NEWSLETTER
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The Healthy Skeptic.

with Jeff Sarti

INVESTING IN THE AGE OF AN ALTERED AMERICAN DREAM

DIVE INTO WHAT'S INSIDE:

- Why the American Dream feels out of reach for many, and how that mindset is reshaping how people spend, save, and invest.
- The rise of the YOLO investor: how speculation and instant gratification have replaced long-term discipline, and what that means for the markets.
- How to invest in what's real: tangible assets, meaningful industries, and timeless stores of value that can endure beyond trends.


Grammy Pearl - Emigrated 1916

The American Dream isn't gone, but it's changed.

And as it changes, so must the way we think about investing.

I recently turned 50 and have found myself in a reflective mood, especially with the oldest of my three kids starting to prepare for college. I reminisce about the past and how fortunate I was to be raised in a loving household that supported my every endeavor. I daydream about the future and wonder if my own kids will have the same opportunities that I had.

My maternal grandmother emigrated from Russia as a child in 1916 and was disappointed when the streets of New York were not literally paved in gold as she was led to believe. Yet the American dream delivered on its promise of freedom, safety, and, most importantly, opportunity for her family. My father was the first in his large, extended family to graduate high school. Through hard work, he chased his dream, became a physician and formed a loving family with his wife (my parents just had their 59th anniversary in August).

THE AMERICAN DREAM

was alive and well for me and my two siblings too. While competition was a bit tougher than in my parents' generation and the cost of living continued to increase, we were still optimistic about the possibility of matching or even exceeding the success of our parents.

What does the current generation think about the promise of the American Dream? In a recent poll by the Wall Street Journal, a stunningly low 31% of respondents answered that the dream still holds true. In a similar poll, the question was asked if "people like me have a good chance of improving our standard of living." For several decades, the majority of respondents have replied in the affirmative. However, in recent years this has plummeted to a despondent low of 25%.

Why such a dismal outlook, especially amongst the younger generation, who we typically depend on to be optimistic and full of wonder? After all, unemployment is low and recessions have been both mild and infrequent for many years. The answer is that many Americans feel like they can't keep up.

STUDENT LOAN DEBT

has utterly exploded in the last decade, and it is not uncommon for young workers to have loan balances in the hundreds of thousands of dollars. Home affordability? Worse than any time in history. Simply put, the average working American cannot afford a starter home. The dream of the white picket fence has morphed into the reality of renting or even living with parents well into adulthood. In fact, adult children live with their parents at the highest rate since the Great Depression. It's even more challenging in areas where real estate is expensive—in parts of Southern California, one-third of adult children ages 25–34 live with their parents.

When the prospect of upward mobility is lost, what does the hopeless investor do? Instead of investing and sacrificing for the future, you might as well enjoy the present. After all, you only live once ("YOLO!"). Fly first class? Why not! $1,000 concert tickets? Invite your friends! Credit card debt? Gotta love the perks of credit card points. The younger generation is spending more than ever before on the present rather than saving for the future.

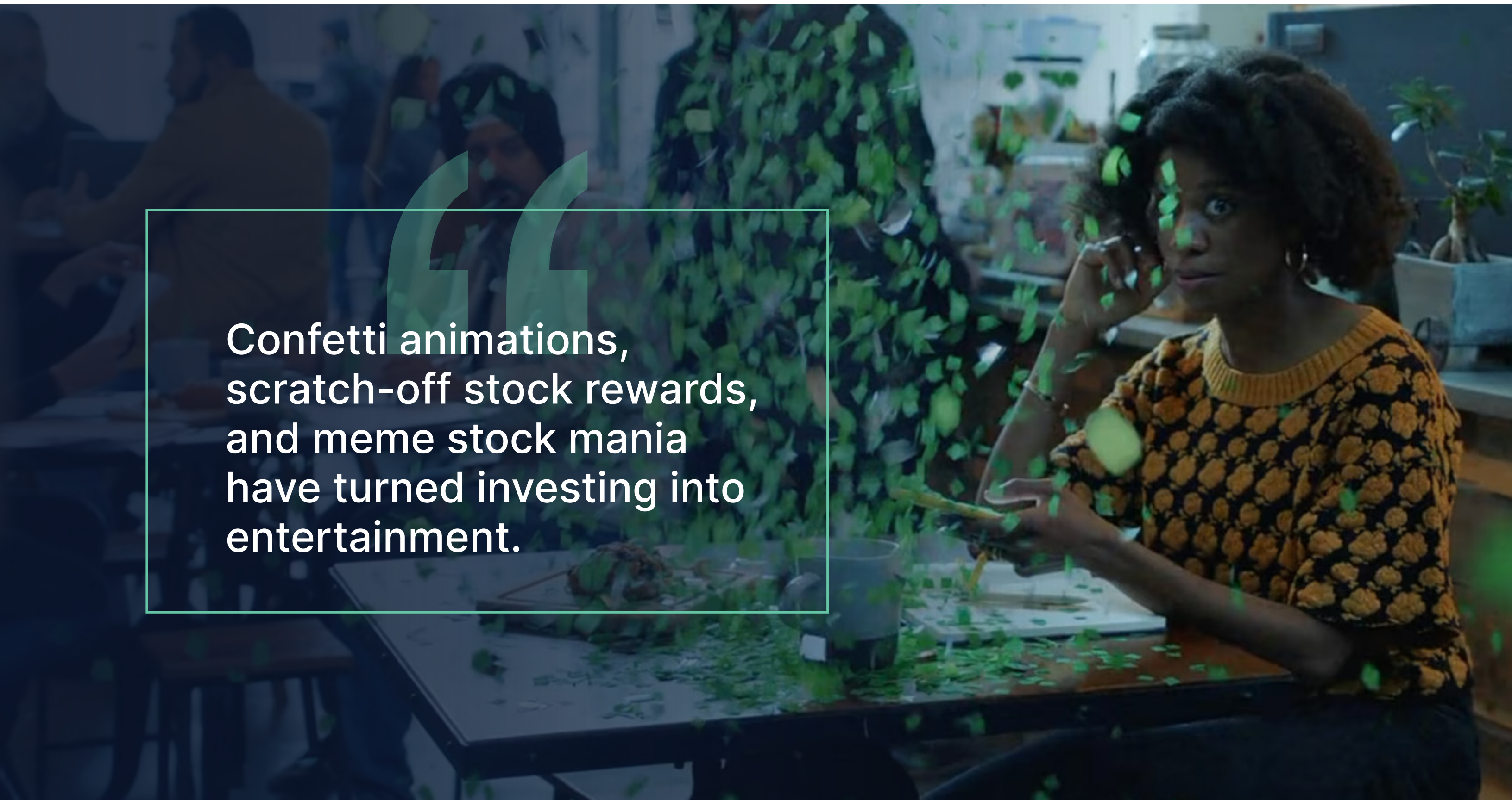
ON THE INVESTING SIDE,

the younger generation is forgoing disciplined, long-term investing in favor of speculation and a quick win. Soundly investing and compounding money patiently over the long term with the goal of saving for retirement feels out of reach. So the YOLO investor gambles all of their investment money on black in the hopes of hitting it big. The financial world caters to this desperate investor and is more than happy to oblige with roulette-like investing options. Robinhood, a trading app that has exploded in size in recent years with over 25 million users, has gamified investing. Confetti animations, scratch-off stock rewards, and meme stock mania have turned investing into entertainment. Investors are getting hot tips from social media influencers and internet message boards, fundamentals be damned.

As an example, a small percentage of early investors made quick riches as GameStop stock rose from $4 to $80 in a matter of days in 2021. Since that time, it's down about 75%. AMC was the other meme stock poster child of message board mania. No longer talked about, it's down 99% since its high. You only hear about the quick wins but it's unsettling that so many young investors got dragged into such speculation only to see their savings wiped out.

CRYPTOCURRENCIES

are the latest rage, with roughly 80 coins having a market value of over $1 billion. "Fartcoin" doesn't quite make the threshold at a "measly" $749 million market cap value. While some of these (primarily Bitcoin) have utility and will likely stand the test of time,



> Confetti animations, scratch-off stock rewards, and meme stock mania have turned investing into entertainment.

the large majority of these are worthless and will likely ultimately go to zero. The YOLO investors don't care. They are gamblers at heart, looking to win the lottery to change their otherwise hopeless fate. A new coin with a silly name is viewed as an opportunity to make a quick buck.

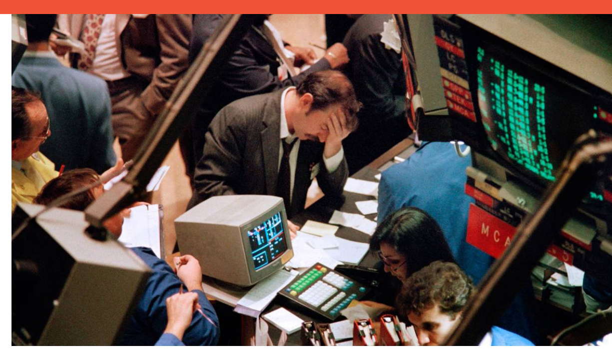
We've seen this type of speculation before. The excesses of the Great Gatsby years culminating in the 1929 stock market crash or the dot-com boom and bust of the late 1990s are prime examples. Neither of those ended well and the current speculative fervor in many areas of the market won't end well either. But the disturbing difference between those previous periods and the current environment is that those earlier speculations were filled with optimism and hope. In hindsight, it was irrational optimism, but it was optimism nonetheless. Today's zeitgeist is not littered with optimism but instead breeds a tone of having nothing to lose. And when you have nothing to lose, standards erode. In fact, they are even ridiculed. The more unreal or meaningless, the better. The sillier the name of the coin or company (as long as it has AI in the title), the more the speculator wants to dive in.

HOW DID WE GET HERE?

I would argue that the current affordability gap and challenges related to upward mobility are a result of all the stimulus that has been poured into the system in recent decades. Low interest rates, money printing galore and ever-increasing federal deficits have juiced the economy. All of this "easy" money has pushed up asset prices, namely stocks and homes, at an accelerated rate. The challenge is that this asset price inflation has outpaced wage growth for the average American.

I've provided detailed critiques of these stimulative policies in the past so no need in this edition to dive into this topic further. But the punchline is that there is no free lunch. Of course, these money-related measures the government has taken have been stimulative over the short run. But the long-term imbalances (namely our government debt levels) will ultimately have consequences.

The party is fun while it lasts, but the more vodka we add to the punch bowl, the bigger the ultimate hangover will be.



I'm not telling the YOLO investor that they need to go cold turkey. An occasional cocktail or small amount of savings in speculative (aka gambling) investments is fine. It's okay to have some fun with a small amount of money. But when looking to build net worth over the long run, the fundamentals of sound investing remain as important as ever.

WHAT IS THE APPROACH OF THE HEALTHY SKEPTIC?

As Healthy Skeptics, our approach is obviously very different. Time to dust off our handy equation:

Right Mindset + Right Strategy = Better Investor

Mindset

I'll come to strategy, but it's always crucial to start with mindset. Just as the YOLO investor's strategy is shaped by an impatient yearning to play catchup, the Healthy Skeptic's investment strategy is shaped by their mindset as well. In my previous newsletter **here**, I laid out the ten principles shaping this mindset. Given the current environment, which is veering towards speculative fervor, it's crucial to be confident with veering from the status quo (principle #4 in my last newsletter on avoiding the herd). Trends, especially when they are crowded and devoid of substance, are not built to last. As a side note, we embrace innovation and are invested in growth and technological advancement, especially within our global stock portfolio. But we remain focused on fundamentals that move the price of a stock and are very comfortable avoiding stocks that are driven by speculative fervor or social media zeal.

Strategy

Moving on to the "strategy" part of the equation, in a world that is obsessed with shortcuts and fantasy, we chart a different path. While we of course have exposure to traditional financial assets, I want to highlight three different strategies that we utilize in an effort to shore up portfolios. These include investments backed by real assets, investments in industries that society truly needs, and investments in gold as a hedge against currency debasement.

> "Trends, especially when they are crowded and devoid of substance, are not built to last.

STARTING WITH INVESTMENTS

backed by real assets, why do real assets even matter? Whether real estate to house families across the country, or a loan backed by a fleet of trucks used to distribute goods from coast to coast, we can physically touch these investments and intuitively appreciate their value. These investments are not based on trends or the whims of the latest social media post but are valuable because they are tangible. No imagination is necessary—the utility of these assets is immediately clear by simply seeing and touching them. When our investment team is evaluating a lending opportunity backed by real assets, there is tremendous power in knowing the true value of those assets. Make no mistake, there are no shortcuts with this type of investing. It takes hard work to do this type of research. But when you are lending on something with tangible value, you have a concrete starting place to think about downside scenarios and stress tests. We continually ask, "What can go wrong and if that comes to fruition, how can we mitigate the risk to our investment?"

These investments are distinctly different than many of the more speculative investments I described above that can wildly move in value simply because they are in or out of favor. In a world that continues to become more uncertain, we look to increase allocations to investments that have more certainty of value as compared to those whose value is driven by social media messaging boards.

Another growing area of focus is lending to industries that add value to society in various ways. Some recent loan examples:

- Technology company specializing in interactive displays and software for education in K-12 schools.
- Healthcare science company focusing on DNA sequencing instrumentation for usage in oncology, genetic disease and reproductive health.
- Food manufacturing company specializing in fruit and tea-based beverages.

We gravitate toward necessity-based industries because we believe they will be more resilient in a variety of economic outcomes. The examples above in education, healthcare and food have risks, but they are not the same risks related to economic recessions that most investments face. While these types of investments may not be fully backed by tangible assets, these companies have value because they bring actual meaning and benefit to society. Meaning matters and in an investment climate where sound bites and memes have dominated the landscape, we take pride in veering from the crowd and supporting industries that focus on "boring" aspects of society that can make a positive long-term impact and stand the test of time.

These opportunities have nothing to do with trends and everything to do with adding real value. If the economy continues to do well and investors pile even more into speculative investments, that's fine, these will continue to do well too. But if the economy moves into a recession and stock markets turn south, these investments are designed to have staying power, simply because they are serving important societal functions.

LASTLY, I'LL HIT ON GOLD

which we view as an important real currency in a world where paper currencies are being debased. We have been invested in gold for a number of years, and it has been a strong performer and diversifier in client portfolios. Gold typically does well in times of economic uncertainty and it has really taken off of late as many concerns have intensified, including geopolitical risks, continued inflationary pressures, and worries of a pending recession.

While hedging against uncertainty is a valid reason to own gold, our core rationale is that gold is a store of value against the continued debasement of dollars and other currencies as the world continues to flood itself with debt. Harkening back to the discussion above around imbalances, our government debt levels have moved beyond “concerning” to outright unsustainable (view my newsletter on our debt situation here). Likely solutions to fix these debt imbalances include some version of money printing, interest rate manipulation and ever-increasing debt issuances to refinance existing debt. All of these “solutions” crystallize the inherent difference between “paper” currency and “real” currency. Dollars can, and will, be printed to fix these ever-burgeoning imbalances versus gold, a store of value, which cannot be printed out of thin air.

Gold is nothing if not real. It’s been deemed as a store of value for thousands of years and possesses unique chemical properties in comparison to other elements.

Its strong recent performance may illustrate that others in the investment community are starting to question the lack of substance driving stock and crypto price movements and are craving investments and protection in the “real.”

One last point on gold is thinking about its role in a portfolio: as a risk management tool on the one hand, but also as a potential outperformer on the other. We tend to own gold as a risk mitigant, an insurance policy designed to protect portfolios against some of the uncertainties I highlighted above. But there can be potential meaningful upside in gold as well. History repeats itself and from one generation to the next society moves from seeking quick riches to more disciplined savings strategies. The 1970s are a great example. Given the inflationary and interest-rate pressures we faced in the ’70s, investors shied away from future bets on speculative growth and instead craved assets that would hold their value. They leaned away from investing in the future (stocks) and moved towards investing in the present through real assets (gold). If the typical investor shifts their mindset from chasing meaningless trends like Fartcoin to something real and timeless, then gold, with its thousands of years of history, may shine brightly.

CONCLUSION

While we are comfortable being an outlier in our investment decisions, we also welcome others joining in as they open their minds towards gold. Hopefully, the next cycle is a return to the fundamentals of sound and disciplined investing. Even if this takes some time, that's okay since our investments are designed to perform well while we patiently wait.

In a world chasing fantasy, we choose reality. We are not swayed by the gamblers surrounding us and don't follow the latest high-flying stock. We invest in what's tangible, resilient, and meaningful. Our responsibility is to help our clients get the most life out of their wealth and we are lucky to have clients that embrace the right mindset and share in this approach towards sound investing.

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