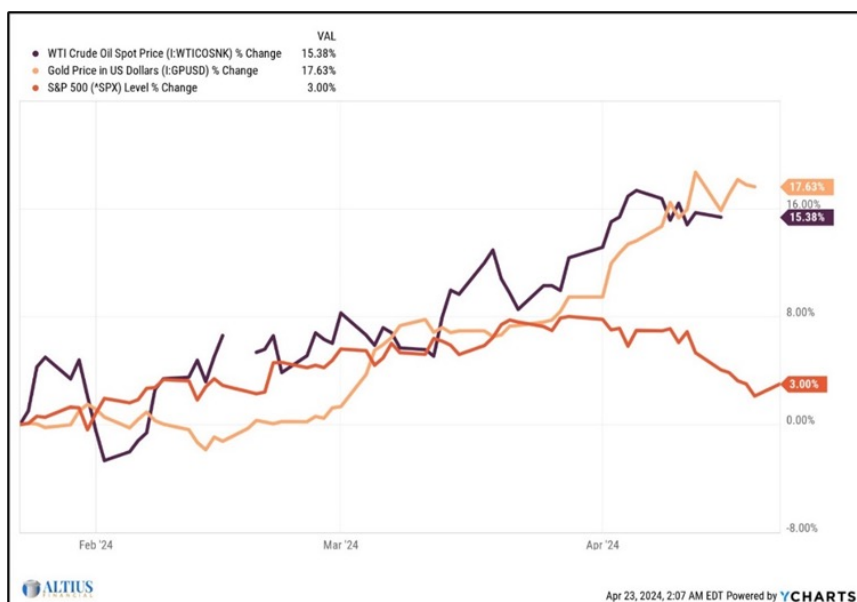


May 3rd, 2024

Inflation, Energy, Israel, and a Gold Rush?

While last month I talked about how it was a very strong first quarter for the major stock market indexes, much of that performance was likely due to the anticipation of multiple interest rate cuts this year. Wall Street is forward looking, and the hope is for a “soft landing” or no landing at all where the economy either experiences a mild recession or none and just keeps growing. Investors generally don’t wait for the future to arrive; they price assets as if the future is now, kinda like Nathan MacKinnon of the Colorado Avalanche skating toward, not where the puck is currently, but where he anticipates it to be going.

Earlier this afternoon Fed Chairman Powell gave his remarks about keeping rates where they are and one couldn’t really tell where he leans beyond that. Again, these comments are always anticipated as if there is some crystal ball at the Federal Reserve office but seriously, no one can incorporate the literally trillions of transaction/value decisions people around the world are making every second.



3-month performance (1.23.24 to 4.23.24) of Oil (using daily WTI Crude Spot Price), Gold in US\$, S&P500 stock index.

Quote of the Day:

“Men are apt to mistake the strength of their feelings for the strength of their arguments. The heated mind resents the chill touch and relentless scrutiny of logic.”

— William E. Gladstone

UPCOMING EVENTS

June 5 – Q2 Virtual Workshop: Medicare

August 14 – Q3 Virtual Workshop: Panel on Artificial Intelligence

September 10 – ALTIUS’ 25th Anniversary Party & Client Appreciation Event

December 4 – ALTIUS’ Annual Holiday Event

TAKE A LOOK INSIDE

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Inflation, Energy, Israel, and a Gold Rush? (cont.)

We haven't had a recession yet but it's looking like inflation has been popping back up and so, along with anxiety over the war in the Middle East, we've seen stocks falling for most of April. Gasoline prices surged along with higher mortgage rates and rent costs; inflation rose more than expected for March. Energy prices had eased early in the year, contributing to downward inflation pressure but this is no longer the case. The CPI rose sharply so the Federal Reserve will likely keep rates higher for longer, and that means the "skaters" on Wall Street might start anticipating more difficulty for stock earnings and therefore lower prices. If the economy disappoints, financial markets generally correct for the new, less optimistic future.

Most market commentators worry about further escalation of the conflict in the Middle East since we saw the first ever direct military attack against Israel a couple weeks ago, and then with Israel, as of this writing, retaliating mildly against an air base near the city of Isfahan, in central Iran. I have to say I'm amazed at how shortsighted these comments seem to me. Escalation? Iran has been at war with the West in general along with Israel and the US, through their proxies since November of 1979. Every single year on the anniversary of the hostage taking of that year, Iranians hold rallies where "Death to America" and "Death to Israel" is chanted. US foreign policy has been itself incoherent and appeasing the mullahs in Tehran all while holding Israel and the IDF back for decades. And, of course, we are reaping what we've sown with our institutions of higher learning and the completely ignorant campus protests.

I'm no expert but when a regime declares war on the civilized world and systematically acts on those threats with terror against the West and bloody theocratic mayhem against their own citizens, perhaps we should take them seriously and let Israel defend themselves and certainly defend ourselves. Last week, the US House of Representatives passed a \$95 billion aid bill with broad bipartisan support providing security assistance to Ukraine, Israel and Taiwan, with about \$17B of that going to Israel. My view is that the Israeli's need less financial aid and more full-throated moral support to do what they need to do. I know that such rejection of "de-escalation" might cause chaos in the financial markets in the short-term but finally having a rational policy against such aggressors around the world is the best thing for our long-term well-being, both financial and otherwise.

In the meantime, it is interesting to watch the precious metals markets which often go up with such geopolitical instability, especially when it coincides with ongoing money printing at home. We've seen where Costco is now doing a pretty brisk business with some estimates of gold bar sales hitting \$200 million per month. I reiterate that gold itself is not necessarily a growth investment, but it can be very valuable as a portfolio stabilizer and hedge against such uncertainties.

Amidst the whirlwind of geopolitical tensions and economic fluctuations, it's crucial to remember that markets have weathered storms before. While we are close to all-time high prices in many asset classes, there will be significant downturns at some point, but history has shown that free economies are resilient, adapting and bouncing back. While such uncertainty may continue for some time, especially with this most bizarre election year (which I'll be commenting on), it's essential to maintain a long-term approach with a focus on fundamentals, and....continually advocate for our economy to be free.

Taylor's Take: Investing in the Shadow of Uncertainty

Being in Dallas we were in the path of totality for the solar eclipse in early April and I took this photo from my back porch. It was an amazing site to see, even prettier than my photo could capture. Our ducks acted mostly normal but the chickens got kind of loud...guess that's why they call 'em chickens, huh? It was an eerie feeling and it made me think of how people from various times in history reacted to such an event. Without having the scientific knowledge that we have today, I can see how it would cause fear and uncertainty.



Of course, this made me think of how many people feel about investing: if you don't have the knowledge to explain what's going on, it can be fear inducing. Most of our clients want us to not only protect, but also grow their wealth and it's a challenge given the ongoing uncertainty in the world.

A common theme you may see in articles and books is that as we get older, we often want a "safer" investment strategy. What does that even mean and is it true that I should want a "safer" strategy as I age? Typically, in portfolios safety just implies less risk and less volatility, but safety can mean many things for different individuals. For example, many retired individuals want a specific cash flow that can be drawn routinely from their portfolio. If you know you need "x" amount of cash flow, where does it come from? In other cases, a family may have accumulated enough assets to ensure a generational wealth strategy or long-term charitable gifting strategy. Most often we see a combination of these examples: families who need distributions for their current expenses, but also balancing the potential of passing on future wealth.

It's helpful to know that our strategy can look different for many different families and contexts. Depending on the goal for the asset base, risk comfort, and tax concerns we can balance the tradeoffs of a long term price appreciation strategy (increasing share price or asset price) with current income producing holdings (interest and dividend paying investments and fixed income holdings). In the case where there are limited assets to cover current lifestyle needs, we often adjust for lower risk and higher income production. However, in clients with limited distribution needs and focused primarily on saving towards future generations we may find that a middle level of risk or even higher risk level may be appropriate and employed to focus on tax minimization and asset growth.

Long story short, your risk comfort is very personal, and we don't believe in pigeon holing our clients into investment strategies based solely on their age. By being planning centric, ALTIUS takes a wholistic approach to investment decisions and incorporates individual client goals, needs, and comfort when deciding on portfolio risk. There is no guarantee it will always work and sometimes the sky gets dark and scary, but knowledge correctly employed is power. As always, please let us know if you have any questions about your portfolio risk or allocation.

Jenn's Jangle – TD to Schwab Transition Wrapping Up

Starting May 10, any checks mailed to TD Ameritrade addresses for deposit will be returned as undeliverable. Checks should be sent to Schwab or deposited directly by clients (using mobile check deposit on the Schwab mobile app) or, of course, we here at ALTIUS can deposit for you. Below are some important notes, but if you have any further questions, please let us know.

- Any checks that were made payable to TDA can be deposited directly to Schwab.
- In many cases, clients' employers or other institutions may be sending these checks to the wrong address as contributions to their SEP and SIMPLE retirement plans. Please reach out to ensure the checks are being sent to the correct address. They may require a form to update.

The Math of Money: “Get Real”

I had a long-time reader of our newsletter recently point out the importance of looking at “real” rates of return and I couldn’t agree more. In fact, Taylor and I have a podcast (you’re listening to Capitalize Your Fridays, right?) scheduled sometime this year to discuss this in more detail. What do we mean by real rates of return? There are many challenges to growing and keeping one’s wealth and two of the biggest are the effects of inflation and taxes. Real returns are what you really end up with and can spend. I might say that a particular stock market index has averaged a nominal 8% per year for the last 50 years but what does that mean you have in your pocket?

Inflation is a central bank’s expansion of the money supply that erodes your nest egg because of the effect: a gradual rise in prices over time, which in turn erodes the purchasing power of money. So, if we take that hypothetical 8% average and look at what inflation has averaged over that same time period, let’s say 4%, well you can basically now have an inflation adjusted return of only 4% (8% minus 4% equals 4%). But wait, it’s worse...

What about the impact of taxes? Well, it does depend on a few things like what your average tax bracket might have been over that time and if you held the investments in a taxable or tax-deferred account but to make it simple let’s assume it’s a taxable account and you’re in a relatively modest Federal and State combined tax bracket of about 30%. But the thing is, the IRS taxes you on the nominal return; they aren’t saying to you “oh, I’m sorry, I realize that inflation was x so we’ll only tax you after that”. While there are a few minor accommodations in the tax code for the inflation, that the government itself creates, that doesn’t apply to taxable investment returns. So we gotta take the taxes off BEFORE inflation which means your net return might be something like this: 8% nominal – 2.4%(this is 30% of the 8% due in taxes) – 4% for inflation = a real return of only 1.6%! This would be your real return and that assumes you matched that hypothetical stock index for 50 years...which most people don’t have the stomach for as far as volatility. While seemingly subtle, the effects of taxes and inflation can be profound, silently chipping away at investment returns, so it’s crucial to think in real terms or after-tax, after-inflation, risk-adjusted returns.

ALTIUS 25th Anniversary Fun Facts

What has led to ALTIUS’ Success?

The Clients. The Team. The Philosophy.

We have an incredible group of clients who are each unique in their experiences, achievements, and values. We are honored by these relationships – the trust bestowed on us is not one that is taken lightly. ALTIUS manages investments and does financial planning, but what comes with that is learning what is truly best for our clients and determining what we can do to not only help them sleep better at night, but also reach their goals and dreams. It’s heartwarming to see that, for many clients, that trust has lasted 10, 20, 25 years and for a select few even longer that joined ALTIUS at conception from when I was with American Express. I cannot express my gratitude enough to those clients who 25 years ago followed me and became the foundation for ALTIUS’ success.

To celebrate our 25th Anniversary this year, we’re including fun facts about ALTIUS’ history until our 25th Anniversary Party and Client Appreciation Event on Sept. 10th. More details to come!

Along with our clients, ALTIUS' team has been the backbone for success. Getting to hire my own people, some of whom became advisors and went on to establish their own book of business, has been one of the most rewarding experiences. Those of you who've been with me for a long time know the contributors over the years, none more important than Tammy Kreger... Tammy was crucial in helping us get systematic in our client service and ALTIUS' success is, in many ways, a biproduct of her legacy. Adding Jenn to the team has also been vital to our continued growth. She keeps me in line and on track and cares deeply about the value we provide to clients. Hiring and training Taylor has been another milestone in our team – seeing her grow as an advisor (now a part owner) and have her own client credibility and achievements has been fulfilling.

Lastly, the ALTIUS philosophy – I'm proud to have built a company that focuses on the whole picture for our clients. Most firms do either planning OR investing, and outsource the security selections, but at ALTIUS we emphasize both and do it on our own. This has impacted our success by providing us with more experience in underlying holdings and allows us more diversification, flexibility, and accountability.

Show Recommendation: *The 3 Body Problem*



For those of you who love intense shows where you try to solve the problem before all of the details unfold – this show is for you! The 3 Body Problem is a science fiction drama series on Netflix that has you considering many perspectives of human empathy, ethics, and scientific exploration. It finds the sweet spot between a murder mystery, action and drama, and leaves you reflecting on life's greatest questions.

The 3 Body Problem starts out with a visceral scene set in communist China under the rule of dictator Chairman Mao Zedong during the Cultural Revolution. It shows the brutality and deep-seeded anti-intellectualism of that time which, in the show, is the start to a series of events. Only after you start to grasp what's happening it jumps to the present - when suddenly all scientifically proven data becomes skewed and our opportunity to grow as a species is seemingly halted. Scientists are turning up dead and the special services are trying to solve the problem of losing the worlds brightest minds while uncovering what is going on.

Similar to the show, Black Mirror, it touches on techno-paranoia and the potential future of virtual reality. This show is action packed and will have you wondering if we're the only intelligent species out there and if we would be the ones to survive should our worlds collide. (Review by Taylor & Krescent)

Defending Championships

You didn't doubt that I could get a Nuggets reference along with an Avs mention in the same newsletter, huh? I don't know if you remember but it was about this time last year that I was watching the snugs from a hotel room in Tel Aviv and, while I'm not in that danger zone right now, I'm sure enjoying this playoff series with the hated Lakers. I know not all of you are basketball or hockey fans or maybe even sports fans and I appreciate your indulging me here to the end.



Maybe someday I'll be jumping on a Rockies bandwagon but next month I plan on talking about some of our client's achievements, athletic and otherwise. We have a very accomplished group of people in the ALTIUS family, and I thought, especially given our 25th anniversary celebration, it might be appropriate to share some. In the meantime, GO Avs & Nuggets!

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