

The Conservative Strategist

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STRATEGY

AI mania reaches loony proportions. Just look at Nvidia.

Ok, now this is really getting out of hand. The momentum trade we cited last quarter has advanced even further in Q2. Calling this irrational exuberance would be quite an understatement.

Consider the loopiness

As of May 31, the Top 10 Stocks had a market cap of \$15.09 trillion which represented 34.07% of the S&P 500. The previous record level of concentration was 32.87% which occurred in 1963.

Nvidia, the quintessential AI play, has now passed *Apple* and *Microsoft* as the world's most valuable public company. The three together comprise a market cap of \$9.9 trillion, or 21.5% of the S&P. They are worth more than the entire S&P 500 was worth as recently as September 2011. And each is worth more than the entire stock market of France.

Nvidia is now worth more than \$100 million per employee.

In the 6 weeks leading to June 5, *Nvidia's* gain in market cap, more than one trillion, was more than all of *Berkshire Hathaway*. In other words, *Nvidia* gained more in 6 weeks than the company of the world's greatest investor accomplished in 60 years.

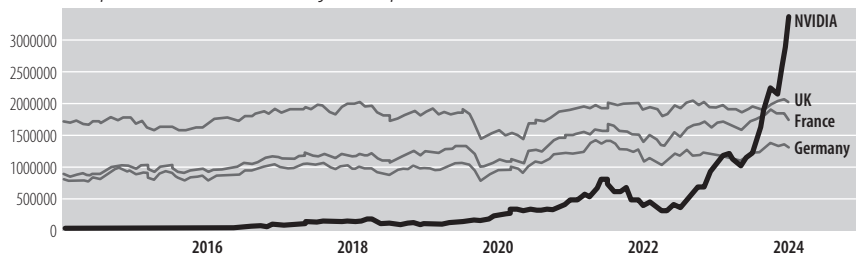
Valuations defy sense

Nvidia is valued at 42x and 78x trailing sales and earnings on an unsustainable 54% net profit margin.

Microsoft is valued at 14x trailing sales and 39x earnings on a 36.4% net margin. *Apple* is valued at 8.6x and 33x trailing sales and

When nations tremble

Market caps of Nvidia vs the 3 major European markets, in USD millions



In 2024, the market valuation of Nvidia, now the world's most valuable public company, soared past the total valuation of the stock markets of Germany, France and the UK. At this writing, Nvidia was worth more than twice the valuation of the German and France stock markets, and 60% more than the UK's stock market. Source: Jesse Felder on X; FactSet

earnings on a record 26.3% net margin.

These are crazy numbers from which no stock is likely to offer healthy returns over a 10-year period — and from which many have collapsed, as did the big tech stocks post-2000 — a year that 2024 is beginning to resemble quite closely.

As in 2000, some neglected asset classes and sectors

Amidst the bubble in US growth stocks, techs in general and AI plays in particular, there are some areas that have been

overlooked by investors. Value stocks are bargains compared to their growth counterparts. Emerging markets stocks are reasonable values. Not screaming buys, but ultra-cheap relative to US stocks. Several sectors of the bond market are offering compelling value, including legacy mortgage-backed and regulatory capital relief securities (see page 3). Private credit remains compelling, and we are fully allocated there. Yields are low double digits and credit losses are near historical lows, though rising. ■

The Markets	June 28, 2024	Price/Yield	Gain, Qtr	Gain, YTD
US Stocks (S&P 500/Vanguard Index)		5460.48	4.25%	15.21%
International Stocks (Vanguard Index)		19.34	0.73%	5.61%
Emerging Markets Stocks (Vanguard Index)		27.82	5.21%	7.23%
Real Estate Stocks (Vanguard REIT Index)		27.87	-1.94%	-3.12%
Bonds (30 year US Treasury/Vanguard Index)		4.51%	-1.63%	-4.83%
Dollar (US Dollar Index)		105.85	1.26%	4.46%
Gold (London Afternoon Fix)		\$2323.60	4.93%	11.80%
Money Market Funds (Vanguard Federal - VMRXX)		5.30%	+0.01%	-0.02%*

*change in yield



Retire Overseas: Cheaper, calmer, safer, healthier, more fun

If you feel like life in the United States is getting more difficult, you're not hallucinating. We're about to elect a President (either one) who will be an octogenarian in office (the current President already is). And one candidate is a convicted felon. The political divide is wider than ever, with the center failing to hold. So is inequality. Infrastructure is crumbling. The national debt is at a new record, and no one seems to care. The cost of living is climbing. Crime and homelessness are plaguing our cities. Mass shootings are a daily inevitability. And the health care system seems to deteriorate every year.

Think this is not an ideal retirement scenario? You're not alone. The *Association of American Residents Overseas* (AARO) estimates 9 million Americans now live abroad. And Social Security estimates that more than 700,000 Americans are receiving their Social Security checks overseas (something that is no problem *even if you renounce US citizenship*).

Why? At least three reasons.

Higher quality of life / low cost of living

The US ranks 15th and dropping for *Quality of Life*. Better weather, beautiful surroundings, healthier food, friendlier people and a more relaxed vibe all contribute to the attraction of its competitors. Eleven of the fourteen countries that rank higher on the global list are cheaper to live in than the US, as well. Some countries lower than but close to the US on the quality list are one-half of our cost of living or less. Think Spain and Portugal.

Affordable, excellent healthcare

The US now ranks 37th(!) among major nations for healthcare. Americans regularly travel to the likes of Mexico, Thailand, Malaysia, and Colombia as *medical tourists*,

where they can obtain critical surgeries and other expensive procedures so much cheaper than in the US that they can throw in their vacation costs and still save money.

I was in the Philippines in February and March. Having caught a serious respiratory virus on the plane there, I visited an emergency room at one of the Allied Care Experts (ACE) hospital facilities, near Cebu City.

How did my visit go? I was greeted immediately, and check-in took just eight minutes. I had a 20-minute visit from a University-trained doctor who gave me a thorough examination and consultation, prescribing two medications. Those medications were available immediately at the linked pharmacy adjoining the facility's lobby. Total time of visit: 36 minutes. Total cost: Only \$32.

The US ranks on the global list right next to the Philippines. To me, on that day, there was no comparison.

Favorable taxation and other retirement perks

Some countries have favorable taxation for retirees, whether it be lower rates or exemptions on foreign income. Also, under some circumstances, the first \$120,000 of US income of foreign residents is exempt from US taxation. In Georgia, it's possible to pay as little as a flat 9% on all net income.

Meanwhile, some countries offer huge discounts for everyday services for retirees. Costa Rica's *Pensionado* program allows access to the national healthcare system, the *Caja*, at low cost. Eligibility? Just a lifetime pension of \$1,000 per month or more. Panama's *Pensionado* offers 50% off entertainment events, 25% off airlines, 25% off restaurant meals, and 20% off already cheap medical consults.

American exceptionalism can go too far. We are no longer the greatest country in the world, in many respects. In other ways, we are in serious decline. For retirees, there may be more attractive shores awaiting. ■

No wonder medical tourism is a thing

Rank of world cities in Numbeo's Global Health Care Index

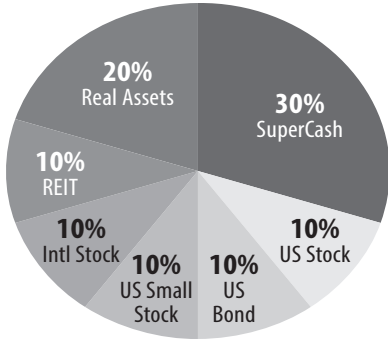
- 1 Taipei, Taiwan
 - 2 Chiang Mai, Thailand
 - 3 Seoul, South Korea
 - 4 The Hague (Den Haag), Netherlands
 - 5 Rotterdam, Netherlands
 - 6 Guadalajara, Mexico
 - 7 Valencia, Spain
 - 8 Helsinki, Finland
 - 9 Vienna, Austria
 - 10 Porto, Portugal
-
- 24 Paris, France
 - 25 Barcelona, Spain
 - 26 Copenhagen, Denmark
 - 27 Bangkok, Thailand
 - 28 Madison, Wisconsin, United States
 - 29 Brno, Czech Republic
 - 30 Stuttgart, Germany

The highest-ranking US city for healthcare is #28 on the world list. Meanwhile, cities with much lower cost of living than the average US city (Chiang Mai, Guadalajara, Valencia, Porto) rank much higher for health care. Source: Numbeo

SuperDiversified
Portfolios (SDPs)

SDPs gain again, but the advance is narrower

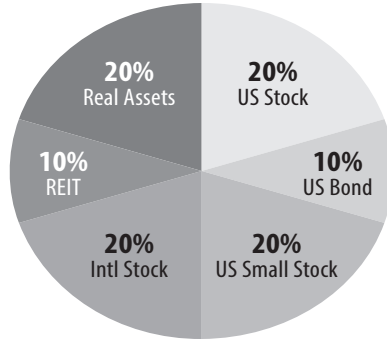
SDP1 Conservative



2nd Quarter **0.21%** Year-to-Date **2.50%**

While both our SDP portfolios have been up in both quarters of 2024 thus far, the Q2 advance depended on two asset classes that normally move out of sync with one another: US Stocks and Real Assets.

SDP2 Moderate



2nd Quarter **-0.05%** Year-to-Date **1.95%**

Meanwhile, the other five asset classes were down on balance, with notable poor performances in small stocks and REITs. And SuperCash was up only fractionally, lagging cash this quarter.

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

Ho-hum quarter except for AI

Asset Class	Mutual Fund	Performance 2nd Quarter '24	Performance Year-to-Date	
SuperCash	PIMCO Instl Low Duration	1.05%	1.62%	Best
	Merger	0.06%	0.58%	Worst
	Calamos Market Neutral	1.45%	3.26%	
US Stock	Vanguard Index Trust 500	4.25%	15.21%	
US Bond	Vanguard Long-Treasury	-1.63%	-4.83%	
US Small Stock	Vanguard Small-Cap Index	-4.17%	3.00%	
Intl Stock	Vanguard Intl Index	0.73%	5.61%	
REIT	Vanguard REIT Index	-1.94%	-3.12%	
Real Assets	PIMCO Commodity Real Return	2.27%	4.54%	

The narrowness of gains is the hallmark of this market, and an unhealthy thing. Without the US Stock (US large company stocks) category, the six other asset classes combined were up only fractionally.

And within the US Stock category, value stocks were flat while growth stocks were up more than 7%. Finally, among growth stocks, nearly all gains were due to already bubbly AI-related stocks.

Clean energy

It's getting increasingly difficult to find bargains in the equity markets. But there's one exception: Renewable energy.

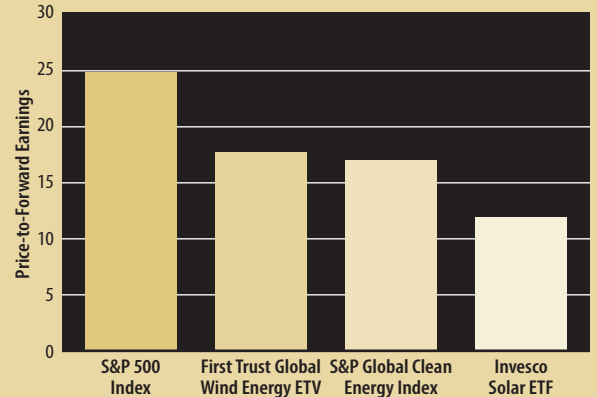
Clean energy stocks have performed abysmally over the past three years even while medium- and long-term prospects improve. The *WilderHill Clean Energy Index* is down 82% since its peak in February, 2021, and 32% in the past three quarters, with every fledgling rally slammed down to new lows.

At this point, the industry is trading at a P/E that is roughly half that of the S&P 500, but with current and prospective earnings growth well above that of the S&P — and renewables representing 86% of all new power capacity additions globally.

We continue to like *Brookfield Renewable Partners* (BEP) in this space, but also intend to broaden exposure through the *Invesco WilderHill Clean Energy ETF* (PBW), based on the index above.

Clean & Lean

Price-to-forward-earnings ratios of the S&P and three global clean energy proxies



Despite superior growth projections, the three clean energy proxies above sell at valuation discounts of 30% to 50% relative to the S&P 500. Similar undervaluations in the mining industry in 2016 and fossil fuel producers in 2020 resulted in outperformance of several hundred percent, according to investment firm GMO.

Source: GMO





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Five cities to start your retirement journey (with the help of ChatGPT)

I asked ChatGPT, the artificial intelligence program, to start your retirement journey with five cities that combine high quality of life with low cost of living. Here's what it gave me.

1 Lisbon, Portugal

Cost of Living: Affordable housing, inexpensive food and public transport
Quality of Life: Excellent climate, rich cultural scene, friendly locals, good healthcare
Highlights: Beautiful architecture, vibrant nightlife, proximity to beaches

2 Chiang Mai, Thailand

Cost of Living: Low rent, cheap food, affordable healthcare
Quality of Life: Laid-back lifestyle, strong expat community, good infrastructure
Highlights: Beautiful temples, scenic mountains, relaxed pace of life

3 Medellín, Colombia

Cost of Living: Inexpensive rent, low-cost dining, affordable public services
Quality of Life: Pleasant climate (known as the "City of Eternal Spring"), improved safety, thriving cultural scene
Highlights: Modern metro system, green spaces, dynamic nightlife

4 Budapest, Hungary

Cost of Living: Reasonable rent, affordable utilities, inexpensive groceries
Quality of Life: Rich history, vibrant

cultural life, excellent public transportation, good healthcare

Highlights: Stunning architecture, thermal baths, lively festivals

5 Tbilisi, Georgia

Cost of Living: Low rent, affordable food, cost-effective public services
Quality of Life: Friendly locals, emerging expat community, blend of European and Asian cultures
Highlights: Unique architecture, vibrant arts scene, and beautiful natural surroundings

Then I asked ChatGPT for estimated monthly costs of living for two people in a one-bedroom city center apartment in each city. It gave me detailed breakdowns (rent, utilities, groceries, transportation, dining out, leisure) but the totals are eye-popping:

Lisbon, Portugal	\$1,830
Chiang Mai, Thailand	\$1,010
Medellín, Colombia	\$1,120
Budapest, Hungary	\$1,420
Tbilisi, Georgia	\$ 890

If you want to live an opulent lifestyle, double or even triple the above numbers, and they remain either comparable to or lower than an average lifestyle in the San Francisco Bay Area:

San Francisco, CA	\$4,900
Oakland, CA	\$3,720
San Jose, CA	\$4,000

Valencia, Spain: The Breakdown

My favorite city for overall lifestyle in Western Europe is Valencia — Spain's third largest after Madrid and Barcelona. While I'm focusing on Asia first, Valencia will be at the top of my list when I explore Europe. Here's a detailed breakdown of Valencia for a couple living in a one-bedroom apartment in the city center, living a modest but comfortable lifestyle.

Housing	
Rent (1-bedroom apt in city center)	\$880
Utilities	
Gas, electric, water, garbage	\$110
Groceries and Dining Out	
Monthly groceries	\$330
Dining out (2-3 times a week)	\$220
Transportation	
Public transport (pass for two)	\$88
Occasional taxi/Uber	\$44
Leisure and Entertainment	
Cinema, theater, concerts, etc.	\$110
Internet and Phone	
Internet (fiber optic, unlimited data)	\$44
Mobile phone (2 lines, unlimited)	\$44
Healthcare	
Private health insurance	\$110
Miscellaneous	
Clothing, personal care, etc.	\$110
Grand Total	\$2,090