April 18, 2024

F3 ADVISORS
(614) 698-0333

Dear Investor,

"Artificial Intelligence"

While we at first glance seem to refer to the 'AI' mania gripping everyone who follows stocks or the activities in corporate technology, we refer to whatever topic dominates the 'news'.

It has become difficult for even those who derive their world view from mainstream media: television, radio, major internet and print, to not recognize the relentless falsehoods. While stunning to many, it is no longer possible for it to be hidden. The number of stark un-truths is manyfold, yet easy to identify as false with vast evidence from alternative sources:

- "Russian Collusion" - <u>false</u>
- "Most Secure Election Ever" - <u>false</u>
- "Safe and Effective" <u>false</u>
- "Pregnant woman should take the shot" - <u>false</u>
- "We can incur national debt without consequences" - <u>false</u>
- "The Economy is strong and healthy" - <u>false</u>
- "Inflation is declining" - <u>false</u>
- "No one is above the law" - <u>false</u>

If the notion that the above statements are false is disturbing, we apologize for being the agitator, but please start digging. Anyone that gets past MSM nonsense will be better off.

The number of high profile medical experts, armed with real historical data, present stunning statistical destructiveness of the mRNA vaccines. The medical community seems to have been "purchased" by the stunning money creation of 2020 and the policies funded.

Many economic reports are flat out false. Not 'wrong', false. Data consists of goal-seeking numbers, with massaged formulas, and it is often revised worse a reporting period later.

Well documented crimes of bought public officials are denied, buried by corrupt media and unaccountable government agencies, despite glaring hard evidence of the crimes themselves.

The Department of (in)Justice and the Courts have been weaponized. Those weaponizing it screech that opposing candidates will weaponize government, despite doing that very thing. Courts, judges and prosecutors too have been purchased. Their unjust misapplication of law destroy trusts of communities in which they reside. Business and individual faith crumbles.

The funding mechanism for <u>all</u> of the above insanity is the one we wrote about last quarter: unsustainable debt. Treasury Secretary Yellen followed her Halloween Heist of $838 billion for that quarter, with $756 billion in the January quarter. At the end of April, she will dip her hands into the till once more. Interest on the debt has soared, which has itself soared as we will show. 'Growth' is achieved only on the back of even greater debt. It's a heist.

Markets look exactly like they did into Covid, now widely referred to as the 'Plandemic' with plenty of evidence to support that plausibility. We place reasonable odds a 'Fourth Turning' event awaits. Do not be surprised by a new histeria, perhaps even WW3. War is the event that accompanies unsustainable monetary systems, fiat market games or not. Note gold!

Best Regards,

Mike Sullivan

Detail

2024 Q1 market behavior closely replicated the pre-Covid market ramp, this time propelled by Yellen's debt festival. The $838B she borrowed on Halloween was spent … and then some … by a profligate government of 'no-term-limit' seemingly irremovable government occupants. The major beneficiaries are the tech companies that derive much revenue from the government itself, while they increasingly capture transactional and personal information on everyone and everything.

Markets move in waves. As we go to print April 18th, six of the seventeen indices we track are now negative year to date. A few are barely positive. We'll see what comes next.

INDEX	TYPE	Q1	4/17
Standard & Poor's 500	US Based Large Stocks (500)	**9.5%**	**5.3%**
Dow Jones Industrials	US Based Large Stocks (30)	**5.6%**	**0.2%**
Nasdaq Composite	US Based Large Stocks	**8.5%**	**4.5%**
Standard & Poor's 400	US Based Mid-Cap Stocks (400)	**10.5%**	**1.8%**
Russell 2000	US Based Small-Cap Stocks (2000	**4.8%**	**-3.9%**
Dow Jones Transports	US Based Transportation Stocks	**2.0%**	**-5.7%**
Dow Jones Utilities	US Based Utility Stocks	**0.1%**	**-3.2%**
EAFE International Index	International Large Cap	**6.0%**	**1.3%**
MSCI Emerging Markets	Diversified Emerging Markets	**2.2%**	**-3.2%**
Commodities	Bloomberg Commodity Index	**0.9%**	**3.6%**
10Y US Treasury Bonds	10 Y Us Treasury Bond Yield	**4.22%.**	**4.58%**

Sources: *Bloomberg, vanguard.com, yahoo.com*

Market and economic highlights for Q1 follow, beginning with April's market reversal:

- April has reversed course with the Russell now at **-3.9%**, a **-9%** dive from its quarter-end high. The Dow Jones is even, up only 0.2%, and bond yields have jumped.
  - Market technicals offer a potentially strong rally, if perhaps only short term.
- Nasdaq led most of Q1, pulling back into quarter end and falling further to date.
- Transports climbed 2.0%, but turned back towards quarter end too and are now **-5.7%**
- Mid Cap stocks won the quarter up 10.5%, up only 1.8% as we go to print
- Commodities finished Q1 up a modest 0.1%, but unlike stocks, they jumped in April, now up 3.6% as oil is jumping and gold is hitting new all time highs
  - Commodities are underpriced relative to stocks and may see a long cycle up
- Inflation thus rebounded with commodities (inputs)
  - 'Higher for Longer' means the Fed will have to keep borrowing costs UP
    - To restrain credit, credit must remain more expensive, otherwise people and companies will keep paying up for goods and services.
- Interest rates rebounded as a result of inflation in Q1 and kept going into mid-April
  - Part of Yellen's Halloween trick was loading new debt to very short term maturities, signaling to traders rate cuts were likely. 'Markets' priced in **7** !!
  - Yellen's dog whistle back-fired, now looking at three cuts, more likely ***just one***.
  - The 10 Year Treasury yield (which drives home & car loans, etc.) has jumped back up from sub-4% to over 4.6% again and heading higher as we go to print.
- Disinflation is desired, but ***deflation*** may be what we get:
  - Disinflation means price increases merely slow down
  - Deflation means prices decline
    - Enter the Biden admin 4/15, to drain oil reserves again to buy votes
- On the deflation side of prices:
  - CRE (Commercial RE) is collapsing which could pull the economy down too

    - Many buildings are now being sold at 40-70% discounts to prior sales.
    - Debt defaults of the sellers will soon impact banks.
    - WW3 is plausible, which would be a good deflation mechanism, of course. war is a typical outcome appearing when monetary systems become unsustainable.
        - Iran and Israel are now tangling as we go to print
- Treasury Meddling
    - The Fed is boxed in a corner of its own making, pushed in harder by Yellen
    - Yellen's bank-bail outs of 2023 papered over yet another Fed-induced crisis
    - 'Demand' remains buoyed only by Yellen's debt bonanza, inflation stays sticky
- Fundamentals: the Price/Earnings ratio of the S&P 500 is 21.5 … expensive
    - The last two times we hit that level we had sizable, double-digit pullbacks:
        - "JAWS': the gap between the upward price trajectory of the S&P 500 is far above Earnings. Earnings outside the AI sector have barely lifted.
        - The last three times we had a gap like today's we saw pull-backs of 18%, 34% and 18%. A repeat would not be impossible.
    - Earnings expectations continue to meander as some companies reduce forecasts, but AI earnings strength masks the broad economy.
- Company Insiders continue to sell stocks aggressively
- Economic/business conditions in Dallas, New York, Philadelphia and Richmond all show slow-downs, posting negative numbers in March and so far in April. NY's Empire index dropped the most in 60 years last quarter, and is still negative.
- Red Sea shipping/supply chain problems were joined by Baltimore bridge destruction.
    - Baltimore's port will affect the US, pushing energy prices up, crunching local supply chains, affecting more than just East Coast commerce.
- Regarding Consumers, retail sales continue to rise as fewer units are being sold at still higher prices. Confidence bounces with stock prices, then recedes. Buying on credit increases out of necessity, but delinquencies are increasing, interest on consumer debt rises further. Used car prices are diving at last.
- Housing is holding up still, but primarily because supply is still so tight.
    - Existing homeowners remain trapped in homes holding low mortgage rates.
    - Borrowers are 'priced out', they will remain that way until prices eventually topple and rates decrease.
    - Housing starts and permits to build both came in below forecasts in April

On the societal and geopolitical fronts:

- Turn TV off, ignore geo-political blather, and look at what plausible objectives of the money masters that run unsustainable monetary systems might be.
- The US Political system is a shambles.
    - The advantage of US 'rule of law' is heavily damaged, perhaps not recoverable
    - Elections are worthless, making the 'Selections' concept highly plausible
        - The 2020 election was statistically and mathematically near impossible
        - Interference via technological, procedural and voting changes soars
        - Ideological blinders result in participation in America's destruction
    - No matter your ideological preference, the debacle in NYC with Trump and his business loans wholly undermines rule of law, destroying business confidence
- The border invasion continues unabated with entrants being delivered up to the border, admitted, and transported untracked to cities across the country.
    - That spending is great for corporate revenue, bad for US debt and your future

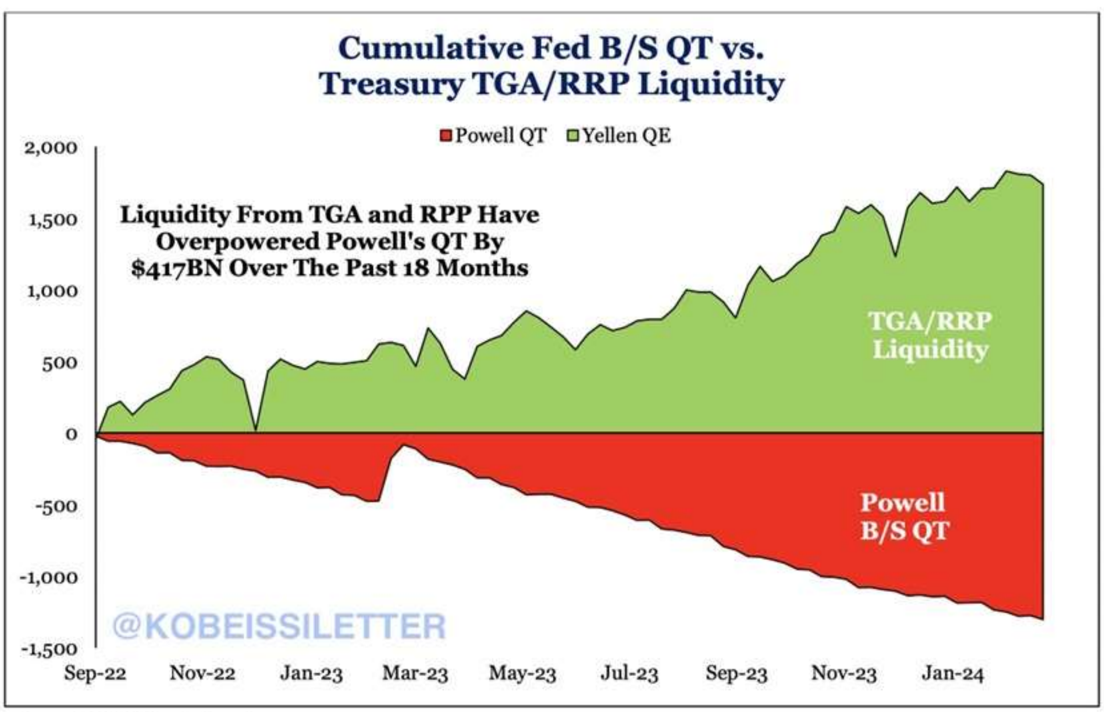
- Every ‘sanctuary’ city receiving ‘undocumented persons’ screams for financial help, hires new services, provides support of all forms (including debit cards), while over-burdening their own civilian population.
- Every company involved in the process sees a boost to revenues and earnings.
- And, yes, it is an invasion: transport and funding courtesy of US and UN.
  - Many non-MSM documentaries validate this *with evidence*.
  - US officials buy *US-bound non-citizen migrant* <u>votes</u> !!
  - This is a treasonous betrayal by unelected government officials, not only illegal, but utterly insane.
  - We now ***visibly*** live in a Banana Republic, people just have to look

- BRICS countries increased trading with each other without including the US Dollar in the middle of trade, and their dumping of US debt continued.
  - We view an outright dumping of US Treasury holdings as not probable.
    - Much of US debt is held internally by Americans, but
    - Much is held as ‘reserves’ by various countries. Dumping US Debt will hurt themselves along with their trading partners.
    - It could happen, yes, but it is the ‘circular firing squad’ analogy.

All the not-so-cheery points above aside, the markets could still technically bounce here, and even clear their highs of late March. Anything could do the trick: a quick stand-down to the various wars could do it, a new ‘stimulus’ program, and especially if the Fed feels it can combine a pull-back with rate cuts markets want.

Let’s look at some pictures and charts, starting with the optimistic reason for an immediate rally … which we often see after a swift drawdown like the first two weeks of April:

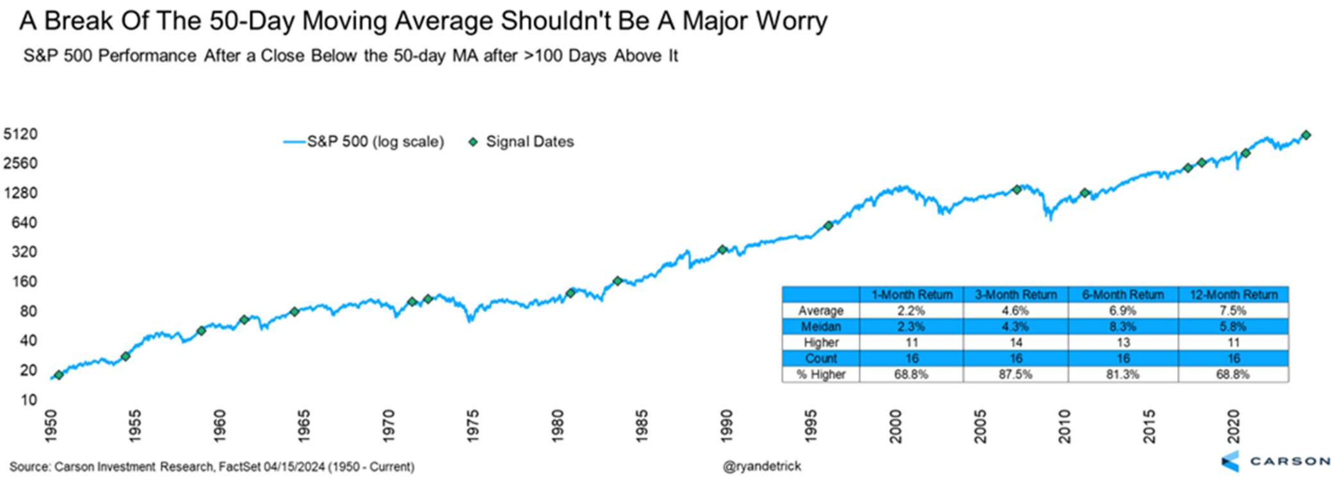
In the Bull’s camp, we have historical examples of continuation after a market demonstrates ‘strength’ as it just has. Below … the mythical separation of the Fed (as an independent entity, lol) from the US Treasury. Civics book taught monetary policy (Fed) and fiscal policy (Gov) were separate. Former Fed Chair, now Treasury Secretary, Yellen killed that myth:



Source: SRP, Holger Zschaepitz

Every dollar the Fed has ‘tightened’, has been replaced by Yellen via her quarterly pillaging of the Treasury (actually, she is not taking anything out, just adding IOUs).

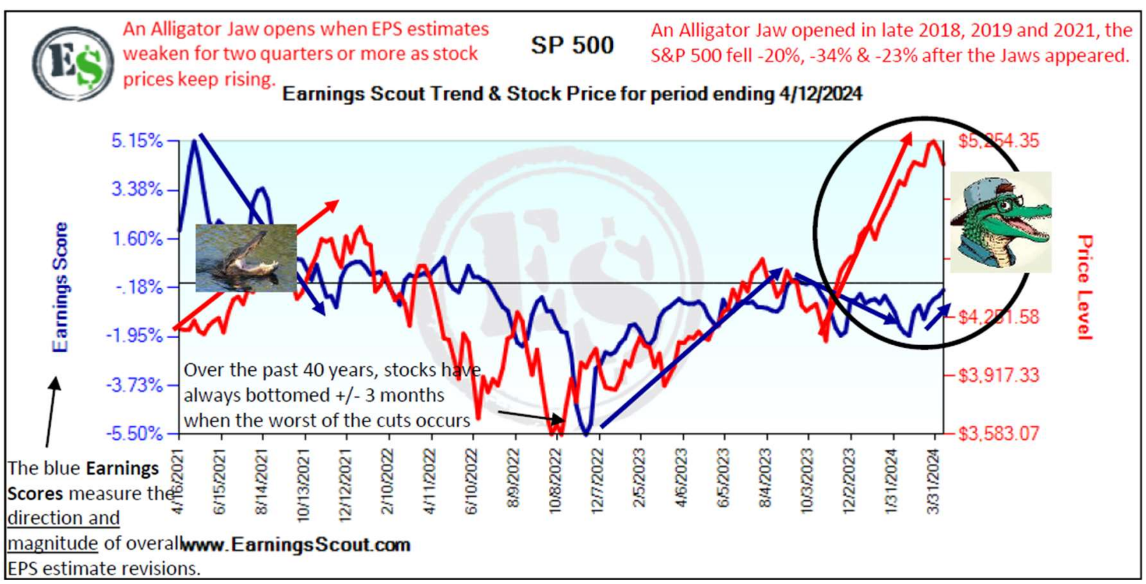
Yellen will almost surely keep pillaging, and if Wall Street chooses to keep chasing it will be because advisors who cheer it on and worship at the alter of the Fed fiat-fiends will just keep buying. They will point to the past few decades of fiat destruction singing ‘it always goes back up!!’. Here’s the latest from perma-bull and Fed worshipper Ryan Detrick:



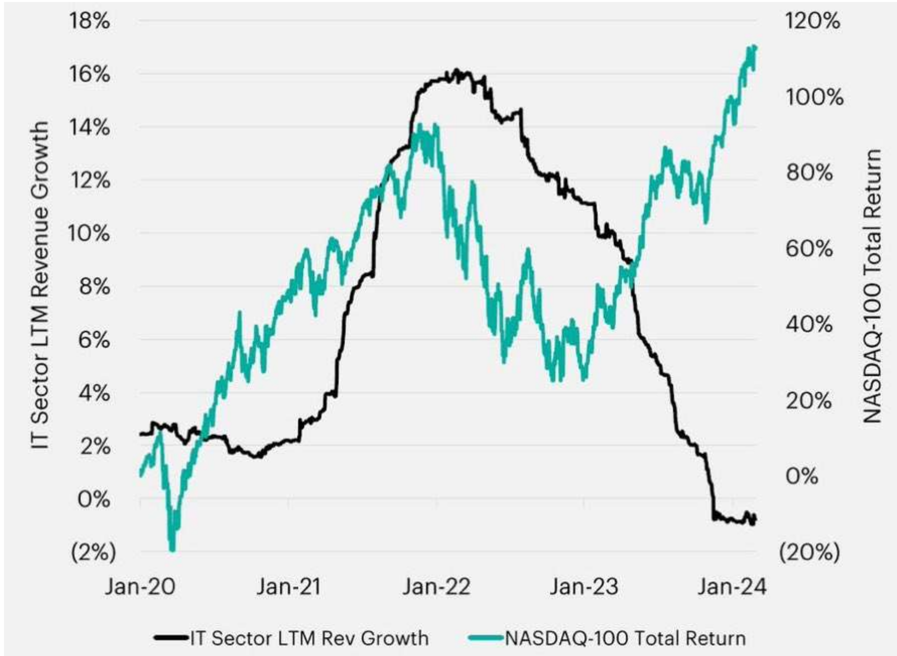
	1-Month Return	3-Month Return	6-Month Return	12-Month Return
Average	2.2%	4.6%	6.9%	7.5%
Meidan	2.3%	4.3%	8.3%	5.8%
Higher	11	14	13	11
Count	16	16	16	16
% Higher	68.8%	87.5%	81.3%	68.8%

That ‘always up, to the right’ crowd somehow does not equate the rise to the correlated rise in monetary units, otherwise known as destruction of your purchasing power. Oh well.

In the ‘At Least a Pullback’ camp, let’s look at the Jaws referenced in the preceding bullets. Earnings Scout shows us the ‘Jaws’ factor in the S&P 500 as the index keeps pumping (largely on the back of those same AI stocks lifting the Nasdaq), but somehow the earnings of the 500+ companies is lifting only modestly … they’re disconnected, suggesting at least a pull-back is imminent:



When we take out the performance of the primary Tech AI benefactors of our bloated government’s and corporate America’s spending quest for efficiencies, productivity boosts and other profitable things (that equate to less jobs), we can note that the rest of Tech companies found in the Nasdaq index are not faring quite as well. Following below is the Information Technology sector’s Revenue Growth versus the performance of the Nasdaq:



Look healthy to you? Yeah … us neither.

More serious than a pull-back and on the heavy side, the US Bond Market is in the largest Drawdown **ever**. In English that means prices have gone down for a long time. Bond prices are now going back down once again as rates increase again and suggest we stay 'higher for longer'. The bond market is widely known to be smarter than the stock market … it should be, since we're fully dependent on lots and lots of debt. And ***cheap*** that debt ***must*** be.

Bloomberg US Aggregate Bond Index: Longest Drawdowns (Monthly Data, 1976 - 2024)

Start of Drawdown	End of Drawdown	# Months	Max Drawdown During Period (Monthly)
Aug-20	?	44	-17.2%
Jul-80	Oct-81	16	-9.0%
May-13	Apr-14	12	-3.7%
Aug-16	Jul-17	12	-3.3%
Feb-94	Jan-95	12	-5.1%
Mar-87	Nov-87	9	-4.9%
Aug-79	Apr-80	9	-12.7%
Apr-08	Nov-08	8	-3.8%
Feb-96	Sep-96	8	-3.2%
Jun-03	Nov-03	6	-3.6%
Feb-84	Jun-84	5	-4.9%
May-83	Aug-83	4	-3.5%

CREATIVE PLANNING @CharlieBilello (As of 3/31/24)

This above is ***exactly*** what one would expect when more and more debt based money is required to keep escalating borrowing so we can escalate spending for that extra 'growth'. The end game is the 'Fiat Fiction' stage where central banks run out of tricks. We refer back to our 'Red Flags' series about the Fourth Turning like condition of the US monetary system. This is not good by any means long term:

So … we look for another technical rally, a welcome bout of Wall Street gamesmanship, perhaps even a push to new highs on AI stocks in May. We'd take it if we get it.

We also need to look at those times when 'technical rallies' don't occur, and Wall Street's game turns to making money on the downside. Samantha Laduc points us at Ruffer LP, a UK based money manager that has nailed many big market declines"

> *"For those that don't know, Ruffer returned 16% in the 2008 crash, nailed the 2015 flash crash, nailed the 2018 XIV (Volmaggedon) implosion, and nailed the 2020 COVID crash making $2.2B. They have a very accurate and long track record of these bets."*

Risk of 1987-Style Meltdown Sparks Ruffer's Record Cash Bet

- Massive cash allocation contrasts with fund's 5% average
- Smith: risk mispriced given CPI, shrinking Fed liquidity

Last, healthy plans include protection against fiat destruction. Following 1929, many were forced out of homes, farms and land for the simple reason they lost income streams while they owed debt to banks and other entities. Those with cash picked up the real assets for dimes on the dollar. Real property is a protection against such calamities. Note this does not mean that the price, as measured in fiat, cannot decline if financial crisis strikes stocks and bonds. Often, paper prices of real assets fall too. The trick there is to be in a position to acquire them, like the financial powers-that-be did in the early 30's. There is much to be learned from history.

Here is Mike Shedlock's chart that illustrates the price of gold measured across periods of declining faith in fiat-manipulating central banks:

We will continue to assist clients with their assets, emphasizing protection here and seeking prudent moves in the paper-wealth markets. We'll also consult on the role real and other assets should play in financial plans. Better safe than sorry.

Call us if we can be of assistance at (614) 698-0333.