems, you might slip down there occasionally [too],” he said.

(9) What is your position on protectionism?

Buffett referred the questioner to an op-ed that he wrote earlier that month for the *Washington Post*. In it, he proposed a “plan that will promptly eliminate the trade deficit but leave us free of most of the problems that quotas and tariffs produce”.

His plan called for the creation and use of Import Certificates that would be issued to exporters based on the value of their exports. And any company seeking to import goods from overseas would need to purchase an equal amount of these ICs from the exporters. Voila, a trade balance.

“In 1626, we made one of our better moves,” he wrote. “Encountering some consumption-oriented locals, we swapped a few trinkets for ownership of Manhattan Island. Now, we’ve begun reversing the process. We should stop this foolishness promptly — and ICs will do the job.”

(10) What are your views on the insurance business?

In 1986, Berkshire’s insurance operations achieved a combined ratio of 103% — pretty good for that era’s high interest rate environment — but there were ominous signs that increased capacity throughout the industry would soon drive down prices.

And that’s exactly what happened.

Berkshire’s insurance volume dropped by 35% in the first quarter of 1987 — and Buffett expected the situation to worsen in the coming years. “The [insurance] business is becoming intrinsically less profitable,” he said.

(11) Do you think executive compensation at Berkshire is too high?

This question seemed mostly aimed at insurance chief Mike Goldberg’s \$2.2 million total compensation (salary and bonus) in 1986.

“Mike’s compensation relates to the business under his control,” said Buffett. “I pulled it down — and he pulled it up. Our compensation reflects that.” (A joke at the sizable difference between Goldberg’s multi-million-dollar pay package and Buffett’s customary \$100,000 salary.)

“Mike’s not the only one up there,” he added. “The figures can’t get too big as far as we’re concerned.”

Buffett has said elsewhere that he never minds writing a big check for outstanding performance. In fact, it’s the managers who muddle along in mediocrity — never earning lucrative bonuses — that really bother him.

(12) What is the long-term plan for Berkshire?

“We have no interest in selling or merging,” said Buffett. “We have no end-game strategy. Charlie and I have fun. We like the people we work with.”

(13) What do you think will happen in the stock market?

By 1987, Berkshire’s stock cupboard looked pretty bare. Buffett and Munger had sold almost all of their non-permanent holdings because of the frothy market and invested the proceeds in tax-free bonds.

It was a time of all greed and no fear on Wall Street — which has never been Berkshire’s kind of market. Killer timing, too, with the Black Monday crash just a few months away.

Berkshire hung onto its primary holdings of Capital Cities/ABC, the Washington Post Co., and GEICO — along with a smaller arbitrage position in Lear Siegler.

“I’ve been around for 40 years and I don’t know how to forecast the market,” Buffett admitted. “We’re going to hold our stocks even if the stocks go down 50%. [If it’s] psychologically impossible for you to own stocks that fall 50%, don’t own them.”

(14) How do you feel about those caught insider trading?

“You can’t put them away long enough,” said Buffett. “We applaud what the SEC is doing.”

And then Charlie chimed in: “When incredible rewards go to the casino operators, it is extremely unlikely that civilization has reached nirvana.”

(15) What will happen to Berkshire when Warren Buffett dies?

It’s kind of crazy to think about, but Buffett has spent over two-thirds of his life answering questions about his death. In one of his early partnership letters, he admitted that people were already asking him — at scarcely thirty years old — what would happen to their investments if he died.

At the 1987 annual meeting, he gave his usual response: His untimely death should not upset the applecart at Berkshire. And, if the stock did drop after he passed away, it would be a strong buy for long-term investors.

After all, Berkshire would be left in safe hands. “Charlie would run things,” he said.

That answer stirred Charlie and the vice chairman quickly reassured shareholders that the Buffett family was well known for its longevity. To prove his point, he motioned towards Buffett’s 83-year-old mother who was seated in the crowd.

(16) Do you plan to open more See’s Candies stores?

Buffett pointed out that See’s does most of its business during the Christmas season — which leads to long lines at stores. Which, in turn, leads customers (and some shareholders) to grumble that more locations should be opened to capture this demand. But, Buffett warned, while such a strategy might alleviate those holiday lines, it would prove uneconomical the other eleven months.

“We only make money [at See’s] when people are inconvenienced,” he said.

I’m guessing that this somewhat cryptic line means that See’s makes its money during short bursts of high demand (when lines are long), but would lose money with more locations (and shorter lines) because of uneven seasonal demand.

(17) Why did Buffett buy ServiceMaster stock for his personal portfolio and not for Berkshire?

In 1986, Buffett personally purchased 5.1% of the Chicago-based maintenance and cleaning service company for between \$35-40 million.

The company had recently switched from a corporation to a limited partnership — which inspired Buffett’s investment. “ServiceMaster is more attractive for an individual due to the tax consequences,” he said.

(18) Can you talk about the precision (or lack thereof) in business and economic forecasts?

“[Some business leaders practice] false precision,” said Buffett. “That’s a real problem. A CEO says the hurdle rate is 15%, so they work out the rate to be 15.1%. Business is not that precise. We like numbers, but we don’t try for pinpoint precision.”

In other words, when you carry projections out to three decimal places, it's way too complicated (and probably wrong to boot).

From the *University of Berkshire Hathaway*:

Munger added that the worst mistakes are made from the nicest graphs and what is really needed is "enlightened common sense".

(19) What's going on with Berkshire's new corporate jet?

Berkshire purchased a used corporate jet in 1986. A move so out of character for the thrifty Buffett that he poked fun at himself by announcing it in super-tiny print in that year's annual letter. Over time, he came to cherish the jet — rebranding it from The Indefensible to The Indispensable.

But, in 1987, it was still quite a curiosity for Berkshire shareholders. *The World-Herald* reported that Peter Kiewit Sons' took care of the jet when not in use. "Anything that Kiewit does," said Buffett, "it does well."

(20) Do you recommend John Train's new Buffett biography, *The Midas Touch*?

"I'm not sure you'll get your \$18 worth," said Buffett. "The last time I talked to John Train was 12 years ago."

In another interview, he said: "I hate to see people shell out \$18 for old stuff."

Train had interviewed Buffett for *The Money Masters* — and then later cobbled together parts of that interview and other publicly-available information for *The Midas Touch* in 1987. In fact, he only used excerpts from Buffett's letters from 1976 or earlier — because the Berkshire chief started copyrighting them after that.

(This might also explain why the collection of annual letters on Berkshire's website starts with 1977. That has always puzzled me.)

[Continue reading here](#)

An interview with renowned fund manager Terry Smith, founder of Fundsmith, who famously emphasizes quality over valuation ([from The Market NZZ](#))...

Fund manager Terry Smith has seen many a stock market cycle. He has been in the business for around fifty years and founded the London-based asset manager Fundsmith in 2010. As an investment professional, he knows how difficult it is to keep a cool head during bear markets, so he focuses on a small number of high-quality stocks.

He typically holds twenty to thirty stocks in a fund. He generally avoids companies in cyclical industries or sectors that can only generate attractive returns with a lot of leverage. «Most companies are not investable for us,» says the stock market veteran.

In an in-depth conversation with The Market NZZ, Smith reveals how he finds quality stocks, why he currently has no Swiss stocks in his fund and which stocks he has recently bought.

Your aim is to run the best equity fund in the world. How do you pick the stocks that will deliver the best performance?

To be clear, by «best fund» we mean the best risk-adjusted performance. You could undoubtedly do better than us by owning the latest «hot» stock. But the problem with that is that when things go wrong, as they did in 2022, when some stocks lost 30-50%, the level of volatility you inflict on investors can cause you or them to make very bad decisions. For us, it is important to have a reasonably consistent return over time, as well as an above-average return.

And how do you select stocks to achieve this?

We have a very long list of criteria, but I'll boil it down for you. Firstly, we look for companies with good returns on capital. The companies in our portfolio have an average return on capital of about 30%. So for every franc, dollar, euro or pound of capital that we own in that company, they generate 30 cents of profit. That is probably 70% or 80% above the market average.

What would be another criterion?

We're also looking for a source of growth, because otherwise there's nothing to invest the good returns in. If a company just gives it back to shareholders, then what we've

effectively got is a high-yield bond. High-yield bonds don't compound. The way that companies compound is that they take some of the equity returns and invest them on your behalf. That's what retained earnings are. But they need a source of growth – we need both high returns and growth. We don't want returns without growth or growth without returns. I can find plenty of companies that are growing very, very fast with poor returns.

What else are you looking for in a company?

A degree of predictability. We like companies that make money from a large number of everyday, repetitive, relatively predictable events and transactions. We don't like companies that make big one-off deals, such as the movie business. Is the movie going to be a hit or not? You don't know. Another example is big construction projects. We prefer things like toothbrushes, bathroom cleaning products, dog food or medical procedures, or an operating system like Microsoft Windows, where there is a degree of predictability in consumption.

One last important thing for selecting stocks?

Last but not least, we require a degree of management skill when it comes to capital allocation. If you're sitting at the top of one of these companies with a 30% return on capital, there's sometimes a tendency to do stupid things – for example, a value-destroying acquisition. So we're looking for people who are intelligent, responsible and honest about how they allocate our capital.

Given these restrictions, you are likely to discard a large part of the equity universe from the outset.

Indeed, the vast majority of companies are uninvestable to us.

As a consequence, there are many sectors that are not part of your portfolio, such as mining, oil and gas companies...

... utilities, transport, banking, insurance, real estate? Yes, we don't own any of those things. None of them.

Because they don't meet your requirements.

The Stern School of Business at New York University does a regular annual survey of thousands of companies and they look at the measure of return on capital employed minus the weighted average cost of capital. I'd say that's the most important measure of corporate performance. But don't take my word for it. That's what Warren Buffett wrote in his 1979 annual letter. If you look

at this data set and you look at the companies that are earning a very positive spread over their cost of capital, you'll find that they're in the following sectors: consumer staples, consumer discretionary, IT, medical services, IT services, business services and so on. They are earning more than their cost of capital – they are creating value. Then you look at the ones that consistently earn less than their cost of capital...

Which sectors are these?

Mining and minerals, oil and gas, banking, investment banking, brokerage, real estate, transport. They are a disaster. And look, there comes a time in every economic cycle when mining is doing pretty well, airlines are doing pretty well or banking is making a comeback, but it's usually one or two years out of ten. Leopards don't change spots, good companies don't become bad and bad companies don't become good. Except for very small sweet spots in a cycle where the big, bad companies have their day in the sun.

So we have a framework for selecting good companies. How do you make sure that you don't overpay for them?

Valuation is not as important as quality. We looked back over fifty years at the P/E ratios you could have paid for certain companies and still outperformed the S&P 500. For L'Oréal, the starting P/E you could have paid was 281. People are very bad at working out the difference between different compound rates of return. The difference between a 10% return and a 12% return isn't something we can easily grasp. We think it's 20%, but it's not. Owning good companies is more important than owning undervalued companies.

Can you elaborate?

There's a great Buffett quote on it: «It is better to own a great company at a fair price than a fair company at a great price». If you own a fair company at a great price, you hope that the price will adjust to the correct valuation. But after that, that's the end of your good investment. You have to move on and find something else, whereas a great business is a gift that can keep on giving.

But you cannot simply ignore valuation, can you?

No, we don't ignore valuations and we have a very simple rule of thumb: We take the free cash flow that a company generates divided by its market value, which is the free cash flow yield, and then we take what we think is the medium-term growth rate. We're

relatively good at estimating that because we invest in fairly predictable businesses. If you put the yield and the growth rate together, you get a rough measure of your expected return. Over very long periods of time, the stock market has delivered returns of around 9% to 10%. If we get a really good company, we can get returns in excess of 10%. If we get a yield of 4% and a growth rate of 10%, we'll get 14%, which should beat the index. It does not really matter if the yield is 1% and the growth is 13%, or if we get a yield of 4% and growth of 10%.

Given this framework, would you say the pharmaceutical company Novo Nordisk, which has had fantastic growth thanks to its obesity drugs, is still attractive? Based on its P/E ratio, it looks rather expensive.

Compared to what?

Let's say compared to the market or compared to the sector.

Novo is trading at 45 times earnings. What's the closest comparable? Eli Lilly. Eli Lilly makes Mounjaro and Zepbound. These are the other weight loss drugs. Lilly trades at a P/E of 74, which might just mean that Eli Lilly is even more expensive. But there's not much point in comparing Novo Nordisk to the market. I'm not even sure I would compare it to the pharmaceutical sector. It's got a different approach to drug discovery, which is how it got to this position in the first place. A P/E of 45 may be expensive, but not at the current growth rate, which is well over 20%, probably closer to 30%. So the valuation will come down pretty quickly. In two years' time, it'll be at a P/E of around 20, which is in line with the broader equity market.

Can Novo sustain that growth rate?

Well, the company has clearly got a moon shot in terms of the obesity drug and it's definitely got quite a lot of patent protection. But it's also got labelling protection. When you develop a drug, you have to go through the FDA approval process and you have to get it approved for the use that you're testing it for. Ozempic started as a treatment for type 2 diabetes. And then the data clearly showed that it also caused weight loss. But you can't just go ahead and sell it for weight loss. You have to go back and do a new trial in people, some of whom don't have type 2 diabetes, to see if it's effective and safe for weight loss. And right now Novo is several steps ahead of the competition.

And there seem to be other benefits of the drug.

Ozempic also clearly causes a 20 to 25% reduction in major cardiovascular incidents and reduces the risk of heart attack and stroke, whether patients are overweight or not, whether

they're diabetic or not. It's going to get the same label in due course for liver and kidney problems, and it's likely to get the same label for autoimmune diseases, arthritis, lupus, gout, and in due course even as a treatment for alcoholism. And Novo is way ahead of the competition and it's hard to catch up. And importantly, we did not invest in Novo because of its weight-loss drug. We invested because of their superior drug discovery process and I would not bet a lot of money against these guys coming up with something else. Having said all that, none of this could be right. There are a lot of things that could go wrong.

Aside from the hype around anti-obesity drugs, the Magnificent Seven are also very popular. You own Alphabet, Meta, and Microsoft in your fund. Why these three?

Technically, we have four because we have a small stake in Apple. But let's start with Tesla. Tesla is not going to meet any of the requirements I've just talked about - it's a car company! Even the best car companies in the world, Toyota, BMW and Volkswagen, don't make adequate returns. It is a really bad business to be in. Ford earns a 3% return on capital, a couple of points below US Treasuries!

What about the Magnificent 7 that you like?

Alphabet has a P/E ratio of 25. So it's very close to the market, maybe 10% more, and we're talking about a company that has a duopoly in online advertising with Meta. So unless it does something to disrupt that, it is a pretty good business and there is no sign at the moment of any development that could disrupt that. People are talking about it, but there's nothing happening.

And Meta?

Meta is even cheaper, trading at 24 times earnings. Not bad for a duopoly in online advertising with the aforementioned Alphabet. Meta has two billion daily users and is still growing. People complain that the growth rate is only 3-4%. But Meta has two billion customers – what growth rate do you expect?

What about Microsoft?

Microsoft is the world leader in business software and it has a near duopoly in cloud computing with Amazon Web Services. And it has the world's leading operating system, about 99.9% of the world's ATMs run on Microsoft. It has a great position in games

with Activision, although it lost the mobile battle to Apple and Samsung. They have been quite successful with the Surface tablets. It's a very good business and I think Satya Nadella has proven to be an outstanding CEO. Admittedly, it's the most expensive of the group with a P/E of around 35.

But that's still attractive in your view.

How does it compare to its peers? Nvidia, another member of the Magnificent 7, trades on a P/E of 75, so even Novo looks quite cheap in comparison. And there are other companies that have benefited from the AI hype. Adobe and Intuit, for example, have seen their share prices rise by 70% in the last year or so on the back of AI hype. Even though I can't see how they're going to make money from AI. Even if they can build it into their graphics software and accounting software - they don't have a Large Language Model, do they? Aren't they just going to pay a lot of money to the vendor? Intuit trades at a P/E of 64, Adobe at 38. By comparison, Microsoft looks pretty cheap. Of course, the Magnificent 7 are not uniform. We invest in the ones that are cheaper and more predictable.

What do you think of the argument that we don't need to know the winners of the AI revolution if we can buy the proverbial shovel manufacturer, i.e. Nvidia, which makes the chips needed to run the big language models?

I don't think the exponential growth in demand for Nvidia's GPUs is certain to continue. They're doing great now and they're delivering a lot of shovels. But if nobody strikes gold, I don't think you're going to need any more picks and shovels. Also, there is competition, and Nvidia has gone through two transformations in its life - admittedly very successful ones - and in the course of those transitions the stock has had two drawdowns of 80%.

You are also invested in the tobacco company Philip Morris. Is this company really growing?

Sales have been growing at around 10% per annum for the past few years. The reason we're keeping Philip Morris is because it's the world leader in reduced-risk products, the heat-not-burn tobacco products. You get a thing called an IQOS device - it stands for I Quit Ordinary Smoking, by the way - you put in a HEET stick, which looks like a little cigarette, and you puff away and it heats the tobacco. It doesn't burn it, there's no smoke. The Food and Drug Administration, who are no friends of big tobacco, say they reduce the harm you get from using tobacco by at least 95%. And unlike vaping, it doesn't attract young people because it tastes like tobacco. In fact, the people it's aimed at are smokers. It's a way of switching smokers to another,

safer tobacco product. It's also the world leader in oral products with Zyn, the Swedish match product, which is a nicotine pouch. There's no tobacco in it at all. It's a nicotine product, but it's growing at maybe 75% per annum. So there is growth at Philip Morris even though the traditional cigarette business is not growing very much in volume terms.

You don't have any Swiss companies in your fund. Are they too expensive?

There are a number of Swiss companies we are interested in, but we don't own any at the moment. Possible names would be Nestlé, Schindler, Sonova, SGS, Geberit, and our mid-cap colleagues are looking at things like Inficon and VAT.

Is Schindler not attractive enough?

We owned Schindler but we switched to Otis because I think Schindler had lost its way a little bit. If you compare it to its competitors, Otis or Kone, it has had a relatively poor performance over time and we saw that coming, while the management didn't seem to have a good grasp of it.

What about Nestlé?

The same goes for Nestlé. We're sceptical about the current wellness push simply because it hasn't really delivered free cash flow growth. Call us old-fashioned, but we'd like to see some real results. I am not against owning Nestlé, but there are other stocks we prefer at the moment, such as Unilever. But Nestlé is not written off forever.

Your turnover is extremely low. What was the last «buy» in your fund?

We have bought two things this year. We haven't named one of them because we're still buying. The other is Fortinet, the Internet security business. If you've got a firewall on themarket.ch, there's about a one in two chance that there's a Fortinet router that you're using to give you security. And it's really a bit of a two-way race between them and Palo Alto Networks in terms of security. Cyber security is obviously a big growth area. The company went through a long period where it was growing 20% a year. And then, when everyone was working from home during the pandemic, it jumped to 40% annual growth and the stock went through the roof. After that spike, it fell back to 10% sales and the market ran away from the ship, even though there was nothing wrong with the underlying business.

Is there a great company that's on your radar screen that just hasn't met your valuation criteria yet?

The short answer is: Hermès. It's a very good business. It doesn't have as wide a spread of luxury brands as LVMH, but it's extremely well positioned.

[Continue reading here](#)

Charlie Munger's investing checklist ([from Brian Feroldi via X](#))...

<h1>Charlie Munger's</h1> <h2>INVESTING CHECKLIST</h2> <p>BY BRIAN FEROLDI</p>	
<h3>RISK</h3> <ul style="list-style-type: none"> <input type="checkbox"/> Incorporate an appropriate margin of safety <input type="checkbox"/> Avoid dealing with people of questionable character <input type="checkbox"/> Insist upon proper compensation for risk assumed <input type="checkbox"/> Always beware of inflation and interest rate exposure <input type="checkbox"/> Avoid big mistakes; shun permanent capital loss 	<h3>ALLOCATION</h3> <ul style="list-style-type: none"> <input type="checkbox"/> Remember that highest and best use is always measured by the next best use (opportunity cost) <input type="checkbox"/> Good ideas are rare - when the odds are greatly in your favor, bet (allocate) heavily <input type="checkbox"/> Don't "fall in love" with an investment - be situation-dependent and opportunity-driven
<h3>INDEPENDENCE</h3> <ul style="list-style-type: none"> <input type="checkbox"/> Objectivity and rationally require independence of thought <input type="checkbox"/> Remember that just because other people agree or disagree with you doesn't make you right or wrong - the only thing that matters is the correctness of your analysis and judgement <input type="checkbox"/> Mimicking the herd invites regression to the mean (merely average performance) 	<h3>DECISIVENESS</h3> <ul style="list-style-type: none"> <input type="checkbox"/> Be fearful when others are greedy, and greedy when others are fearful <input type="checkbox"/> Opportunity doesn't come often, so seize it when it comes <input type="checkbox"/> Opportunity meeting the prepared mind; that's the game
<h3>PREPARATION</h3> <ul style="list-style-type: none"> <input type="checkbox"/> Develop into a lifelong self-learner through voracious reading; cultivate curiosity and strive to become a little wiser every day <input type="checkbox"/> More important than the will to win is the will to prepare <input type="checkbox"/> Develop fluency in mental models from the major academic disciplines (Business, Humanities, Natural and applied sciences, Social sciences) <input type="checkbox"/> If you want to get smart, the question you have to keep asking is "why, why, why, why?" 	<h3>PATIENCE</h3> <ul style="list-style-type: none"> <input type="checkbox"/> "Compound interest is the eight wonder of the world (Einstein), never interrupt it unnecessarily <input type="checkbox"/> Avoid unnecessary transactional taxes and frictional costs; never take action for its own sake <input type="checkbox"/> Be alert for the arrival of luck <input type="checkbox"/> Enjoy the process along with the proceeds, because the process is where you live
<h3>INTELLECTUAL HUMILITY</h3> <ul style="list-style-type: none"> <input type="checkbox"/> Stay within a well-defined circle of competence <input type="checkbox"/> Identify and reconcile disconfirming evidence <input type="checkbox"/> Resist the craving for false precision, false certainties etc. <input type="checkbox"/> Above all, never fool yourself, and remember that you are the easiest person to fool 	<h3>CHANGE</h3> <ul style="list-style-type: none"> <input type="checkbox"/> Recognize and adapt to the true nature of the world around you; don't expect it to adapt to you <input type="checkbox"/> Continually challenge and willingly amend your "best-loved ideas" <input type="checkbox"/> Recognize reality even when you don't like it - especially when you don't like it
<h3>ANALYTICAL RIGOR</h3> <ul style="list-style-type: none"> <input type="checkbox"/> Determine value apart from price; progress apart from activity; wealth apart from size <input type="checkbox"/> It is better to remember the obvious than to gasp the esoteric <input type="checkbox"/> Be a business analyst, not a market, macroeconomic, or security analyst <input type="checkbox"/> Consider totality of risk and effect; look always at potential second order and higher-level impacts <input type="checkbox"/> Think forwards and backwards - Invert, always invert 	<h3>FOCUS</h3> <ul style="list-style-type: none"> <input type="checkbox"/> Remember that reputation and integrity are your most valuable assets - and can be lost in a heartbeat <input type="checkbox"/> Guard against the effects of hubris (arrogance) and boredom <input type="checkbox"/> Don't overlook the obvious drowning in minutiae (the small details) <input type="checkbox"/> Be careful to exclude unneeded information or stop: "A small leak can sink a great ship" <input type="checkbox"/> Face your big troubles, don't sweep them under the rug
<p>Follow Brian Feroldi on    </p>	

Nvidia CEO Jensen Huang on how to be great ([from adriane schwager via X](#))...

"I hope suffering happens to you"

One of my great advantages is I have very low expectations. Most of you Stanford grads have very high expectations. You deserve to have high expectations because you come from a great school. You were top of our class, you paid tuition, and you're surrounded with very capable people like you. People with very high expectations have very low resilience.

Unfortunately, resilience matters in success. I don't know how to teach it to you except I hope suffering happens to you.

I was fortunate because my parents provided an environment where I could succeed on the one-hand, but on the other-hand there were plenty of opportunities for setbacks and suffering. To this day I use the words pain and suffering in my company with great glee. "Oh boy, this is going to cause a lot of pain and suffering. And I mean that in a happy way because you want to refine the character of your company."

Little-known investment great Allan Mecham shares his investment philosophy ([from Finding Compounders via X](#))...

Allan Mecham is one great investor who flies under the radar. He started Arlington Value at the age of 22 and has had returns of 37% CAGR. In this [Manual of Ideas] interview he explains his investment philosophy and his AutoZone investment...

MOI: Let's switch gears and discuss the investment philosophy behind your track record. Help us understand the kind of investor you are, perhaps by highlighting a couple of examples of companies you have invested in or decided to pass up. What are the key criteria you employ when making an investment decision?

Mecham: It's really quite simple. I need to understand the business like an owner. The firm needs to have staying power; I want to be confident about the general nature of the business and industry landscape on a longer term basis. I'm big on track records, and generally stay away from unproven companies with short operating histories. I also believe a heavy dose of humility and intellectual honesty is important when looking at potential ideas.

There's a strong undercurrent constantly percolating to buy something — it's fun, exciting and feels like that's what you're getting paid for. This makes it easy to trick yourself into thinking you understand something well enough when you don't, especially if you are in the investment derby of producing quarterly and yearly returns! When looking at ideas, I have a Richard Feynman quote tattooed in the back of my brain: "Don't fool yourself, and remember you are the easiest person to fool."

Ultimately, what tends to cover all the bases is the mentality of buying the business outright and retaining management. Critical to implementing this approach is, again, having a compatible investor base. "Whose bread I eat his song I sing"... An owner's mentality forces you to think hard about the important variables and makes you think long term, as opposed to in quarterly increments. In fact, I think very little about quarterly earnings and more about the barriers to entry, competitive landscape/threats, the ongoing capital needs and overall economics, and most importantly, the durability of the business. Over the years I've come to realize the importance of management, so we look hard at the people running the business as well. And, obviously, the price needs to make sense.

The criteria bar is set high; we really try to avoid mediocre situations where restlessness causes you to relax investment standards in one area or another. We also stress test the business under various economic scenarios and look to a normalized earnings power. We passed up many seemingly attractive ideas over the years as we would ask, “What happens under 7-10% unemployment (when unemployment was in the 4-5% range) and 6-8% interest rates?” And we would ask, “Is the business overly reliant on loose credit extension and frivolous spending?” Many names didn’t hold up under these stress test scenarios, so we passed. We bought AutoZone [AZO] a few years back as it held up under various adverse macro scenarios, and in fact performed exceptionally well throughout the Great Recession. I constantly try and guard against investing in

situations where the intrinsic value of the business is seriously impaired under adverse macro conditions. We prefer cockroach-like businesses — very hardy and almost impossible to kill!

Notes from hedge-fund manager Bill Ackman's fireside chat in Omaha during this year's Berkshire Hathaway annual meeting ([from David Park via X](#))...

People Underestimate the Power of Checklists

- Pershing Square had the best 6 years of its history since they inscribed their checklist into a piece of "stone"

- "If I ever veer [off this checklist] just hit me over the head with this thing"

The checklist:

Bill Ackman's 8 principles

1. Simple and predictable
2. FCF generative
3. Dominant market position
4. Large barriers to entry
5. High return on capital
6. Limited exposure to extrinsic risks we can't control
7. Strong balance sheets that don't need access to outside capital to survive (debt)
8. Excellent management and good governance

The three situations in which Warren Buffett will sell a stock (from Investment Books (Dhaval) via X)...

Long-Term Investing Doesn't Mean Lifetime Investing

While the idea of buying and holding a stock forever has great appeal, in actual practice, it can severely limit your success and lead to significant losses. Warren Buffett's mentor Benjamin Graham was nearly wiped out by the stock market crash of 1929. After that experience, Benjamin Graham decided to transform his investing approach. Charlie Munger, Warren Buffett's right-hand man faced a similar challenge during the 1973-1974 stock market correction in which Munger's partners suffered a 53% loss.

As an astute student of history, Warren Buffett learns from the mistakes of others, so he doesn't repeat them. Therefore, he has three situations where he will sell stock positions of the companies he owns.

Situation #1: The first situation occurs when the market values the company higher than the underlying facts suggest it should be valued. Let's look at a couple of those times. In 1969 Warren Buffett judged that the market was overvalued. Stalwart companies were selling at 50-70 times earnings, so he closed his investment partnership, sold off his investment portfolio and "sat on his hands" for three years. Buffett said those were the longest three years of his life. Although he got out of the market a bit early, he was able to start buying again in 1973-1974, taking advantage of a 45% correction in the Dow Jones Industrial Average. In late 1990 leading pundits accused Warren Buffett of losing his touch as the dot com bubble reached manic proportions. Again, company stalwarts were trading at or near all-time Price-to-Earnings ratios. Coca-Cola and Walmart were trading at 40-50 times earnings. This signaled to Warren that the market was overvalued, so he sold positions and raised cash. He was once again able to take advantage of the ensuing market meltdown and buy at bargain-basement prices.

The most recent example came in 2007 when Warren again thought the market was overvalued based on valuations and was letting his cash pile up. After the financial collapse, he was able to leverage his cash holdings, buying companies for pennies on the dollar towards the end of 2008.

When price-to-earnings ratios and profit margins of non-cyclical companies are near record highs, it's time to be cautious and consider selling portions of your investment holdings to raise cash. You want to have some money on hand for the times the market corrects and offers buying opportunities.

Here are two other situations when Warren advises that your stock holding(s) should be sold. The second situation to sell your stock is when there's a fundamental change in the business or the industry that erodes the underlying competitive advantage the company has. This can be new technology, changes in government policy, a new executive team that's not as competent or any other number of factors. These changes should be long-term in nature. The third situation where it's prudent to sell a holding is when another business opportunity presents itself that's better than the current one you're invested in. You always want to be invested in the best companies when their stock price offers the greatest opportunity for price appreciation.

Credit: Pendultus

Design : @investmentbook1

Angel investor Naval Ravikant on getting rich without getting lucky ([from Invest in Assets via X](#))...

How to Get Rich (without getting lucky)

WEALTH, MONEY, STATUS. Seek wealth, not money or status. Wealth is having assets that earn while you sleep. Money is how we transfer time and wealth. Status is your place in the social hierarchy. Understand that ethical wealth creation is possible. If you secretly despise wealth, it will elude you. Ignore people playing status games. They gain status by attacking people playing wealth creation games.

EQUITY. You're not going to get rich renting out your time. You must own equity - a piece of a business - to gain your financial freedom. You will get rich by giving society what it wants but does not yet know how to get. At scale. Pick an industry where you can play long term games with long term people. The Internet has massively broadened the possible space of careers. Most people haven't figured this out yet.

TACTICS. Play iterated games. All the returns in life, whether in wealth, relationships, or knowledge, come from compound interest. Pick business partners with high intelligence, energy, and, above all, integrity. Don't partner with cynics and pessimists. Their beliefs are self-fulfilling. Learn to sell. Learn to build. If you can do both, you will be unstoppable.

SPECIFIC KNOWLEDGE. Arm yourself with specific knowledge, accountability, and leverage. Specific knowledge is knowledge that you cannot be trained for. If society can train you, it can train someone else, and replace you. Specific knowledge is found by pursuing your genuine curiosity and passion rather than whatever is hot right now. Building specific knowledge will feel like play to you but will look like work to others. When specific knowledge is taught, it's through apprenticeships, not schools. Specific knowledge is often highly technical or creative. It cannot be outsourced or automated.

ACCOUNTABILITY. Embrace accountability, and take business risks under your own name. Society will reward you with responsibility, equity, and leverage. The most accountable people have singular, public, and risky brands: Oprah, Trump, Kanye, Elon.

LEVERAGE. "Give me a lever long enough, and a place to stand, and I will move the earth." - Archimedes. Fortunes require leverage. Business leverage comes from capital, people, and products with no marginal cost of replication (code and media). Capital means money. To raise money, apply your specific knowledge, with accountability, and show resulting good judgment. Labor means people working for you. It's the oldest and most fought-over form of leverage. Labor leverage will impress your parents, but don't waste your life chasing it. Capital and labor are permissioned leverage. Everyone is chasing capital, but someone has to give it to you. Everyone is trying to lead, but someone has to follow you. Code and media are permissionless leverage. They're the leverage behind the newly rich. You can create software and media that works for you while you sleep. An army of robots is freely available - it's just packed in data centers for heat and space efficiency. Use it. If you can't code, write books and blogs, record videos and podcasts. Leverage is a force multiplier for your judgement. Judgement requires experience, but can be built faster by learning foundational skills.

SKILLS. There is no skill called "business." Avoid business magazines and business classes. Study micro-economics, game theory, psychology, persuasion, ethics, mathematics, and computers. Reading is faster than listening. Doing is faster than watching.

YOU. You should be too busy to "do coffee," while still keeping an uncluttered calendar. Set and enforce an aspirational personal hourly rate. If fixing a problem will save less than your hourly rate, ignore it. If outsourcing a task will cost less than your hourly rate, outsource it. Work as hard as you can. Even though who you work with and what you work on are more important than how hard you work. Become the best in the world at what you do. Keep redefining what you do until this is true.

PARTING WORDS. There are no get rich quick schemes. That's just someone else getting rich off you. Apply specific knowledge, with leverage, and eventually you will get what you deserve. When you're finally wealthy, you'll realize that it wasn't what you were seeking in the first place. But that's for another day.

Naval Ravikant. @naval

Value-investing great Seth Klarman on why he doesn't like index fund investing ([from Patient Investor via X](#))...

Zweig: You were quite critical of indexing in *Margin of Safety: Risk-Averse Value Investing Strategies for the Thoughtful Investor*,² which you wrote many years ago. Have you changed that view?

Klarman: I still think indexing is a horrendous idea for a number of reasons. That said, the average person who spends a very small amount of time on investing doesn't have a lot of good choices out there.

A tremendous disservice is perpetrated by the idea that stocks are for the long run, because you have to make sure you are around for the long run, that when you have unexpected pain, as many people did in 2008, you don't get out and you actually are a buyer. The prevailing view has been that the market will earn a high rate of return if the holding period is long enough, but entry point is what really matters.

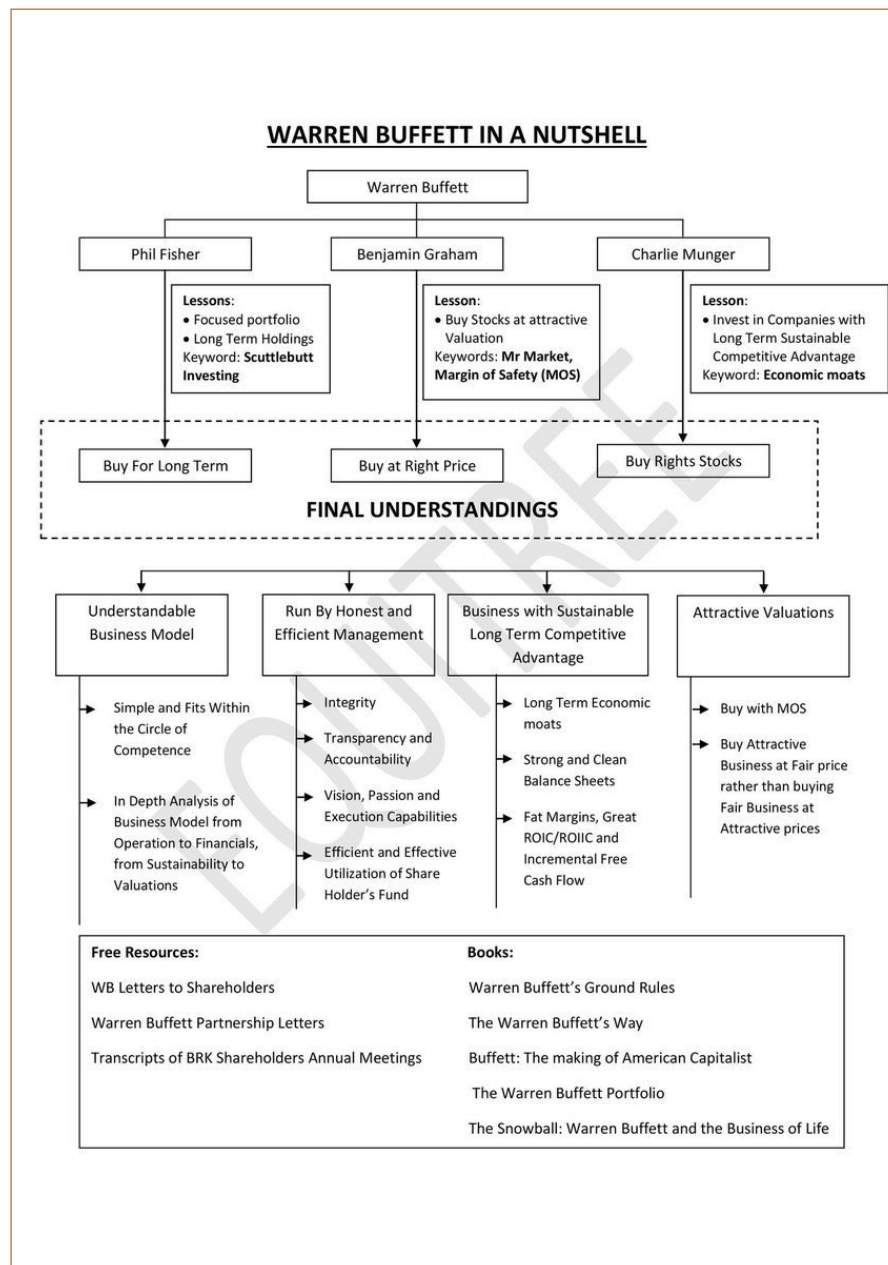
Stocks trade up when they are put in an index. So, index buyers are overpaying just because a stock is included in an index. I am much more inclined to buy a stock that has been kicked out of an index because then it may have value characteristics—it has underperformed. A stock is kicked out of an index because its market cap has shrunk below the top 500 or the top 1,000.

We all know that the evidence shows that when you enter at a low price, you will have good returns, and when you enter at a high valuation, you will have poor returns. That is why we have had 10–12 years of zero returns in the market. And given the recent run-up, I am worried that we will have another 10 years of, if not zero, at least very low returns from today's valuations.

The mentality of "I'll save transaction costs and management fees by indexing" ignores the fact that the underlying still needs to produce for you. Indexing usually refers to equities, but the attractive asset class a year ago, on a risk-adjusted basis, was clearly debt, not equity.

Warren Buffett in a nutshell (from Compounding Quality via X)...

Credits: [@Vivek_Investor](#)



INVESTMENT IDEAS

Specialty-electronics manufacturer IEH Corp is incredibly cheap again (from NoNameStocks)...

IEH Corp (IEHC) was the second stock I wrote up on my blog way back in 2015. Coincidentally that post is how I met my mentor so it carries a special place in my heart.

The stock rose from \$6 to \$25 over several years of solid results only to fall all the way back due to Covid and missed filings. The stock only became tradeable again a few months ago so here's your chance with the stock at \$6.30.

Of course you can see the story in the chart:



- In May 2015 I **wrote up the stock** on my freshly created new blog nonamestocks.
 - The business story now is much the same as it was. The company has existed for decades, run by the same family who own just under 50%. Share count has barely changed in forever. The company makes high performance electrical connectors, mostly for the aerospace and defense industries.
 - The stock was profitable and trading at \$6 with a \$5 book value and TTM EPS of \$0.72.
- The company performed wonderfully and the stock reached \$25 as they earned \$2.15 per share in 2019
- You can see the dive in early 2020 as Covid hit
- In Oct 2020 the company **announced** they had “migrated to a new enterprise accounting and inventory system at the end of the second quarter of the fiscal year (September 2019) upon unexpectedly losing support for its legacy inventory system. In connection with the Company’s migration to the new accounting system, including the reconciliation of the old and new systems and preparation of its year end accounting, management discovered that inventory balances previously reported as of September 30, 2019 and December 31, 2019 were misstated”
 - “On October 6, 2020, management of IEH Corporation (the “Company”) concluded, and the Audit Committee of the Board of Directors (the “Audit Committee”) of the Company concurred, that the Company’s previously issued unaudited interim financial statements included in the Company’s Quarterly Reports on Form 10-Q for the fiscal quarters ended (i) September 27, 2019, filed with the Securities and Exchange Commission on November 11, 2019 and (ii) December 31, 2019, filed with the Securities and Exchange Commission on February 14, 2020, should no longer be relied upon.”
- This began a long and rough road which they are only now getting away from. The company stopped filing reports as they initiated a years long effort to clear up their inventory issues
- As the **SEC rule change** took affect Sept 2021, IEHC **announced** their stock would be moved to the dreaded Expert Market.

- Adding insult to injury, the company **announced** in Aug 2022 the SEC “issued an order (the “Order”) to commence public administrative proceedings (In the Matter of IEH Corporation, File No. 3-20973) to determine for the protection of IEH’s investors whether to suspend (i) for a period not exceeding 12 months, or (ii) revoke, the registration of each class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934.”
 - “The Commission is proposing to take such action because it alleges IEH has “repeatedly failed to meet its obligations to file timely periodic reports, and failed to heed a delinquency letter sent to it by the Division of Corporation Finance requesting compliance with its periodic filing obligations...”
- The large volume spike you see there in mid-2023 was the company filing its **first 10K** in years
- In Dec 2023 IEHC finally was moved off the Expert Market
- In Feb 2024 the stock was finally **tradeable again** as the company “completed our re-application to the OTC Market Group, in hopes of resuming trading on their Marketplace in the near future.”
- The stock is now at \$6.30
 - market cap \$15m
 - 2.38m shares outstanding
 - \$4.9m cash
 - \$21.3m book value
 - TTM revenue \$19.8m
 - not profitable at the moment but have been in the past

IEHC was a very small position for me and I can’t buy expert market stocks so I stopped paying much attention. I missed when they got back onto OTC Current until about a month ago. Since then I’ve been buying because the story is just too good and I see brightness in the future.

I’m always on the lookout for non-linearities. It’s those abrupt changes in perception or performance where big money can be made. I see several coinciding right now.

The two main changes are filings and stock trading status. We're just coming out of an almost 4 year delinquent filled with Expert Market blockages. And we're not fully out of the funk yet. I'm able to buy with Fidelity online as normal. I have heard the stock is not tradeable on Interactive Brokers. Schwab does not let me trade online, I have to call it in. Where there is chaos there is opportunity.

As far as I know, the company is now fully caught up with filings and up to date with everything on otcmarkets. I just see this warning about quotes, maybe that's why the weirdness with buying right now.

IEHC
IEH Corp.
Common Stock

6.30 ↑ 0.20
3.28%
6.30 / 7.00 (1 x 1)

Real-Time Best Bid & Ask: 05:00pm 05/23/2024
Delayed (15-Min) Trade Data: 03:43pm 05/23/2024

Pink
Pink Current Information

Transfer Agent Verified
Independent Directors

Overview Quote Company Profile Security Details News Financials Disclosure Research

Warning! This security is eligible for Unsolicited Quotes Only
This stock is not eligible for proprietary broker-dealer quotations. All quotes in this stock reflect unsolicited customer orders. Unsolicited-Only stocks have a higher risk of wider spreads, increased volatility, and price dislocations. Investors may have difficulty selling this stock. An initial review by a broker-dealer under SEC Rule15c2-11 is required for brokers to publish competing quotes and provide continuous market making.

The **latest 10k** notes what they found with the inventory system, “inventory balances previously reported as of September 27, 2019, December 31, 2019 and March 31, 2020 were misstated.” I think it took so long to complete just because the company is small. Reading their filings it sounds like reconciling the new inventory system was a huge pain in the rear.

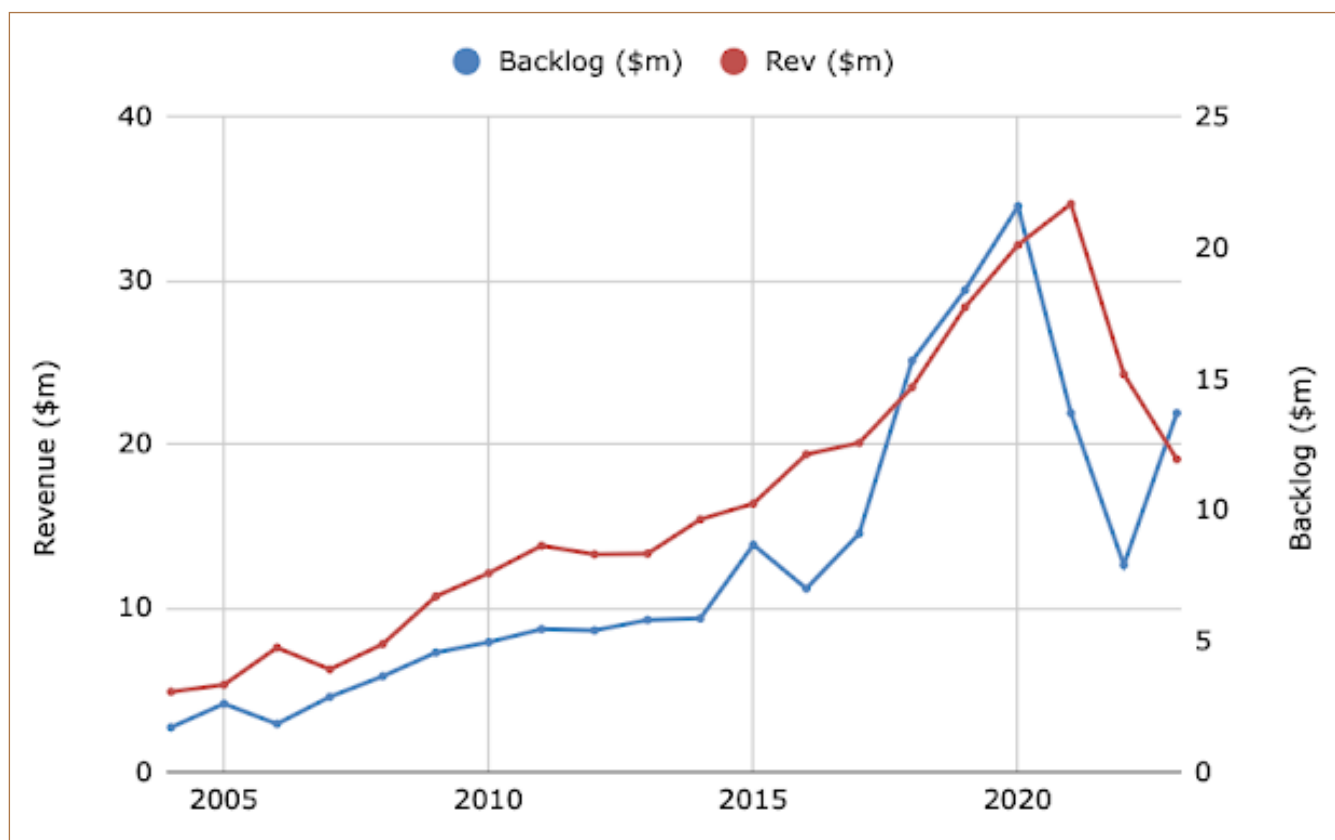
The other big change is the backlog which I believe is at, or near, an all-time high even though the stock doesn't seem to notice.

Company performance has gone down quite a bit since the peak in 2019. Covid, Boeing's issues, supply chain problems, the aerospace slowdown, and inflation have done a number on IEHC.

Here you can see the upward trajectory from 2016 to 2020 and then it fell apart. Backlog fell from 21.6m to just 7.9 and revenue came with it.

10K numbers	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
backlog (m)	13.7	7.9	13.7	21.6	18.4	15.7	9.1	7	8.7	5.9
rev (m)	19.1	24.3	34.7	32.2	28.4	23.5	20.1	19.4	16.4	15.4
backlog / rev	71.7%	32.5%	39.5%	67.1%	64.8%	66.8%	45.3%	36.1%	52.9%	38.0%
EPS (\$)	-\$2.74	-\$0.32	\$0.82	\$0.54	\$2.15	\$1.11	\$0.64	\$0.73	\$0.79	\$0.63
COGS (m)	18.4	19.33	24.44	23.78	16.38	17.73	13.1	12.83	10.3	9.89
SGA (m)	5.52	5.04	6.9	6	4	4	3.75	3.05	2.62	2.7
op inc (m)	-5.81	-0.94	2.58	1.42	7.7	4.35	2.78	3.12	3.12	2.55
net inc (m)	-6.5	-0.77	2.03	1.32	5.16	2.57	1.47	1.69	1.81	1.45
shares (m)	2.37	2.37	2.37	2.32	2.32	2.3	2.3	2.3	2.3	2.3
COGS / rev (%)	96.3%	79.5%	70.4%	73.9%	57.7%	75.4%	65.2%	66.1%	62.8%	64.1%
SGA / rev (%)	28.9%	20.7%	19.9%	18.6%	14.1%	17.0%	18.7%	15.7%	16.0%	17.5%
op inc / rev (%)	-30.4%	-3.9%	7.4%	4.4%	27.1%	18.5%	13.8%	16.1%	19.0%	16.5%

Looking at the plot here you can see the trends follow each other with revenue lagging backlog by about a year.



What's interesting is new orders since that last 10k are up. Just last year IEHC started reporting backlog with each quarterly and we can see it's actually grown up to \$17m.

		2024						2023						2022	
10Q numbers		4	3	2	1	4	3	2	1	4	3	2	1		
backlog (m)			17	17.6	13.8	13.7	10.6	11.4	9.5	7.9					
rev (m)			5.1	4.8	4.7	5.2	5.6	4.2	4.1	5.4	5.8	6.6	6.5		

Icing on the backlog cake is the press release IEHC put out a few weeks ago announcing “in the past 8 weeks it has booked over \$5 million in new orders”. With that in place the actual backlog should be around that all time high \$21.6m from 2020. Most excitingly the market doesn't seem to notice as the stock is completely flat since the press release and down 20% from when they reported the increased backlog in Q2 six months ago. Maybe someone will care once the 10k comes out.

I think investors are asleep at the wheel, having been drugged out due to years of delinquent filing and non-tradeability. I see a quality company coming out of downturn both operationally and with the stock trading status. New orders are clearly there. The stock trading has just been opened up for some, but not all.

There are risks for sure. Covid and the overall aerospace/defense down turn over the past few years highlight the customer concentration risk.

Margins which have really gone sideways. Over the past 10 years SGA has risen as a percentage of revenue from the mid-teens to 20-30%. Similarly COGS has gone up from ~65% of revenue to over 80%. I emailed the CEO and of course he can't give any specifics. He did say the additional audit, legal, consulting fees over the past few years artificially pushed up SGA and those will be lowering. Also inflation, gold, and labor costs have hurt margins, but they plan to strategically raise prices in the future to normalize that. Sounds good directionally and I guess we'll see.

As usual, I don't have a price target. I normally don't think that way but rather I imagine potential for years out into the future. I've held for about 10 years now so what's another 10. Right now the stock is selling in the low to mid 6's while book value and revenue would put value more like \$8. It was over \$20 only a few years ago and I see signs it may get back there. The recent issues are explainable.

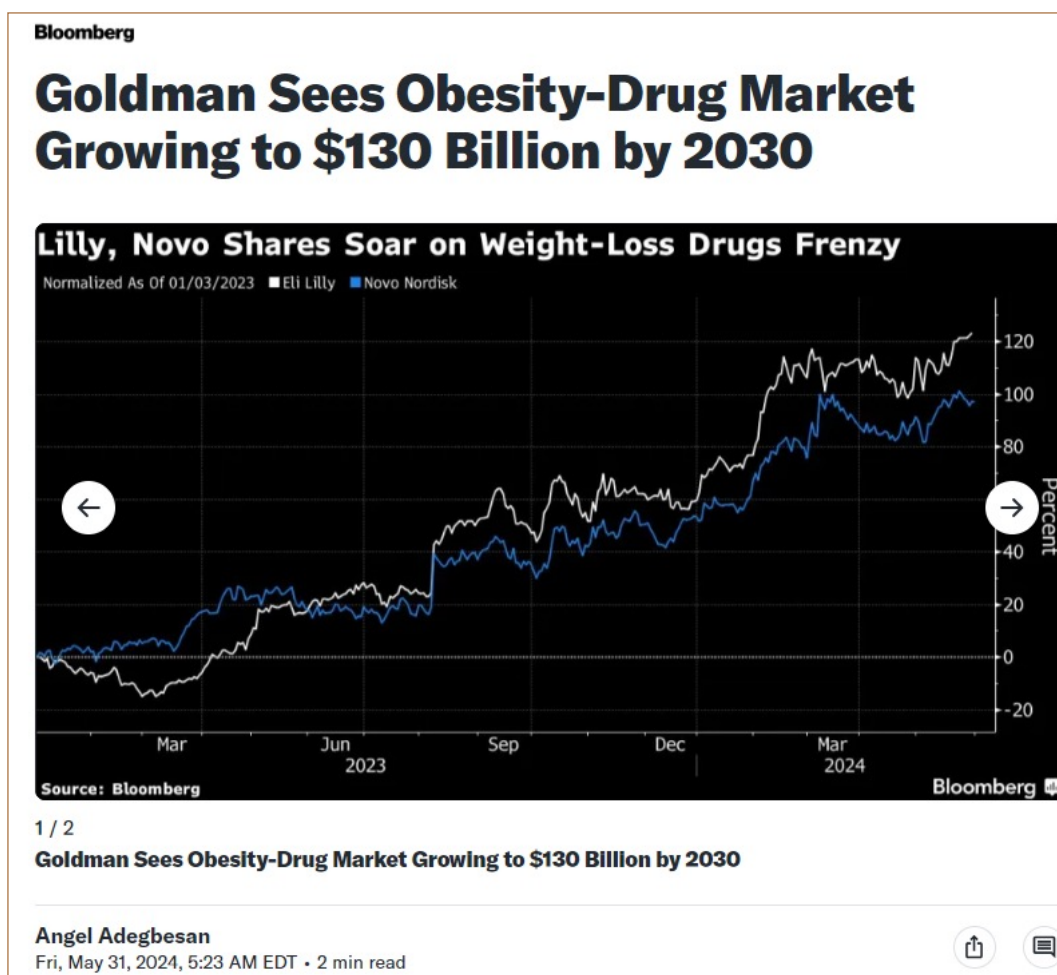
Operations turning around, stocks coming out of the darkness, and positive press releases the market doesn't notice all get me excited individually. Here we have all three. The market has this stock in a downtrend for the past 4.5 years and it now sits at a long term support, that is where I like to buy.

Don't be surprised if weight-loss drug stocks steal the spotlight from artificial intelligence ("AI") stocks for a bit ([from Justin Spittler via X](#))...

In This is a massive megatrend, and it's just getting started. Goldman \$GS expects its to be a \$130b market by 2030.

\$LLY and \$NVO both look really, really constructive after consolidating for the past few months.

And \$HIMS – an up and coming player in the space – has been one the strongest stocks as of late.



The energy sector's total shareholder yield is now 7.6% ([from Mike Zaccardi, CFA, CMT via X](#))....

	Energy	Materials	Financials	Industrials	Cons. Disc.	Tech.	Comm. Services*	Real Estate	Health Care	Cons. Staples	Utilities	S&P 500 Index	
S&P weight	3.9%	2.3%	12.9%	8.5%	9.9%	30.6%	9.3%	2.2%	12.0%	6.0%	2.5%	100.0%	Weight
Russell Growth weight	0.5%	0.7%	6.1%	5.4%	14.2%	45.3%	12.7%	0.8%	10.3%	4.0%	0.1%	100.0%	
Russell Value weight	8.0%	4.8%	22.8%	14.4%	4.8%	9.2%	4.5%	4.5%	13.8%	7.9%	5.2%	100.0%	
Russell 2000 weight	7.6%	4.8%	15.8%	17.5%	10.5%	15.0%	2.2%	5.5%	14.9%	3.5%	2.6%	100.0%	
QTD	-1.1	-1.5	-1.2	-2.0	-4.0	4.1	4.4	-3.0	-2.8	1.5	10.8	0.7	
YTD	12.4	7.3	11.2	8.8	0.7	17.3	20.9	-4.1	5.8	9.2	15.8	11.3	Return (%)
Since market peak (February 2020)	106.9	65.3	46.4	58.2	40.8	129.6	59.7	6.7	48.3	39.7	19.0	66.9	
Since market low (March 2020)	369.5	158.6	156.5	171.4	106.3	233.5	123.7	71.3	105.8	83.9	84.9	152.1	
Beta to S&P 500	1.2	1.1	1.1	1.1	1.2	1.2	1.0*	0.9	0.7	0.6	0.5	1.0	β
Correl. to Treas. yields	-0.1	-0.6	-0.5	-0.5	-0.6	-0.7	-0.7	-0.8	-0.6	-0.6	-0.6	-0.7	ρ
Foreign % of sales	39.0	51.9	28.1	33.2	33.2	57.4	48.1	16.9	34.3	39.8	1.3	41.4	%
NTM earnings growth	1.4%	6.0%	12.0%	10.4%	13.3%	18.9%	17.5%	2.9%	12.6%	6.2%	8.7%	12.4%	EPS
20-yr avg.	100.2%	13.4%	20.6%	13.9%	16.8%	12.1%	11.1%*	6.9%	7.9%	7.5%	4.7%	10.9%	
Forward P/E ratio	12.3x	20.3x	15.2x	20.9x	23.5x	28.3x	18.8x	16.3x	18.9x	20.2x	17.5x	20.5x	P/E
20-yr avg.	13.5x	15.0x	12.5x	16.3x	19.6x	18.0x	18.6x*	17.0x	15.0x	17.5x	15.7x	15.7x	
Buyback yield	4.3%	1.3%	2.2%	1.9%	1.5%	1.4%	3.4%	-1.6%	1.0%	0.7%	-0.7%	1.7%	Bbk
20-yr avg.	1.8%	1.0%	0.5%	2.3%	2.5%	3.0%	1.8%	-1.4%	1.9%	1.8%	-0.7%	1.8%	
Dividend yield	3.3%	1.8%	1.8%	1.5%	0.8%	0.7%	1.0%	4.0%	1.7%	2.8%	3.2%	1.5%	Div
20-yr avg.	2.8%	2.4%	2.3%	2.2%	1.4%	1.2%	1.2%	3.8%	1.9%	2.9%	3.8%	2.1%	

The investment case for natural-gas-focused master limited partnership (“MLP”), Summit Midstream Partners (SMLP) ([from Idea Hive](#))...

Summit Midstream Partners (SMLP) — initial post [here](#), last update [here](#)

For a quick recap of the investment thesis, SMLP is a natural gas gathering-focused MLP that has recently divested several of its non-core assets. Pro forma for the divestitures, the company is cheap, trading at only approximately 6× 2024E pro forma EBITDA compared to 8x+ multiples for peers and SMLP’s recent divestitures.

SMLP has recently formally announced the corporate reorganization whereby it will transition from an MLP to a C-Corp. As part of the reorganization, both SMLP’s common and preferred units will be exchanged into the new entity’s common and preferred stock, respectively. As stated by the company previously, the conversion will have to be approved by SMLP’s equity holders during the upcoming shareholder meeting. The meeting date has not been announced yet.

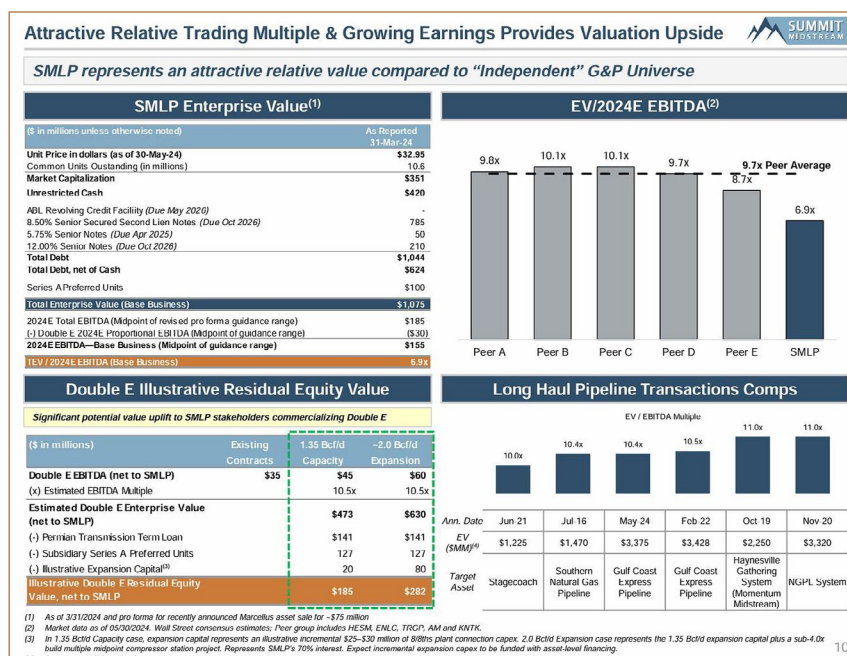
While none of this is new and has been known before, what attracted my attention is the updated ‘Risk Factors’ filing provided as part of the announced reorganization. The document contains some interesting language from the management, indicating that SMLP has been in discussions with other parties regarding “a range of strategic alternatives,” including a transaction whereby “the potential counterparty would acquire control of the Partnership.” See excerpt below:

We may enter into a range of strategic alternatives with potential counterparties that may be conditioned upon the consummation of the Corporate Reorganization.

We regularly evaluate a range of strategic alternatives and engage in discussions with unaffiliated third-parties. Those discussions have included and continue to include significant strategic transactions (a “Potential Transaction”) in which the potential counterparty would acquire control of the Partnership or, after the Corporate Reorganization, New Summit. The Corporate Reorganization is not contingent upon the entry into or consummation of a Potential Transaction and the board of directors of the General Partner (the “GP Board”) expects to proceed with the Corporate Reorganization regardless of the status of any Potential Transaction. However, we expect that any Potential Transaction would be contingent upon the consummation of the Corporate Reorganization. If the Corporate Reorganization is not consummated

or the consummation of the Corporate Reorganization is delayed, our pursuit of strategic alternatives may be delayed or abandoned and we may not realize the anticipated benefits of any such strategic alternative.

While I am not sure if this is simply boilerplate language, it might indicate that 1) SMLP has received takeover interest, and 2) management could potentially be looking to shop the company. I have not highlighted a company sale among the catalysts, and I still think that arguing for a takeover is too speculative at this point. However, this document suggests that, aside from other catalysts (namely the C-Corp conversion and dividend reinstatement), investors in SMLP are also getting the optionality of a potential company sale. I'd expect any transaction to come at a significant premium to the current stock price levels, given that SMLP is currently trading at only 6.4x 2024E EBITDA guidance midpoint. Company's recent investor presentation (see the slide below) shows that SMLP's comparables have mostly been trading above 9x multiples, while comparable transactions have been completed above 10x EV/EBITDA. Given SMLP's high leverage, even a minor 1-turn increase in the multiple would imply a share price target of \$0 or a 50%+ upside.



Source: SMLP Investor Presentation, June 2024

While an additional potential catalyst (i.e., company takeover) is nice to have, I do not think that investors require it in order to win here, given the other catalysts, most notably the C-Corp conversion. As I discussed in my latest post on SMLP, the conversion is likely to lead to a significant share price re-rating, given that the current MLP structure limits the pool of potential investors and liquidity.

With the stock trading at a discount to peer/comparable transaction multiples and a clear near-term catalyst on the horizon, I continue to like this setup.

[Continue reading here](#)

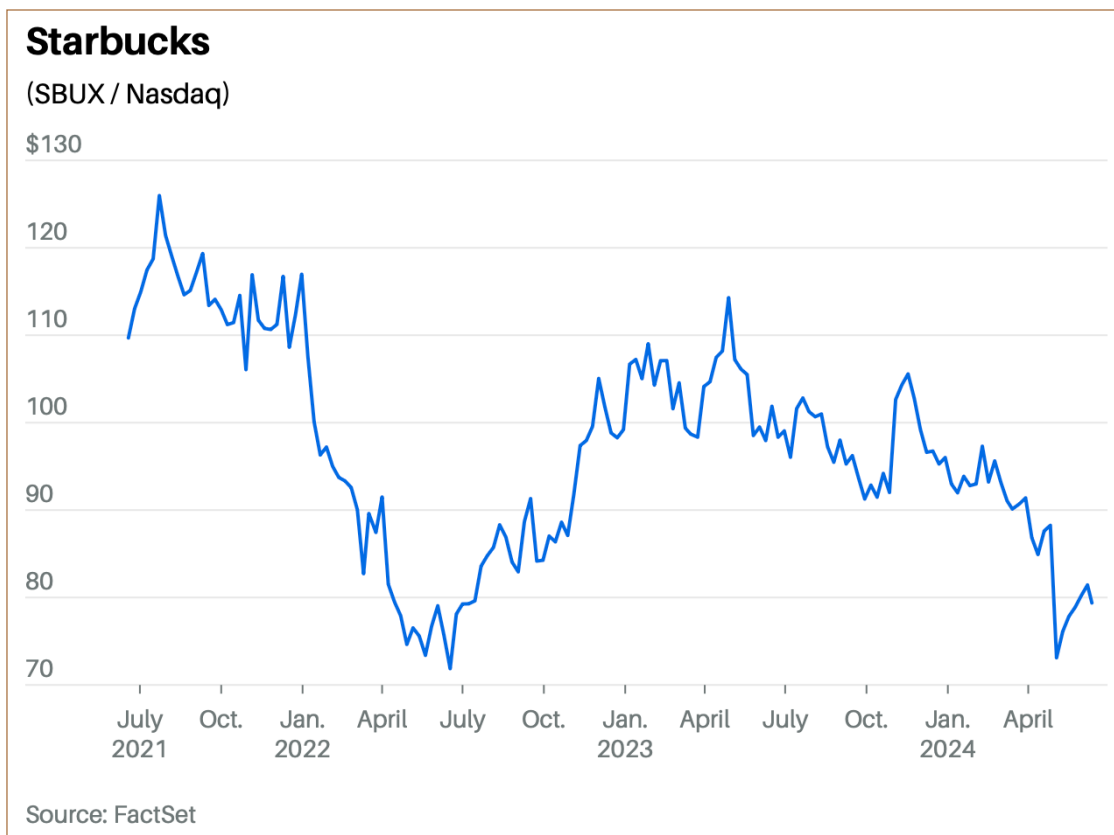
Why Starbucks (SBUX) shares could finally be a buy ([from Barron's](#))...

Starbucks is brewing plans for a turnaround after surprisingly weak second-quarter earnings.

Same-store sales at the world's largest coffee chain declined 3% in North America and 6% in international markets, the result of soft demand and more competition in China.

The stock, which has slumped almost 17% this year, now looks oversold. Starbucks is still growing at a rapid pace and continues to adapt through smaller stores, greater efficiency, and diverse products to attract new customers. If those measures are successful, the stock could see a big bounce.

Americans are also drinking coffee more than ever. The National Coffee Association reports that two out of three adults in the U.S. this year had coffee in the past day. The share of consumers who bought from coffee shops in the past day nearly doubled to 15% in 2024 from 8% the year before.



The U.S. coffee shop market grew 8% over the past year to nearly \$50 billion, now standing 4% above prepandemic levels, according to the Project Café USA 2024, an industry report from coffee consulting firm World Coffee Portal. And Starbucks, with more than 16,000 outlets in the U.S., remains the leader, with a 40% market share.

“It’s tough to keep growing the same-store sales, but Starbucks remains a formidable brand that’s operating at an unprecedented scale in the global coffee market,” says Jeffrey Young, CEO of Allegra Group, the parent company of World Coffee Portal.

But Starbucks is facing some headwinds. Inflation has curtailed consumers’ willingness to spend. Boycotts stemming from its position on the Israel-Hamas war, and workers’ unionization efforts are taking a toll. Boutique coffee shops and smaller chains like Dutch Bros and Scooter’s Coffee are growing quickly, elbowing in on Starbucks’ business.

Instead of getting a cheaper item on the menu, consumers often stop buying from Starbucks entirely and get their fix at convenience stores or at home. And, Starbucks doesn’t get the trade-down business from higher-end brands because it’s already the premium player in the coffee market.

“The casual drinker who might stop by for an afternoon cold brew or weekend Frappuccino has fallen off the map,” says Morningstar analyst Sean Dunlop.

Still, Starbucks continues to grow. In the past four quarters, it added nearly 600 new stores in North America and 1,700 overseas. In emerging markets like India, Southeast Asia and Latin America, penetration is still low, presenting room for growth.

This could help buffer any short-term weakness in the domestic market. Despite the expanding footprint, there is little sign of cannibalizing. Average annual sales for company-owned stores continue to rise, reaching \$2.3 million in fiscal 2023.

“They are the dominant player of an addictive product. You really can’t get a better business model than that,” said Burns McKinney, a portfolio manager at NFJ Investment Group, which owns the stock.

[Continue reading here](#) *(subscription may be required)*

Three bullish ideas from the 2024 Weird Shit Investing conference ([from Undervalued Shares](#))...

It's difficult to pick favourites, but you really shouldn't miss the following:

- For a smart play on the US cannabis market with up to 4x upside, check out WM Technology (ISIN US92971A1097, Nasdaq: MAPS), written by a colleague who anonymously authors [Clarke Square Capital](#). What makes this investment unconventional, or just a bit weird? There is a little-known quirk to US tax laws for the cannabis industry, which the Biden administration is racing to get changed as it's a vote winner. This USD 1 stock is worth checking out right now.
- Viel & Cie (ISIN FR0000050049, PA:VIL) is a French company that operates in the weird, discrete and profitable niche of InterDealer Intermediation. This market is not mediated and has three key players with more than 80% market share. Even most European small-cap sleuths won't have heard of this one yet. Over the long term, Viel's main asset, Compagnie Financière Tradition, had a total return of 17.4% p.a. with dividends reinvested since 1 January 1997. Today, the stock of Viel is trading with a 41% discount to NAV.
- Ever wondered how you could invest in the lucrative Lloyd's of London insurance market? It's a complex market, and becoming a so-called "name" is not an easy undertaking. However, there is ONE little-followed small-cap stock in London, Helios Underwriting (ISIN GB00B23XLS45, UK:HUU) which is a de facto investment fund that gives you exposure to Lloyd's of London. The company buys up so-called freehold capacity in insurance syndicates from ageing "names" (and their heirs). Yours truly presented this weird and unusual case, and you can even download the entire presentation.

[Continue reading here](#)

Warren Buffett's Berkshire Hathaway continues to buy up shares of Occidental Petroleum (OXY) ([from The Rational Walk](#))...

Starting on June 5, Warren Buffett bought shares of Occidental Petroleum on nine consecutive trading days with the latest reported purchases taking place on Monday, June 17. Over this period, he used \$434.8 million to purchase 7,263,396 shares at an average cost of \$59.86. Berkshire now owns a 28.8% stake in the oil company.

In addition to the investment in Occidental common stock, Berkshire owns \$8.5 billion of preferred stock as well as common stock warrants allowing Berkshire to purchase up to 83.86 million shares of Occidental at an exercise price of \$59.62. The warrants are exercisable until one year after the preferred stock is fully redeemed.

At the 2023 annual meeting, Warren Buffett stated that Berkshire will not “buy control” of Occidental because the right management is running the company and he “wouldn’t know what to do with an oil field.” Buying control could be interpreted as making purchases that breach the 50% level or acquiring the entire company.

If the options are eventually exercised, I estimate that Berkshire Hathaway would own approximately 35% of Occidental common stock, assuming a constant share count and accounting for issuance of the new shares. This leaves room to continue buying shares in the open market without the “risk” of eventually gaining control of Occidental.

While I take Mr. Buffett’s statement at the 2023 annual meeting at face value, I would suggest that circumstances could change in the future. I would also point out that Berkshire routinely leaves management in place after gaining control of companies. Berkshire’s corporate headquarters “would not know what to do with” many of its wholly owned subsidiaries without management in place. Occidental is no different.

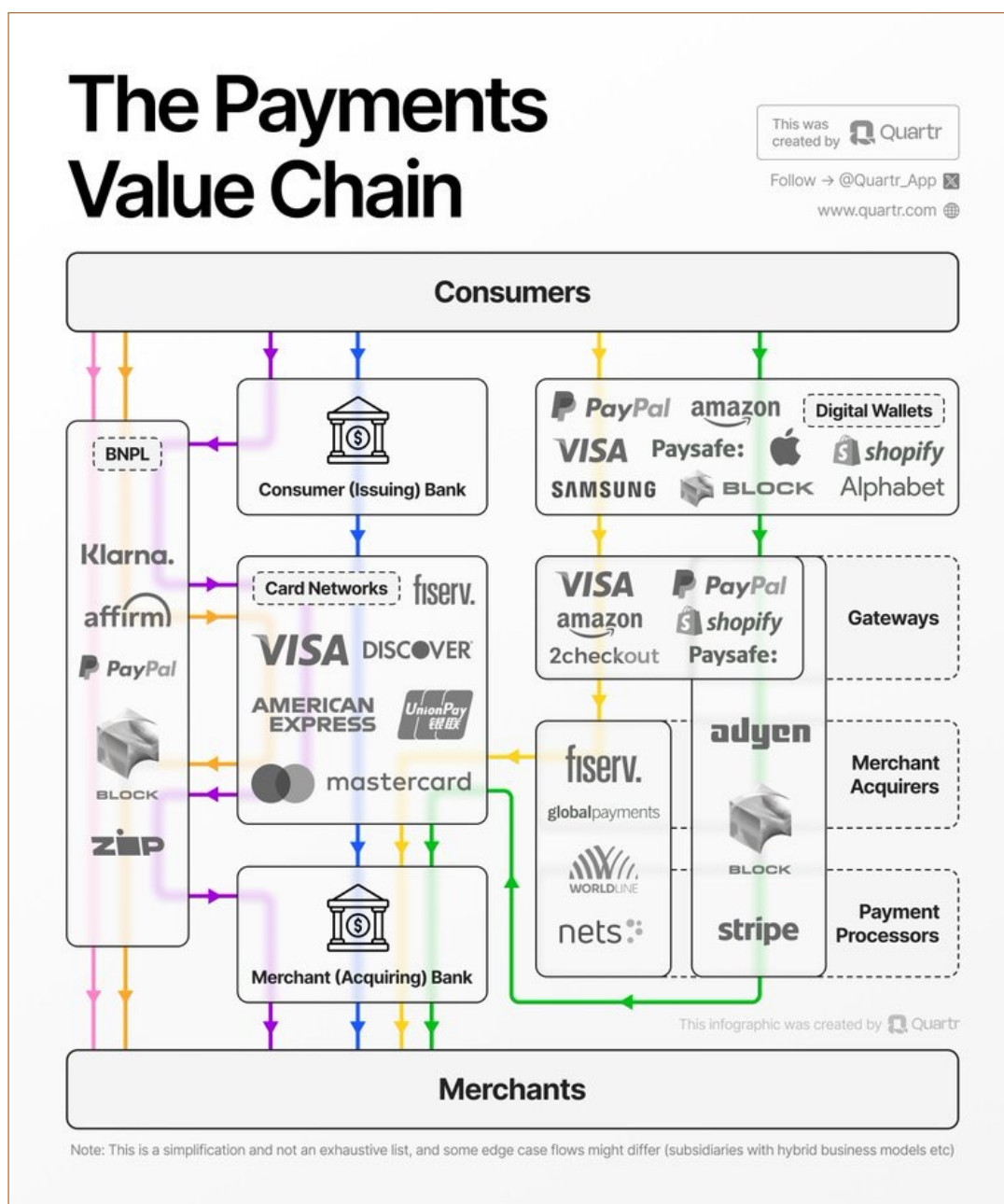
The International Energy Agency made news recently with its prediction of an oil supply glut by 2030. However, if the transition to renewable energy takes longer than anticipated or if geopolitical tensions rise, this benign scenario could be optimistic.

The exhibit below shows Berkshire’s recent purchases and a running total of shares owned and the cost of the position. I previously wrote about Occidental in October.

Date	Number of Shares	Average Cost/Share	Total Cost	Cumulative Shares	Cumulative Cost
6/5/24	524,340	59.7452	31,326,798	248,542,468	13,482,423,582
6/6/24	654,293	59.9342	39,214,528	249,196,761	13,521,638,109
6/7/24	1,386,844	59.6687	82,751,179	250,583,605	13,604,389,288
6/10/24	584,550	60.2562	35,222,762	251,168,155	13,639,612,050
6/11/24	399,859	60.4253	24,161,600	251,568,014	13,663,773,650
6/12/24	765,899	60.2771	46,166,171	252,333,913	13,709,939,820
6/13/24	1,552,497	59.7679	92,789,485	253,886,410	13,802,729,306
6/14/24	1,060,653	59.5893	63,203,570	254,947,063	13,865,932,876
6/17/24	334,461	59.7491	19,983,744	255,281,524	13,885,916,619
	255,281,524		13,885,916,619		
	Average Cost (of all shares owned)	54.39			
	Price as of 6/19/2024	61.26			
	Current Value	15,638,546,160			
	Capital gain	1,752,629,541			
	OXY common shares at 4/30/24	886,636,750			
	BRK % ownership of common	28.8%			

[Continue reading here](#)

Want to invest in payments? Study this graphic to understand the value chain ([from The Investing for Beginners Podcast via X](#))...



The bullish case for Alphabet (GOOG) today (from Conch Shell Capital via X)...

Great interview with Mark Casey @ Capital.

I found his perspective on \$GOOGL refreshing & insightful, given that Mark has owned it since its IPO 20 years ago.

Question: What's the story for the next 20 years?

"What I did for the last, call it 77 quarters, where I've analyzed \$GOOGL financial results & updated my model & written up the company, or at least recalculated my estimates.

I'm always trying to look four to eight years out and make my best guess at what sort of money the company will be earning at that time & what will its future growth prospects look like at that time.

And I use those two things to calculate a range of target stock prices, and I compare them to the current stock price. And if there's enough appreciation, I just kind of say, well, I think I'm just going to sit around and wait for four to eight years to see if that comes true.

To me, what's been surprising about \$GOOGL over these 20 years is how many ways they found to be inventive and do new things that nobody was expecting when they went public.

YouTube is a gigantic business now, with 40 billion in revenue. They didn't own it when they went public. Android, you know, they bought for \$50 million after they went public, and that's the world's most popular phone operating system. Waymo, these self-driving robot cars. I think that could be huge and it's not in the stock price.

If I remove all the parts \$GOOGL Cloud Platform, \$GOOGL search, Android, and YouTube, I kind of say how much is left over for Waymo? I don't see the stock market paying anything for Waymo.

So I think search will continue to grow, not as fast as it used to, but I think YouTube, Android, Chrome, Cloud, their Gemini AI team, Waymo, this thing called Verily, a healthcare company, I think they've just got a lot of irons in the fire, & it looks attractively priced to me."

SOVEREIGN/GOVERNMENT BONDS AND CREDIT

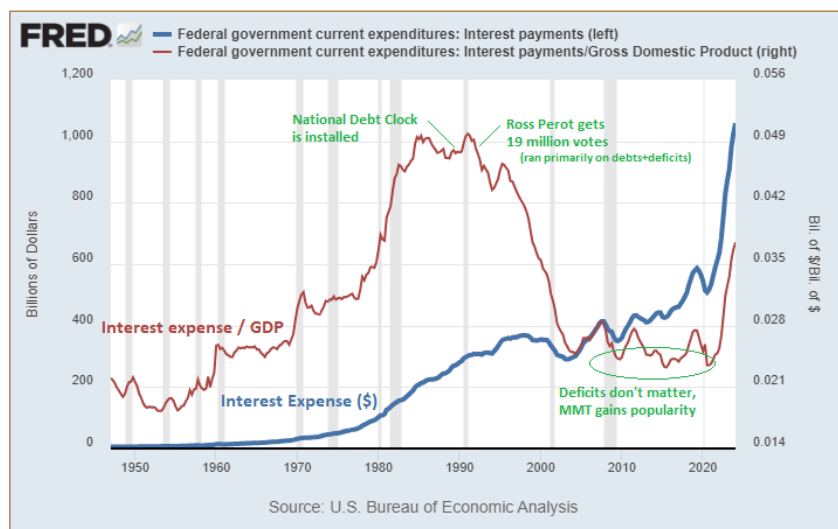
Federal deficits didn't matter for decades... but they're beginning to matter again ([from Lyn Alden via X](#))...

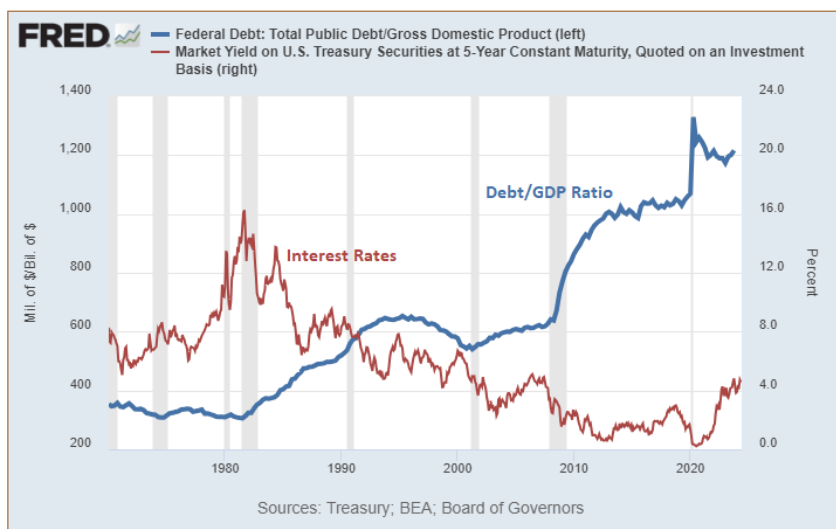
In the late 1980s and early 1990s, concern about the public debt reached its peak. The national debt clock was installed, and Ross Perot ran the most successful independent presidential campaign in the past century focused largely on debts and deficits.

But then China and the post-Soviet Union region opened up to the world, and the resulting offshoring and globalization sparked all sorts of disinflation. Interest rates fell, and so U.S. interest expense relative to the size of the economy dropped by a lot, even as debt/GDP continued to head higher.

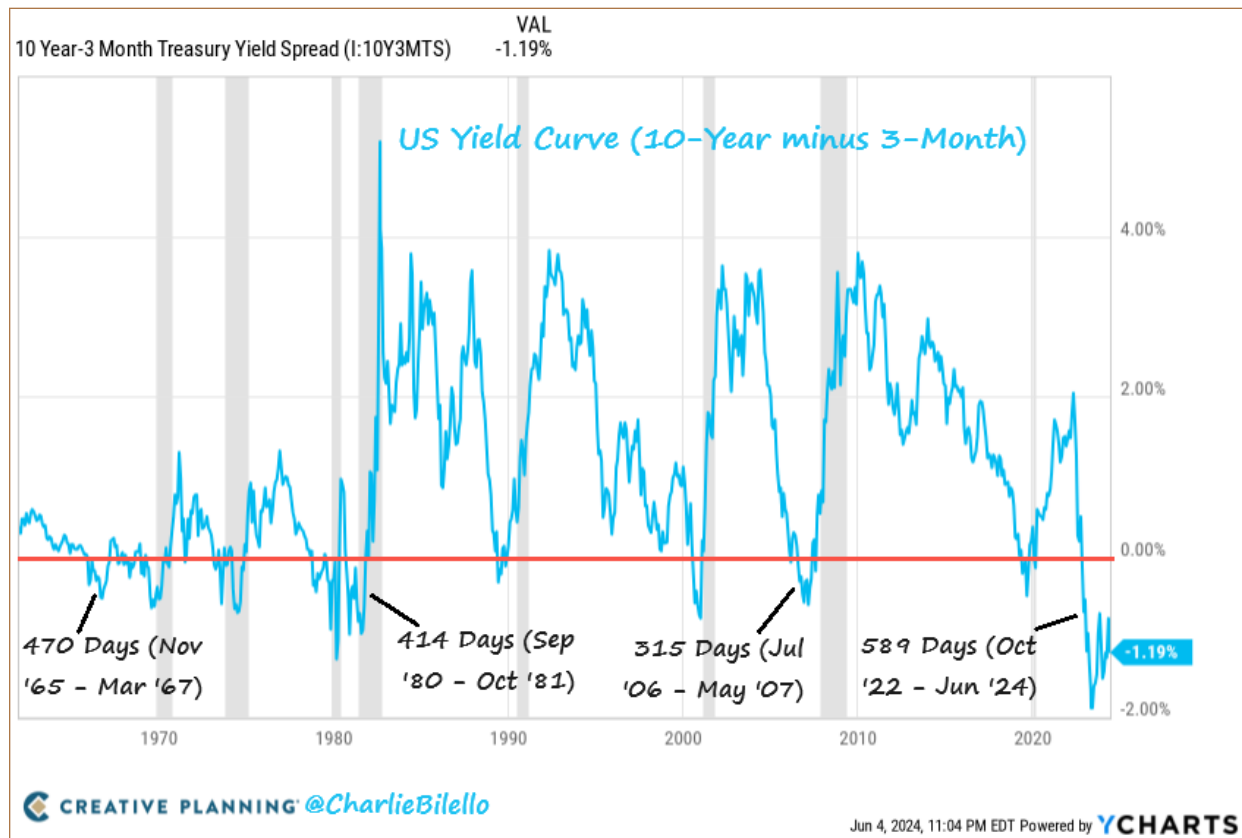
The lesson that many people took from that era, by the time we reached the 2010s and early 2020s, is that deficits don't really matter. All those people worrying about the deficit were viewed as wrong. And so, the *lack* of concern about public debt reached its peak.

But that's also when four decades of falling interest rates hit zero and started going sideways. And so, the falling-rate offset to ever-higher public debt growth is no longer there now. Globalization is slowing down, and putting more frictions back into global supply chains. The pendulum is swinging in the other direction.





The U.S. Treasury yield curve (10-year minus 3-month) has now been inverted for 589 consecutive days, the longest in history ([from Charlie Bilello via X](#))...



Nearly \$10 trillion in U.S. Treasury debt must be refinanced over the next 12 months (from The Kobiessi Letter via X)...

A record \$9.3 TRILLION US Federal debt will mature and must be refinanced at much higher rates over the next 12 months.

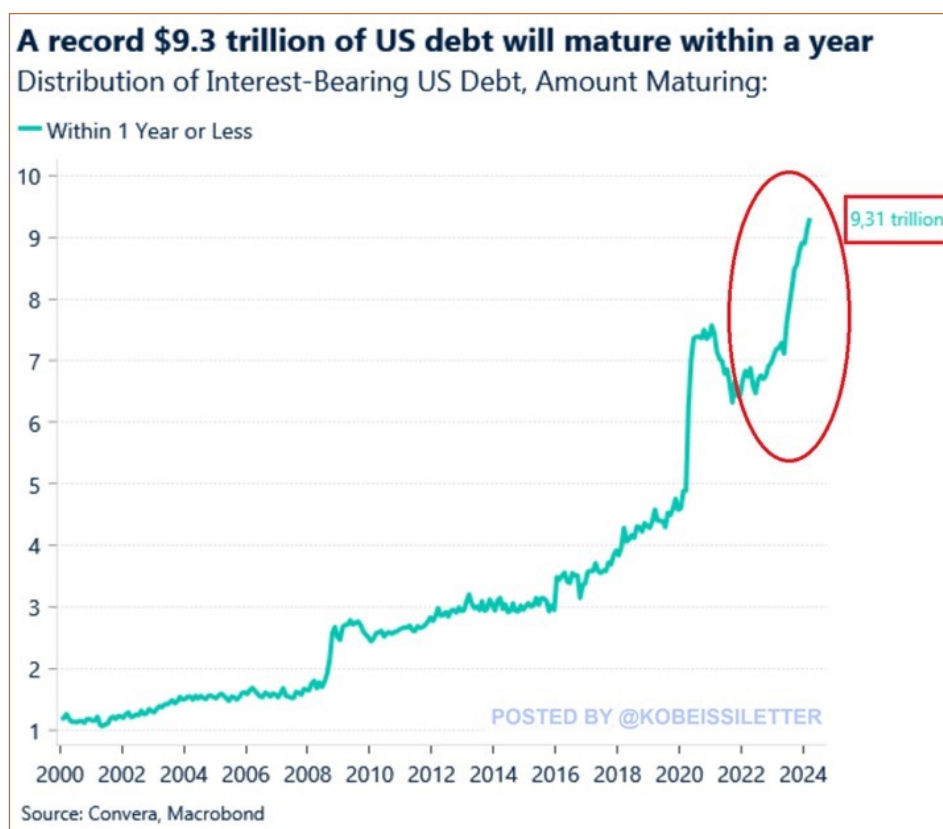
This is up by a massive \$4.7 trillion or 102% in just 4 years.

This comes as the US Treasury switches to issuing shorter-dated maturity bonds with lower interest.

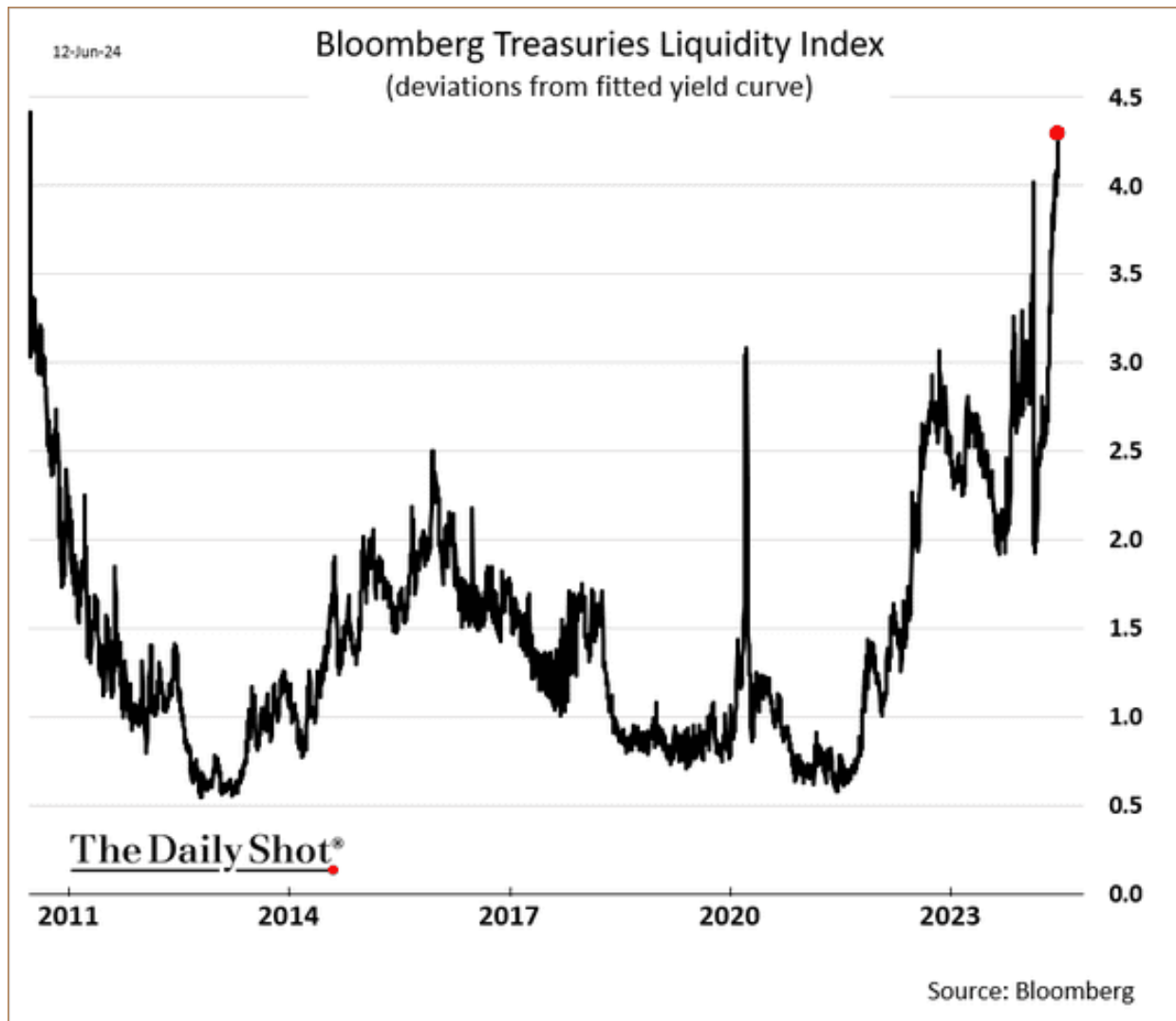
As a result, a record ~33% of debt outstanding has a maturity of less than a year.

Meanwhile, the Fed has dumped ~\$1.3 trillion of Treasuries (QT) off of its balance sheet in 2 years while foreign government demand for US bonds has declined.

Who is going to fund all of this debt?



Treasury market liquidity hasn't been this poor since 2010 ([from The Daily Shot](#))...



h/t Simon White, Bloomberg Markets Live Blog

How crypto could stave off a U.S. debt crisis ([from Paul Ryan via *The Wall Street Journal*](#))...

The American experiment is being tested. Nowhere is this more evident than in the trajectory of the national debt. The U.S. is headed toward a predictable yet avoidable debt crisis. If nothing is done, the economy will stall while government promises of healthcare and retirement security will be broken. Cuts to national defense will put the country at risk.

With no fiscal solution in sight, the crisis is likely to start with a failed Treasury auction forcing an ugly surgery on the budget. As the economy contracts, the dollar will suffer a major confidence shock, further imperiling prospects for growth. The obvious answer is to deal with the root causes of the problem. Entitlement programs are driving the debt and require reform, but politicians can't find the courage to do what needs to be done. The country thus proceeds down this perilous path. What can be done?

We might start by taking stablecoins seriously. According to the Treasury Department and DeFi Llama, a cryptocurrency analytics site, dollar-backed stablecoins are becoming an important net purchaser of U.S. government debt. If fiat-backed dollar stablecoin issuers were a country, it would sit just outside the top 10 in countries holding Treasuries—smaller than Hong Kong but larger than Saudi Arabia. If the sector continues to grow, stablecoins could become one of the largest purchasers of U.S. government debt and a reliable source of new demand.

Their emergence as a mechanism for promoting the dollar couldn't be timelier. The U.S. benefits from the dollar's status as the primary international reserve currency. Among the perks: cheap, reliable financing for fiscal spending and substantial influence over the global financial system. Most financial activities eventually flow through U.S. banks thanks to the dollar's dominance. As the global economy becomes more digital and multipolar, the dollar's primacy is constantly under threat.

China understands what's happening. Financial authorities in Beijing have made digital currency a pillar of the country's international-development strategy and foreign policy. The Chinese government is using physical and digital infrastructure investment in emerging markets, coupled with financial engineering, to embed the yuan in a network it can control to project influence. The U.S. can't afford to sit idly as its largest international competitor taps latent demand for safe and convenient digital money. The framework for understanding how the dollar gets its power needs to be updated for a changing world.

Consider an example that highlights a driver of dollar dominance. Say a Japanese company sells a product or service to a customer in Wisconsin. What can the company do with the dollars it receives? Since the early 1970s, it could place them in the large, liquid Treasury market. The main attraction is that Treasury securities have the backing of the world's most dynamic economy. U.S. government debt is, after all, a claim on the future output of America's economy.

Setting aside the problems with growing U.S. government debt (of which there are many), the fact that Uncle Sam has been able to sell debt consistently on the international market, often at low rates, is evidence of something important: The rest of the world has an insatiable demand for dollars. There are signs, however, that the status quo could be changing—and fast.

Several nations that have historically been large buyers of U.S. debt, such as China and Saudi Arabia, are gradually retreating from the market. They are also increasingly looking for options for settling payments outside the dollar system. There is, meantime, growing risk that the U.S. government could soon experience a failed debt auction. Such an event would roil markets and severely undermine U.S. credibility.

If other countries are successful at bolstering their currencies' influence while dumping Treasury debt, the U.S. will need to find new ways to make the dollar more attractive. Dollar-backed stablecoins are one answer.

Most stablecoins are held by investors in countries with weak economies and underlying institutions that are looking for "better" money. As Timothy G. Massad, a former chairman of the Commodity Futures Trading Commission, recently described in a Brookings Institution research paper, stablecoins are analogous to eurodollars, the offshore dollar-denominated liabilities that turbocharged dollar pre-eminence during the Cold War.

Promoting dollar-backed stablecoins would follow a well-trodden path and offer clear near-term benefits. There would be an immediate, durable increase in demand for U.S. debt, which would reduce the risk of a failed debt auction and an attendant crisis. Unlike China's digital financial infrastructure, dollar-backed stablecoins issued on public, permissionless blockchains come packaged with the deeply American values of freedom and openness.

[Continue reading here](#) *(subscription may be required)*

The spread between French and German bond yields “blows out” by the most on record as the market braces for a return of the Euro debt crisis ([from Zero Hedge](#))...

It wasn't supposed to go like this: as discussed earlier today, Macron's gamble to dissolve parliament and call a two-round snap election on June 30 and July 7 was supposed to boost morale, “circle the troops” and push back against the “*extremism*” of Marine Le Pen's “*far right*” avalanche which absolutely crushed Macron's party in last weekend's European Parliament elections. Instead, it has **opened the proverbial Pandora's Box** and even sparked speculation that Frexit - and even the broader collapse of the Eurozone which lay dormant for much of the past decade - may again be looming.

The reason behind this catastrophic sequence of events which will culminate in less than a month with impromptu French elections is, as always, sheer hubris, in this case that of President Emmanuel Macron and his centrist alliance who according to the FT, “could be facing a wipeout in snap parliamentary elections after France's leftwing parties struck a unity pact.”

According to two new studies for Le Figaro and BFM TV, **only around 40 of Macron's MPs would qualify for the second round vote on July 7**, in run-off races that would predominantly be fought between candidates fielded by the far right or the leftwing bloc for the 589-strong assembly.

The findings, as we noted earlier, confirm that Macron's dramatic gamble to dissolve parliament and hold early elections in the hope of stopping the rise of the far-right Rassemblement National party is about to backfire spectacularly, and also underscore that the outcome of the two-round vote on June 30 and July 7 could be determined by the left.

As Bloomberg reports, four otherwise fractious left-wing parties sealed an alliance on Thursday to join forces in the upcoming legislative election, **with polls showing it can win the second-biggest bloc behind Marine Le Pen's National Rally**. The alliance - which was endorsed by France's former socialist president François Hollande - will have to overcome significant divisions between its members, notably over military support for Ukraine and Melenchon's refusal to consider Hamas a terrorist organization.

“There was an expectation of union expressed,” the Socialist Party said in a statement late Thursday. “It is sealed.”

The accord did not specify who would be their candidate for prime minister but Jean-Luc Mélenchon, leader of the far-left France Insoumise (*France Unbowed*, LFI) party and a polarizing figure in French politics, hinted earlier on Thursday that he wanted the job. LFI secured the

largest proportion of candidates on the joint list with the centre-left, Socialists, Greens, and Communists. And yet, speaking in an interview on TF1 as the news broke Thursday, Hollande said comments made recently by Melenchon would exclude the far-left leader from serving in a government. The former Socialist president said he didn't know the details of the agreement but it must be pro-European, in favor of France remaining in NATO, and call for peace in Gaza while recognizing the Hamas terror attack. He said it will also be necessary to have measures on housing and support for real incomes, while remaining credible.

"The essential thing is that unity was possible," Hollande said. "A time comes when we have to move beyond our differences."

Speaking earlier, the current Prime Minister Gabriel Attal said it was "shameful" that the Socialist Party — where he began his political career — had entered a pact with France Unbowed.

"I'm calling on left, social-democratic voters, and there are a lot of them, who don't identify with the France Unbowed program to support our candidates," Attal said.

In any event, the unexpected development is a huge blow to Macron: if the left parties had ran multiple candidates for each seat, **Macron's centrist alliance would have had better chances of piercing through to the second round.** To qualify for a run-off, a candidate needs to have won the backing of 12.5% of registered voters. With the alliance now in place, **Macron's chances of emerging from the elections with a firmer grip on government and centrist forces in parliament are now officially gone.** His campaign had made overtures to the Socialists, whose government Macron served in during the presidency of Francois Hollande.

By extrapolating results from last week's European parliamentary election to the upcoming first round in the French legislative poll, **Le Pen's RN would come first in 362 seats and the left would come top in 211, according to Le Figaro's calculations.**

Some analysts cautioned against extrapolating from European parliament elections, which take place in a single round according to proportional representation. They often have low turnout and are used as a protest vote against the government.

In an attempt to prevent all out panic that France will be divided between the "far-left" and "far-right" with centrists trampled, Mathieu Gallard, a pollster at Ipsos, said

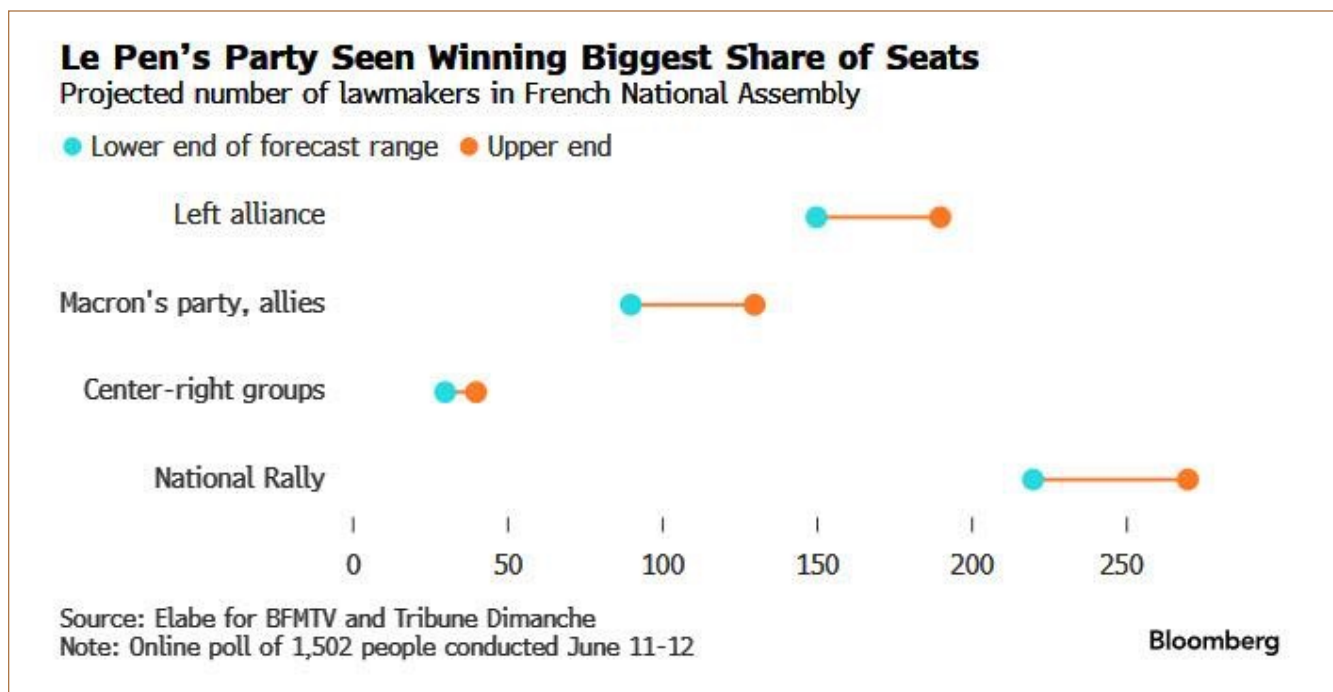
predicting seat share at this stage was “just a matter of intuition”. Candidates have not yet been selected and incumbent MPs often command considerable local loyalty. Margins of error for voting intentions across two rounds, the close contests in many constituencies and doubts over turnout made the “outcome highly uncertain at this stage”.

Still, forecasts add to a series of gloomy surveys for Macron’s camp this week, suggesting **he could easily lose at least half of his 250 seats in the assembly**.

Asked about the difficult poll numbers, an adviser to Macron’s alliance said: “There is a narrow path forward, and we’ll see how dynamics shift in the coming days. It is hard but not impossible.”

Turning from the left to the right, an Elabe poll for BFM and La Tribune Dimanche put the RN on 31% (with 4 for the rival party Reconquête), the leftwing alliance on 28%, and Macron’s centrist alliance on 18% while the centre-right Les Républicains on 6.5%.

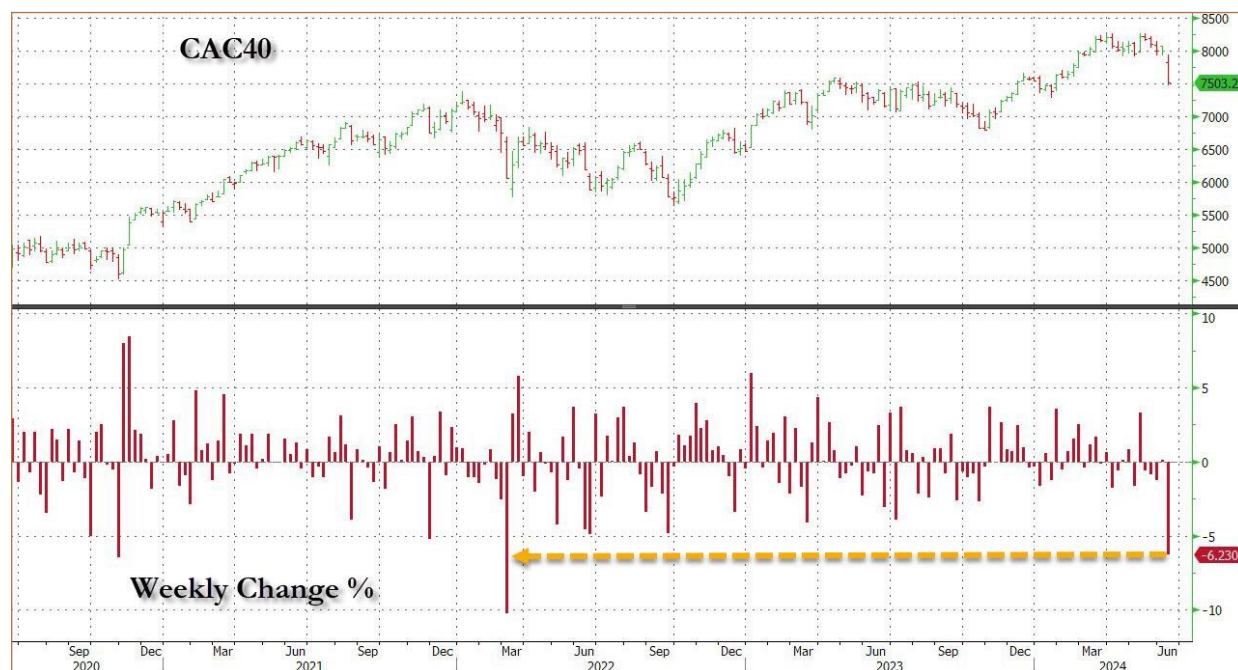
Elabe projects the **RN winning between 220 and 270 seats, the left 150-190 and Macron’s alliance 90-130, an unprecedented disaster for Macron, who despite his previous vows may have no choice but to resign**. The center right would take 30-40.



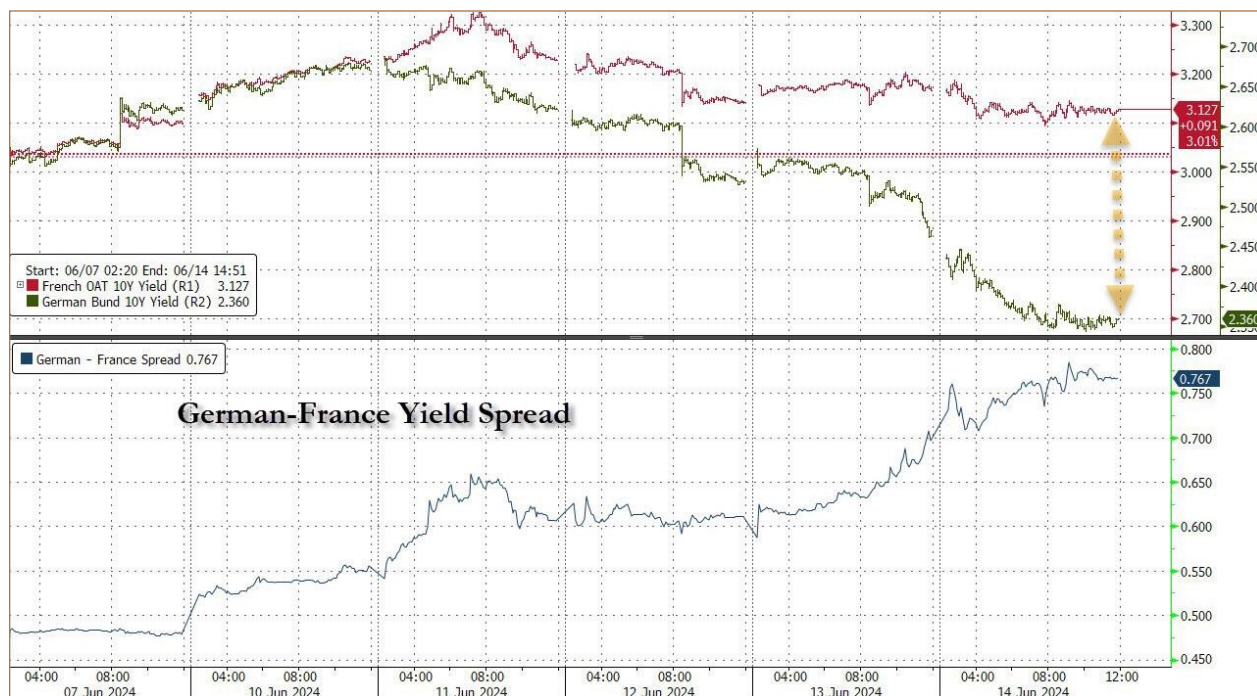
It gets even worse for the European liberal, technocrat establishment: the polls suggest the mostly likely scenario is a hung parliament, but if the RN wins by a big margin, **it will have a claim on the office of prime minister and the right to form a government.**

France's conservative and right-wing parties are struggling to forge a united front in the elections. The Republicans are locked in bitter infighting as most of the party's senior members are trying to expel their president, Eric Ciotti, after he announced a pact with National Rally. He refuses to step down and is appealing at the Paris tribunal. And Marion Marechal, the vice president of the nationalist Reconquest party, was expelled late Wednesday, after she, too, sought to form a coalition with Le Pen, who is also her aunt.

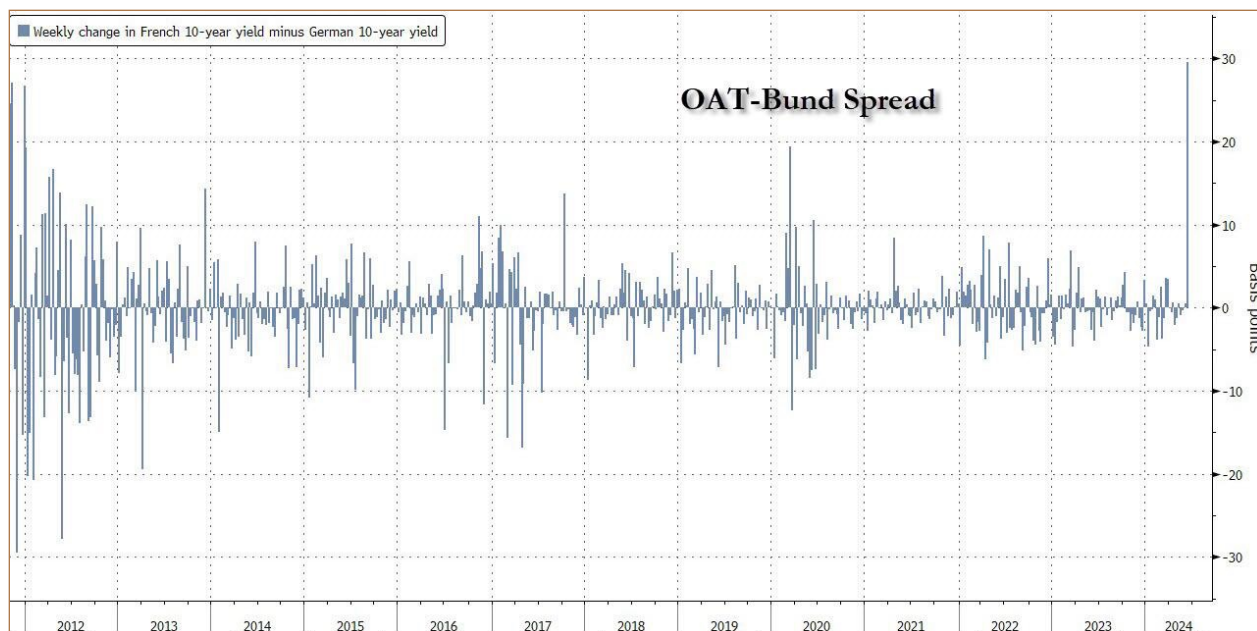
While the French elections are still at least two weeks ago, French markets - both stock and bond - got destroyed this week: the CAC 40 index fell 2%, completing its worst week in nearly a year. Banks fell the most, with Societe Generale SA down 12% and BNP Paribas SA down 10% on the week.



But if stocks were hit, the bond market was absolutely crushed: French 10-year bond yields (OATs) over their German Bund counterparts, just jumped by a record this week as the two bonds diverged with a thud.



According to Bloomberg data, the OAT-bund spread widened 29bps this week to 77bps, **the highest since 2017!**

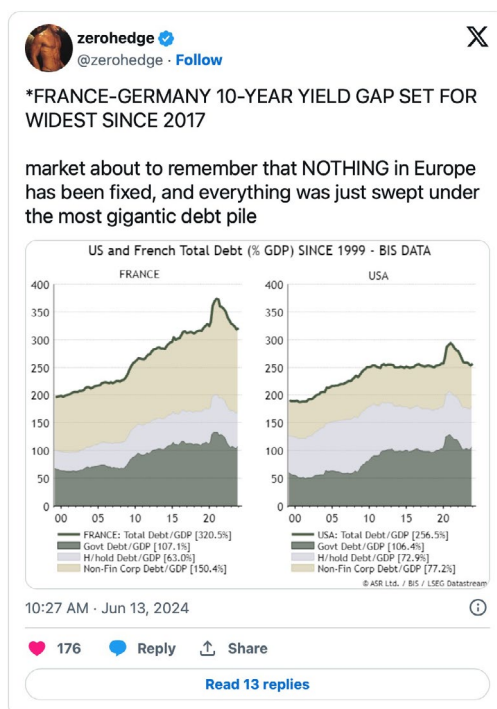


The prospect of the far-left getting a sway over policy has rattled investors in the past. When polls in 2017 showed the presidential election could end up as a head-to-head between Le Pen and Melenchon, French debt sold off sharply, quadrupling its premium over safer German peers in a matter of months. This time is even worse, with S&P downgrading the French credit rating from AA to AA- citing larger-than-expected deficits and political fragmentation as reasons for the downgrade.

OAT-bund spread widens by a record 29bps this week to 77bps, the most since 2017. That comes as polls show a left-leaning political alliance could win the second-biggest bloc behind Marine Le Pen's far-right National Rally, pushing President Emmanuel Macron's party into third place

And as goes France, so goes the rest of the Eurozone: peripheral debt was also hammered up in the rush to exit positions; Italian bonds yields reach the widest in four months versus German peers after the premium jumps the most since March 2023.

In the end, however, the biggest shock may be that - as we noted recently - Europe is about to discover that ever since the great sovereign debt crisis **nothing has been fixed**, and instead all the problems were merely shoved under the biggest debt pile in history.



And if Macron's gamble fails - as it now looks it will - and France is unable to maintain the cheerful if "Potemkin Village" status quo, it's all about to implode... which of course means the mother of all ECB intervention is on deck, because as TS Lombard's Dario Perkins sketched it out, the bigger the European crisis, the more powerful the central bank response, and the higher all risk assets will soar.

**Dario Perkins** ✓
@darioperkins · Follow



I could have made this prettier

EURO CRISIS??

Is a European politician doing something dumb? → NO? → Are you sure? → YES → IGNORE

↓ YES ↓

Is there a CB backstop/ does the CB understand its obligations? → YES → IGNORE

→ NO → PANIC

11:25 AM · Jun 14, 2024

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Why artificial intelligence (“AI”) could be “the deflationary straw that breaks the global sovereign debt market’s back” (from [FFTT Tree Rings](#))...

You can see the future first in San Francisco.

Over the past year, the talk of the town has shifted from \$10 billion compute clusters to \$100 billion clusters to trillion-dollar clusters. Every six months another zero is added to the boardroom plans. Behind the scenes, there’s a fierce scramble to secure every power contract still available for the rest of the decade, every voltage transformer that can possibly be procured. American big business is gearing up to pour trillions of dollars into a long-unseen mobilization of American industrial might. By the end of the decade, American electricity production will have grown tens of percent; from the shale fields of Pennsylvania to the solar farms of Nevada, hundreds of millions of GPUs will hum.

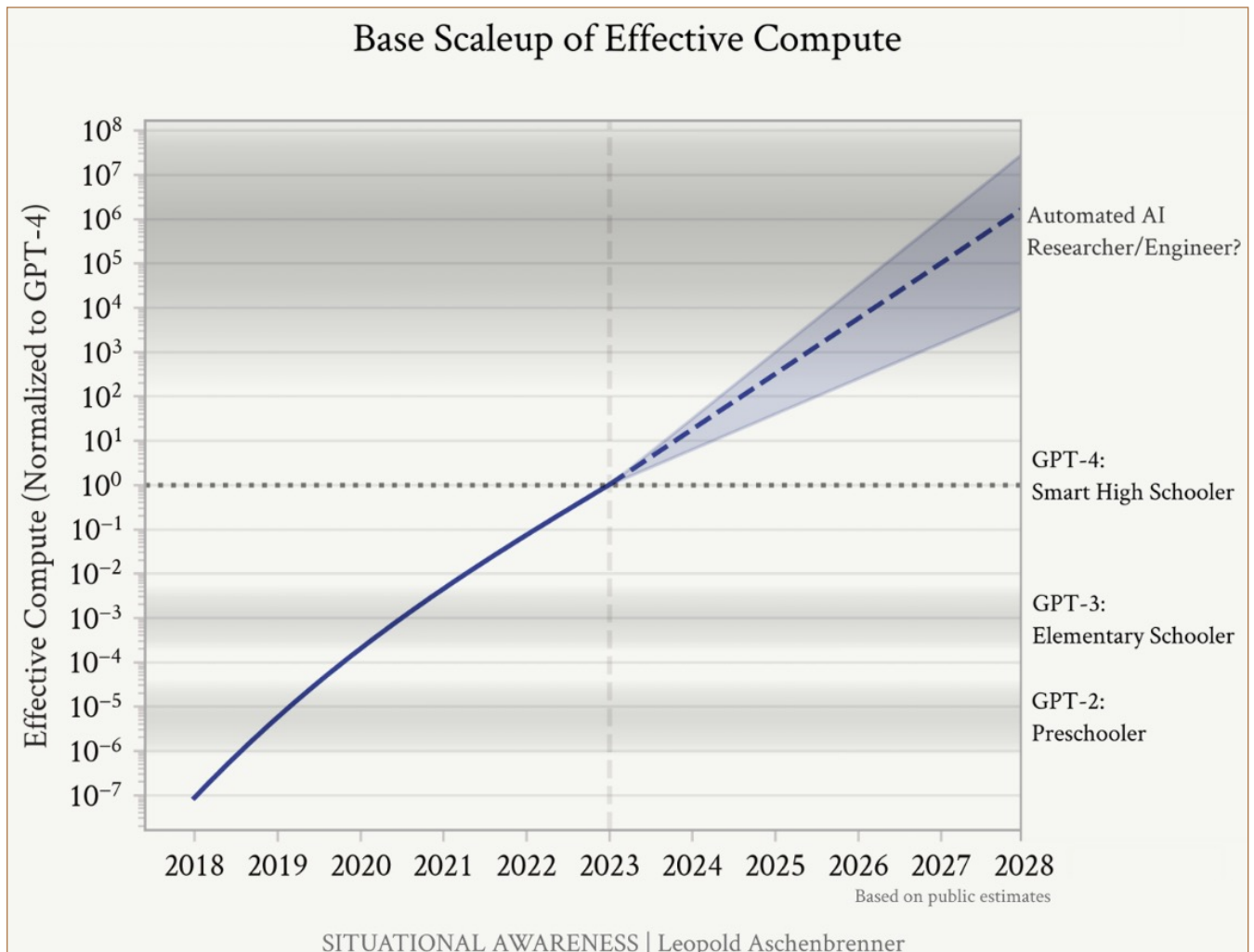
The AGI race has begun. We are building machines that can think and reason. By 2025/26, these machines will outpace many college graduates. By the end of the decade, they will be smarter than you or me; we will have superintelligence, in the true sense of the word. Along the way, national security forces not seen in half a century will be unleashed, and before long, The Project will be on. If we’re lucky, we’ll be in an all-out race with the CCP; if we’re unlucky, an all-out war.

Everyone is now talking about AI, but few have the faintest glimmer of what is about to hit them. Nvidia analysts still think 2024 might be close to the peak. Mainstream pundits are stuck on the willful blindness of “it’s just predicting the next word”. They see only hype and business-as-usual; at most they entertain another internet-scale technological change. Before long, the world will wake up. But right now, there are perhaps a few hundred people, most of them in San Francisco and the AI labs, that have situational awareness. Through whatever peculiar forces of fate, I have found myself amongst them. A few years ago, these people were derided as crazy—but they trusted the trendlines, which allowed them to correctly predict the AI advances of the past few years. Whether these people are also right about the next few years remains to be seen. But these are very smart people—the smartest people I have ever met—and they are the ones building this technology. Perhaps they will be an odd footnote in history, or perhaps they will go down in history like Szilard and Oppenheimer and Teller. If they are seeing the future even close to correctly, we are in for a wild ride. Let me tell you what we see.

AGI by 2027 is strikingly plausible. GPT-2 to GPT-4 took us from ~preschooler to ~smart high-schooler abilities in 4 years. Tracing trendlines in compute (~0.5 orders of magnitude or OOMs/year), algorithmic efficiencies (~0.5 OOMs/year), and “unhobbling” gains (from chatbot to agent), we should expect another preschooler-to-high-schooler-sized qualitative jump by 2027

I make the following claim: it is strikingly plausible that by 2027, models will be able to do the work of an AI researcher/engineer.

That doesn't require believing in sci-fi; it just requires believing in straight lines on a graph.



Situational Awareness: The Decade Ahead – 6/6/24

<https://situational-awareness.ai/>

Tree Ring: We have not read the full 165-page document yet.... However, only 10-15 pages in, we began feeling sick to our stomach – not out of fear per se, but out of a deep-seated, intuitive realization of the pace of change about to unfold, and the uncertainty and likely market, domestic political, and geopolitical volatility that pace of change is likely going to drive.

When we then saw that OpenAI announced it was adding the former head of the NSA to its board, we took it as support for the assertions made in the early pages of the document above (written by a former OpenAI board member.)

OpenAI adds former NSA chief Paul Nakasone to the board – 6/14/24

[OpenAI adds former NSA chief Paul Nakasone to the board \(axios.com\)](#)

We first wrote about this topic a little over a year ago in these pages; we added more to them about a month ago, and again two weeks ago.

We have consistently caveated our outlook on the US fiscal situation and the first bursting global sovereign debt bubble in 100 years with “unless a productivity miracle arrives, ASAP.”

We have also repeatedly noted that said productivity miracle needs to arrive neither too slow (not fast enough to stop the debt spiral), nor too fast (increases unemployment and/or depresses wages, touching off an economic and debt crisis all the same.)

Finally, we have repeatedly asserted that the deflation that AI and humanoid robotics would drive if they arrive “too fast” are fundamentally incompatible with our sovereign debt-backed global monetary system; Central Banks would have to “fully reserve” (buy with freshly-printed money) the \$130T bond market if AI and humanoid robotics arrive “too fast”.

With all of that context, we are going to be very direct: The paper above strongly suggests AI is arriving WAY too fast not to crash the existing sovereign debt-backed global monetary system.

We have been told it has been understood for decades at the highest levels of global finance that the pace of technology deflation is fundamentally incompatible with a

sovereign debt-backed monetary system and currency system (as the post-71 USD system is), and that at some point, the pace of technology deflation would force global Central Banks to “fully reserve” virtually the entire \$130T bond market.

As tech-driven deflationary pressure on the system rose, one would expect to see Central Banks resume buying gold instead of USTs and sovereign debt FX reserves to collateralize their balance sheets...which has obviously been happening.

The paper above strongly suggests that AI will be *“the deflationary straw that breaks the global sovereign debt market’s back, and with it, the global sovereign debt-backed monetary system”...and FAR sooner than consensus thinks*.

It is a fascinating dichotomy that to us rivals watching Congress grill Roger Clemens about steroids in baseball in February 2008, as the US financial system was just months from nearly collapsing:

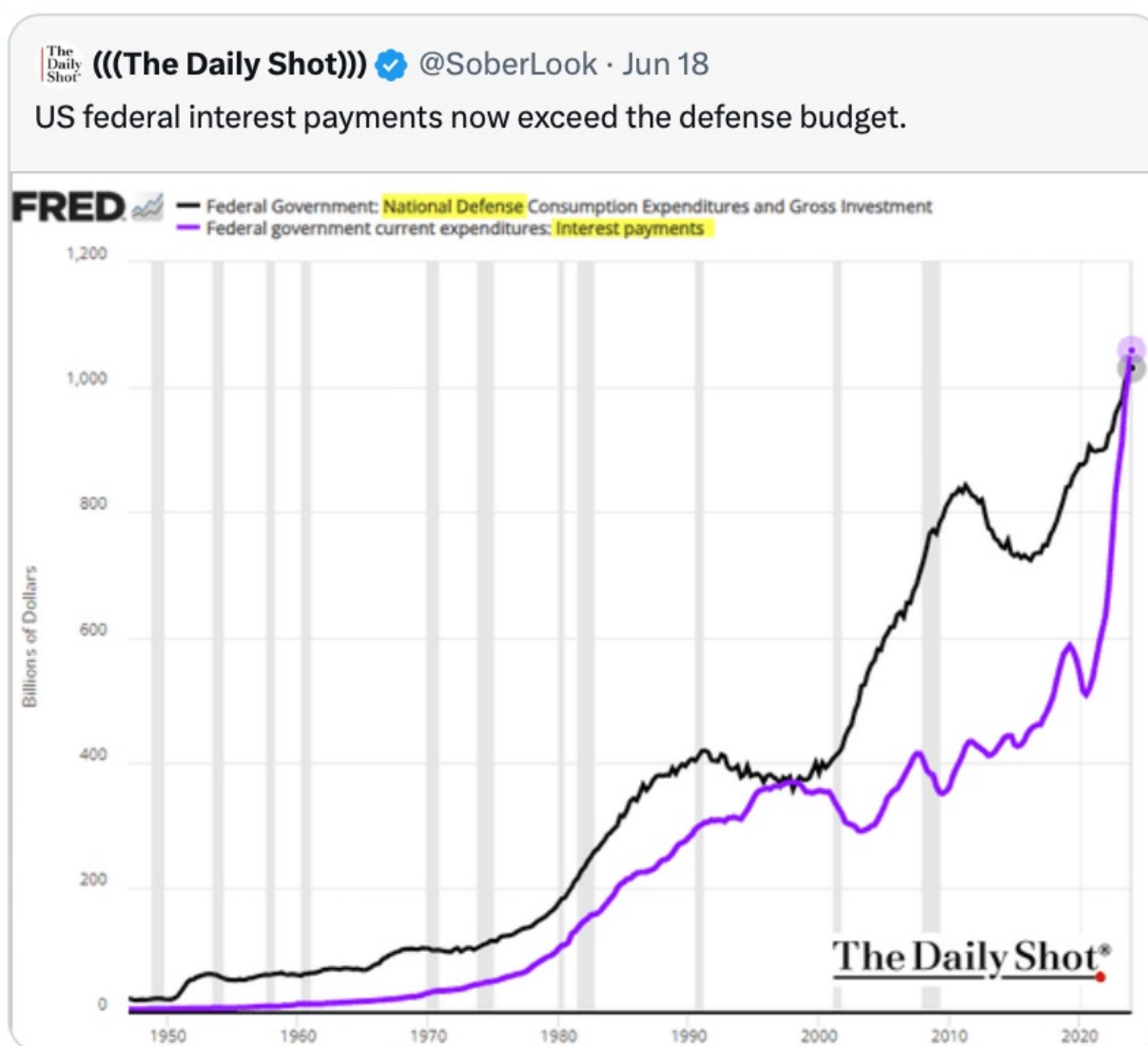
The consensus Wall Street debate at the moment is around Fed dot plots and whether the Fed will do 1 rate cut or no rate cuts this year...but in the context of this paper, that debate is meaningless short-term noise. *The only real debate should be “Will the Fed’s balance sheet be under or over \$20 trillion by 2028?”*

We will likely be writing still more about this topic in the future; but the **key takeaway is that the medium and long-term bond portions of the traditional 60/40 portfolio should be moved to “long duration assets with a floating face value and zero coupon”**: Physical gold bullion and BTC. The white paper’s conclusions are also quite bullish for electrical infrastructure and US industrial and energy infrastructure growth.

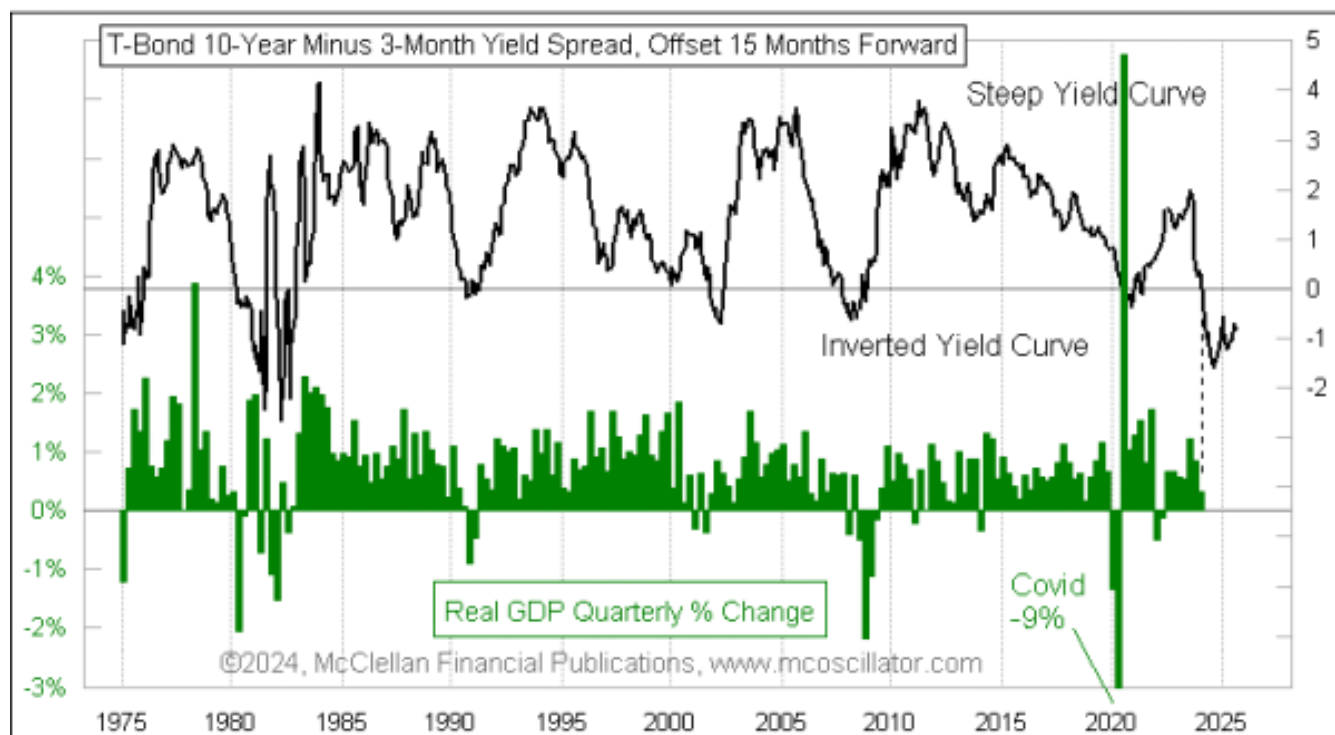
[**Continue reading here**](#) (subscription required)

U.S. federal interest payments now exceed the defense budget, and history suggests that is a deeply negative omen (from Luke Gromen via X)...

Ferguson's Law states that any great power that spends more on debt service (interest payments on the national debt) than on defense will not stay great for very long. True of Hapsburg Spain, true of ancient régime France, true of the Ottoman Empire, true of the British Empire. - Niall Ferguson [@nfergus](#)



The economic effects of yield-curve inversion are only now beginning to be felt (from McClellan Financial Publications Chart in Focus)..



Economists got very animated in late 2022 when the Fed's hiking of short term interest rates resulted in an inversion of the yield curve. Inversion happens when short term rates go above long term rates, which is not typically the condition rates are supposed to be showing. Most of the time, long term rates pay higher yields than short term ones, and that makes sense. If you are going to lock up your capital for a longer time, you would expect to get paid more for that.

Yield curve inversions have a perfect track record of always bringing economic recessions. And yet a lot of economists are thinking that it is different this time, and that the Fed has somehow managed to engineer either a "soft landing" for the economy, or a "no landing" scenario in which GDP never shrinks and the good times just keep rolling.

This complacency comes about via a poor general understanding about how and when yield curve inversions work. The effect of an inversion is not felt right away, but rather with a lag time of about 15 months.

This week's chart shows the spread between the 10-year and 3-month Treasury yields. It is shifted forward by 15 months to help illustrate how GDP responds with that lag time. This yield spread first inverted on a monthly basis back in November 2022. Counting forward by 15 months takes us to February 2024, which was in the first quarter (Q1). We did not get a negative real GDP growth rate in Q1, but it did fall to a very low positive number. The full effect of the current inversion of the 10y and 3m rates has not yet been felt.

Furthermore, that economic effect should continue to be felt for a period of 15 more months after the 10y-3m spread finally disinverts. In other words, the FOMC members might believe that they are fighting current inflation right now by making current economic conditions tougher via their high interest rates. But in reality, the effect is delayed, and so the continuing inversion of the yield curve means poor GDP conditions for 15 more months after the moment when the yield curve disinverts. And we do not see any sign yet of any disinversion happening anytime soon.

[Continue reading here](#)

CORPORATE BONDS AND CREDIT

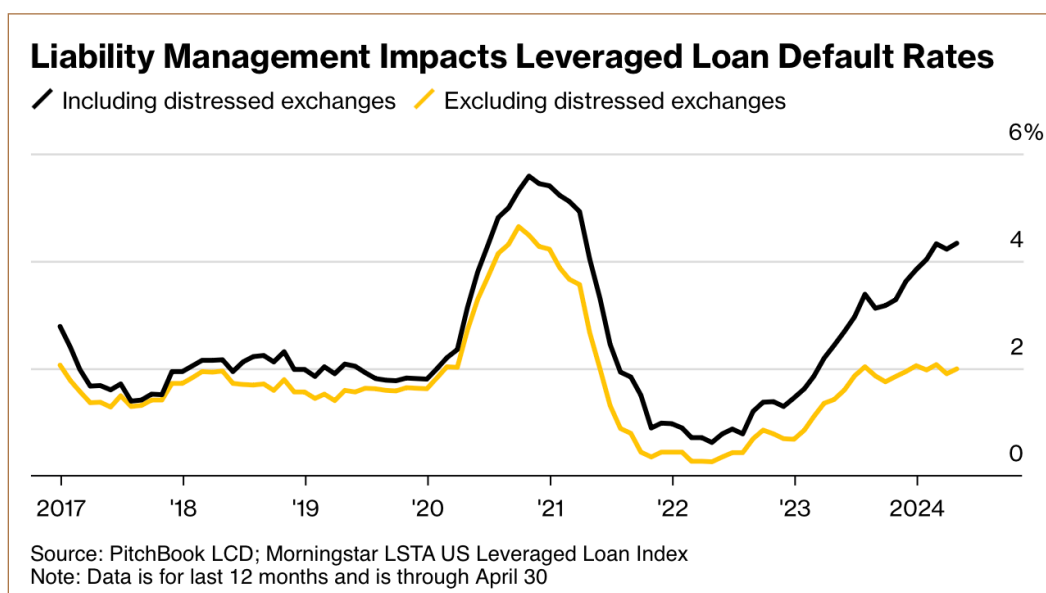
Loan frenzy masks losses from defaults ([from Bloomberg](#))...

Companies sold a record volume of leveraged loans last month, taking advantage of the cash chasing credit. A glance at recovery rates for defaults, however, highlights a growing risk in this debt.

For newly issued first-lien debt in the US and Canada in the first quarter, investors could expect to get back less than 35% of their investment when loans sour, compared with 72% from 2018 through 2022, according to a May presentation by S&P Global Ratings.

Borrowers that run into trouble are doing a good job of pitting creditors against one another, pushing some debt holders further back in line to be repaid, in order to get rescue funding from others. Lending agreements have grown increasingly lenient for years, making these emergency financings easier to put together. Such liability management transactions have reduced recovery rates when companies default.

"Aggressive liability management transactions involving loans trading at discounts are a constant threat," said Scott Macklin, head of US leveraged finance at Obra Capital. "If lenders are wrong once, they probably are going to find themselves punished at least twice with respect to recoveries."



[Continue reading here](#) (subscription may be required)

Chicago Fed warns of fire sale risk after insurers load up on private debt (from The Wall Street Journal)...

U.S. life insurers are piling into higher-returning but illiquid and opaque privately placed debt, raising concerns about what happens should they suddenly need to sell the securities.

A Chicago Federal Reserve report found private placements account for over 20% of life insurers' bond holdings, up from less than 15% in 2017. The increase reflects the recent craze for private assets.

Such securities aren't publicly offered or registered with the Securities and Exchange Commission, and are sold only to a limited number of accredited investors. Bond credit ratings are usually private too. Public bonds, in contrast, must be registered with the SEC and come with a wealth of supporting information including a prospectus and regular updates to investors.

The report's authors found privately placed bonds have become more complex, adding to the risk they can't be sold quickly. One growing area they found is in bonds issued by asset managers to lend to companies or invest in real estate.

Among the larger financial issuers the authors identified through public filings were Madison Capital Funding LLC, an investment vehicle of New York Life that lends to private-equity owned companies, and Cayman Universe Holdings LLC, an affiliate portfolio company of Apollo Global Management, whose bonds are tied to lease payments.

Some investment firms raising money from life insurers are themselves affiliates or offshoots of insurance companies, with experience in direct lending or asset-based financing. Alternative asset managers have targeted insurance to grow assets.

Spokeswomen for New York Life and Apollo's Athene insurance arm declined to comment.

For insurers, private placements offer longer maturities, diversification, better credit protections and higher returns. Some consultants describe the private bonds as a free lunch for insurers because they offer higher returns but state regulators don't require extra capital to make up for illiquidity or longer duration.

The report found private bonds change hands far less frequently than public bonds. Such sales are usually directly between insurers rather than through a broker—another strike against being able to sell the bonds if necessary.

"The growing investment in this less liquid asset class... increases the risk of fire sales during times of crisis," the authors said.

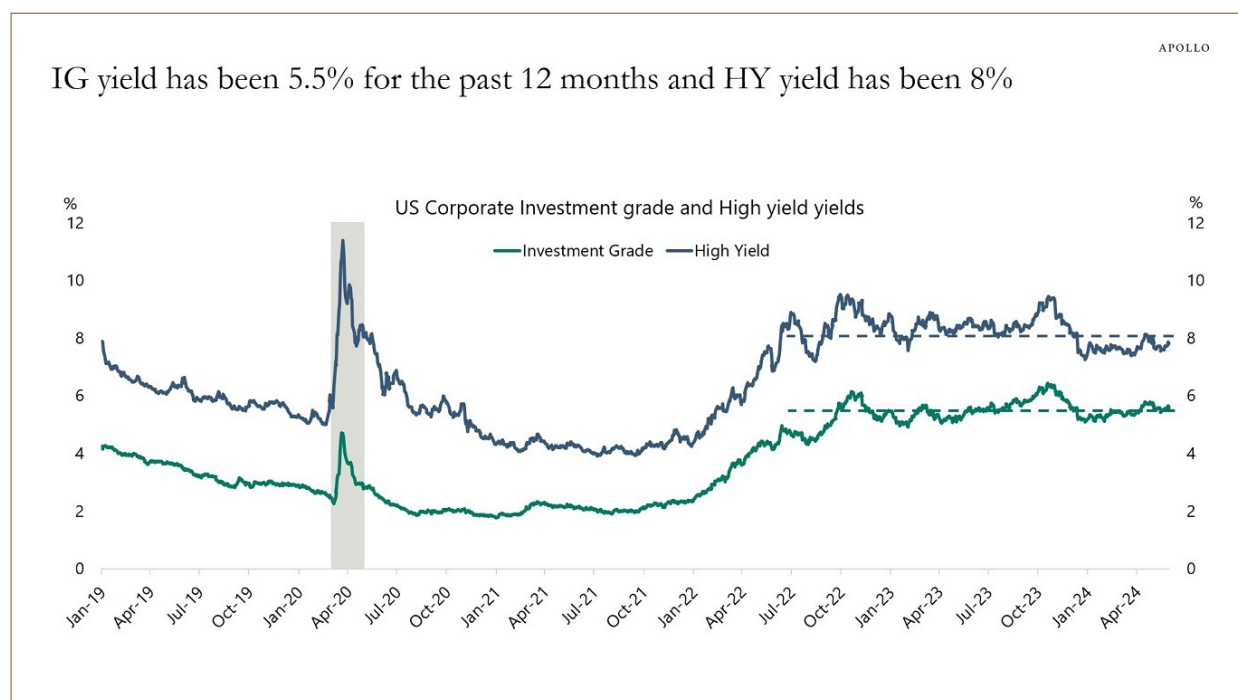
Continue reading here *(subscription may be required)*

Corporate credit yields have been virtually unchanged for 12 months and counting **(from Apollo's The Daily Spark)**...

For the past 12 months, the yield level for IG has been 5.5%, and the yield level for HY has been 8%, see chart below.

The economic data over this period have been strong, so one conclusion is that firms and consumers have gotten used to a permanently higher cost of financing.

However, higher rates will continue to negatively impact leveraged investments done when interest rates were zero, particularly CRE and REITs, where the pain will be felt for many more years.

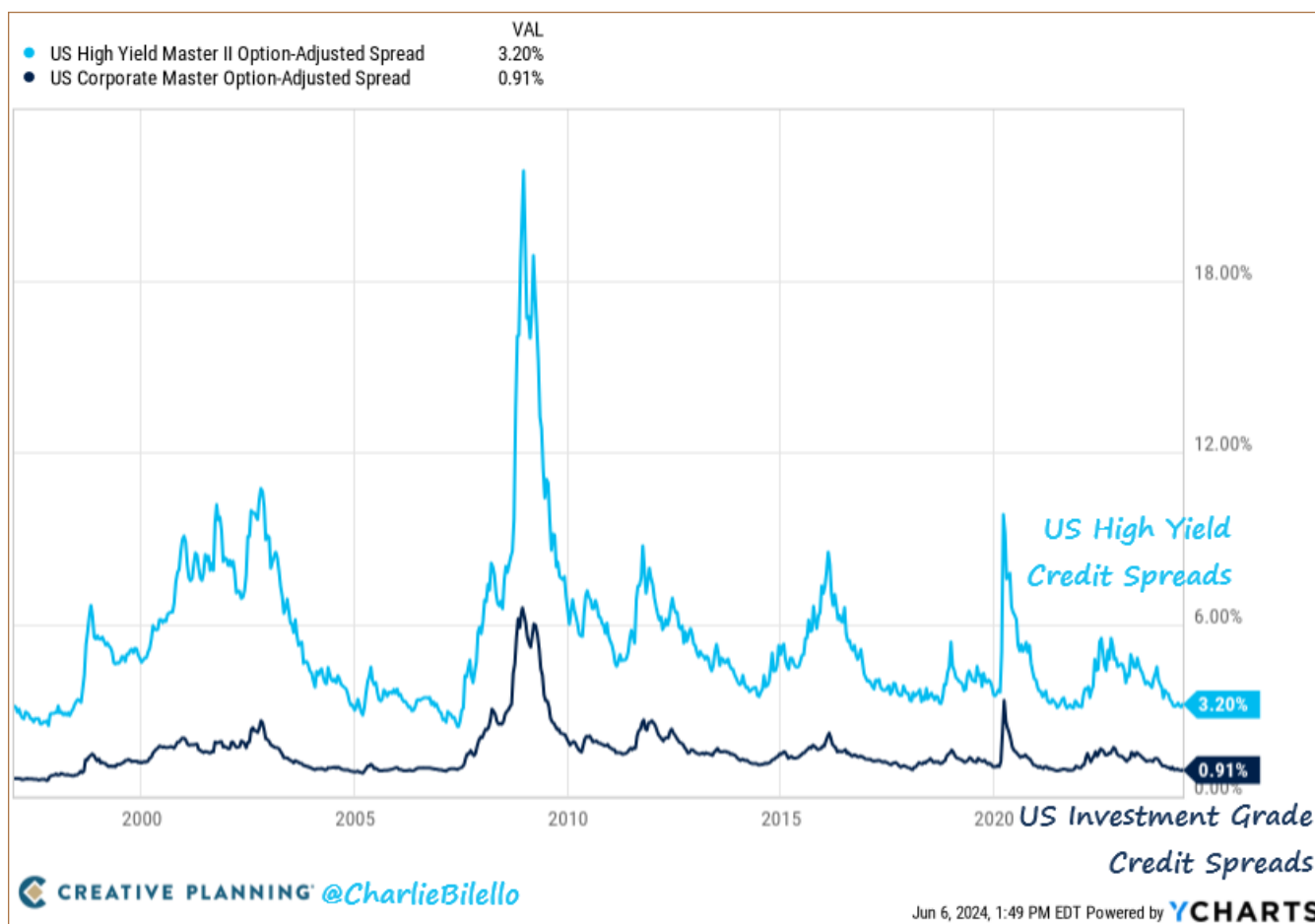


Source: ICE BofA, Haver Analytics, Apollo Chief Economist

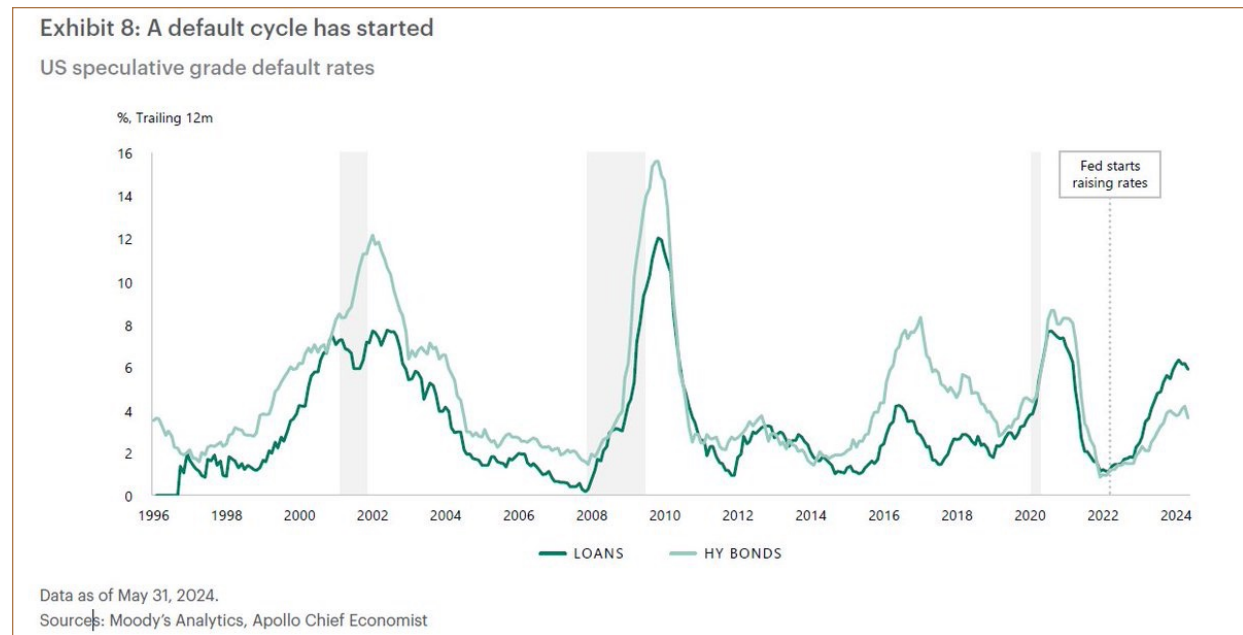
Corporate credit spreads continue to drift lower ([from Ryan Detrick, CMT via X](#))...

If the credit markets aren't worried, it is hard to see a major economic slowdown headed our way.

Nice chart from @charliebilello.

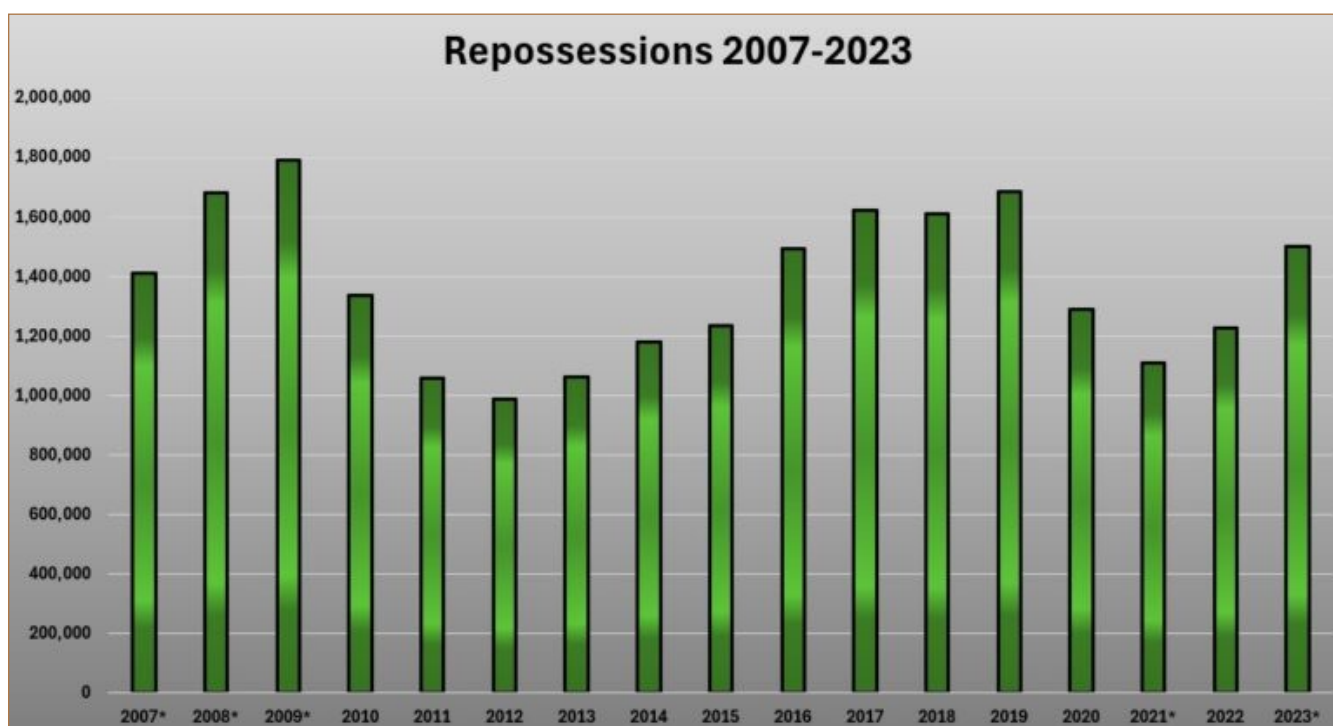


However, data suggest a credit default cycle is already underway ([from Mike Zaccardi, CFA, CMT via X](#))...



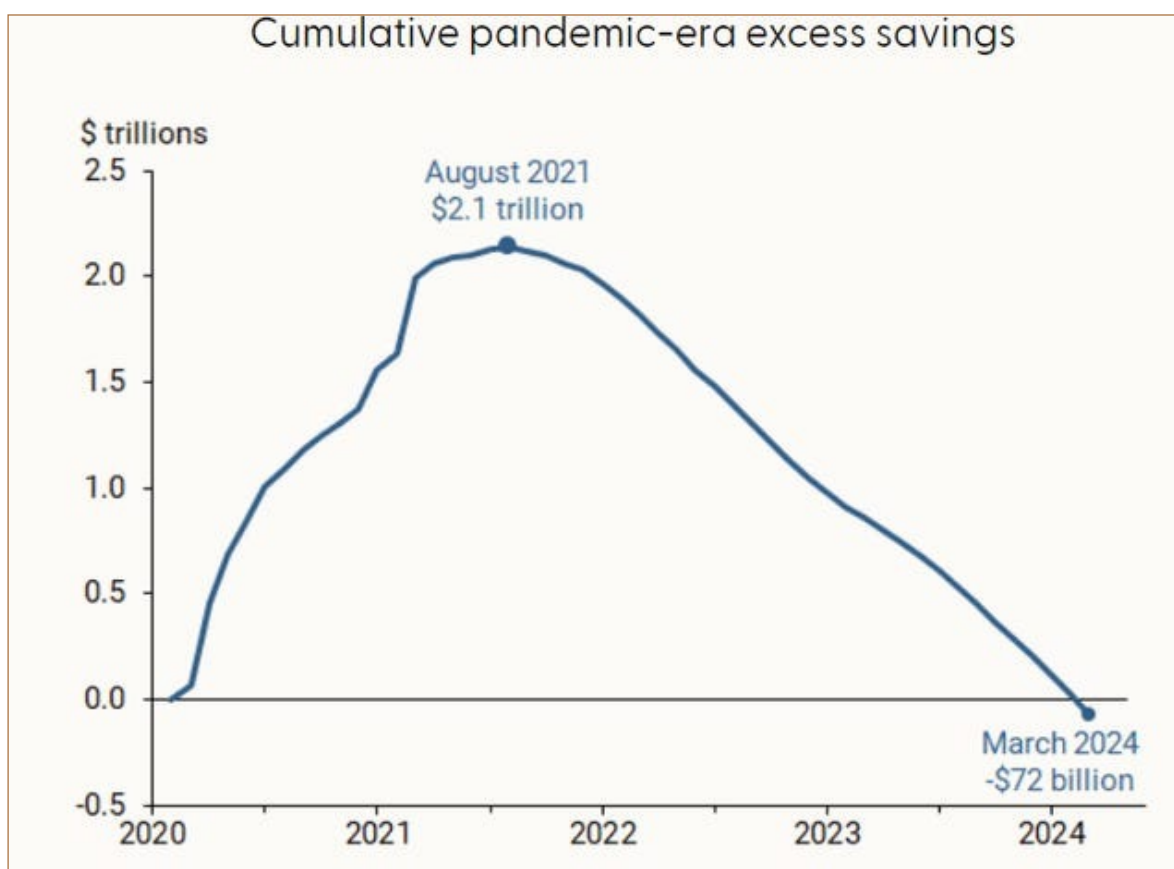
CONSUMER CREDIT

Auto repossessions are blowing past the 2008 numbers ([from Unicus via X](#))...



"I'm almost at capacity and we haven't even begun to feel what is going to be probably one of the biggest shifts since 2008. ... We're going to blow past 2008 numbers as far as repossessions go." - a repo company executive.

Consumers don't have savings or stimulus money in 2024. The lag effect is making the economy worse, while the markets want to anticipate a rate cut and begin a new bull market—not so fast.

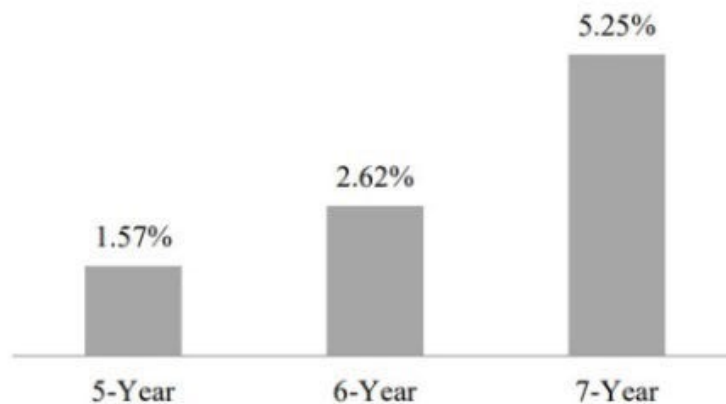


The consumer may not bounce back so easily this time, and we could be headed into a prolonged period of reduced spending, especially for big-ticket items like cars, boats, and RVs.

Over the past year, disposable income has been stagnant, primarily due to a combination of factors. These include the reduction in government transfer payments, the decline in asset income, and the significant increase in personal tax burden compared to 2023.

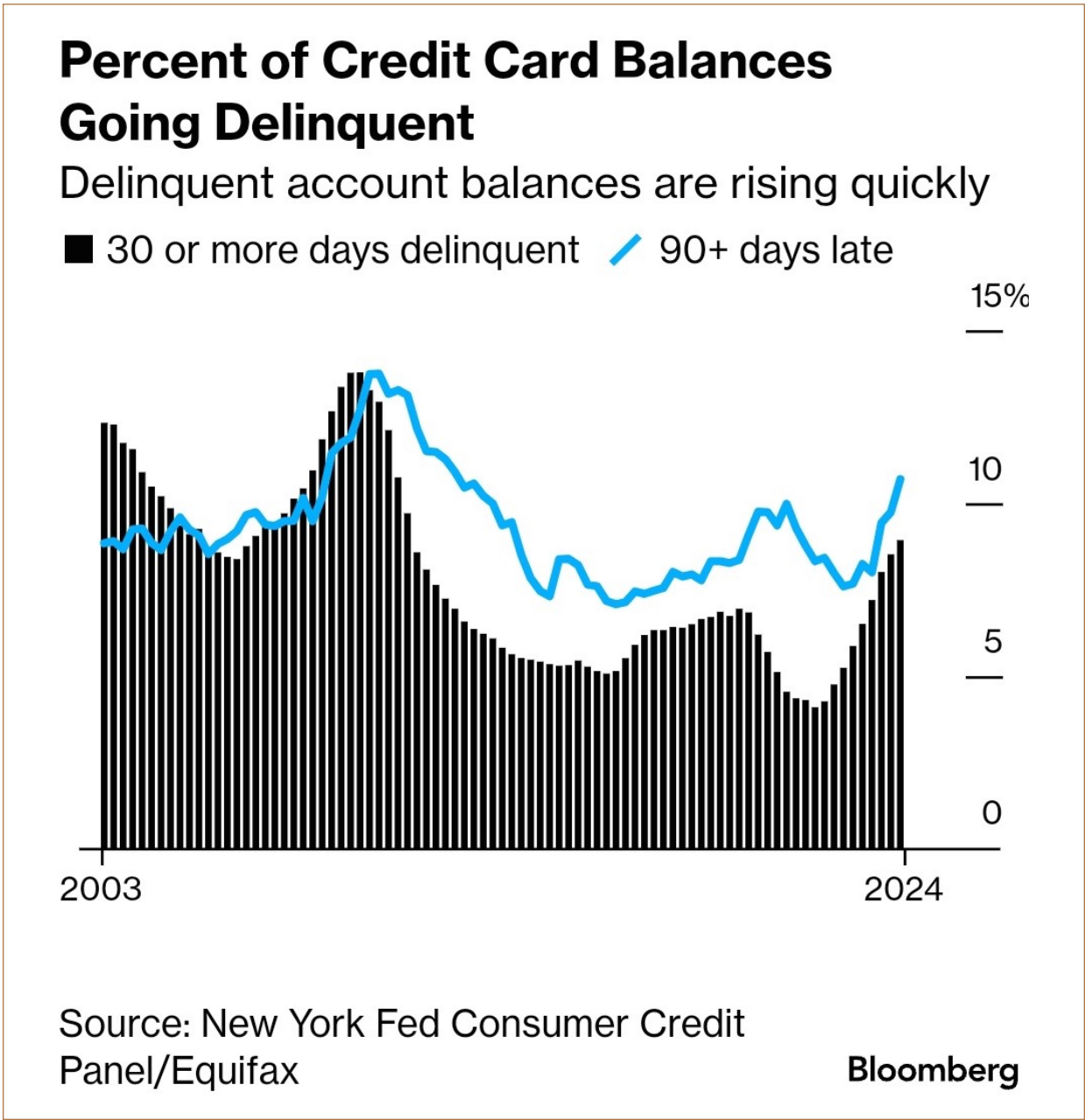
Which has led to lower tax refunds that are typically used for auto purchases. The result of this situation, where consumption growth continues despite flat disposable income, has been a downward trend in personal savings rates.

Regional banks like \$ALLY in auto loan, \$OZK in CREs are kicking the can down the road and that is a deeper issue. According to an FRB paper, the borrowers who take out six- or seven-year loans face greater credit and liquidity constraints.

Figure 2: Two-Year Cumulative Default Rates

Notes: Data are from Equifax CCP Tradeline Data. Loans included are a 10 percent sample of primary borrowers booked between 2006 and 2016 with terms of five, six and seven years, with origination score ≥ 500 and loan amount between \$5,000 and \$99,999. *Origination Score* is the borrower's Equifax Risk Score from the last quarter prior to loan origination. *Default* is defined as loans becoming more than 90 days past due, having been charged-off, having a bankruptcy, or having been repossessed within the first 24 months after booking.

Credit card delinquencies have now exceeded their 2020 highs ([from Tracy \(Chi\) via X](#))...



Fundraisers to avoid eviction have increased by 40% since the COVID pandemic ([from MarketWatch](#))...

Michelle and Ken Lau's struggles to pay rent began in 2021, when they both came down with COVID-19, resulting in hospital and ER bills. Nearly four years later, they've hit a breaking point. They need to raise \$10,000 by the end of the month to avoid being evicted from their Las Vegas home, and they're hoping a GoFundMe fundraiser will provide the windfall they need.

"We've been scrambling and juggling, and doing the GoFundMe is the last resort," Michelle Lau told MarketWatch. "We don't have money to spend, and we don't have enough for our bills."

The Laus are among a growing number of Americans who have turned to the online fundraising site recently in an attempt to avoid eviction. GoFundMe has seen a 40% increase in eviction fundraisers compared with prepandemic levels, a company spokesperson said. More than 14,000 eviction-related fundraising campaigns were launched between January and May this year, up from around 10,000 during the same period in 2019.

The uptick in people seeking donations to avoid eviction comes as the U.S. housing market has become increasingly unaffordable for would-be home buyers and as tenants have faced soaring rents. America's affordable-housing crisis has hit a tipping point, advocates say.

It's clear that Americans turning to GoFundMe are feeling the effects of that affordability crisis, Margaret Richardson, GoFundMe's chief corporate affairs officer, told MarketWatch in an email. Some of the eviction-related fundraisers launched this year were created by families forced out of homes they had lived in for decades after the property changed hands, while others were from families behind on rent because of layoffs or health issues.

[Continue reading here](#) (subscription may be required)

REAL ESTATE

Sean Dobson, CEO of The Amherst Group – which owns more than 44,000 rental homes in the U.S. – on the “smart move” in real estate right now ([from Lance Lambert via X](#))...



Sean Dobson • 1st

CEO | CIO | US Real Estate | Financial Se...

1d •



Really good article on the issues facing the housing market.

Monetary policy bares a ton of the issue here. Excessively low rates for too long causing excessively high rates and an abrupt move.

This leaves owners Locked In, buyers Locked Out and the market Locked up.

The spread between the average in place mortgage (what owners are paying) and current rates (what a new buyer pays) is over 3% and has never been wider.

The available supply of homes for sale is ~35% below normal.

The available supply of homes for rent is ~10% above normal.

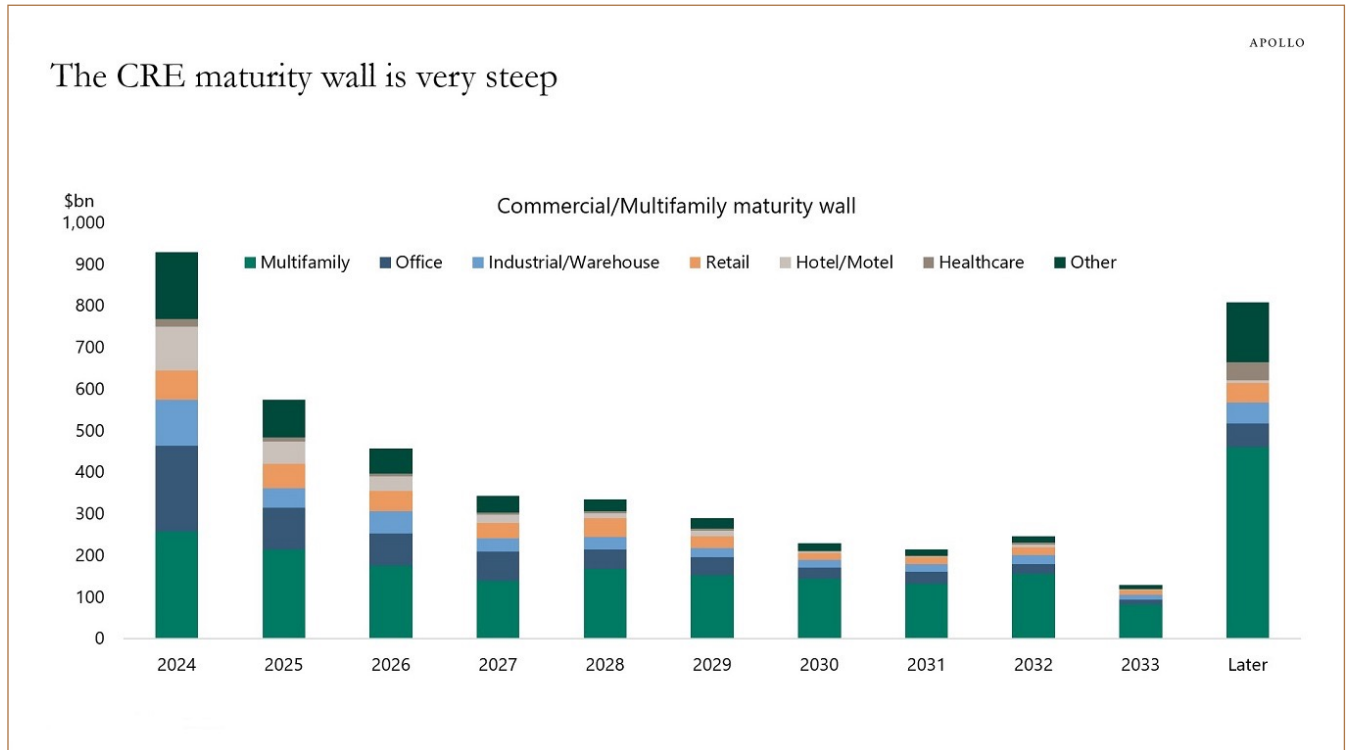
The “smart” trade is to Sell now and Rent until markets normalize (Rates down, Prices down and/or Wages up).

The cost to rent is similar to the cost to own with a 4% mortgage.

You don’t get the value from prices rising and you dont take the risk of prices falling. If you’re worried about home prices going up, take the excess cash from selling and buy INVH or AMH... you get direct exposure to home prices ..

A huge wall of commercial real estate ("CRE") debt must be refinanced this year ([from Apollo's The Daily Spark](#))...

There are a lot of commercial real estate investments that need to be refinanced in 2024, see chart below. And rates higher for longer continue to have a negative impact across CRE.



Source: MBA, Apollo Chief Economist

Homes for sale are piling up, but transactions aren't rising as you'd expect (from [Conor Sen via Bloomberg Opinion](#))...

Lately the housing market has faced a different conundrum at every turn. This year's puzzle is the disconnect between an aggressive rise in the number of existing homes for sale and still sluggish transactions.

There are two reasons for this. The first has to do with which markets are seeing the fastest growth in resale inventory, while the second is more about the "vibes." The bottom line is that in most of the country, even as the number of for-sale homes increases, we can still expect sellers to wait for buyers to come to them rather than chasing would-be buyers with discounts.

For all the talk about the mortgage rate lock-in effect keeping owners from listing their houses, resale inventory climbed a substantial 35% year-over-year through May at the national level, according to data from realtor.com. There are currently more homes for sale in the US than there have been since July 2020.

Yet, as of April, existing home sales have fallen compared with a year ago, even though they are off last year's lows. Mortgage purchase applications have barely inched up, suggesting any uptick in transactions is largely down to all-cash buyers. Data from Altos Research shows that after healthier increases in March through the early part of May, the number of homes going into contract as we exited last month barely grew from a year earlier.

A paucity of inventory was blamed for weak transactions last year, but what explains this year's anemic sales? The answer lies in where we're getting that inventory growth. We've seen an especially large increase in Florida, as well as substantial increases in some of the other Gulf Coast states and Arizona. But, as Lance Lambert of housing analytics site ResiClub notes, zooming out to look at how things have changed on a five-year basis shows that most of the country has significantly fewer homes for sale today.

In Connecticut, for instance, there are 77% fewer homes for sale now versus 2019. Only a handful of states, led by Florida, Texas and Arizona, are still in the neighborhood of where they were five years ago. More stock helps, and should lead to more transactions over time, but most of the country remains substantially constrained on this front.

Additionally, the psychological dynamics of housing market participants are probably underappreciated. Over the past 18 months, we've had several mini rate cycles driven by shifts in the economic data and views about what the Federal Reserve does next.

At first, the fear was that elevated inflation would lead to more interest rate hikes and bring on a recession — dynamics that worried buyers and sellers alike. Over the past six months, markets have swung between two scenarios: An economy that is too strong for policy easing, or one where cooling inflation will allow some reduction. Mortgage rates have risen and fallen depending on the data flow. Neither scenario has involved a particularly elevated risk of recession and, as a result, there is no reason for sellers to worry about not finding buyers or about home prices falling significantly.

There are now a growing number of owners looking to sell, but with recession taken out of the equation, they haven't yet felt any urgency to meet buyers where they are. Everybody knows that there's a housing shortage and millions of Americans are looking to buy, leading sellers to be patient and buyers to rush in whenever we get any kind of decline in mortgage rates or a softening in asking prices. For buyers on the hunt, affordability continues to be the big constraint.

[Continue reading here](#) *(subscription may be required)*

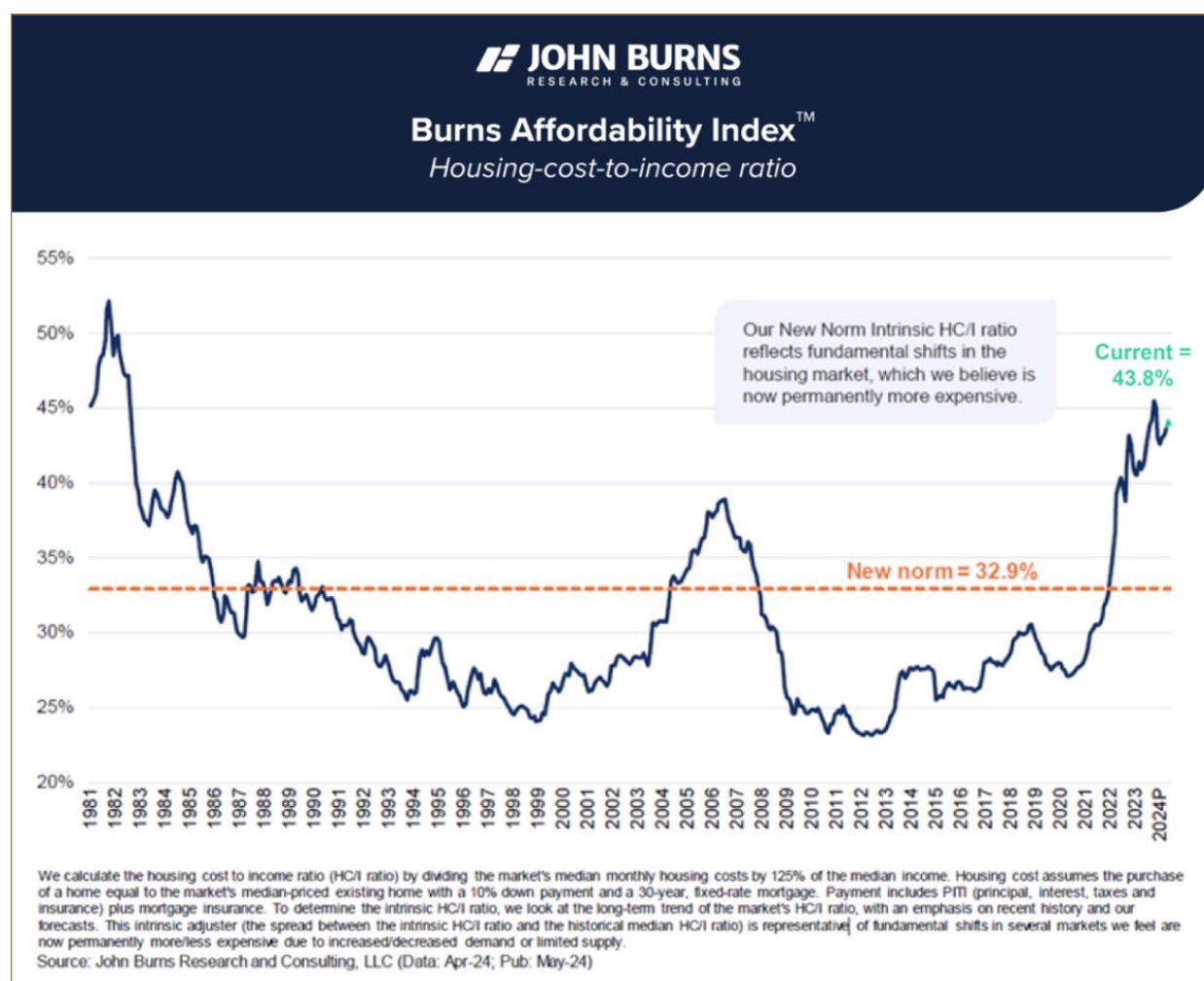
Today's 7% mortgage rates are even higher than they appear ([from Lance Lambert via X](#))...

A 7% mortgage rate in 2024 is like a 15% rate in 1982

How

When accounting for U.S. home prices, home insurance, incomes, property taxes, and a 10% down payment, housing affordability in 2024 is similar to 1982 (when rates floated between 13%-17%)

via @johnburnsjbrec @JBREC



Pimco warns of more regional bank failures on property pain ([from Bloomberg](#))...

Pacific Investment Management Co. expects more regional bank failures in the US because of a “very high” concentration of troubled commercial real estate loans on their books.

“The real wave of distress is just starting” for lenders to everything from malls to offices, John Murray, Pimco’s head of global private commercial real estate team, said in an interview. His division sits within Pimco’s \$173 billion alternatives business.

Uncertainty over when the Federal Reserve may cut interest rates has exacerbated challenges faced by the CRE sector, where high borrowing costs have hammered valuations and triggered defaults, leaving lenders stuck with assets that are tough to sell. Contrary to some market expectations, larger banks have been disposing of some of their higher quality assets first to avoid deeper losses, according to Murray.

“As stressed loans grow due to maturities, however, we expect that banks will start selling these more challenged loans to reduce their troubled loan exposures,” he said, adding his team has been snapping up CRE loans offloaded by some large US banks for the past 18 months.

The turmoil has been particularly felt among regional banks, which boosted their CRE exposure that in many cases is now worth only a fraction of their value at their peak. Smaller banks have also continued to worry investors ever since the collapse of a few last year.

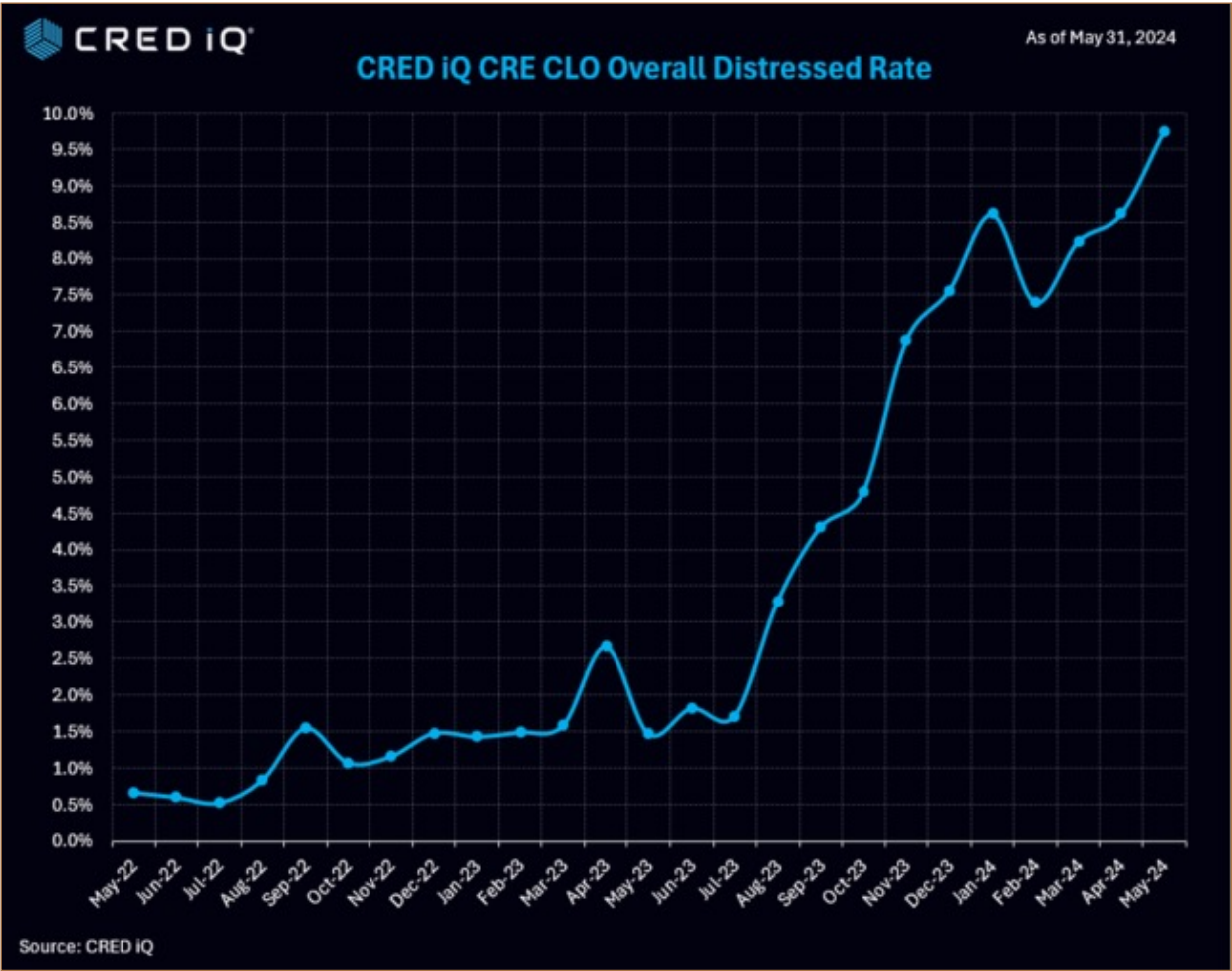
Earlier this year, New York Community Bancorp shocked investors by slashing its dividend and stockpiling more cash for potentially bad loans, sending shares into a tailspin that ended in a capital injection. US Bancorp, the largest regional bank by assets, increased its provisions for credit losses in the first quarter. Shares of Axos Financial Inc. slumped last week after a short seller took aim at what it called the bank’s “glaring” property loan problems.

Regional banks were also the only lenders that didn’t demand extra down payments from commercial-property borrowers in recent years, highlighting their vulnerability to falling values, according to a report released by MSCI Real Assets in March. Deposit-taking institutions face an estimated \$441 billion wall of maturing property debt this year.

For larger banks, the property exposures aren’t expected to cause systemic failures as their CRE lending was curbed after the 2008 crisis, Murray said. But borrowers’ failure to repay means they’re lending even less compared with 2021 and 2022, he added.

[Continue reading here](#) *(subscription may be required)*

The distress rate for CRE collateralized loan obligations ("CLOs") surged over 100 basis points in May to 9.74%. It was 1.5% just 12 months ago ([from Piker via X](#))...



SPECIAL SITUATIONS

Activist Investing, Spinoffs, Arbitrage, Mergers and Acquisitions (M&A), and More

What every investor should know about special situations ([from MicroCapClub](#))...

There's nothing special about special situations. It's like that line from Shawshank Redemption where Red says,

"I know what you think it means, Sonny. To me, it's just a made-up word, a politician's word, so that young fellas like yourself can wear a suit and a tie and have a job."

Buffett used to call them workouts. That's closer to the nature of these investments.

Special Situations, Event Driven, workouts — or whatever you want to call them — trade on the expectation of a corporate event. To keep it simple, if bankers are hired to run a process / advise on fair value or lawyers are hired to draft agreements, there is a corporate event. Mergers, acquisitions, spin-offs, unsolicited offers, restructurings, liquidations are some examples.

You make money if a value-generating corporate event plays out. When that corporate event plays out is also important. This is the analysis in a nutshell:

- (i) how certain is the value being negotiated?
- (ii) how certain is the event that will crystallize value?
- (iii) what conditions need to be satisfied to make it all happen?

The amount you might lose if you're wrong keeps the analysis honest.

If you look at a bunch of corporate events, you'll notice that 'if it looks like a duck, walks like a duck and quacks like a duck', you can group them. If the negotiation dance and agreements are similar, i.e. sale processes are conducted the same way, agreements are versions of the same basic template (merger agreements, asset sales, registrations, disclosures, etc.) and the corporate event follows a defined process (SEC review of filings, antitrust review, judge's approval etc.) the securities will behave similarly. If you can group them, you can compare them.

That's the theory of it. In practice, it's a lot more hectic!

Here's one from late last year (what's going through my head is in italics):

In October of last year, Neighbourly Pharmacies (NBLY.TO) issued a press release "Neighbourly Enters into Letter of Intent to go Private with its Controlling Shareholder Persistence Capital Partners (PCP)."

Immediately interesting!

When a company receives an unsolicited offer from a majority shareholder, the odds of a negotiated deal are high. Approximately 2 out of 3 unsolicited offers result in a deal, based on historical base rates.

The press release told us that PCP, a 50.2% owner put an offer price of C\$20.50 per share in front of the Board. An Independent Committee of the Board had already commissioned a fairness opinion from TD Securities, and TD Securities had arrived at a C\$20.50 - C\$25.50 fair value.

This has clearly been in the works for a bit. We already have an initial price. The board has already hired advisors. TD has already provided a fairness opinion. Game on!

Proposals from a majority owner are a well-choreographed three-step tango. The dance steps - a Board receives an offer from a controlling shareholder, an independent special committee pushes for a sweetener to show their effort to get the best deal for minority shareholders, the parties agree on a price bump, et voila, you have a deal.

With the stock trading in the C\$18.50 context, looks like we can make C\$2.00 to C\$7.00 a share (11% - 38% upside) if the final price comes withing the fairness opinion range. At the mids - that's C\$4.50 or 24% upside- that's compelling.

To diligence this corporate event, we go through the analysis steps we laid out above:

- (i) How certain is the value being negotiated?
- (ii) How certain is the event that will crystallize value?
- (iii) What conditions need to be satisfied to make it all happen?
- (iv) How much can we lose if things go wrong?

Taking it from the top, how certain is the value being negotiated? In 2021, Neighbourly IPO'd at C\$17/sh, climbing to a high of C\$40/sh. It remained comfortably above C\$20/sh all the way to the beginning of 2023. Persistence, involved with Neighbourly since 2015, was rolling up rural pharmacies in Canada. The algorithm: buy pharmacies for 6-7x EBITDA, drive same-store-sales in the 3-4% range, improve operations and get margins to 10%. Rinse and repeat, acquiring 35-50 stores a year. Precedent take-private transactions averaged ~ 12x -15x EBITDA, creating Neighbourly at C\$18.50 – C\$26.00. In 2023, the company was beating expectations, but with interest rates rising rapidly on inflation concerns, there was no public market bid for levered equities.

Sanity check, in June of 2023, Stuart Elman, the chairman of the Board and a principal at Persistence bought C\$600k worth of stock in the open market at C\$17.78/sh.

The company was covered by 3 analysts, one called the offer a “bitter pill” and another lowered her price target from C\$33.00/sh to C\$25.50, saying in a note that shareholders should push for higher than C\$20.50 offered.

Alright, it's all triangulating to a deal in the low-to-mid C\$20s. Have a couple of sanity checks. The fairness opinion re-affirms the expected takeout range. Second step of this three-step tango is a price bump to...lets call it the middle of the fairness range...C\$23.00...and this deal should come together.

Next diligence step, how certain is the event that will crystalize value? Neighbourly was one of a vintage of levered roll-ups that IPO'd in 2020 and 2021. With the public markets so negative on levered equities in 2023, many PE sponsors of these companies were taking them private again. Precedents included Dialogue Health, Magnet Forensics and 9 others with strategic reviews / take privates announced during the year. The cautionary tale was Dentalcorp, where the Independent Board and PE Sponsor weren't able to agree on terms.

With that context, there were a couple of specifics in the Neighbourly review stood out. First, there was a letter of intent at an indicated price. To get to that stage itself is a commitment. Second, the Board was already spending money and had hired TD Securities who had *already* delivered a fairness opinion. Third, the press release stated that equity and debt financing were in advanced stages of negotiation. And finally, the press release had guided to the transaction closing in Q4 2023 or early in Q1 2024. As highly lawyered as this press release was, all the data points guided to a high probability a deal comes together.

Feeling pretty comfortable with the value we're looking to get. Feeling pretty confident this deal is going to come together. Need three things to happen here: the parties agree on a final price, the debt financing has to come together and the equity financing has to come together. It's unlikely Persistence even started this process without indications from an equity anchor investor and banks.

A month later, in mid-November, Neighbourly drops another press release titled "Neighbourly Extends Exclusivity and Provides Update on Letter of Intent with Persistence Capital Partners." The incremental details: debt financing in place from the Bank of Nova Scotia and RBC. Exclusivity extended to mid-Jan to allow Persistence to finalize equity financing. The transaction is expected to close in Q1 2024.

Wait a sec?!? Why does Persistence need an extension? Neighbourly stock had fallen down to the C\$17.50 context. That said, Persistence paid for that Debt Commitment, no bank rents out its balance sheet for free – that's a sign of commitment. Is there an issue with the Equity Commitment? What's going on here?

The third diligence step, what conditions need to be satisfied here to make it all happen? The parties have to agree on a final price and equity financing has to be firmed up. By my math, Persistence needed C\$275m in incremental equity. I called Neighbourly's Investor Relations to talk through Persistence's Equity financing and negotiations with the special committee – here's the Q&A:

"Does Persistence need to find new sources of equity for their existing Neighbourly fund vehicles? Do Persistence's existing LPs need an exit through a GP led secondary?" No. Persistence's current equity financing doesn't have a vintage and timeline – that money is committed long term.

"Weren't Equity financing discussions already in an advanced stage with an anchor investor etc.? Has the sentiment in the Equity syndicate changed – why the delay?" There were certain partners that were being contemplated at first and those partners were at the table. Further equity partner options subsequently emerged that were very serious. From what I understand, there's no shortage of strong interest from very serious partners.

A broader equity syndicate of still interested parties? Why do you need a broader equity syndicate? Didn't the original equity indications commit? Unsatisfying call. But it's unlikely Persistence would pay for Debt Commitments and gone through all this trouble if they felt a deal wasn't possible.

A month later, in mid-December, Neighbourly drops a press release titled “Neighbourly Provides Update on Proposal from Persistence Capital Partners.” The bombshell – Persistence revised its indication down to C\$18.50 with the claim that this is the price it’s equity financing sources support. Simultaneously, Persistence put out a press release titled “Persistence Capital Partners Proposes Fully Financed Offer to Take Neighbourly Private at C\$18.50 per share.” The PR elaborated that Persistence had approached and discussed the transaction with over 90 potential equity financing sources.

What the @@@@! That's a twist. We've gone from a C\$20.50 offer to C\$18.50? The company's numbers have been good and they're doing better than expectations. How did this happen? Neighbourly stock was trading down to the C\$15.00 context.

The focus now shifts to the final and most important element of diligence – how much can we lose if things go wrong? Before Persistence’s initial offer, Neighbourly’s stock was trading at an undisturbed C\$12.00 per share. But a levered security with limited liquidity and no exit, wouldn’t the stock fall lower? The market had rallied, but apart from Persistence, who was the incremental buyer? Best assumption, Neighbourly stock trades down to high single digits, low double digits on technical.

With a fully financed offer on the table, the only condition left to be satisfied was the parties agreeing to a price. Based on our downside estimates, the Neighbourly stock at C\$15.00 was certainly suggesting higher than a 50% probability of a deal.

Somebody must know something! The stock keeps inching higher. This is trading like the deal is on. Somebody definitely knows something.

Another month later, in mid-Jan, Neighbourly entered into a definitive agreement to go private at C\$18.50 per share plus a contingent value right of \$0.61 per share.

For the time and effort invested, we ended up netting a C\$0.61 untradeable CVR. Well played Persistence Capital Partners! Well played!

Basically, Canadian investors in the register were eager for liquidity. Persistence knew it. The Board’s Special Committee knew it. The Three Step Tango ended up in a price negotiated down for liquidity, which the minorities were glad to accept.

While Neighbourly’s Take Private didn’t work out as expected, there is always a constant stream of corporate events, some of which work out spectacularly.

If you're intrigued and want to dive in, here are a few current unsolicited offers from majority (or very large) shareholders:

Target Hospitality Corp (TH) – On March 25th, 2024, TDR Capital LLP, a 64% holder of TH has offered \$10.80 per share for all the shares they don't own.

23ANDME Holding Co. (ME) – On April 18th, 2024, Anne Wojcicki, CEO, Founder and Chairman of the Board with 20% of shares outstanding and 49% voting power, is considering making a proposal to acquire the shares she does not currently own.

WideOpenWest (WOW) – On May 2nd, 2024, Crestview Partners, a 38% holder of WOW has offered \$4.80 per share for all the shares they don't own.

Finally, here are a few hard learned lessons as you start your special situations journey:

(i) Figuring out what are the financial and strategic incentives of the key party driving the outcome is a key principle. Sometimes it's hard to figure out who the key party is that's driving the outcome. It could be a foreign regulator. It could be a large shareholder. It could be a board pre-empting an acquiror. The key party driving the outcome may change as the corporate evolves.

(ii) Don't annualize expected returns (a 2% return over six months is 4% annualized). In some buckets i.e. merger arbitrage, investors annualize returns for an apples-to-apples comparison with other yield instruments. Annualizing has its purposes, but it assumes you will find other similarly yielding investments right after the corporate event is done – that's a bird in the bush you cannot count on. Also implicit in annualizing returns, since most corporate events take under a year, you're invariably making a nominal yield look more attractive. Inverting, to make the argument, risk is by far the more important variable, but no one seems to annualize that.

(iii) Don't get tempted by what looks like a technical dislocation, which of course makes annualized returns look even more juicy. It could be real risk and an unexpected variable baking in. The patience to confirm your assumptions can protect you from being psychologically short a costly put on your time.

Details on an activist campaign at a Tokyo-listed company trading at a 59% discount to net asset value ("NAV") ([from Idea Hive](#))...

U. In this post, I am excited to share the latest portfolio idea, Sun Corporation (6736.T). A pitch on Sun Corporation was published on VIC in March. You can find the full write-up here. I believe this setup is among the most compelling currently actionable 'discount to NAV' setups given the involvement of several activists whose actions might help close the wide discount. Moreover, company's management has stated that it would be willing to consider various alternatives to maximize shareholder value.

A quick note: Given that Sun Corporation's key asset is its stake in CLBT, a publicly-listed company in the US with plenty of borrowing available, I have initiated a hedged position, with a hedge ratio of 4.3 (short 4.3 CLBT shares for each 6736.T share bought).

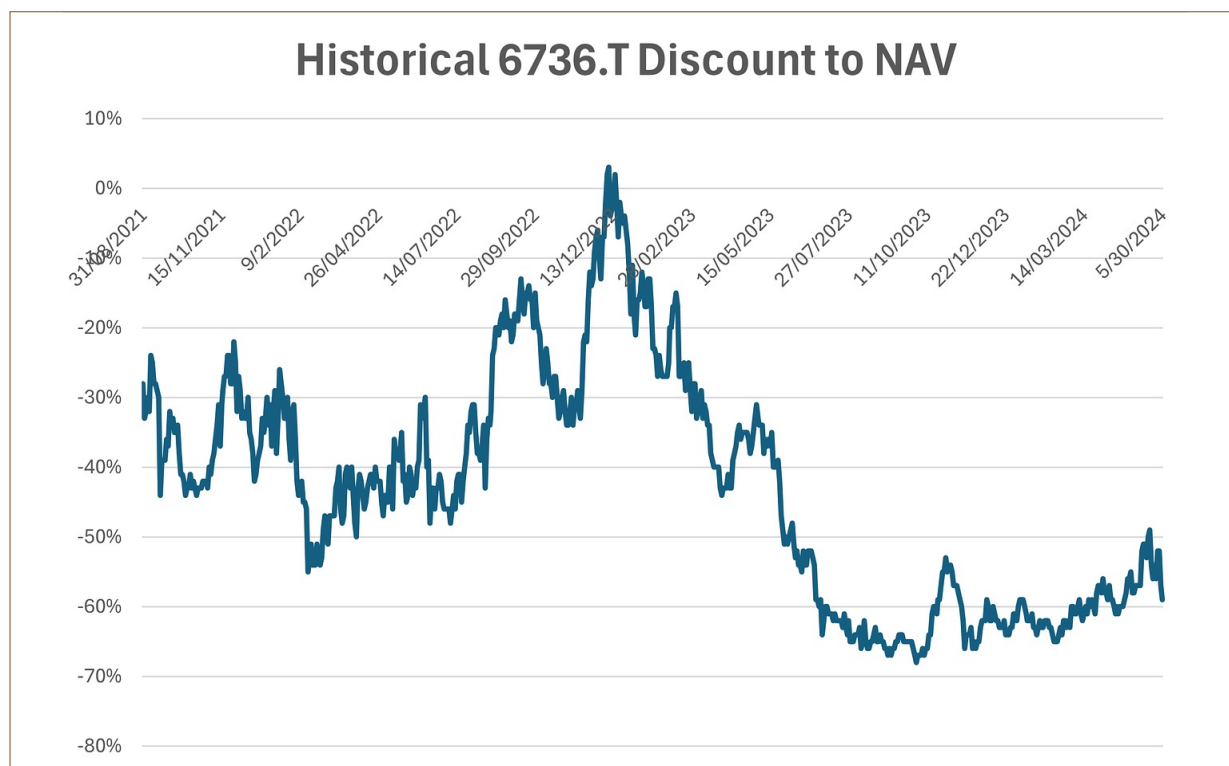
Sun Corporation (6736.T)

- **Elevator Pitch:** Activist campaign at a Tokyo-listed company trading at a wide 59% discount to NAV.
- **Current Price:** ¥3300
- **Target Price:** ¥8000+

Sun Corporation is a Japan-listed company with three core assets:

- A 47% stake in the US-listed digital forensics software company Cellebrite (CLBT). At current levels, this stake in CLBT is worth ¥7349/share versus Sun Corporation's current price of ¥3300/share.
- Net cash of \$94m, or ¥665/share, as of Mar'24.
- A small operating business that manufactures hardware for several end-markets, including data intelligence, gaming, and IoT.

Ascribing no value to the operating business, Sun Corporation is currently trading at a 59% discount to NAV. This is close to the higher end of Sun's historical discount to NAV range of c. 0-70% over recent years (see the chart below). Note that the discount narrowing in late 2022 was driven partially by a combination of 1) Japanese Yen depreciation against the US Dollar and 2) Sun Corporation's authorization of a sizable share buy back in Nov'22.



Source: Author's calculations.

There are admittedly a number of other Japanese 'discount to SOTP value' stories with comparable or even larger discounts, with the main uncertainty being if the underlying value can ever be realized. However, the key aspect of this setup is that there are two activists on Sun's shareholder register who might help close the valuation discount. One of the activists, Leopard Activist Management, has already publicly pressured management to distribute the company's stake in CLBT to equity holders. Another firm, the prominent Asia-focused activist hedge fund Oasis Management, owns 19% and holds one board seat. The presence of these two activists suggests that the underlying value might eventually be realized.

Here's a brief timeline of recent developments explaining the situation:

- October-November 2023:** Leopard Activist Management initiated communications with Sun Corporation's management, aimed at unlocking the valuation discount. The activist urged the company to distribute excess cash and CLBT shares as a dividend to Sun's equity holders.

- **January 2024:** Leopard sent additional letters to Sun's management, highlighting the company's lack of response to the activist's suggestions.
- **February 2024:** Sun Corporation issued a public letter stating that a special dividend would not be the optimal path, given Sun's significant Japanese individual investor base, which generally does not have accounts to hold US-listed securities and thus would be unable to receive CLBT shares. Management also highlighted that the dividend distribution in-kind would be classified as dividend income and thus taxable at the shareholder level. However, Sun's leadership stated that it would be open to "considering various measures to enhance Sun shareholder value" and would be willing to discuss such measures with the activist.
- **March 2024:** Leopard launched a public activist campaign (you can find the campaign's website [here](#)), highlighting its suggestions and detailing previous communications with Sun's management.

While it is not clear how the situation will play out, what gives some additional confidence that the situation might be unlikely to end in a stalemate is the impressive activism track record of Oasis Management. It is an Asia-focused activist hedge fund with \$3bn in AUM that boasts a number of successful activist campaigns over the recent years:

- In early 2023, Oasis accumulated a 6.5% stake and pushed for management changes at the Restaurant Group. The activist subsequently increased its stake in the company, buying shares from several of TRG's largest shareholders. The company eventually agreed to be acquired by Apollo Global Management in Oct'23, with Oasis reportedly recording £40m profit on its position in the company (c. £900m at the time of the acquisition).
- In Apr'21, Oasis opposed CVC Capital Partners' takeover bid for Toshiba, claiming it undervalued the company, and pushed for the company to solicit offers from other firms. Eventually, Toshiba launched a full sale process in Apr'22, with a number of bidders emerging. Subsequently, the company agreed to be acquired by a buyer consortium led by Japan Industrial Partners. Full timeline of developments at Toshiba can be found in this article.
- In Oct'20, Oasis launched an activist campaign at Tokyo Dome, calling for an EGM to replace company's management. Shortly after, in Nov'20 the company received a takeover bid from property developer Mitsui Fudosan, valuing Tokyo Dome at a 24% premium to pre-announcement levels. The acquisition closed successfully in Jan'21.

- In Jan'17, Oasis, along with equity holders, opposed Panasonic's acquisition offer for its housebuilding subsidiary PanaHome as undervaluing the company. Several months later, Panasonic raised its offer from ¥1009/share (all-stock) to ¥1200 (all-cash).
- Back in 2014, Oasis urged the Japanese console maker Nintendo to shift its focus to developing and selling mobile games instead of only developing games for its proprietary consoles. After facing activist pressure, the company dropped its console-only strategy and entered the mobile gaming market in 2015, initiating the development of several games, including Pokémon Go. After the game's success, Nintendo shares soared in 2016, leading to significant gains for the hedge fund.

So what could be the outcome here? There seem to be several potential scenarios:

- CLBT might be sold to a PE firm. This is among the likely outcomes given that Thoma Bravo has acquired two of CLBT's largest competitors over recent years. A potential acquisition would likely come at a significant premium, given precedent transactions and the fact that CLBT trades at approximately 5x ARR, an undemanding multiple for a company that meets the so-called "Rule of 40" (i.e., ARR growth + EBITDA margins above 40%).
- Sun Corporation might sell its stake in CLBT to a third party at the current market prices. While this would imply significant tax leakage (likely around 30%), this scenario would still yield a potential upside of over 70%.
- Sun Corporation might arrange a tax-friendly distribution of CLBT shares to equity holders. Another option, suggested by the activist Leopard, is Sun Corporation distributing an extra cash dividend (alongside CLBT shares), providing equity holders with funds to offset some of the potential tax liabilities.

It is far from clear what the value realization path will look like here. There is also a risk that Sun Corporation's management could either 1) decide not to monetize or distribute its stake in CLBT, or 2) hoard cash if the CLBT stake is sold. Sun's management holds a minimal stake and has displayed subpar capital allocation since selling part of its stake in CLBT as part of the late 2021 IPO. Despite announcing intentions to focus on shareholder value and returns at the time, the company has only returned 10% of the proceeds via buybacks from the partial sale of its stake. However, given the wide discount to NAV, the margin of safety while awaiting further developments seems sufficient.

Well-known activist investor Elliott Management has taken a big stake in Southwest Airlines (from *The Wall Street Journal*)...

Elliott Investment Management has built a stake of nearly \$2 billion in Southwest Airlines and wants to overhaul the company's leadership to boost its financial and stock performance.

The activist is one of Southwest's largest investors, confirming an earlier Wall Street Journal report.

Elliott called for replacing Chief Executive Bob Jordan with an external candidate and overhauling the board at Southwest, which had a market capitalization of \$16.6 billion as of Friday. It also called for management to lead a comprehensive business review.

"While Southwest has a proud history, that history is not an argument for supporting poor leadership and sticking with a strategy that no longer succeeds in the modern airline industry," Elliott officials wrote in a letter to the airline's board.

Southwest shares rose 7.4% Monday morning, on pace for its biggest daily gain since November 2020.

Jordan has been at the helm since February 2022. He took over for Gary Kelly, who had been in the role for nearly 17 years and remains executive chairman.

Southwest said Monday its board is confident "in our CEO and management's ability to execute against the company's strategic plan." The airline said it was first contacted by Elliott on Sunday and looked forward to better understanding the activist's views.

The firm is known for taking on tech companies and others and forcing changes that include management shake-ups and outright sales. Several companies in which Elliott has recently built positions have ultimately replaced their CEOs, including the big wireless-tower owner Crown Castle, NRG Energy, and Goodyear Tire & Rubber.

It is a critical moment for Southwest, which took flight as a scrappy Texas upstart in the 1970s and grew into the largest domestic airline by passengers. It was known for undercutting competitors' fares and stimulating demand for air travel. The Dallas-based carrier kept costs low in part by flying one type of plane, the Boeing 737, and became a customer favorite known for exceptional service.

But the formula that generated 47 consecutive years of profits before the Covid-19 pandemic has shown signs of strain. The airline's consumer-friendly reputation has also taken a hit,

particularly after Southwest's epic holiday meltdown in 2022 that was caused, in part, by technology systems that were unable to manage a disruption on that scale.

Southwest's share price has plunged by more than half in the past three years. The stock closed Friday at \$27.75, lower than where it traded in March of 2020, when the pandemic threw the travel industry into disarray.

Shares of Delta Air Lines are up roughly 8% over the past three years, while United Airlines is down just about 8%. The S&P 500 is up more than 30% during the same period.

Southwest executives have said they would take decisive action to break out of the financial malaise, including rethinking the airline's unique boarding and seating setup. The airline currently doesn't assign seats, and it doesn't offer premium options that have helped its rivals' results.

[Continue reading here](#) *(subscription may be required)*

Activist investment firm Starboard Value is stepping up its pressure on design-software company Autodesk (ADSK) ([from MarketWatch](#))...

Activist investor Starboard Value, which currently has a \$500 million stake in Autodesk Inc., said Monday that it is filing a lawsuit against the design-software company in order to nominate new directors to the board, which Starboard alleges “misled” shareholders.

Starboard said it issued a letter to fellow shareholders regarding its belief that Autodesk’s board of directors “manipulated the corporate machinery and perpetuated an entrenchment scheme by failing to disclose material malfeasance regarding the company’s accounting and disclosure practices prior to the deadline to nominate director candidates for election at the 2024 Annual Meeting of Shareholders.”

Autodesk responded to Starboard’s letter by saying it maintains an “open dialogue” with its shareholders, including Starboard, “with whom we have sought to engage constructively since they first reached out in early June.”

Shares of San Francisco-based Autodesk rallied 4.9% in morning trading, to put it on track for the highest close since April 12. Through Friday, the stock had tumbled 12.9% since April 1, which was when the company disclosed it had launched an accounting probe.

Starboard said it was filing a lawsuit in Delaware to force Autodesk to delay the shareholder meeting, currently scheduled for July 16, and to reopen the window to nominate board members.

The activist investor said in its letter that Autodesk started its investigation into accounting of free cash flow at the beginning of March. That was “well ahead” of the deadline to nominate board members, but Starboard said the company “misled” investors by waiting to disclose the investigation to the U.S. Securities and Exchange Commission until April 1.

In its statement on Monday, Autodesk said it did not receive any proposals or director nominations by the March 23 deadline for nominations.

“Starboard is seeking to leverage a now-completed internal investigation that resulted in no financial restatement as a pretext for re-opening the advance notice period,” Autodesk said. “Autodesk’s board considered the request from Starboard and determined that re-opening the advance notice period would not be in the best interests of Autodesk or its shareholders.”

In late May, Autodesk said the internal investigation had found no fault in its practices and that there was no need to restate or adjust any financial statements.

In its annual report filed earlier this month, Autodesk said it was cooperating with the Securities and Exchange Commission and the U.S. Attorney's Office following its internal probe.

Starboard's stake in Autodesk represents about 1% of Autodesk's market capitalization of \$48.8 billion as of Friday's close.

The investor said it believes Autodesk has "an opportunity to create significant shareholder value by meaningfully improving its combination of growth and profitability," as well as adopting more friendly shareholder-return policies.

[Continue reading here](#) *(subscription may be required)*

Here's a list of event-driven trade ideas that are potentially actionable today ([from ToffCap](#))...

SPIN-OFFS (and related)

- **Inhibrx (INBX US)**. Will spin-off 92% of its subsidiary Inhibrx Biosciences on May 29 (record date May 17) on a pro-rate basis. Might be interesting to keep an eye out.
UPDATE (June 17, 2024) Spin completed. Inhibrx Biosciences trading under ticker INBX.
- **Lionsgate (LION US)**. Spin-off of the movie / TV studio business estimated in September. Lots of action with bondholders forming a bond group to block the spin, and appear to be succeeding. UPDATE (Jan 7, 2024) Now intends to spin studio business via SPAC Screaming Eagle (SCRM US).
UPDATE (June 17, 2024) Listing via SPAC completed. Trading under LION. Roughly -21% since listing (June 14); might be interesting to keep on the watchlist as SPAC listings often get (seriously) discounted while LION does have a few good franchises.
- **Magnora (MGN Norway)**. Will spin its legacy oil divisions from the 'green' divisions. These kinds of splits are generally very good opportunities, as one of the two parts could be pressured a lot. Extra AGM in mid-Feb. UPDATE (April 22, 2024) All seems ready for the split (structure, approvals, etc). Split (~70%) to be completed in Q2, probably June.
UPDATE (June 17, 2024) Magnora will spin (1-1) its legacy business 'Hermana' this week (listing date 18/06).
- **Illumina (ILMN US)**. We note the recent spin of Grail GRALV. This spin should conclude a headache case for Illumina which arguably pressured the share price.
- **TC Energy (TRP Canada)**. Recently approved the spinoff of the company's Liquids Pipelines business. Shareholder to receive 0.2 shares in a new public company ('South Bow') per TC share.

STRATEGIC ALTERNATIVES (potential take-outs, asset sales, M&A, etc.)

- **Indie Semiconductor (INDI US)**. Bloomberg reported that Indie is exploring strategic options including a sale.
- **Neo Performance Mat. (NEO Canada)**. Launched a strategic review of the business, including a potential sale of the company. Goal is to 'reflect the true value of the business'.

While cyclical, we note that this market has significant secular tailwinds. Also, Neo has a decent b/s with c. 20% of the market cap in net cash (June 14).

- **Yext (YEXT US).** Reuters reported that search optimization company Yext is exploring a sale. While the stock performed terribly, Yext has a strong net cash position (roughly 22% of its market cap) and ebitda inflected positively in FY23. Definitely not expensive on street estimates, trading at ~7.5x forward ev/ebitda for >20% ebitda growth projected pa over the next few years. Shares hovering at lows.
- **Webjet (WEB Australia).** Webjet recently announced that it is exploring a separation of its two divisions. This screens very interesting as one of the divisions is WebBeds, a very profitable and solid growing b2b hotel distribution platform - which nobody knows. H/t @sweetstocksblog for the idea; refer to his blog for much more background.
- **Ikena Oncology (IKNA US).** New addition in the busted biotech bucket. Big net cash position, negative EV, reviewing strategic alternatives. Opex strongly down, very much reduced cash burn. Seems like this one might move rapidly at his point.
- **Avalo Therapeutics (AVTX US).** Another busted, net cash, negative ev biotech reviewing strategic alternatives (for a few programs), but this one is not liquidating.
- **TransAct Technologies (TACT US).** Interesting net cash micro-cap with an actual product 'actively assessing strategic alternatives, including a sale.' Stock has been hammered over the past months.

NOTICEABLE LARGE BUYBACKS

- **Kansai Paint (4613 Japan).** Kansai Paint recently filed to repurchase up to 19% of shares outstanding over the next 12 months (buyback capped at ¥80b and 40m shares).
- **Xunlei (XNET US).** Xunlei announced a \$20m share repurchase program. This is another net cash, negative ev Chinese company. Who knows what'll happen but there's often some interesting volatility.
- **Defi Technologies (DEFI Canada).** Defi announced the launch of a NCIB (max 10% of s/o, or roughly 27m). If you like weird stocks few people understand, Defi might be for you.

- **Live Ventures (LIVE US).** Micro-cap Live Ventures (of LL Flooring fame) announced a \$10m buyback, roughly 13% of the market cap (June 14).
- **Quantasing (QSG US).** Chinese net cash, negative EV company announced a big buyback, \$20m or ~22% of market cap (June 14).

INTERESTING INSIDER PURCHASES

- **FutureFuel (FF US).** After several years of inaction, insiders have been buying quite a bit on the open market on this one. FF has been generating good cash flow in the past and has a pretty solid b/s - roughly \$100m net cash (post special div) on a market cap of \$200m (June 14). If you believe that the dip in RINs is temporary (mgt does), then this is very interesting to keep an eye on.
- **Treace Medical Concepts (TMCI US).** We note the very large insider purchases. Treace's share price has been an absolute dog over the past years (was expected looking at the insider sales), but mgt now seem to think it's a good opportunity to buy. Strong net cash b/s (though still some cash burn).
UPDATE (June 17, 2024) Insiders continue to buy shares in the open market. Like, a lot.
- **Altus Power (AMPS US).** Notable insider purchases at Altus. The stock has been hovering at ATLs over the past few months.
- **Beyond (BYON US).** Insiders continue to add as well at old flag Beyond (previously Overstock.com). As a reminder, there was quite some action here with several activists pressuring the company to launch strategic review and improve balance sheet (via eg asset sales). To keep an eye on given high volatility.
- **Mobile Infrastructure (BEEP US).** Very large purchases from the CEO at busted Mobile Infrastructure. Also, funny ticker (company invests in parking lots...)
UPDATE (June 17, 2024) The flurry of insider buying continues. We also note the very solid base that the stock has made. Something's brewing...
- **Titan Machinery (TITN US).** Insiders buying at Titan, with the stock breaking down. Looks like more is to come based on the earnings progression and leverage. But should be a nice free cash flow generation so there might be an opportunity here at some point. Keep an eye on the insiders.

- **Wajax (WJX Canada)**. Notable insider purchases at Wajax as well. The stock was recently hammered after poor results. Nonetheless, the company is trading at roughly 5x ev/ebitda for what should be good cash flow generation.

'INTERESTING' SITUATIONS (but not exactly event-driven or special sit.)

- **Gauzy (GAUZ US)**. We note the busted IPO of Gauzy, which according to BB 'develops, manufactures and markets visions and light control tech'. We know nothing on this one, but note the -16% since IPO a few days ago.
- **Southland (SLND US)**. Busted SPAC but with interesting end market dynamics and valuation. FY24 seems to be ramping up well and end markets are strong. Very cheap compared to peers. No imminent catalyst, but if earnings continue to ramp Southland seems poised to do very well.
- **Flutter Entertainment (FLUT US)**. Global leader in sports betting. Stock pressured due to various (technical) reasons as HQ moved from London to the US and overall poor sector sentiment. Underlying performance seems to be strongly improving, which bodes well for future cash flow generation. Screens very cheap given growth potential.
- **Enzo Biochem (ENZ US)**. Interesting net-net with quite some action going on while the share price is not moving. Enzo has a substantial net cash position after the sale of a segment. Cash burn slowed significantly, current operations seem to gather momentum and management's compensation package seems very geared towards a sale. @ragingbullcap has done a ton of work on this one.
- **Pacific Current (PAC Australia)**. We highlight this very interesting case from @InvestSpecial. PAC seems to be on the verge of launching a tender for 50% of the market cap. PAC received several bids for the company at roughly AUD 11 per share that were rejected. NAV is at roughly AUD 12.2 vs the current share price of AUD 10.28 (June 14), suggesting the tender offer might come at a premium to the current share price. H/t @InvestSpecial for the idea.

MISCELLANEOUS (liquidations, merger arb., out-of-bankruptcy, uplistings, etc.)

- **DXC Technology (DXC US)**. Reuters flagging that DXC has been in talks with Kyndryl and Apollo for a joint bid, at \$22-25 per share, vs. current share price of \$17.85 (June 14).
- **Ascential (ASCL UK)**. Ascential to sell two divisions after a strategic review. Remainco valued at ~5x ev/ebitda; peers trading at >10x. UPDATE (April 8, 2024) Ascential revealed a plan to return GBP 850m to shareholders in a combo of tender offer, special dividend and share buyback.
UPDATE (June 17, 2024) Ascential remains an interesting opportunity. Recently divested divisions and returned capital, still trading at a large discount vs peers, HudsonMX review ongoing, buybacks. Seems like either valuation discount will close soon or someone will close it for them.
- **DMC Global (BOOM US)**. Small diversified industrial company heavily levered to energy recently announced strategic alternatives for 2 of its 3 business lines, including DynaEnergetics, which many consider its crown jewel. Decent balance sheet, trades under book (though tangible book is negligible) and near 5-year low price. Recently refinanced.
UPDATE (June 17, 2024) Steel Connect (10% owner) offered \$16.50 per share. DMC Board considering the offer. Current share price \$14.43 (June 17).
- **Saes Getters (SG Italy)**. Sold its medtech business for \$900m. Tendered for stock (roughly €140m), will pay a €12.5 p/s dividend (on €34 stock price); remaining €350m to be reinvested in business. Roughly €20m net debt position (pre-sale consideration).
UPDATE (June 17, 2024) the action continues at Saes with SGG raising its offer to €28 per share and activists challenging the offer, deeming it too low.
- **QXO (QXO US)**. Micro-cap SSNT announced a weird transaction; XPO chairman Jacobs to invest \$900m in Silver Sun, Sequoia \$100m, existing Silver Sun business to be spun-off. M&A shell remains (tbc QXO), setting a target of >\$1bn revenues by year 1 with acquisitions is building products space.
UPDATE (June 17, 2024) Jacobs noted to be near \$3.5bn equity offering. Lots of volatility here.
- **Barnes & Noble Education (BNED US)**. After the massively dilutive arrangement to equitize the 2L holders and infuse more equity, the company trades at a PF market cap of \$160m + \$100m of net debt = \$260ish EV. Assuming you subscribe all your rights. Probably many

old shareholders selling after the painful outcome. If they can make \$80 and \$100m EBITDA on their FEC biz for fy24 and fy25 as they promise, this is too cheap. Many thanks to @FernandoInvests.

UPDATE (June 17, 2024) We note the substantial (to put it mildly) short interest in BNED. This one might be explosive.

- **Vanda Pharma (VNDL US).** Rejected (another) offer from Future Pak. The latest offer was ~\$7.5 per share, vs current share price of \$5.1 (19/04). Vanda is a net cash biotech (\$390m net cash on \$293m market cap (April 19)), BUT actually has \$190m revenues, is profitable (after interest income) and has relatively low cash burn. UPDATE (May 21, 2024) Future Pak came back and sweetened the offer with CVRs. **UPDATE (June 17, 2024) The Vanda circus continues. Cycle Pharma offered \$8.0 per share all cash. Future Pak increased the cash component of its offer to \$8.5-9.0; incl. the CVR the total offer is roughly \$13 per share. What a crazy management. But at least the share price is moving in the right direction.**
- **Innovative Solutions (ISSC US).** We highlight the recent bid from large shareholder Harborne of \$7.25 per share in cash compared to the current share price of \$6.30 (June 14). This seems like a rather low offer to us for such an interesting (and cheap) company. Interesting to keep assessed.
- **Sun Corp. (6736 Japan).** This Japanese company is the main shareholder in Cellebrite (CLBT) and trades at over 60% discount to the value of its stake and cash. Co. is looking into ways to monetize its stake/discount with the help of activist investors. **UPDATE (June 17, 2024) True Wind, one of the largest holder of Cellebrite (CLBT), launched a tender offer for 47% owner Sun Corp at 4,400 yen/share.**
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- **Vista Outdoor (VSTO US).** Vista to sell its Sporting Products operations for \$1.9bn (or about 5x ev/ebitda on the unit's FY24e). Spin off the table. Current public stockholders of Vista Outdoor to receive shares of Outdoor Products (recently rebranded as Revelyst) and approximately \$750 million in cash in the aggregate. UPDATE (December 3, 2024) Activists ColtCZ disclosed a stake and launched a bid for \$30 p/s and a \$900m buyback, which the company rejected. Interesting to keep assessed, could continue to see some fireworks. UPDATE (May 6, 2024) Bloomberg reporting that a deal with MNC Capital could be reached over the next few weeks
UPDATE (June 17, 2024) MNC Capital increased its offer for Vista to \$39.50 per share vs current share price of \$35.50 (June 14). Vista rejected the offer and confirmed it received a \$2bn offer in cash for its Ammo division.

PRECIOUS METALS

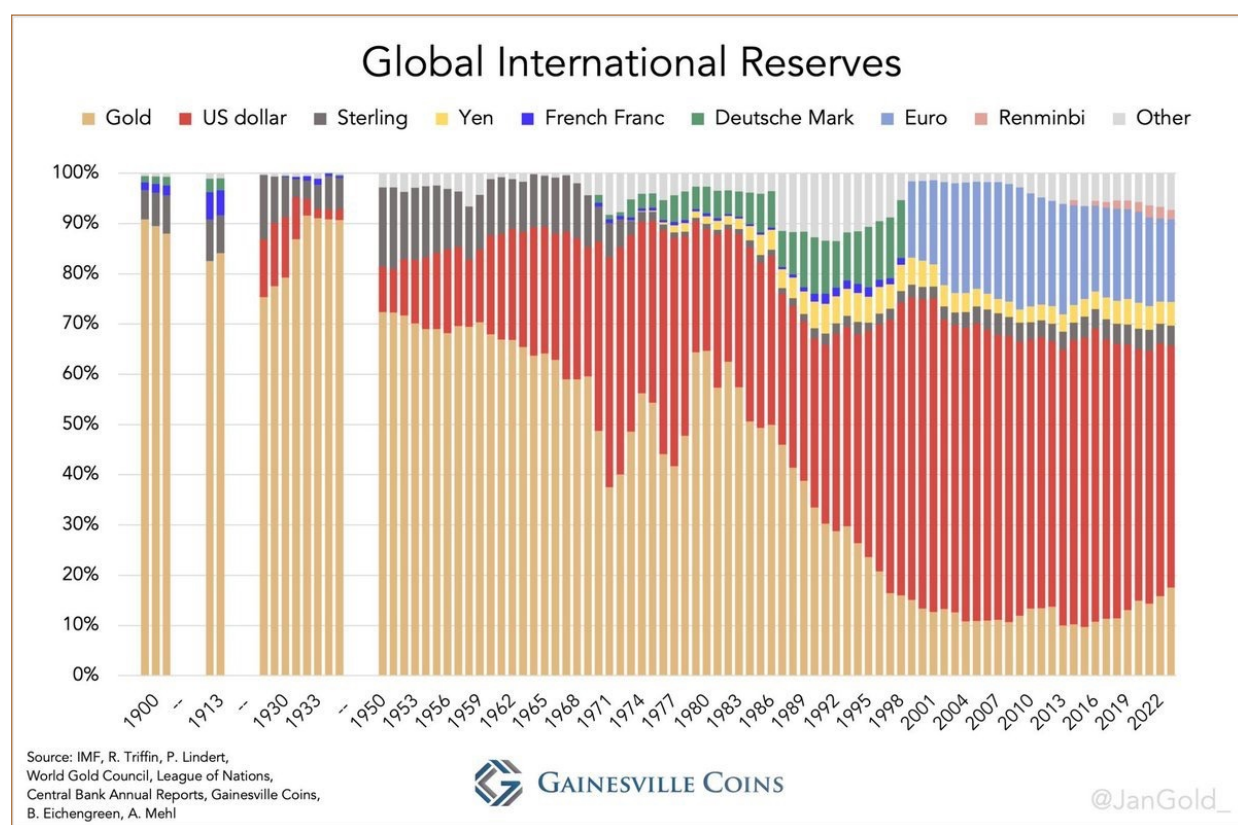
Gold is now replacing U.S. Treasuries as the global reserve asset of choice ([from Luke Gromen via X](#))...

I've been asked for years, "What is going to replace the USD?"

My answer has always been "Nothing is going to replace the USD...but gold IS replacing USTs as primary global rsv asset."

Sanctions on Russian FX rsvs makes this trend likely to continue.

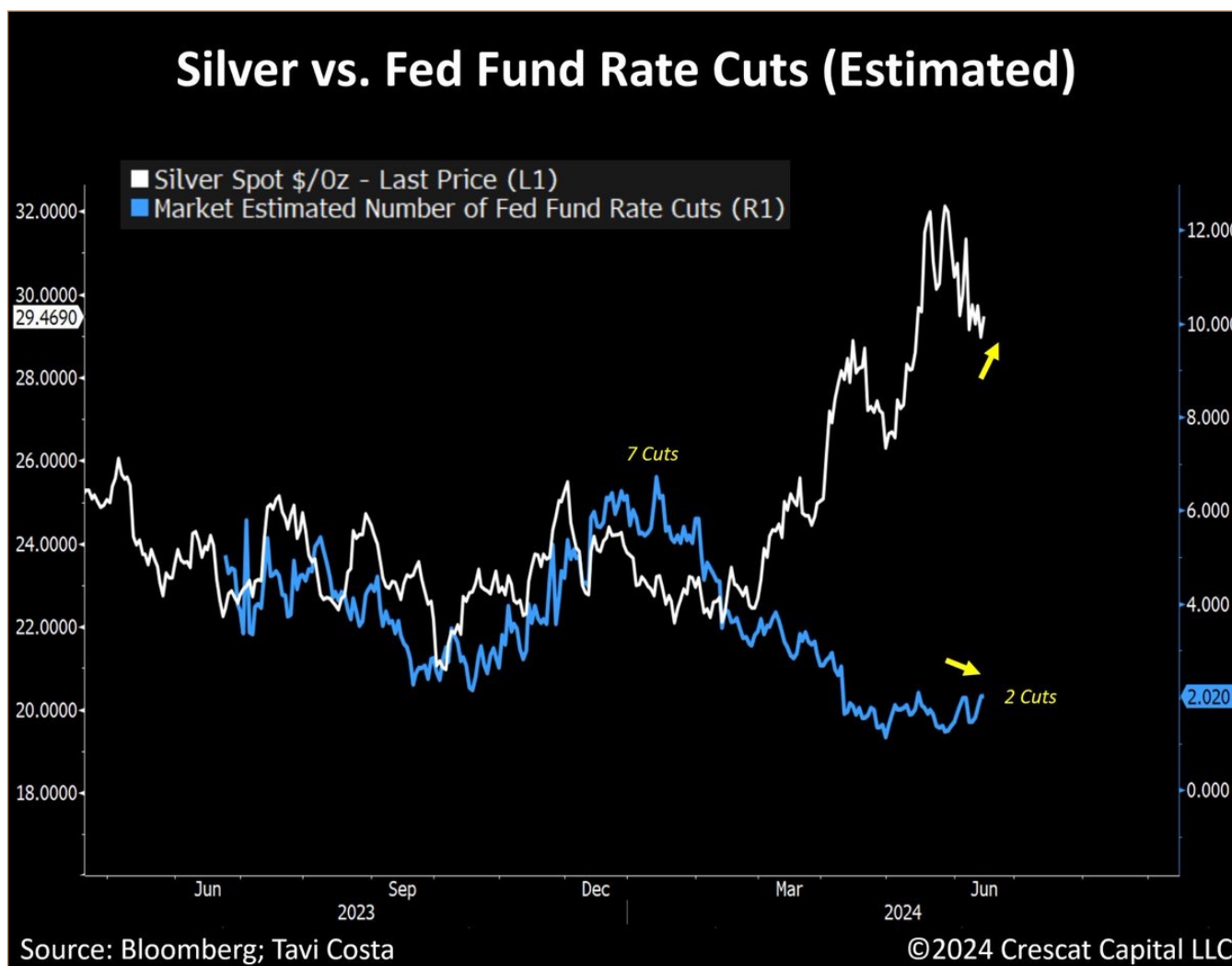
Great chart by @JanGold_



Silver appears to be calling the Fed's bluff ([from Otavio \(Tavi\) Costa via X](#))...

It's impressive that silver rallied strongly over the last 6 months, despite a shift from an estimated 7 price cuts to just 2, which marks one of the most hawkish changes that I've seen.

Even more remarkable is that silver is now oversold at nearly \$30/oz.



Silver is on the verge of a massive breakout versus equities (from Graddhy - Commodities TA+Cycles via X)...

That is the clear, historical breakout we were looking for.

So it begins #silver



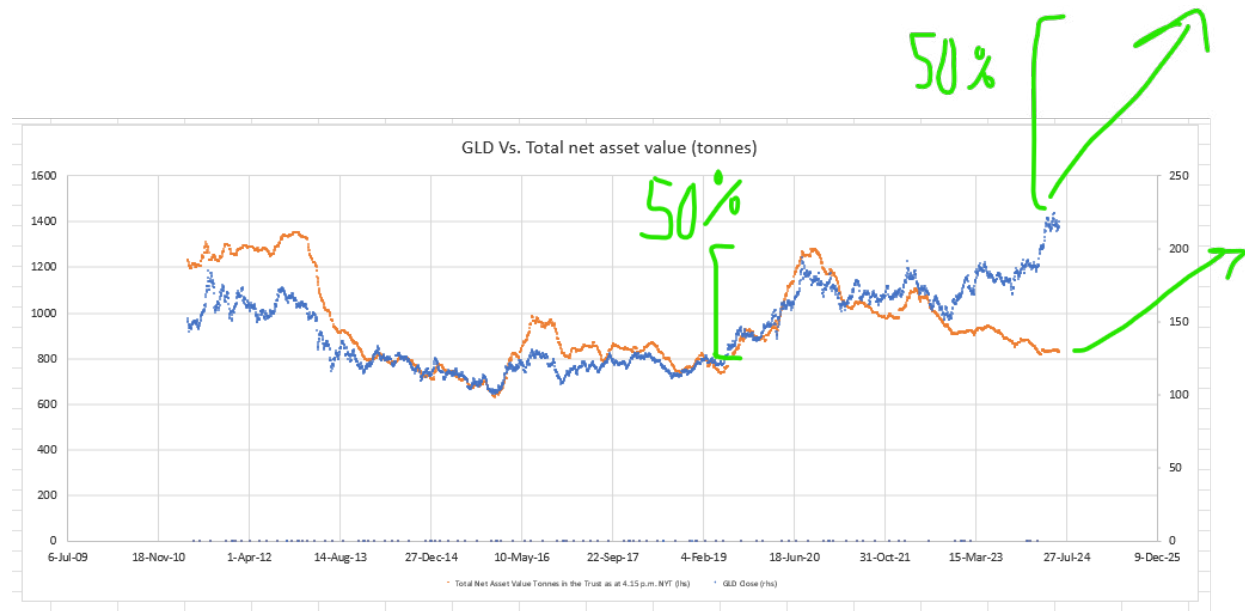
Gold is diverging significantly from gold exchange-traded fund (ETF) holdings ([from Garrett Goggin, CFA & CMT via X](#))...

Sentiment check: Gold is moving higher while GLD holdings are dropping. Not a top! Gold won't stop rising until investors flood into the GLD ETF pushing shares outstanding 100%+ higher.

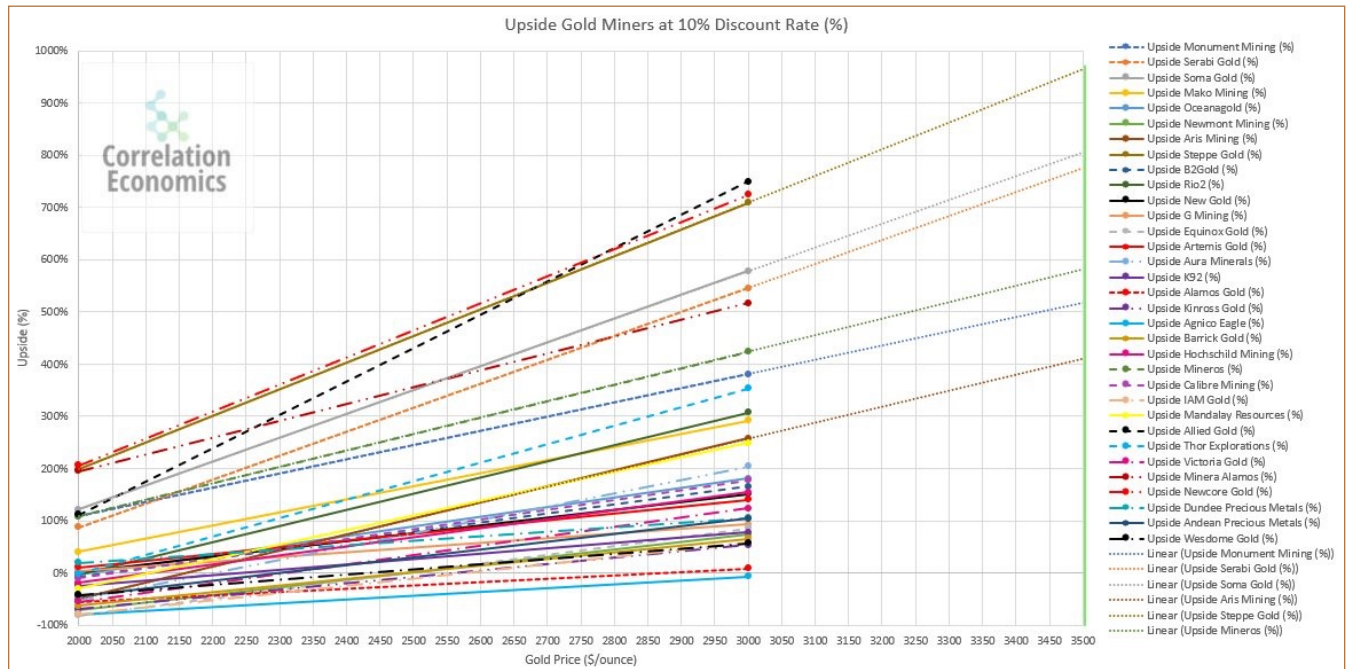


A typical resolution in this divergence could see gold reach a price of \$3,500 per ounce (**from Correlation Economics via X**)...

Gold would need to rise 50% from \$2400 to \$3500.



At \$3,500 gold, some gold miners could be trading 1,000% higher (from Correlation Economics via X)...



ENERGY

BlackRock CEO Larry Fink – one of the leading proponents of the foolish environmental, social, and governance (“ESG”) movement that starved the energy sector of capital for the past decade – now warns that renewables won’t work ([from Camus via X](#))...

Fink: “The world is going to be short power, short power. And to power these data companies you cannot have just this intermittent power like wind and solar. You need dispatchable power because you can’t turn off and on these data centers.”



Liquefied natural gas (“LNG”) is both a “savior” and a “curse” in Europe ([from Javier Blas via Bloomberg Opinion](#))...

In its moment of most need, back in 2022, the liquified natural gas market saved Europe. Now, that same LNG market is the continent’s new vulnerability. The good news is that the weakness should be short-lived; the bad news is that it won’t go away before the next winter.

The beauty of LNG is that the gas has been super-cooled and processed for loading onto tankers and shipping around the world, very much like oil.

Thus Europe can source the commodity from anywhere: from the US to Qatar, from Australia to Nigeria. The drawback is that everyone else in the world can do the same, procuring it from anywhere and increasing competition.

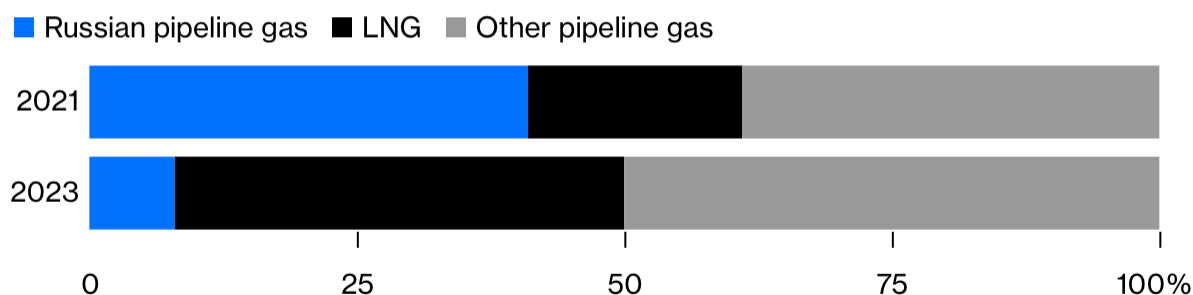
Rivalry to buy LNG is visible in today’s market, with European benchmark prices recently climbing to a near six-month high above €37 (\$40) per megawatt-hour. Although higher than at any point this year, European gas prices are a fraction of the more than €300 reached in August 2022. Prices averaged €20 between 2010 and 2020.

Granted, other factors have also contributed to higher prices: notably, an outage in a Norwegian gas pipeline, strong financial flows into gas financial contracts and fears about losing the last remaining shipments of Russian gas into Europe. But in the background, the battle for LNG cargoes is playing a role.

Before Russian President Vladimir Putin ordered the invasion of Ukraine in 2022, Europe used to depend on Russian gas shipped via pipeline for more than 40% of its imports. LNG accounted for about 20%. But after Moscow largely cut the flow, the continent’s import reliance flipped upside down. By last year, LNG accounted for about 42% of Europe’s gas imports, while Russian pipeline gas fell to just 8%.

Russia Out, LNG In

The European Union has lifted its purchases of liquefied natural gas to replace the loss of Russian gas arriving via pipeline in its total gas imports



In 2022 and 2023, Europe had the global LNG market for itself. High costs priced out other importers — Pakistan and Bangladesh, among several others — while China, typically the world's top buyer of the product, was absent as its manufacturing sector was recovering slowly from the pandemic lockdowns. At the same time, soaring prices encouraged LNG companies to run their facilities as hard as they safely could, keeping the supply elevated.

Fast forward to 2024, and the market has changed. Europe is now starting to see stronger competition. China is back, with record imports nearly every month. India is also buying, and so are other smaller importers. With many emerging nations experiencing heatwaves, demand for electricity is rising, and with it LNG consumption. On the supply side, the industry appears exhausted after the 2022-23 marathon. Heavy maintenance is hitting production, along with unplanned outages. Global output has consistently been below last year's level each month so far this year.

The result is that Europe is importing less LNG than it did in 2022 and 2023. Last week, the amount of gas departing import terminals in Europe dropped to the lowest level for this time of the year since the pandemic. For now, that's not a significant problem. The region emerged from the 2023-24 winter with unusually high inventories thanks to a mild cold season. Since then, however, the pace at which the underground storage is filling has slowed down.

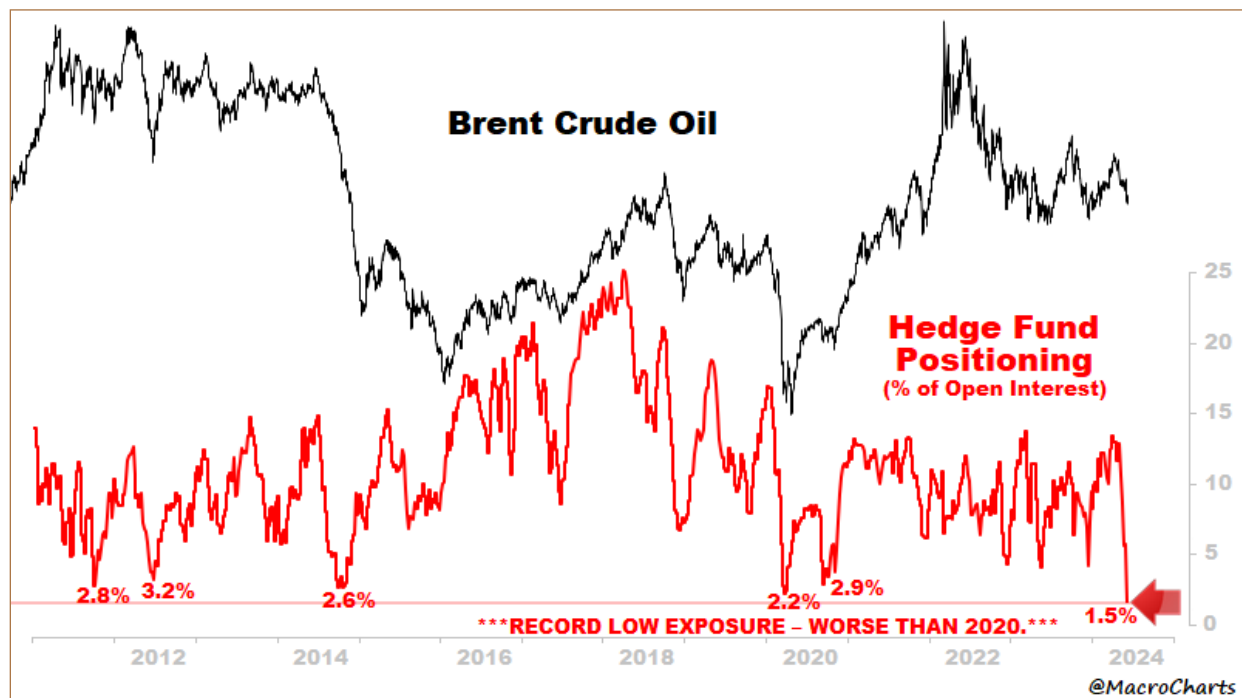
But the competition for LNG could turn more problematic this coming winter if the region faces a colder-than-usual season and other LNG importers simultaneously have weather trouble.

[Continue reading here](#) *(subscription may be required)*

Hedge funds are extremely bearish on oil ([from Macro Charts via X](#))...

Hedge Funds have the lowest Oil positioning ever.

Worse than 2020.

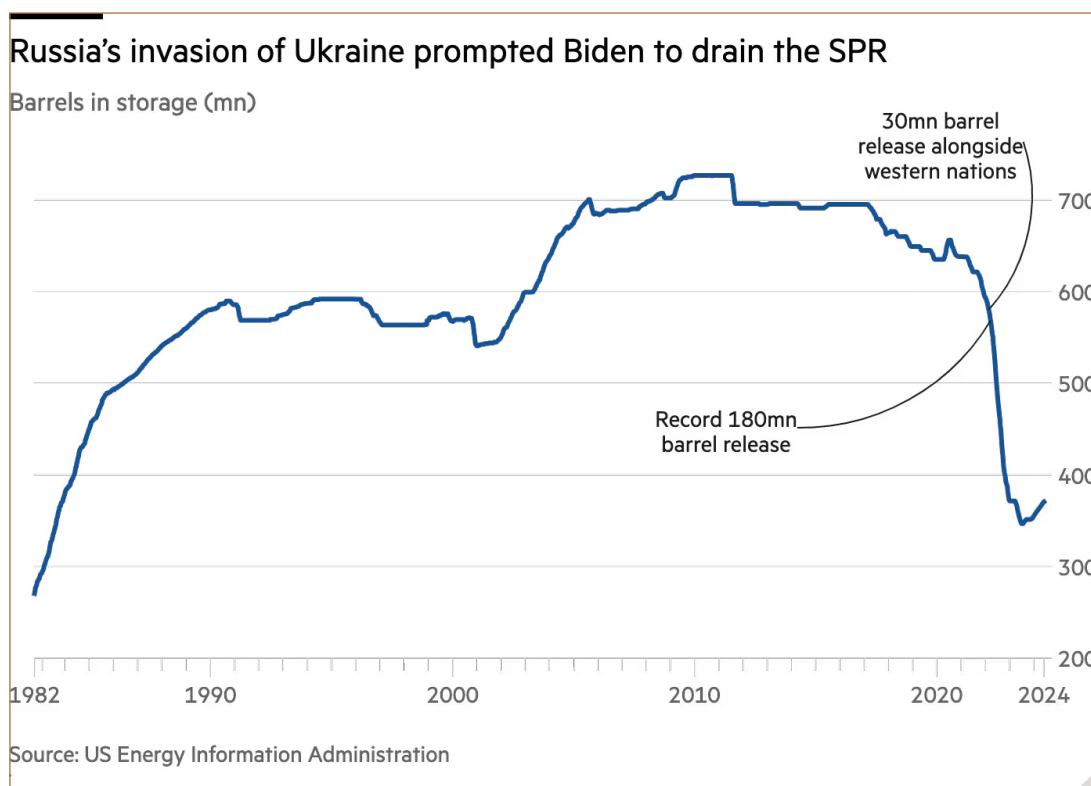


Unbelievable: President Joe Biden is reportedly planning to sell even more U.S. oil reserves if gas prices rise ahead of the election ([from The Financial Times](#))...

The Biden administration is ready to release more oil from its strategic stockpile to halt any jump in petrol prices this summer, as the White House battles to contain inflation ahead of the November election...

Any decision in the coming months to draw more barrels from the SPR — which Biden has tapped more than any of his predecessors — would anger Republicans who have accused him of “political abuse and misuse” of the stockpile...

The SPR was set up almost half a century ago as a buffer against jumps in oil prices in times of supply disruption. Biden announced releases from the reserve in late 2021 and again in 2022 as petrol prices rose following Russia’s full-scale invasion of Ukraine.



[Continue reading here](#) (subscription may be required)

New England power grid declares emergency as heatwave hits ([from Bloomberg](#))...

New England's power grid operator declared a level 1 emergency in a bid to shore up supplies, as the region faces an intense heat wave that's forecast to last for days.

The alert on Tuesday came after some power generation serving the region tripped offline, said Matt Kakley, spokesman for ISO New England Inc. That left the grid operator, which serves 7.5 million homes and businesses across six states, without enough electricity to meet demand while maintaining required reserves.

Electricity prices briefly jumped to \$1,993 per megawatt-hour, more than 10 times the day-ahead cost for the hour.

Level 1 grid emergencies indicate that more power supplies are needed but blackouts are not imminent. The network was experiencing "abnormal conditions" as of 5:30 a.m. local time Wednesday, according to its website.

The emergency comes as a potentially record-setting heat wave hits the northeast, with parts of New Hampshire and Maine seeing excessive heat warnings early Wednesday. Heat index readings could reach 105F (40.6C) in some locations, the National Weather Service said in a notice. Temperatures are expected to ease in New England over the weekend.

[Continue reading here](#) (subscription may be required)

U.S. Senate passes a bill to support advanced nuclear energy deployment ([from Reuters](#))...

The U.S. Senate on Tuesday passed a bill to accelerate the deployment of nuclear energy capacity, including by speeding permitting and creating new incentives for advanced nuclear reactor technologies.

Expanding nuclear power has broad bipartisan support, with Democrats seeing it as critical to decarbonizing the power sector to fight climate change and Republicans viewing it as a way to ensure reliable electricity supply and create jobs.

A version of the bill had already passed in the House of Representatives and it will now go to President Joe Biden for a signature to become law. It passed the Senate 88-2 votes, opens new tab.

"In a major victory for our climate and American energy security, the U.S. Senate has passed the ADVANCE Act with overwhelming, bipartisan support," said Senator Tom Carper, a Democrat, who is Chairman of the Senate Environment and Public Works Committee.

"Today, we sent the ADVANCE Act to the president's desk because Congress worked together to recognize the importance of nuclear energy to America's future and got the job done," said Republican Shelley Moore Capito, a ranking member of the committee.

Among other things, the bill would cut regulatory costs for companies seeking to license advanced nuclear reactor technologies, would create a prize for the successful deployment of next-generation reactors, and would speed licensing for nuclear facilities at certain sites.

The bill could benefit companies like Bill Gates-backed TerraPower, which is trying to build a \$4 billion Sodium reactor in Wyoming on the site of an old coal plant but is struggling to secure a key permit.

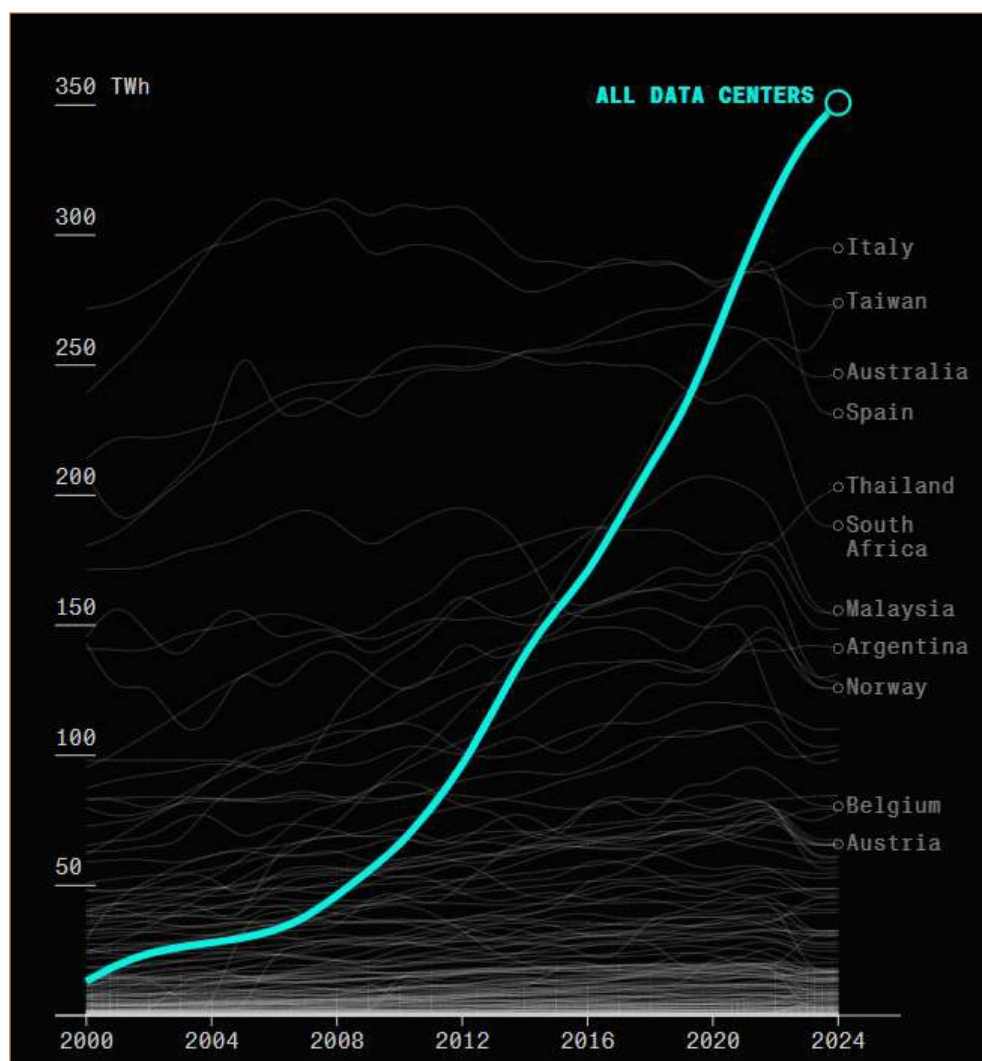
Non-proliferation groups including the Union of Concerned Scientists have warned against measures that ease licensing for high-tech nuclear reactors, including those using advanced fuels like high-assay low-enriched uranium (HALEU), opens new tab, arguing that safety should remain the priority.

The U.S. nuclear industry has struggled to expand in recent decades due to soaring costs and complex permitting requirements, and as advanced nuclear technologies prove difficult to fund and develop.

[Continue reading here](#)

AI is already wreaking havoc on global power systems ([from Robert Friedland via X](#))...

Globally, there are more than 7,000 data centers built or in various stages of development, up from 3,600 in 2015. These data centers have the capacity to consume a combined 508 terawatt hours of electricity per year if they were to run constantly. That's greater than the total annual electricity production for Italy or Australia. By 2034, global energy consumption by data centers is expected to top 1,580 TWh, about as much as is used by all of India.



OTHER COMMODITIES

Commodities veteran Jeff Currie says copper is the best trade he's seen in his career ([from Bloomberg](#))...

The world is going to need a lot more copper to power everything from electric vehicles to updated grids and data centers. At the same time, getting new mines online is an extremely slow process, one that's made all the more difficult by political and environmental concerns.

The mismatch between rapidly-growing demand and sluggish supply has already helped push copper prices to more than \$10,000 a ton in London trading this week.

But according to commodities veteran Jeff Currie, the metal still has more room to run. In a new episode of the Odd Lots podcast, the chief strategy officer of the energy pathways team at Carlyle Group Inc, says long copper represents "the most compelling trade I have ever seen in my 30-plus years of doing this."

Currie, who was the longtime global head of commodities research at Goldman Sachs Group Inc. before joining Carlyle last year, has been banging the proverbial copper drum for a long time. He uses the acronym "RED" to summarize the three big structural tailwinds driving more demand.

The 'R' stands for redistribution policies: As he argues, lower-income groups have been consuming "a greater share of commodities than the higher-income groups. That's very much alive and kicking. You look at the low unemployment rate, who's the biggest benefactor of that? It is the lower-income groups, and policies still very much in play all over the world right now reinforcing these lower-income groups in the consumption of commodities."

The 'E' stands for environment policy, which Currie describes as having been "turbocharged" in recent years.

"You have the IRA, the REPowerEU, China," he says. "Now, part of the reason why copper's rallied recently [is that] China's growth was over 100% in green CapEx last year, 30% this year. So everywhere you look in the world, we see environmental policy through green CapEx stimulating demand for commodities."

And finally, the 'D' stands for deglobalization, though it could also stand for defense.

“Look at the potential military spend in the US — \$95 billion on munitions,” he says. “We look at what’s going on in places like Germany, \$100 billion dollars of military spend. So you’ve got all three going much stronger than what we would’ve thought two-to-three years ago.”



[Continue reading here](#) (subscription may be required)

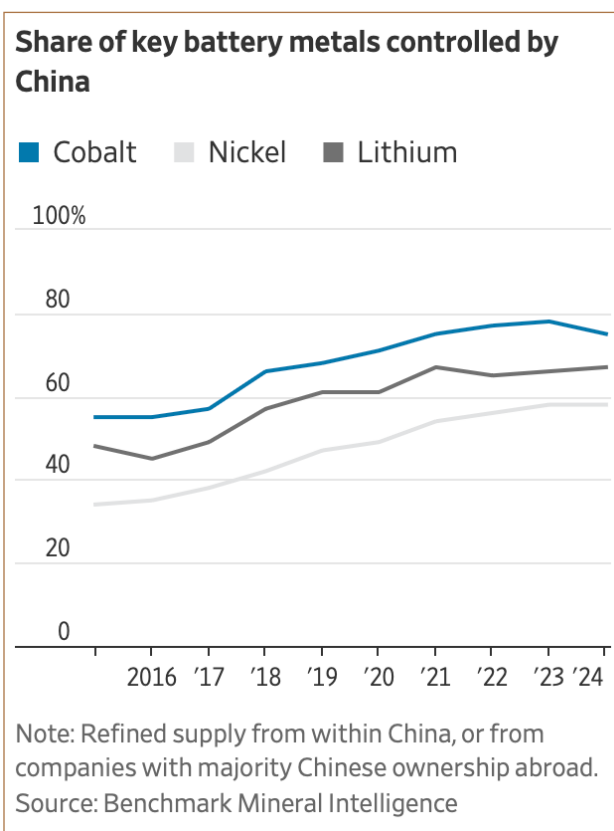
China is winning the minerals war (from *The Wall Street Journal*)...

For the past few years, the West has been trying to break China's grip on minerals that are critical for defense and green technologies. Despite their efforts, Chinese companies are becoming more dominant, not less.

They are expanding operations, supercharging supply and causing prices to drop. Their challengers can't compete.

"China is not just standing still waiting for us to catch up," said Morgan Bazilian, director of the Payne Institute at the Colorado School of Mines. "They are making investments on top of their already massive investments in all aspects of the critical-minerals supply chain."

Take nickel, which is needed for electric-vehicle batteries. Chinese processing plants that dot the Indonesian archipelago are pumping out vast quantities of the mineral from new and expanding facilities, jolting the market.



Meanwhile, Switzerland-based mining giant Glencore is suspending operations at its nickel plant in New Caledonia, a French territory, concluding it can't survive despite offers of financial help from Paris. The U.K.'s Horizonte Minerals, whose new Brazilian mine was expected to become a major Western source, said last month that investors had bailed, citing oversupply in the market.

At least four nickel mines in Western Australia are winding down.

Lithium projects in the U.S. and Australia have been postponed or suspended after a surge in Chinese production at home and in sub-Saharan Africa.

The only dedicated cobalt mine in the U.S. also suspended operations last year, five months after local dignitaries attended its opening ceremony. Its owners say they are struggling against a flood of Chinese-produced cobalt from Indonesia and the Democratic Republic of Congo.

Last year, non-Chinese production of refined cobalt declined to its lowest level in 15 years, according to Darton Commodities. The share of lithium mining done within China or by Chinese companies abroad has grown from 14% in 2018 to 35% this year, according to Fastmarkets, a commodities information provider. Over the same time, lithium processing done within China has risen from 63% in 2018 to 70%, according to Fastmarkets.

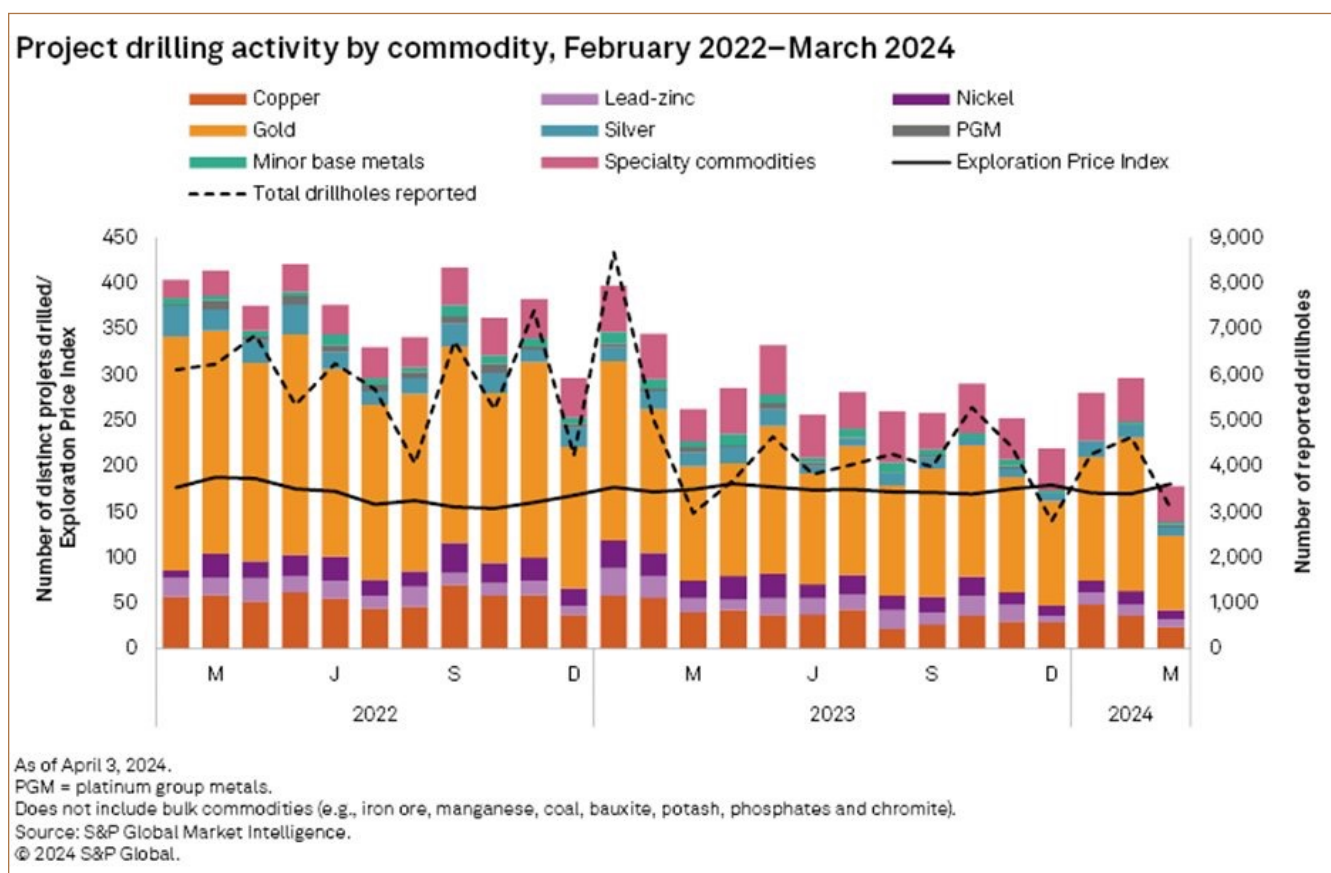
The bottleneck expansion has assailed Western producers, who say China's domestic economy can't always absorb the flood of minerals its firms bring to market. Slower-than-expected electric-car sales growth in China last year meant there were fewer takers for China's mineral surge, contributing to the crash in global prices.

[Continue reading here](#) *(subscription may be required)*

Global commodity drilling activity has fallen to multi-year lows ([from Oliver Groß via X](#))...

Major bull run in gold, silver and copper prices. But global drilling activity plummets to multi-year lows. Interesting divergence

#gold #silver #copper #metals



Commodities seasonality suggests a great buying opportunity is approaching ([from Jay Kaepfel via X](#))...

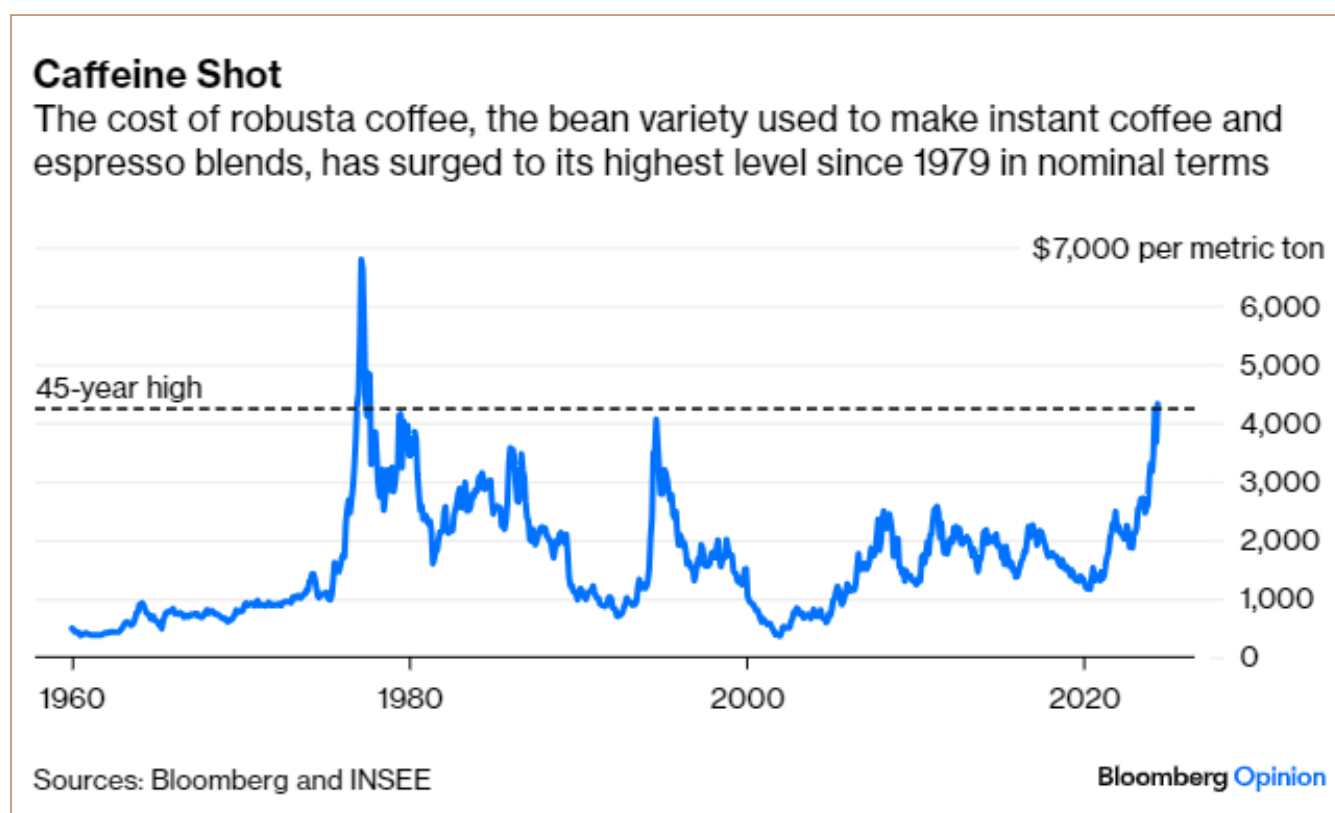
If you followed seasonality you would not be surprised that commodities have been pulling back. You might also be looking for another buying opportunity in mid-to-late July. @sentimentrader



Robusta coffee prices hit a fresh 45-year high this month ([from Javier Blas via X](#))...

Robusta coffee prices close in London at a fresh 45-year high (based on rolling 2nd month futures).

Bad weather in Vietnam keeps pushing the market. New sources of demand (China) also helping...



Here's an inconvenient truth about the green energy initiative (from John Lee Pettimore via X)...

In order to meet Net Zero by 2050 we will need 4,575,523,674 tons of copper. 940,578,114 tons of Nickel. 8,973,640,257 tons of Graphite. 4,163,162 tons of Germanium. At today's mining rates that would take over 1000 years. Net Zero is a lie that will never happen.

Metal	Element	Total metal required produce one generation of technology units to phase out fossil fuels (tonnes)	Global Metal Production 2019 (tonnes)	Years to produce metal at 2019 rates of production (years)
Copper	Cu	4 575 523 674	24 200 000	189,1
Nickel	Ni	940 578 114	2 350 142	400,2
Lithium	Li	944 150 293	95 170 *	9920,7
Cobalt	Co	218 396 990	126 019	1733,0
Graphite (natural flake)	C	8 973 640 257	1 156 300 ♦	3287,9
Graphite (synthetic)	C		1 573 000 ♦	-
Silicon (Metallurgical)	Si	49 571 460	8 410 000	5,9
Vandium	V	681 865 986	96 021 *	7101,2
<u>Rare Earth Metals</u>				
	-			
Neodymium	Nd	965 183	23 900	40,4
Germanium	Ge	4 163 162	143	29113,0
Lanthanum	La	5 970 738	35 800	166,8
Praseodymium	Pr	235 387	7 500	31,4
Dysprosium	Dy	196 207	1 000	196,2
Terbium	Tb	16 771	280	59,9

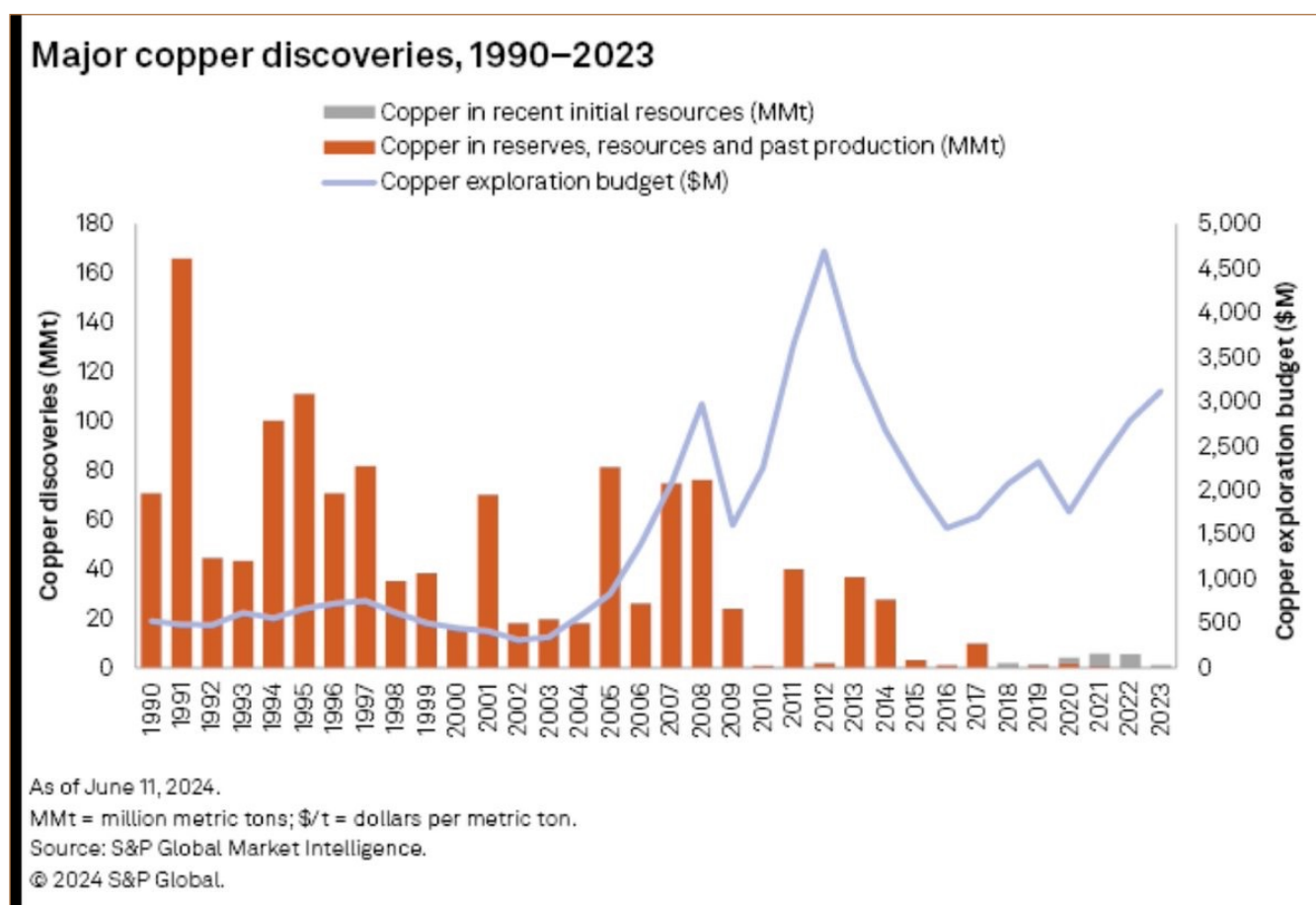
* Estimated from mining production. All other values are refining production values.

♦ Natural flake graphite and synthetic graphite was combined to estimate total production

(Source: BGR 2021, USGS, Friedrichs 2022)

New world class (Tier 1) copper discoveries are becoming very scarce ([from Oliver Groß via X](#))...

It's harder and harder to find new significant copper deposits, even with higher exploration expenditures. Just look at the stunning downtrend in global copper discoveries below. h/t S&P Global \$FIL.to \$NGEX.to \$IVN.to \$SLS.to #copper



BITCOIN AND CRYPTO

The U.S. Securities and Exchange Commission (“SEC”) approved spot Ethereum ETFs in an abrupt policy about face late last month ([from Decrypt](#))...

In a stunning reversal, the U.S. Securities and Exchange Commission (SEC) announced on Thursday that it has approved eight applications for spot Ethereum ETFs, effectively green-lighting Ethereum trading on Wall Street.

The following funds were approved in the filing: the converted Grayscale Ethereum Trust, the Bitwise Ethereum ETF, iShares Ethereum Trust, VanEck Ethereum Trust, ARK/21 Shares Ethereum ETF, Invesco Galaxy Ethereum ETF, Fidelity Ethereum Fund, and Franklin Ethereum ETF.

When will the spot Ethereum ETFs begin trading? It won't be tomorrow. Bloomberg ETF expert James Seyffart suggested in a tweet that it could be a “couple weeks” before the fund managers' S-1 documents are approved to enable trading.

[M]ost financial experts and crypto industry leaders had written off such an outcome as increasingly unlikely. For one, the SEC had offered little indication that it planned to move forward with any spot ETH ETF applications prior to a looming May 23 deadline.

What's more, just weeks prior, a lawsuit filed by Ethereum software company Consensys against the SEC alleged that the regulator has secretly considered ETH to be an illegal, unregistered security for over a year. (Disclosure: Consensys is one of 22 investors in Decrypt.) If the SEC formally labeled ETH a security, then Ethereum ETFs would need to be approved via a different process than the one currently underway.

Thus, in approving spot ETH ETFs today, the SEC has tacitly conceded that ETH is not a security in and of itself. Such an outcome is a major victory for crypto advocates, given ETH's crucial role in underpinning the Ethereum network—upon which many of the industry's most prominent projects and services are built.

Crucially, however—in a bid to get over the finish line—several ETH ETF issuers dropped language from their applications this week regarding the staking of customer ETH. Ever since Ethereum transitioned to a proof of stake system in September 2022, ETH holders

have been able to deposit their funds with the network to accrue rewards. The SEC has long taken the view that when a financial intermediary offers staking services, it is engaging in an illegally unregistered securities scheme.

Spot Ethereum ETFs—unlike ETH futures ETFs, which track derivatives contracts and were approved by the SEC in October—involve issuers actually buying and storing ETH on behalf of their clients. Now that spot ETH ETFs have gained approval, traditional financial institutions and investors will soon be able to gain exposure to ETH without holding any crypto themselves.

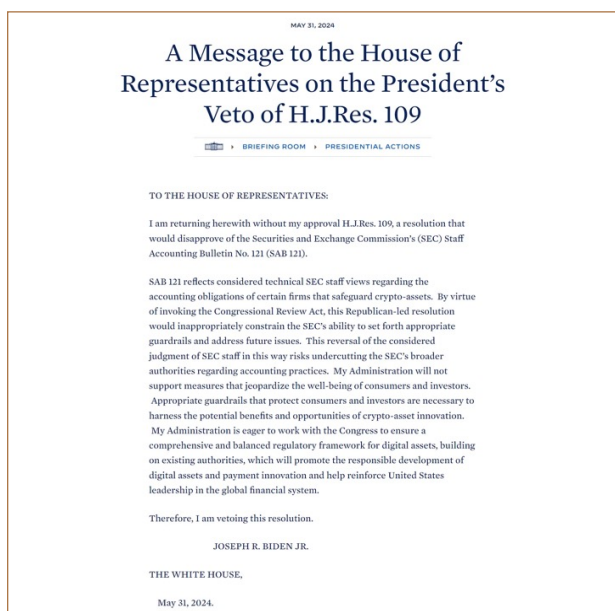
Today's historic action follows the SEC's approval of eleven spot Bitcoin ETF applications in January. Since then, spot Bitcoin ETFs have attracted nearly \$13 billion in net in-flows.

[Continue reading here](#)

So much for the White House's "change of heart" on crypto: President Joe Biden just vetoed the first pro-Bitcoin bill to cross his desk ([from The Bitcoin Layer](#))...

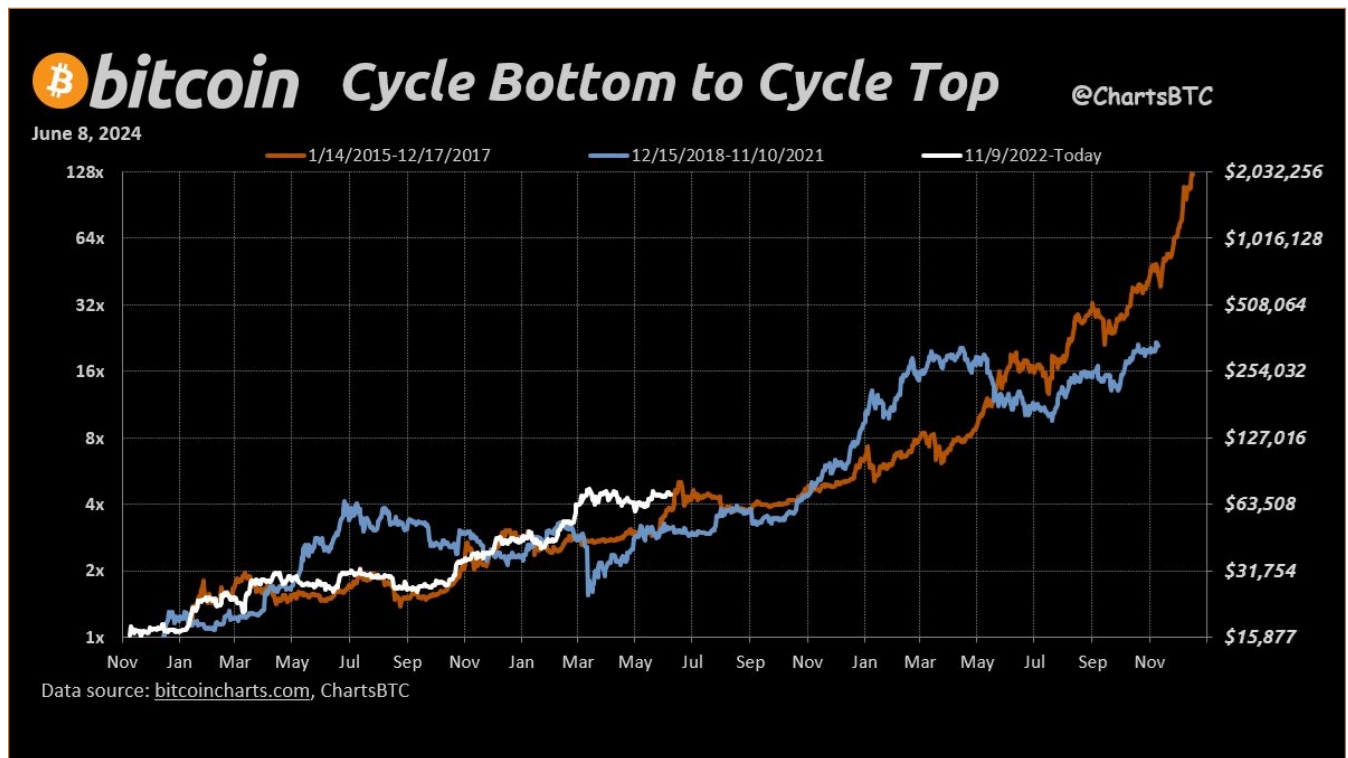
Biden vetoed the bill that would allow highly regulated financial institutions to custody bitcoin on behalf of their clients. This was a huge layup for Biden and the Democrats: with no effort at all, they could have wiped away years of bad press and become a pro-bitcoin, pro-innovation party. Instead, the President decided to veto the very first pro-crypto bill that came across his desk. American voters are voicing their support for pro-crypto policy given the 60 million or more who own and custody it. It is a losing battle to push restrictive bitcoin policy in 2024.

The Republicans locked up a series of wins by getting several pro-BTC measures created and passed through the House and the Senate, with many Democrats crossing the aisle to support these measures too. The Biden administration, however, which has been floundering in the polls as the weeks and months go by, decided to dig its heels even further in the sand on a decidedly losing issue. He is avowedly anti-bitcoin, and he may be sealing his own fate in doing so.



[Continue reading here](#)

Bitcoin's four-year cycle history suggests significantly higher prices in the months ahead
(from [ChartsBTC via X](#))...



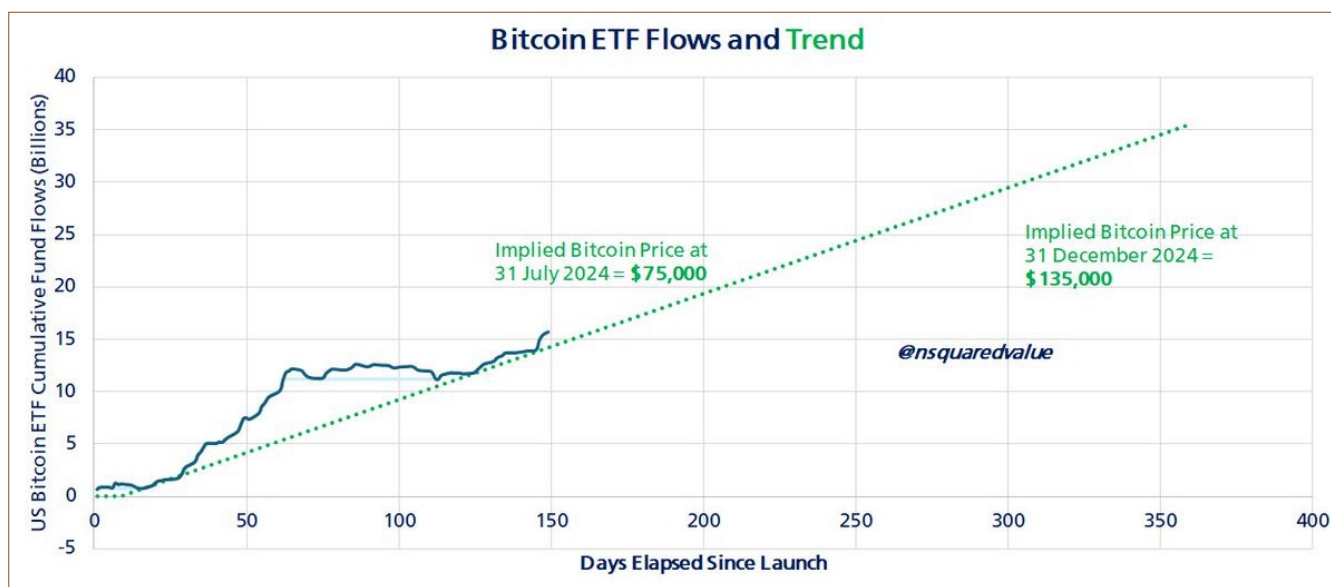
Fund manager VanEck predicts 40x upside in Ethereum by the end of this decade (from Louis Sykes via X)...

VanEck’s bull case price target for Ethereum sits at \$154,000 by 2030.

To put into perspective, that would be a 40x return at current levels, making Ethereum a \$18.5T asset.

Fig 2. Ether Price Target for 2030: Base, Bull, and Bear Case Scenarios			
	Base Case	Bull Case	Bear Case
Ethereum Terminal Smart Contract Market Share	70.00%	90.00%	15.00%
ETH Price Target			
Estimated Revenue 2030 (\$M)	\$78,501	\$361,641	\$2,477
Global Tax Rate on Crypto	15%	15%	15%
Validator Cut	1.00%	1.00%	1.00%
FCF to Tokenholders in 2030 (\$M)	\$66,058	\$304,321	\$2,084
FCF Terminal Multiple	33.33	50	20
ETH FDV (\$M)	\$2,201,945	\$15,216,032	\$41,681
ETH Supply in 2030	100.07	98.85	115.73
Token Price 2030 (USD)	\$22,000	\$154,000	\$360

ETF fund flows put Bitcoin on track for an all-time high within 60 days ([from Timothy Peterson via X](#))...



Opinion: Trump is the best choice for Bitcoin (from Brian Morgenstern, head of public policy for Riot Platforms, via Bitcoin Magazine)...

One in four Americans own Bitcoin.

That's more Americans than are over the age of 65, but how often do you hear candidates talk about senior concerns compared to concerns of crypto owners?

President Donald Trump has been making a concerted effort in the 2024 campaign trail to appeal to Bitcoiners.

At the recent Libertarian National Convention, President Trump vowed to “stop Joe Biden’s crusade to crush crypto,” and assured Bitcoin holders specifically that he supports the right to self-custody.

“I say this with your vote, I will keep Elizabeth Warren and her goons away from your Bitcoin, and I will never allow the creation of a central bank digital currency,” President Trump said.

It's clear which candidate this November is the best choice for Bitcoin owners and the entire industry – President Trump. He appears to see the wisdom of the pro-Bitcoin stances taken by popular leaders around the world, such as Presidents Javier Milei of Argentina and Nayib Bukele of El Salvador

Accordingly, he is staking out a clear position.

Trump acknowledges our right to self-sovereignty, and perhaps no one better understands the value of decentralization, as people have been losing trust in institutions like the government and banks. Trump has been the target of unprecedented lawfare politicizing the justice system, and Trump-affiliated organizations have been debanked and de-platformed.

President Biden, meanwhile, just vetoed legislation that would have ensured a customer's right to have their preferred regulated financial institution custody their Bitcoin or other digital assets—laughably—in the name of “consumer protection.”

The Biden administration has been extraordinarily hostile to Bitcoin as well as the broader cryptocurrency ecosystem. The administration launched “Operation Choke Point 2.0” whereby regulators effectively instituted new rules via press release instructing

banks to stop doing business with companies in the digital asset space. Further, the White House proposed a 30 percent tax on the energy used to mine Bitcoin, which would make it unprofitable and completely uneconomical for the industry to do business in the United States. Their Energy Department also attempted to collect information regarding Bitcoin miners' energy contracts as a step towards regulating them out of business. The Justice Department even broke with long-standing Treasury Department guidance when it attempted to regulate via court filing to say that self-hosted wallets should be treated as money transmitting businesses. This is all by design. They want to effectively ban the industry.

It all starts to make sense when you consider that the Biden administration has also laid the groundwork for a Central Bank Digital Currency.

Certain politicians support the creation of a CBDC because they desire complete control. They want to be able to track our transactions and tell us how we can and cannot spend our money. Bitcoin represents the polar opposite: freedom from government-driven collectivism and the empowerment of the individual.

To be clear, there are many pro-Bitcoin leaders in the Democratic party, such as Sen. Kirsten Gillibrand and Reps. Ritchie Torres and Wiley Nickel, just to name a few. Over 70 Democrats in the House of Representatives recently voted for favorable market structure legislation. But there needs to be many more.

President Biden has surrendered governance of his administration on these issues to the self-appointed "anti-crypto" Senator Elizabeth Warren and her acolytes. This has resulted in policies that mirror the Chinese Communist Party's approach to Bitcoin, and anything of which the ruling party disapproves: cut off financial services, attempt to cut off access to energy in the name of environmentalism, impose impossible market regulations, and essentially do anything they can to handicap the Bitcoin network while they work towards the ultimate tool of control over their populace: a CBDC.

Sen. Warren herself has even proposed legislation that would effectively ban Bitcoin mining in the United States by treating miners the same as financial institutions by requiring anti-money laundering standards despite the fact that miners do not custody any customer assets. As she well knows, if there are no Bitcoin miners, there are no Bitcoin transactions, and the path to a CBDC would be much easier without any private alternatives.

The good news for Bitcoiners this November is that they have a clear alternative. This is critical because a whopping one-third of voters say they are weighing candidates' views on digital assets for their choice in the election.

The choice is clear. President Trump will protect your right to own Bitcoin, to mine Bitcoin, to transact with Bitcoin, and for many of us, to work in the Bitcoin industry. We believe he will support Bitcoin miners' ability to help revolutionize the finance and energy industries in the United States and maintain American economic leadership for the future. And he will ban a CBDC, protect self-custody, and stop out of control regulators from trying to put us out of business. If you are a Bitcoiner, President Trump is the best candidate this year to, dare I say, Make Bitcoin Great Again in the eyes of the U.S. government.

DeFi Technologies becomes the latest public company to adopt a Bitcoin treasury strategy (from Cointelegraph)...

DeFi Technologies, a publicly listed exchange-traded product (ETP) provider and venture capital firm, announced its decision to adopt Bitcoin as the company's primary treasury reserve asset.

In its monthly corporate report, the company also announced that its subsidiary, Valour, repaid \$5 million in loans and currently has \$607 million in assets under management as of May 31, 2024.

Following the announcement, the price of DeFi Technologies' shares rose on Canadian stock exchanges and U.S. over-the-counter (OTC) exchanges. Its shares are currently trading at around \$1.57 on U.S. OTC exchanges, up from the previous session's trading range of \$1.16 to \$1.40.



The shift in treasury strategy marks yet another instance of a publicly listed company embracing Bitcoin; it also highlights the broader trend in institutional adoption of the decentralized currency.

On May 28, shares of Semler Scientific (SMLR) shot up by up to 30% after the Nasdaq-listed company announced the adoption of Bitcoin as its primary treasury asset and the purchase of 581 BTC, valued at \$41 million at the time.

Government institutions are also now actively exploring Bitcoin as a portion of their investment portfolios and treasury assets. Earlier in May, the State of Wisconsin Investment Board (SWIB), Wisconsin's pension fund manager, announced it had \$164 million in exposure to Bitcoin exchange-traded funds.

Japan's Government Pension Investment Fund, the world's largest pension fund, also launched a research project with a five-year window to explore how digital assets like Bitcoin and traditional precious metals like gold could figure into its investment portfolio.

[Continue reading here](#)

How the Bitcoin “cash and carry trade” works (from _Checkmate via X)...

Folks seem extremely confused by the #Bitcoin cash and carry trade, and how it affects market structure.

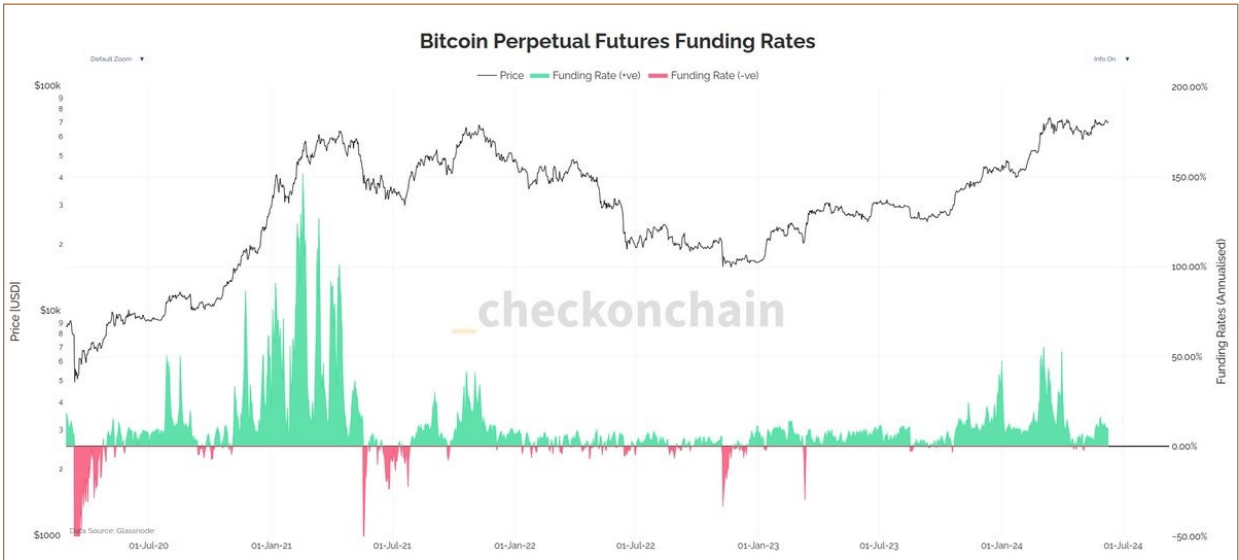
It is the same mechanism in calendar expiring futures and perpetual swap funding rates, and it is a delta neutral strategy.

Let me explain how this works:

- Funding rates are currently positive (+10% annualised) which tells us that traders are willing to pay an interest rate for the privilege of being long via leverage.
- The same is true for calendar futures on the CME, which trade at a premium to spot.
- This opens up an arbitrage opportunity, where a trader can long spot (or ETFs), but then short the futures.
- For perpetual swaps, the yield is dynamic and volatile. For calendar futures it is fixed and expires at a certain date. Traders can then roll that onto the next contract.
- The position is neutral with respect to price risk as it is long spot, short futures. They are not going to be liquidated unless they mess up their collateral or strategy.
- Such positions add buy side to spot and ETFs, and short side to futures. Overall, this adds depth, volume and liquidity to Bitcoin markets, but is relatively neutral on market impact.
- This is a natural and normal part of market structure. It exists for every asset with a futures market, and every asset that reaches meaningful size will have a futures market. You can't stop it, it won't go away, but you should understand it.

Too many folks are confused thinking the spot price is being suppressed by these shorts. The entire reason this trade exists is because people are net bullish, long, and pushing futures prices higher.

What is really missing is a serious impulse of non-arbitrage demand to overwhelm spot sell-side from HODLers and existing holders.



Metaplanet – “Asia’s MicroStrategy” – buys another ¥250 million of Bitcoin ([from Bitcoin Magazine](#))...

Longstanding Japanese hotel and services provider Metaplanet announced on X it purchased another ¥250 million (\$1.8 million) worth of Bitcoin. This latest buy comes as Metaplanet mimics MicroStrategy’s high-profile corporate bitcoin accumulation strategy...

As of June 11, Metaplanet holds approximately 141 Bitcoin acquired for ¥1.45 billion at an average per-bitcoin price of ¥10,278,391 (\$65,000). The firm adopted Bitcoin as its treasury reserve asset in April 2024 with an initial ¥1 billion purchase. It has made several buys since.

Metaplanet’s stock rose 10% following its latest million-dollar Bitcoin acquisition, the third such purchase in just 7 weeks. The company’s share price has increased nearly fivefold since first announcing its Bitcoin strategy in April, validating its Bitcoin pivot.

By accumulating Bitcoin, Metaplanet aims to hedge against Japan’s massive national debt burden and rapidly devaluing yen currency. The firm is closely following MicroStrategy’s influential Bitcoin corporate treasury playbook.

For Japanese investors, owning Metaplanet shares provides exposure to Bitcoin’s upside without incurring Japan’s tax on crypto unrealized gains, which can exceed 50%. Metaplanet also enables access to Bitcoin without regulatory hurdles by trading on the Tokyo Stock Exchange.

[Continue reading here](#)

Why this noted value investor is still betting on Bitcoin (from Bill Miller IV via Miller Value Partners)...

In 2015, we published ["A Value Investor's Case for...Bitcoin?!"](#) contending that Bitcoin had the potential to become much more valuable whether viewed as a payments processing network or as a substitute for fiat capital. Despite Bitcoin recently hitting new highs against every fiat currency, I believe Bitcoin today is still significantly undervalued and that the world is likely in the early stages of a secular shift around how humans think about capital and its governance.

At its core, money is an accountability system. The challenge with current monetary systems is that humans control them, and human judgement is subject to error and influence. The boundless desire to shift accountability and power ultimately results in currency debasement as politicians and regulators jockey for control and collectively create new units in the process, thereby debasing each unit's value. However, as Lyn Alden flags in her excellent book *Broken Money*, history shows that the best monetary technology inevitably wins, as people trade inferior depreciating capital technologies for superior ones that better align with users' goal of preserving or growing their option set over time.

Humans are notoriously bad at contextualizing the relevance and potential of new technologies, which my dad highlighted here in 2017. This gap is especially wide for groundbreaking concepts of an epistemic nature – that is, inventions that change the way we think about and relate to information and each other. It also explains why NVIDIA, Google, and Meta have generated outsized returns relative to other stocks.

Unlike anything we have seen before, Bitcoin is a true technological breakthrough, as there now exists an effectively unalterable, automated and transparent global ledger network with decentralized governance enabling the transfer of property rights through time and space without human permission or the possibility of confiscation. The promise of Bitcoin is simple – namely, that changes in someone's purchasing power should not be controlled by an authority tied to the circumstances of one's birth.

What is the intrinsic value of that? No one can say precisely, but my view is that it's many multiples of its current \$1.5 trillion market capitalization in a world of fiat governance systems fast approaching one quadrillion dollars of capital. In other words, Bitcoin still holds a fraction of one percent of the world's addressable market for capital despite

its blockchain being far more accountable and secure than the best fiat monetary governance systems. As a truly groundbreaking technology, Bitcoin is inherently subject to unforeseen developments and changes in perceived value, and it may end up worthless to some, but I believe that continuing to ignore Bitcoin will serve those who do it over the next decade as well as it has over the past one – not well.

It's still early.

Bitcoin miners at Donald Trump's closed-door event say the former president thinks Bitcoin can help win AI arms race ([from CNBC](#))...

This [month] in Palm Beach, Florida, about a dozen bitcoin mining executives and experts sat down with former president Donald Trump for an hour and a half in a small tea room at the Mar-a-Lago Club. As a steady drizzle fell outside, they sipped from Trump-branded water bottles and tried to sell him on the world's largest cryptocurrency by market capitalization.

The meeting marked the first time the former president and presumptive Republican presidential nominee — recently convicted of 34 felonies in New York — had taken a meeting with the technologists securing the \$1.3 trillion bitcoin network.

The intimate gathering brought together a coalition of some of the biggest private and public American miners in the business, including representatives from Riot Platforms, Marathon Digital Holdings, Terawulf, CleanSpark, Core Scientific, Arkon Energy, Cholla Energy and Exacore.

CNBC spoke to half the miners who attended the closed door session on Tuesday, including the CEO of Riot Platforms. Jason Les told CNBC that one of the group's top talking points was the fact that the U.S. is number one in a lot of things, and it should be number one at bitcoin, especially as the world's top coin touches new all-time price highs this year. Bitcoin is up 160% to around \$67,000 since June 2023.

Senator Bill Hagerty (R-Tenn.) — who is the ranking member on the Senate's Banking Committee and Finance Subcommittee, as well as a vocal proponent of the digital asset industry broadly, and bitcoin mining in particular — was also there to help guide what participants described as a free-flowing and wide-ranging discussion on bitcoin, energy, job creation and the push to beat China in the artificial intelligence arms race.

Many agreed that the former president was collaborative, had well-informed questions and seemed genuinely interested in how bitcoin miners could help solve America's energy deficit problem.

BTC Inc. CEO David Bailey, who organized the mining sit-down with Trump, says that the meeting is part of a larger push to support the former president's bid to return to the White House.

“Our industry intends to make bitcoin and crypto a defining issue for the 2024 election,” Bailey said of the effort. “As an industry we are committed to raising over \$100 million and turning out more than 5,000,000 voters for the Trump reelection effort.”

Less than four hours after Trump’s roundtable wrapped, the former president took to social media to extol the virtues of the bitcoin mining business.

“Bitcoin mining may be our last line of defense against a CBDC,” Trump posted shortly before midnight on Tuesday.

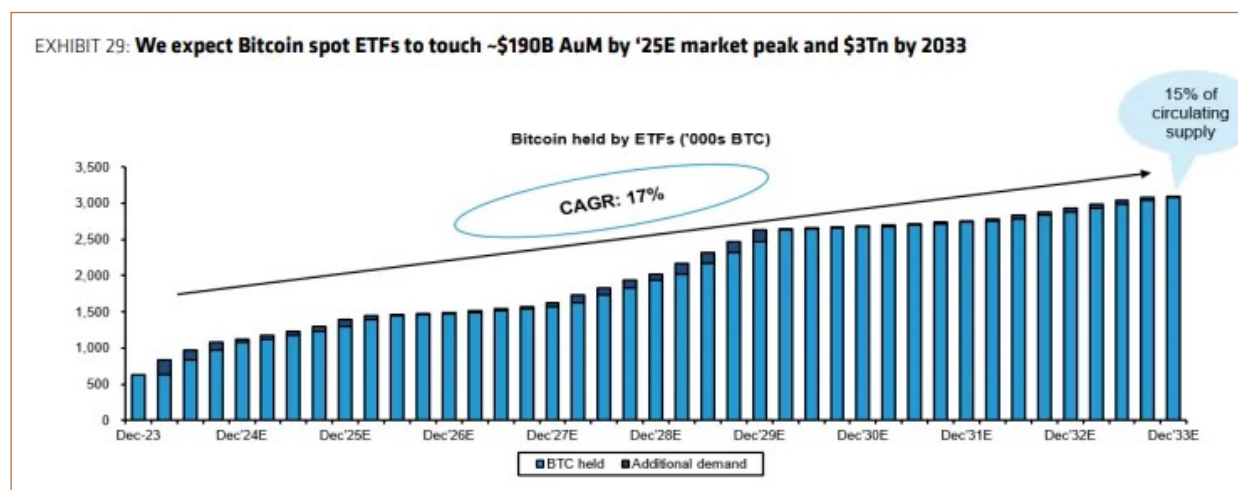
“Biden’s hatred of Bitcoin only helps China, Russia, and the Radical Communist Left. We want all the remaining Bitcoin to be MADE IN THE USA!!! It will help us be ENERGY DOMINANT!!!”

[Continue reading here](#)

MicroStrategy (MSTR) makes yet another big stock sale to buy more Bitcoin ([from Bitcoin Magazine Pro](#))...

After initially announcing a \$500 million stock sale to use the proceeds to purchase Bitcoin, MicroStrategy doubled down on the plan by raising the figure to \$700 million...

This sale specifically takes the form of convertible senior notes, a type of debt that offers additional flexibility and protection. In the wake of this bold move, analysts from Bernstein made dramatically optimistic projections both for Bitcoin and MicroStrategy, claiming that Bitcoin may hit \$200k by the end of 2025.



According to the analysts, MicroStrategy's future success can be measured in a similar way because "investors own MSTR to gain an active and leveraged equity exposure to bitcoin. Investors are willing to pay a premium, given the scarcity of bitcoin corporate investment vehicles such as MSTR in listed public markets and the scalability of its active investing strategy." In other words, more than being just a software provider, MicroStrategy has tied the worth of its business to Bitcoin in a major way. This bullish attitude has shocked much of the world of traditional finance, but nevertheless, the strategy has been paying off to great effect.

[Continue reading here](#)

The anticipated launch date for the spot Ethereum ETF has been moved up to July 2 ([from Reflexivity Research](#))...

One of the major news updates of the week came from Bloomberg analyst Eric Balchunas in which he stated the estimated launch date for the spot Ether ETF has been moved up to July 2nd.

The SEC staff has sent comments on the S-1 filings to issuers, which are relatively minor, with a one-week turnaround requested.

Based on this he suspects there is a possibility that the SEC will finalize the filings the following week, before the holiday weekend. This update follows Gary Gensler's previous indication of a "sometime in summer" launch, offering a more specific timeline.

[Continue reading here](#)

Three reasons to add Ethereum (ETH) to your portfolio, and one important reason to stay Bitcoin-only ([from Matt Hougan via X](#))...

Reason to Add ETH #1: Diversification

It is very hard to predict the future with precision. Ask any investor from the dot-com boom who bought AOL or <http://Pets.com>. They got the overall bet right—the internet is going to be big!—but the specifics wrong. Sad!

Crypto is a new and disruptive technology. It can do amazing things, like move money at the speed of the internet. But even today, and even for experts, it is very hard to know exactly how crypto will change the world.

As a result, unless you have a very specific view (more on this later), the default should be to “own the market.”

What does that mean? Today, the market cap for ETH, the crypto asset that powers the Ethereum blockchain, is about \$420 billion. That’s about one-third the size of Bitcoin’s \$1.3 trillion. The default starting place for many should therefore be about 75% Bitcoin and 25% ETH.

Reason to Add ETH #2: Bitcoin and Ethereum Target Different Use Cases

Bitcoin is a new form of money. Every design choice the Bitcoin ecosystem makes is designed to make Bitcoin the best form of money that has ever existed. I think it is.

Ethereum’s primary function is making money programmable. It’s a technological platform for new applications that rely on public blockchains, like stablecoins and DeFi.

It is still early in the crypto revolution, so it is difficult to know exactly which applications will matter most over the long term. Adding some ETH to a majority BTC position gives you broader exposure to all the things public blockchains can do.

Reason #3 to Add ETH: Historical Analysis Says You Should

Adding ETH to a portfolio over a full crypto market cycle has historically boosted both your absolute and risk-adjusted returns compared to adding BTC only, as shown below.

Portfolio Metrics

Period between May 31, 2020 and May 31, 2024 (assuming quarterly rebalancing)

PORTFOLIO	CUMULATIVE RETURN	ANNUALIZED RETURN	VOLATILITY	SHARPE RATIO	MAXIMUM DRAWDOWN
Traditional 60/40 Portfolio	31.47%	7.06%	9.22%	0.444	22.07%
Traditional Portfolio with a 5% Crypto Allocation (100% BTC)	54.49%	11.46%	10.38%	0.806	25.35%
Traditional Portfolio with a 5% Crypto Allocation (75% BTC, 25% ETH)	56.32%	11.79%	10.51%	0.827	25.19%

Source: Bitwise Asset Management with data from Bloomberg.

Note: Traditional Portfolio consists of 60% equities (represented by the FTSE Global All Cap Index) and 40% bonds (represented by the Bloomberg US Aggregate Bond Float Adjusted Index). It is not possible to invest directly in an index. Past performance does not predict or guarantee future results. Nothing contained herein is intended to predict the performance of any investment. There can be no assurance that actual outcomes will match the assumptions or that actual returns will match any expected returns. Historical performance of sample portfolios has been generated and maximized with the benefit of hindsight. The returns do not represent the returns of an actual account and do not include the fees and expenses associated with buying, selling and holding funds or crypto assets. Performance information is provided for informational purposes only.

My favorite thing about that table it is that the +ETH portfolio has both higher returns and a lower maximum drawdown. Long live diversification!

Of course, if you look at shorter, recent time periods, BTC-only wins. BTC has strongly outperformed ETH in the past year, overwhelming the diversification benefit. Also, past performance is no guarantee of future returns.

Counterpoint: Why Many Should Stay Bitcoin-Only

Being Bitcoin-only makes sense for many. If you are investing primarily because you are concerned with the degradation of fiat currencies (including the dollar), or because you are worried about debt/deficits/inflation, stick with Bitcoin.

While some disagree, I think it's very likely that Bitcoin is the dominant new form of "money" that emerges in crypto. It has a large lead, and size matters in money. Also, its design and community are oriented towards this goal, unlike with other assets.

Money is a massive market. There's plenty of space for BTC to run if it succeeds.

But there are other potentially interesting applications of public blockchains, and ETH is currently the leader in those.

My view, in a word: If you want to make a broad bet on crypto and public blockchains, you should own multiple crypto assets. If you want to make a specific bet on a new form of digital money, buy Bitcoin.

Must read: Crypto-billionaire Tyler Winklevoss explains why he and his twin brother each just donated \$1 million in Bitcoin to Donald Trump ([from Tyler Winklevoss via X](#))...

I just donated \$1 million in bitcoin (15.47 BTC) to [@realDonaldTrump](#) and will be voting for him in November. Here's why:

Over the past few years, the Biden Administration has openly declared war against crypto. It has weaponized multiple government agencies to bully, harass, and sue the good actors in our industry in an effort to destroy it. This Administration's actions have been nothing short of an unprecedented abuse of power wielded entirely for twisted political gain at the complete expense of innovation, the American taxpayer, and the American economy. There is nothing the Biden Administration can do or say at this point to pretend otherwise.

Some of the lowlights include the following:

The weaponization of the banking system against crypto companies and their principals.

Known colloquially as Operation Choke Point 2.0, this starts with the OCC (a federal agency that licenses and regulates national banks) and the FDIC (a federal agency that provides deposit insurance to banks) giving "guidance" and instructing banks behind closed doors not to bank crypto companies. Any bank that doesn't follow orders is threatened.

The conversation goes something like this: "That's a nice bank you got there. It sure would be a shame if something were to happen to it because you bank some crypto folks." If this tactic is not enough to scare a bank into line, the examiners will be sent in to turn everything upside down. This will almost certainly lead to some "finding" — show me the bank and I'll show you the crime — that results in a massive fine or new supervisory rules and conditions that cripple a bank's ability to operate. The risk is simply too great. Banks can either choose not to bank crypto companies or have that choice made for them.

These agencies have God-mode over banks because they can yank their license or FDIC deposit insurance at any time citing "safety and soundness" concerns. That is why they can behave like characters out of the Godfather and intimidate banks into dropping any customer or customer segment they want. This behavior of de-banking entire industries that are completely legal, but ideologically out of favor, began during the Obama Administration, when President Joe Biden was Vice President. It was nicknamed Operation Choke Point 1.0 back then and is a well-documented stain on the Obama Presidency. The Biden Administration has dusted off the playbook and has been running it at full speed against the crypto industry.

The blast radius has extended beyond crypto companies to individuals who work at them. I personally have lost multiple bank accounts because I own crypto and my investment firm [@winklevoss](#) has as well.

The weaponization of the Securities and Exchange Commission (SEC) against crypto.

The Biden Administration's SEC has not written a single rule for the crypto industry to help any of its participants understand how to navigate the regulatory landscape for this new asset paradigm. This is by design.

By not writing any new rules for crypto, the SEC can disingenuously say that the existing rules — based on a 1946 Supreme Court decision about a citrus grove in Florida, issued before most homes had a telephone and 50 years before the advent of the commercial Internet — are fit for purpose. They are not.

Here's one example. If ether is a security, an open question up until 48 hours ago, then you would be breaking securities laws if you sent ether to a friend from your smartphone to their smartphone. Why? Because only a broker dealer is allowed to transfer a security. And it can only do so to another broker dealer. From this example alone, anyone can understand how classifying a crypto like ether as a security would gut its utility and destroy its ability to usher in a decentralized future. It's like asking an automobile to behave like a horse. Yet that is the position the Biden SEC has taken towards almost every crypto. It does this not because it doesn't understand the consequences, but because it does. These are exactly the consequences it wants. To kill crypto.

By taking the ridiculous position that almost every crypto is a security, the Biden SEC has given itself the plausibility and carte blanche to bring litigation against any crypto project and company in the United States. The game is simple. Make it impossible to comply, then sue everyone for not complying. And that's exactly what the Biden SEC has done over and over again to good actors in the space. Instead of the SEC hashing out rules for crypto — something that could be done in a matter of days — rules will be written years from now by judges and juries who determine that the SEC acted in bad faith and was wrong all along. The time and economic waste will be tremendous. The damage will be done. But that's the point.

The Biden Administration has polluted the mission and corrupted the integrity of these agencies. All of them are led by unelected bureaucrats appointed by President Biden to carry out his marching orders. The moral compass of these foot soldiers is political gain

and their higher calling is political power. Congress never granted them the statutory authority to determine the fate of the crypto industry or any other legal industry in America and they are totally unqualified to act as the gatekeepers of economic life in our country. That is the role of the market.

And yet the crypto industry is not alone. The Biden Administration has consistently attacked American business across the board and villainized its greatest heroes. The crime is always success and the reward is always ridicule, fines, and even more red tape. But to be clear, the Biden Administration doesn't hate success outright. Only the kind that lives outside of its control. Once it figures out how to confiscate or coerce it, the Biden Administration becomes quite enthusiastic about success, gleefully manipulating it or redistributing it in a transparent attempt to buy votes. Over a long enough time scale, it's easy to see how these policies will lead to the destruction of our economy and our country.

Capitalism lifts people up. When allowed to flourish properly, it is the greatest generator of wealth and prosperity the world has ever known and it's the only economic system that can achieve all of this peacefully, while upholding the freedom and dignity of every individual who participates. With certain conditions in place — like the ability for anyone to incorporate a company, open a bank account to accept customer payments, and operate in the open market without government interference — innovation and wealth creation will thrive unbounded. Remove any one of these building blocks and you will have an entirely different system with entirely different results. This is exactly what the Biden Administration has done to the crypto industry and many other industries in America. It has been dismantling our economic way of life and the system that made America the greatest country in the world. And it has done this solely for its own power, control, and political ambition.

Of all the capitalist experiments, America has been the greatest. I have seen and experienced this first hand many times. [@Gemini](#), a crypto platform I founded in 2014 with [my brother] [@cameron](#), went from an idea on a napkin to becoming a company that has employed thousands of people over the last decade and helped millions of customers gain access to crypto. I've had employees thank me in tears because their time at Gemini allowed them to buy a house for their family. I've had customers approach me on the street and thank me for building Gemini because it helped them achieve financial freedom and start their own business. It is these experiences that give me the greatest joy and provide meaning for everything we do at Gemini. The Biden Administration has tried to tear all of this down. I am not going to stand by idly and let them. I'm going to continue fighting for what I know to be so right.

President Donald J. Trump is the pro-Bitcoin, pro-crypto, and pro-business choice. This is not even remotely open for debate. Anyone who tells you otherwise is severely misinformed, delusional, or not telling the truth. It's time to take our country back. It's time for the crypto army to send a message to Washington. That attacking us is political suicide. This is why I will be casting my vote for President Trump in November and I hope you will too. Onward!

Tech billionaire Michael Dell just tweeted about Bitcoin for the first time in nearly a decade (from [The Bitcoin Therapist via X](#))...

Founder and CEO of Dell Technologies, Michael Dell, is the majority shareholder owning 58.9% of the stock.

\$DELL is sitting on \$6 billion in cash.

Now he's posting about #Bitcoin



9:10 AM · Jun 21, 2024 · 967.1K Views

Are we going to see another billionaire pull out the MicroStrategy playbook? \$MSTR

File Date	Form	Investor		Prev Shares	Latest Shares	Δ Shares (Percent)	Ownership (Percent)	Δ Ownership (Percent)
2024-06-05	13D/A	Silver Lake Group, L.L.C.	🔗	76,734,366	72,305,229	-5.77	18.90	-12.90
2024-02-13	13G/A	DODGE & COX	🔗	19,217,959	243,897	-98.73	0.10	-98.73
2024-02-13	13G/A	Susan Lieberman Dell Separate Property Trust	🔗	32,390,896	37,598,983	16.08	12.90	25.24
2024-02-13	13G/A	DELL MICHAEL S	🔗	351,785,336	345,074,409	-1.91	58.90	5.37
2024-02-13	13G/A	VANGUARD GROUP INC	🔗	16,254,346	17,595,478	8.25	6.58	-1.94
2023-07-07	13G/A	BlackRock Inc.	🔗	20,572,910	12,498,923	-39.25	4.90	-42.35

Our guide to the most interesting stories in investing, finance, and economics

JUNE 2024

NOTABLE INTITUTIONAL BUYING

From SEC Form 13F Filings by Top Investment Managers and Concentrated Hedge Funds This Month

Institution or Fund	Reporting Manager	Report Quarter	Stock Purchased/Sold	Ticker	Shares Owned	Value of Holdings (Average Price)	% of Portfolio	Change in Shares	Purchase Value
HAMILTON LANE ADVISORS LLC	Daniel Connaughton	2024Q1	NU HLDGS LTD	NU	500,791	\$5,974,437(\$11.93)	4.08%	97.82%(247,642)	\$2,954,369
Kopp LeRoy C	John P. Flakne	2024Q1	VERICEL CORPORATION	VCEL	457,615	\$23,805,000(\$52.02)	14.13%	457,615(New Position)	\$23,805,000
Kopp LeRoy C	John P. Flakne	2024Q1	FIVE9 INC	FIVN	237,492	\$14,751,000(\$62.11)	8.75%	237,492(New Position)	\$14,751,000
Kopp LeRoy C	John P. Flakne	2024Q1	NEOGENOMICS INC	NEO	894,509	\$14,062,000(\$15.72)	8.34%	894,509(New Position)	\$14,062,000
Kopp LeRoy C	John P. Flakne	2024Q1	ATLASSIAN CORP PLC CLA	TEAM	49,683	\$9,694,000(\$195.12)	5.75%	49,683(New Position)	\$9,694,000
Kopp LeRoy C	John P. Flakne	2024Q1	INSPIRE MED SYS INC	INSP	41,054	\$8,818,000(\$214.79)	5.23%	41,054(New Position)	\$8,818,000
Kopp LeRoy C	John P. Flakne	2024Q1	JAMF HLDG CORP	JAMF	402,451	\$7,385,000(\$18.35)	4.38%	402,451(New Position)	\$7,385,000
Kopp LeRoy C	John P. Flakne	2024Q1	WORKIVA INC	WK	76,427	\$6,481,000(\$84.80)	3.85%	76,427(New Position)	\$6,481,000
Kopp LeRoy C	John P. Flakne	2024Q1	MODEL N INC	MODN	214,451	\$6,105,000(\$28.47)	3.62%	214,451(New Position)	\$6,105,000
ZAZOVE ASSOCIATES LLC	Sam Ginocchio	2024Q1	URBAN ONE INC NON VTG	UONEK	3,357,353	\$6,849,000(\$2.04)	10.51%	36.25%(893,188)	\$1,822,103
PBCay One RSC Ltd	Jeff Hendrickson	2024Q1	SHERWIN-WILLIAMS COSHW(cusip = 824348106)	2024Q1	158,700	\$55,121,271(\$347.33)	9.42%	158,700(New Position)	\$55,121,271
PBCay One RSC Ltd	Jeff Hendrickson	2024Q1	S&P GLOBAL INCSPGI(cusip = 78409V104)	2024Q1	86,500	\$36,801,425(\$425.45)	6.29%	86,500(New Position)	\$36,801,425
PBCay One RSC Ltd	Jeff Hendrickson	2024Q1	YUM CHINA HLDGS INCYUMC(cusip = 98850P109)	2024Q1	1,606,000	\$63,902,740(\$39.79)	10.92%	58.87%(595,141)	\$23,680,621
PBCay One RSC Ltd	Jeff Hendrickson	2024Q1	THERMO FISHER SCIENTIFIC INC.TMO(cusip = 883556102)	2024Q1	71,900	\$41,789,001(\$581.21)	7.14%	79.75%(31,900)	\$18,540,600
SG Capital Management LLC	Nicolette Rudman	2024Q1	ABM INDUSTRIES INCABM(cusip = 00095T100)	2024Q1	307,701	\$13,729,619(\$44.62)	4.50%	307,701(New Position)	\$13,729,619
SG Capital Management LLC	Nicolette Rudman	2024Q1	SENSIENT TECHNOLOGIES CORPSXT(cusip = 81725T100)	2024Q1	280,176	\$19,385,378(\$69.19)	6.36%	182.31%(180,933)	\$12,518,755
SG Capital Management LLC	Nicolette Rudman	2024Q1	UPBOUND GRP INCUPBD(cusip = 76009N100)	2024Q1	346,439	\$12,198,117(\$35.21)	4.00%	346,439(New Position)	\$12,198,117
SG Capital Management LLC	Nicolette Rudman	2024Q1	HARLEY DAVIDSON INCCHOG(cusip = 412822108)	2024Q1	269,702	\$11,796,765(\$43.74)	3.87%	269,702(New Position)	\$11,796,765
SG Capital Management LLC	Nicolette Rudman	2024Q1	AXALTA COATING SYS LTD COM SHSAXTA(cusip = G0750C108)	2024Q1	328,005	\$11,280,092(\$34.39)	3.70%	328,005(New Position)	\$11,280,092
SG Capital Management LLC	Nicolette Rudman	2024Q1	IDEX CORPORATIONIEX(cusip = 45167R104)	2024Q1	44,504	\$10,859,866(\$244.02)	3.56%	44,504(New Position)	\$10,859,866
SG Capital Management LLC	Nicolette Rudman	2024Q1	MARINEMAX INCHZO(cusip = 567908108)	2024Q1	323,872	\$10,771,983(\$33.26)	3.53%	323,872(New Position)	\$10,771,983
Night Owl Capital Management LLC	Eileen Ohnell	2024Q1	CONSTELLATION ENERGY CORPORATICEG(cusip = 21037T109)	2024Q1	144,680	\$26,744,098(\$184.85)	4.06%	144,680(New Position)	\$26,744,098
Night Owl Capital Management LLC	Eileen Ohnell	2024Q1	GE AEROSPACEGE(cusip = 369604301)	2024Q1	161,262	\$22,590,887(\$140.09)	3.43%	161,262(New Position)	\$22,590,838
Night Owl Capital Management LLC	Eileen Ohnell	2024Q1	META PLATFORMS, INC. CLASS A CMETA(cusip = 30303M102)	2024Q1	46,179	\$22,423,599(\$485.58)	3.40%	46,179(New Position)	\$22,423,599
Night Owl Capital Management LLC	Eileen Ohnell	2024Q1	LINDE PLC SHSLIN(cusip = G54950103)	2024Q1	45,037	\$20,911,580(\$464.32)	3.17%	45,037(New Position)	\$20,911,580



NOTABLE INSIDER BUYING

From SEC Form 4 Filings by Top Executives and 10% Owners This Month

Stock Purchased/Sold	Ticker	Total Buy Value	Total Sell Value	Total Buy Filings	Total Sell Filings
PBF Energy Inc.	PBF	\$131,107,579	\$0	7	0
Salesforce Inc.	CRM	\$99,796,760	\$44,746,296	1	19
Oxford Lane Capital Corp.	OXLC	\$50,004,000	\$0	2	0
TALOS ENERGY INC.	TALO	\$23,292,760	\$0	2	0
PROKIDNEY CORP.	PROK	\$19,999,998	\$0	1	0
GOLUB CAPITAL BDC Inc.	GBDC	\$16,427,016	\$0	2	0
ATLANTIC INTERNATIONAL CORP.	ATLN	\$15,908,996	\$0	3	0
PIMCO Flexible Real Estate Income Fund	REFLX	\$14,436,260	\$0	3	0
FTAI Aviation Ltd.	FTAI	\$4,838,000	\$0	1	0
GLOBAL PARTNERS LP	GLP	\$4,407,450	\$0	6	0
Nerdy Inc.	NRDY	\$3,741,947	\$58,434	5	1
Kronos Bio Inc.	KRON	\$3,119,081	\$0	1	0
United Homes Group Inc.	UHG	\$3,106,640	\$0	1	0
Bio Essence Corp	BIOE	\$2,500,000	\$0	1	0
Greenwich LifeSciences Inc.	GLSI	\$2,499,998	\$0	1	0
Priority Technology Holdings Inc.	PRTH	\$2,170,546	\$0	2	0
Sound Point Meridian Capital Inc.	SPMC	\$2,100,040	\$0	3	0
Shift4 Payments Inc.	FOUR	\$3,059,241	\$1,038,893	2	1
Claros Mortgage Trust Inc.	CMTG	\$1,574,202	\$0	4	0
ETHEMA HEALTH Corp	GRST	\$1,457,200	\$0	1	0
AFC Gamma Inc.	AFCG	\$1,066,790	\$0	1	0
OmniAb Inc.	OABI	\$1,059,840	\$0	1	0
Bowhead Specialty Holdings Inc.	BOW	\$1,000,008	\$0	1	0
Hartford Schroders Private Opportunities Fund	XHFIX	\$999,640	\$0	1	0
V F CORP	VFC	\$997,408	\$0	1	0
Compass Diversified Holdings	CODI	\$962,748	\$0	6	0
Alset Inc.	AEI	\$954,999	\$0	10	0
BOSTON OMAHA Corp	BOC	\$917,659	\$0	4	0
Pebblebrook Hotel Trust	PEB	\$884,280	\$0	2	0
Versus Capital Infrastructure Income Fund	VCRDX	\$749,985	\$0	1	0
Shutterstock Inc.	SSTK	\$679,522	\$0	2	0
Life Time Group Holdings Inc.	LTH	\$653,507	\$0	1	0
NEXPOINT DIVERSIFIED REAL ESTATE TRUST	NXDT	\$640,891	\$0	6	0
Altus Power Inc.	AMPS	\$591,400	\$0	3	0
Veris Residential Inc.	VRE	\$501,347	\$0	1	0
Traeger Inc.	COOK	\$500,428	\$0	1	0
GXO Logistics Inc.	GXO	\$499,500	\$0	1	0
MAXCYTE INC.	MXCT	\$489,066	\$0	1	0
ISSUER DIRECT CORP	ISDR	\$479,592	\$0	1	0
BROOKMOUNT EXPLORATIONS INC	BMXI	\$417,901	\$0	1	0
FOX FACTORY HOLDING CORP	FOXF	\$498,375	\$88,820	1	1
SoFi Technologies Inc.	SOFI	\$398,862	\$0	2	0
BEYOND INC.	BYON	\$397,713	\$0	3	0
PARK OHIO HOLDINGS CORP	PKOH	\$383,242	\$0	2	0
SHENANDOAH TELECOMMUNICATIONS CO	SHEN	\$375,875	\$0	3	0

Our guide to the most interesting stories in investing, finance, and economics

JUNE 2024

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LEGETT & PLATT INC	LEG	\$320,104	\$0	2	0
Gossamer Bio Inc.	GOSS	\$309,392	\$0	2	0
loanDepot Inc.	LDI	\$296,934	\$0	3	0
Solo Brands Inc.	DTC	\$294,618	\$0	1	0
MARCHEX INC	MCHX	\$272,000	\$0	1	0
Lemonade Inc.	LMND	\$304,650	\$33,294	1	1
TREACE MEDICAL CONCEPTS INC.	TMCI	\$264,600	\$0	1	0
Sunoco LP	SUN	\$252,516	\$0	1	0
REPLIGEN CORP	RGEN	\$248,160	\$0	1	0
Fortrea Holdings Inc.	FTRE	\$248,066	\$0	1	0
electroCore Inc.	ECOR	\$247,587	\$0	1	0
Offerpad Solutions Inc.	OPAD	\$246,918	\$0	2	0
Science Applications International Corp	SAIC	\$229,700	\$0	1	0
SR Bancorp Inc.	SRBK	\$215,727	\$0	3	0
ICC Holdings Inc.	ICCH	\$188,992	\$0	2	0
Rezolute Inc.	RZLT	\$172,814	\$0	3	0
Perspective Therapeutics Inc.	CATX	\$170,104	\$0	3	0
FRIEDMAN INDUSTRIES INC	FRD	\$164,443	\$0	1	0
AITi Global Inc.	ALTI	\$230,460	\$71,235	1	1
NewtekOne Inc.	NEWT	\$152,470	\$0	3	0
Four Corners Property Trust Inc.	FCPT	\$149,832	\$0	1	0
Ranger Energy Services Inc.	RNGR	\$146,952	\$0	2	0
P10 Inc.	PX	\$263,575	\$129,654	2	1
PhenixFIN Corp	PFX	\$133,439	\$0	3	0
Postal Realty Trust Inc.	PSTL	\$132,454	\$0	2	0
Waystar Holding Corp.	WAY	\$129,000	\$0	1	0
Third Coast Bancshares Inc.	TCBX	\$125,747	\$0	2	0
KENNAMETAL INC	KMT	\$121,403	\$0	1	0
Orion S.A.	OEC	\$118,400	\$0	1	0
Guild Holdings Co	GHLD	\$116,862	\$0	3	0
Air Transport Services Group Inc.	ATSG	\$113,888	\$0	2	0
Global Self Storage Inc.	SELF	\$113,583	\$0	1	0
Vivakor Inc.	VIVK	\$113,143	\$0	1	0
PennantPark Floating Rate Capital Ltd.	PFLT	\$113,000	\$0	1	0
Advantage Solutions Inc.	ADV	\$111,584	\$0	1	0
FutureFuel Corp.	FF	\$109,350	\$0	2	0
CLEVELAND-CLIFFS INC.	CLF	\$108,641	\$0	1	0
PEOPLES FINANCIAL CORP	PFBX	\$108,205	\$0	1	0
Cidara Therapeutics Inc.	CDTX	\$105,680	\$0	1	0
180 DEGREE CAPITAL CORP.	TURN	\$105,117	\$0	8	0
Medalist Diversified REIT Inc.	MDRR	\$102,069	\$0	1	0
VAIL RESORTS INC	MTN	\$101,315	\$0	1	0
SONIDA SENIOR LIVING INC.	SNDA	\$100,170	\$0	1	0
REDWOOD TRUST INC	RWT	\$93,720	\$0	1	0
HARVARD BIOSCIENCE INC	HBIO	\$90,500	\$0	2	0

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NewAmsterdam Pharma Co N.V.	NAMS	\$86,309	\$0	1	0
Northfield Bancorp Inc.	NFBK	\$83,621	\$0	1	0
DORCHESTER MINERALS L.P.	DMLP	\$82,600	\$0	1	0
LINKBANCORP Inc.	LNKB	\$80,159	\$0	1	0
Flat Rock Enhanced Income Fund	FRBBX	\$80,000	\$0	1	0
Anixa Biosciences Inc	ANIX	\$75,250	\$0	2	0
HireQuest Inc.	HQI	\$73,088	\$0	4	0
Clearfield Inc.	CLFD	\$72,800	\$0	1	0
ARBOR REALTY TRUST INC	ABR	\$70,526	\$0	1	0
DENNY'S Corp	DENN	\$65,299	\$0	1	0
ProtoKinetix Inc.	PKTX	\$65,000	\$0	1	0
CORETEC GROUP INC.	CRTG	\$63,878	\$0	2	0
DELUXE CORP	DLX	\$55,537	\$0	2	0
Biomea Fusion Inc.	BMEA	\$55,361	\$0	1	0
CuriosityStream Inc.	CURI	\$54,880	\$0	2	0
FRANKLIN FINANCIAL SERVICES CORP	FRAF	\$54,390	\$0	2	0
Bark Inc.	BARK	\$53,530	\$0	1	0
Nutex Health Inc.	NUTX	\$50,367	\$0	1	0
Reliance Global Group Inc.	RELI	\$50,220	\$0	1	0
CIVISTA BANCSHARES INC.	CIVB	\$50,046	\$0	1	0
LAKELAND INDUSTRIES INC	LAKE	\$49,998	\$0	1	0
Dakota Gold Corp.	DC	\$49,600	\$0	1	0
Holley Inc.	HLLY	\$49,131	\$0	1	0
Provident Bancorp Inc.	PVBC	\$48,028	\$0	1	0
NATURAL GAS SERVICES GROUP INC	NGS	\$47,700	\$0	1	0
UNITED BANCORP INC	UBCP	\$45,991	\$0	3	0
aTYR PHARMA INC	ATYR	\$45,090	\$0	2	0
Palladyne AI Corp.	PDYN	\$44,396	\$0	4	0
COMMUNITY FINANCIAL SYSTEM INC.	CBU	\$43,520	\$0	1	0
Terns Pharmaceuticals Inc.	TERN	\$42,544	\$0	2	0
AIR INDUSTRIES GROUP	AIRI	\$40,283	\$0	1	0
Metropolitan Bank Holding Corp.	MCB	\$39,299	\$0	1	0
RETRACTABLE TECHNOLOGIES INC	RVP	\$37,756	\$0	3	0
Cullman Bancorp Inc.	CULL	\$36,260	\$0	1	0
Hudson Pacific Properties Inc.	HPP	\$34,972	\$0	2	0
EAGLE BANCORP INC	EGBN	\$33,419	\$0	2	0
Ondas Holdings Inc.	ONDS	\$32,751	\$0	1	0
ALTA EQUIPMENT GROUP INC.	ALTG	\$32,680	\$0	1	0
Stereotaxis Inc.	STXS	\$32,160	\$0	3	0
Dave Inc.	DAVE	\$32,020	\$0	1	0
Mobile Infrastructure Corp	BEEP	\$29,895	\$0	1	0
PACIFIC HEALTH CARE ORGANIZATION INC	PFHO	\$29,892	\$0	4	0
Granite Ridge Resources Inc.	GRNT	\$29,650	\$0	1	0
Energy Services of America CORP	ESOA	\$29,380	\$0	2	0
RESERVE PETROLEUM CO	RSRV	\$29,175	\$0	1	0

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Orchestra BioMed Holdings Inc.	OBIO	\$28,000	\$0	1	0
Grove Collaborative Holdings Inc.	GROV	\$27,951	\$0	1	0
TIPTREE INC.	TIPT	\$27,125	\$0	1	0
DallasNews Corp	DALN	\$26,702	\$0	1	0
Knightscope Inc.	KSCP	\$26,350	\$0	1	0
HIMALAYA TECHNOLOGIES INC	HMLA	\$25,680	\$0	1	0
Kiromic Biopharma Inc.	KRBP	\$25,310	\$0	3	0
TILLY'S INC.	TLYS	\$25,038	\$0	1	0
Syndax Pharmaceuticals Inc	SNDX	\$25,037	\$0	1	0
CSB Bancorp Inc.	CSBB	\$24,993	\$0	1	0
BAR HARBOR BANKSHARES	BHB	\$24,522	\$0	1	0
Assertio Holdings Inc.	ASRT	\$24,250	\$0	1	0
Aspira Women's Health Inc.	AWH	\$22,973	\$0	1	0
Carmell Corp	CTCX	\$22,928	\$0	4	0
Immix Biopharma Inc.	IMMX	\$22,779	\$0	4	0

