The Conservative Strategist

JULY 2023

A QUARTERLY INVESTMENT NEWSLETTER PUBLISHED EXCLUSIVELY FOR CLIENTS OF SEASONAL STRATEGY

Finally: A real return to safe, short-term investments

For 15 frustrating years, investors wanting to park their cash safely have suffered with paltry rates well below inflation. They have seen their real wealth eroded, day by day, week by week, month by month, year by year.

Not any longer.

Rates on Treasury Bills from three months out to one year are now well above five percent and firming, while year-over-year inflation sits at four percent and declining. Meanwhile, Treasury Inflation-Protected Securities (TIPS) now sport a real yield (yield above inflation) of more than 1.8% on five-year maturities, and an average of nearly 1.7% on the overall yield curve out to thirty years. These are the healthiest-looking real returns in 15 years.

Higher yields across the spectrum

Short-term Treasury securities represent the so-called *risk-free rate* investors can receive on their funds, and all other income-oriented securities tend to price based on these benchmark rates. So we are now seeing some of the juiciest yields in many years across the spectrum of income securities in our target asset classes. These include high-yield bonds, mortgage-backed bonds of various stripes, emerging markets bonds, infrastructure bonds and equities, energy infrastructure, private credit funds, and various discounted closed-end funds that invest in income securities.

SuperCash is benefiting

Many of the arbitrage strategies that we invest in within our SuperCash sleeve also key off of the risk-free rate. So as the risk-free rate rises, so do the projected rates of return to merger arbitrage, convertible arbitrage, event arbitrage, and fixed-income arbitrage.

> *I think T-Bills are **so** attractive, because wouldn't it be beautiful to stay conservatively invested with that dry powder, to sell those T-Bills and move in when there has been a real reckoning?*
>
> Boaz Weinstein, Founder & Chief Investment Officer, Saba Capital Management, June 7, 2023
>
> Weinstein, a former chess prodigy, is a hedge fund manager and closed-end fund investor.

For instance, according to merger monitor AlphaRank.com, the effective yield on the average merger arbitrage deal in May 2023 was 12.8%, among the highest in the past three years.

(Of course, the net effective return achieved by our merger arb funds will almost surely be considerably lower after factoring in busted deals. And with regulators in office currently that are rather hostile to M&A on antitrust grounds, more deals than usual may bust. But even factoring in this environment, prospects for merger arb remain brighter than they have been in a long time).

Optionality

As Boaz Weinstein alludes to in the featured quote, liquidity affords optionality — the ability to move from a position of strength when markets are distressed. For 15 years, investors have had to pay dearly for that optionality, in the form of negative real rates on their parked cash. Today, that cash earns returns well above the rate of inflation. We are being paid to wait patiently. ■

The Markets June 30, 2023	Price/Yield	Gain, Qtr	Gain, YTD
US Stocks (S&P 500/Vanguard Index)	4450.38	8.70%	16.81%
International Stocks (Vanguard Index)	17.99	2.54%	9.35%
Emerging Markets Stocks (Vanguard Index)	25.72	1.04%	4.65%
Real Estate Stocks (Vanguard REIT Index)	27.76	1.60%	3.36%
Bonds (30 year US Treasury/Vanguard Index)	3.85%	-2.62%	3.83%
Dollar (US Dollar Index)	102.92	0.40%	-0.58%
Gold (London Afternoon Fix)	$1899.60	-4.05%	4.73%
Money Market Funds (Vanguard Federal - VMRXX)	5.19%	0.41%	0.95%*

*change in yield

Portfolio Planning

Paperless quarterly reports are coming from *Seasonal Strategy*

A number of *Seasonal Strategy* clients have opted to receive their quarterly reports digitally for some time.

Starting this quarter, we will be transitioning the remainder of our clients to digital reporting. The reasons are several.

Speed

We estimate that we can get quarterly reports to you a minimum of ***two days faster*** via electronic means versus conventional US Post Office delivery. The first quarter or two we do this may not see this time savings, due to initial setups. But the time savings will show up in the third quarter and beyond.

Security

Surely, bank-level encryption is far more secure than the vagaries of the US mail. It would take an estimated one billion years for a brute force attack to crack 128-bit encryption. Meanwhile, losses and misdeliveries of US mail total close to 1% of all mail delivered.

Environment

An e-mail with a 1MB attachment is responsible for an estimated 19 grams of added carbon dioxide in the atmosphere. (Our reports with all attachments should come in well below 1MB).

A similarly sized report of several pages in a 9x12 envelope can generate upwards of 50 grams of carbon dioxide. So e-mail represents a roughly 60% reduction of carbon footprint.

Storage and retrieval

With e-mailed or online reports, you can save them sequentially in a folder on your desktop and retrieve them at will. This can come in handy, especially the *Realized Gain and Loss* reports for your CPA. These electronic files take up no space at all, except on your hard drive, external, or in your cloud backup. Paper reports, after they are read, either go to recycling or get stored in eventually bulging file cabinets.

We will begin by e-mailing reports, with password protection on sensitive documents. Within a quarter or two, we will transition to an online vault system, where you will retrieve your set of documents with a passcode. ■

Email vs. Post

The environmental impact of your communications

THE NUMBERS

4G
THE APPROXIMATE CO2 EMITTED FROM AN EMAIL

19G
THE APPROXIMATE CO2 EMITTED FROM AN EMAIL WITH A 1MB ATTACHMENT

3.9B
UNIQUE EMAIL ACCOUNTS REGISTERED AT THE END OF 2013

29G
THE APPROXIMATE CO2 EMITTED FROM A POSTED LETTER

784
APPROXIMATE CALORIES BURNED BY THE AVERAGE MAIL CARRIER WALKING EVERY DAY

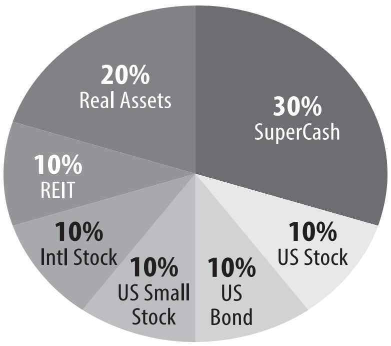
87%
OF POSTAL ITEMS ARE BUSINESS MAIL, WHILE 13% ARE SOCIAL MAIL

Source: eco2greetings.com

SuperDiversified Portfolios (SDPs)

AI mania triggers narrow stock rally

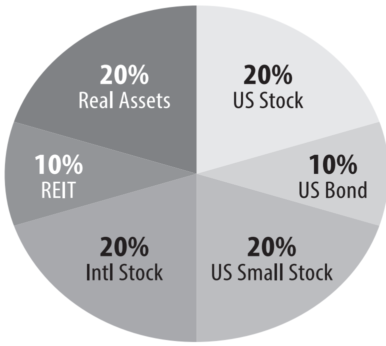
SDP1 *Conservative*



2nd Quarter **1.02%**

Year-to-Date **3.51%**

SDP2 *Moderate*



2nd Quarter **0.96%**

Year-to-Date **3.02%**

There has never been a US stock rally as narrow as that of the second quarter. Seven of the stocks in the S&P 500 now account for nearly all of the gain this year, while the other 493 have barely budged. The Magnificent Seven, as they are dubbed, includes Nvidia, Microsoft, Apple, Amazon, Meta, Tesla and Alphabet.

Most analysts chalk this up to a mania for artificial-intelligence-related stocks in the wake of advances that have led to ChatGPT, the fastest-growing consumer software application in history. Some are comparing its significance to that of the Internet — which begs comparisons of 2023 to 2000.

The above model portfolios are not intended to indicate the performance of any real account, but reflect the composite performance, before fees, of the percentage allocations in the asset classes and funds listed in the table below. Seasonal Strategy's actual allocations vary from these models, and among portfolios.

How the Sectors Performed

A flat quarter — except for the Mag7

Asset Class	Mutual Fund	Performance 2nd Quarter '23	Performance Year-to-Date	
SuperCash	PIMCO Instl Low Duration	-0.86%	0.69%	Best
	Merger	-1.18%	-1.13%	Worst
	Calamos Market Neutral	2.66%	5.84%	
US Stock	Vanguard Index Trust 500	8.70%	16.81%	
US Bond	Vanguard Long-Treasury	-2.62%	3.83%	
US Small Stock	Vanguard Small-Cap Index	5.29%	9.19%	
Intl Stock	Vanguard Intl Index	2.54%	9.35%	
REIT	Vanguard REIT Index	1.60%	3.36%	
Real Assets	PIMCO Commodity Real Return	-5.91%	-9.98%	

You can see by this table that the majority of our asset classes were tepid, flat, or down slightly this quarter. The only exception was US large-company stocks due to the AI-mania-goosed performance of the Magnificent Seven stocks mentioned above.

As an echo of year 2000, we're getting a little bit of a two-tiered market here, with value stocks worldwide quite cheap amidst this frenzy for growth stocks, and, as mentioned on page 1, with much income product going begging as well. Back in 2000, these proved prudent places to accumulate.

KRE: A mea culpa

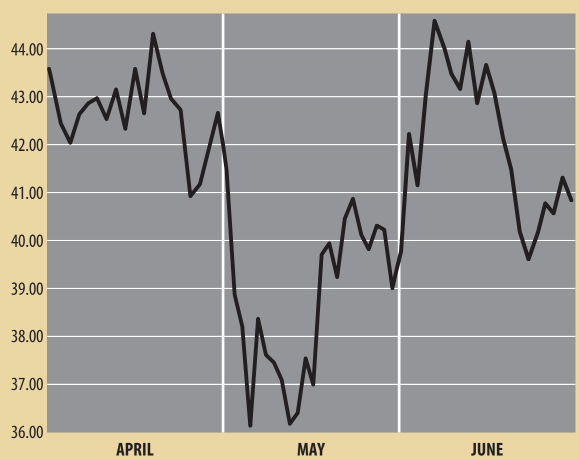
Sometimes we get things right, sometimes we get things wrong, and occasionally it's a little of both. Last quarter in this column, we highlighted the SPDR Regional Banking ETF, KRE. It was trading at the time at 41.90, and we said we'd be interested if it sold off to the mid-thirties.

In mid-May, KRE lurched down to a closing low of 36.18 and an intra-day low of 34.52. Did we accumulate it for client portfolios? No, we didn't pull the trigger, as we anticipated slightly lower lows. That was a mistake, as KRE then rebounded sharply, trading as high as 44.59 on June 7 — a 29% gain in less than a month.

Subsequently, KRE has sold off once again, and is now trading at 39.70 (as of 6/23). We think we may get a second bite at it this quarter. But clearly we missed a fine trading opportunity. That happens. Next time, we plan to put in GTC (Good Till Cancelled) orders at a specific price, to catch the ETF if and as it should swoon toward its May lows.

KRE: A sharp rebound now moderating

KRE chart, 2023, Q2



KRE indeed dipped down to our mid-30s buy range and subsequently rallied nearly 30%. In late June, it is once again selling off. If another shoe does drop among regional banks, KRE could challenge its May lows. *Source: Yahoo Finance*

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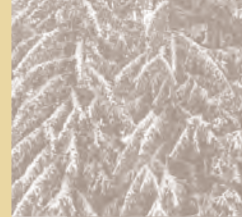

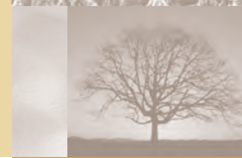

Seasonal Strategy is moving

This Fall, *Seasonal Strategy* will be moving its headquarters from Alameda, California to Reno, Nevada. The move is for reasons of both economics and lifestyle.

Why Reno?

Seasonal Strategy's costs have risen in recent years, and in order to hold the line on our industry-low fees, a move is in order. Nevada has zero state income tax, lower business costs, and roughly 25% lower cost of living than the Bay Area. Reno is the closest major out of-state city to the Bay Area, only 3½ hours by car and less than an hour by plane. Its downtown Riverwalk District location offers increased convenience, high-speed Internet, on-site gym facilities and other time-saving amenities that should leverage our time to service clients.

Is MoneyWell also moving?

Sue and I have decided to part ways after 26 years of marriage. The divorce is amicable, and we will continue to work together as usual, helping each other with client issues. We remain each other's biggest support. Sue will stay at the Fountain Street location, where she will continue to run her business, *MoneyWell*.

What about in-person meetings?

Due to the close proximity of Reno, Bob will be back in the Bay Area periodically, and will cluster in-person meetings during those visits. *Seasonal Strategy* intends to increase the use of Zoom and Google Meets for virtual client conferences. There should be no diminution of client contact.

What is the precise timing of the move?

The initial move should take place shortly after the end of fourth-quarter reporting, between October 15 and October 20. There will be some back-and-forth in the fourth quarter, but the business should be running smoothly in the new location by early November.

Is Reno the final destination?

Seasonal Strategy's intention is to headquarter in Reno for the next year or two to establish residency and leverage the business-friendly climate. After that, the plan is to search for a locale or locales that contain costs, offer business-friendly policies and services, and work best for our clients.

Any other changes?

We'll be transitioning to digital reporting over the next quarter or two. Page 2 outlines some of the advantages. Paperless reporting is where the whole industry is moving (or has already moved) and is more in accord with our increased business mobility.

Inquiring minds want to know…

The above are some of the most anticipated questions, but you may have others. Feel free to call or e-mail with them. And know that we intend to be serving you for a long time and plan to evolve our resources to higher and higher levels of effectiveness. ■