The Conservative Strategist

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The economic idiocy ahead

On the campaign trail, Donald Trump claimed repeatedly that illegal immigrants are accelerating the demise of Social Security through free-loading. This is one of those lies that is the polar opposite of the truth. In fact, illegal aliens pay close to $30 billion per year in FICA taxes doing on-the-books jobs — and get back precisely zero, since they are ineligible for Social Security and Medicare benefits.

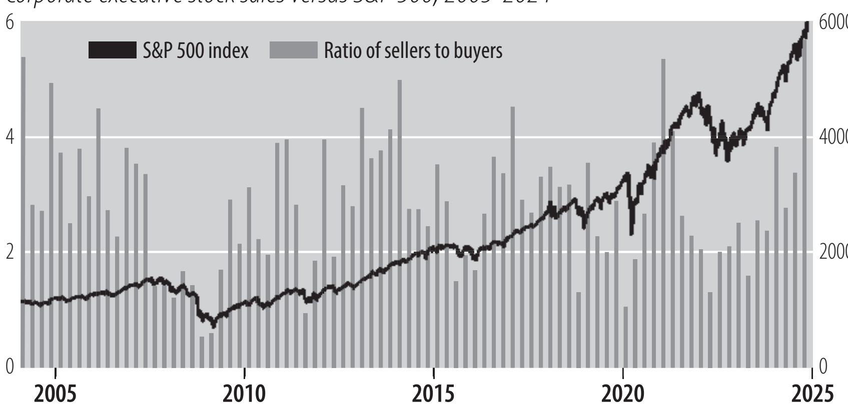
In the next four years, it's likely that we can expect more of this nonsense. Only now we can see it turn into policy and action. Perhaps some of the most danger-ous and damaging actions will be around immigration and deportation.

There are 11 million undocumented immigrants in the United States, and Trump is pledging to mass deport all of them, even threatening to use emergency measures and deploy the military to do so. For better or worse, the undocumented do many jobs domestic workers don't want, and have become the backbone of key sectors in the economy, from agriculture to restaurants to construction (particularly plumbing and electrical work) to child and elder care. Mass deportations will savage these sectors.

Without this reserve supply of cheaper labor, who will pick our vegetables, cook our meals, fix our broken pipes and care for our children and elders? How will we replace all these vacant jobs and at what cost? You can bet that there is no one in the Trump administration performing this analysis and working on remedies.

Does this look like investor confidence?

Corporate executive stock sales versus S&P 500, 2003-2024



The intensity of selling by the people who know their companies best just reached an all-time high, with nearly six shares sold for every one bought. *Sources: VerityData, LSEG via markets.ft.com; Financial Times*

According to Peter Simon, professor at Northwestern University: "People who build houses, people who are in lawn care, people who do daycare, people who put on roofs — all of these kinds of services are just going to go."

Adds Simon: "It won't just trickle down; it will flood down pretty quickly in terms of the loss of GDP. That's what's going to cost the country. Our growth rate right now is not bad. It's around 3% or 4%, which is his-torically about average. That's going to take a hit, and we're going to feel the difference."

What are the odds that the Trump admin-istration will be able to address the knock-on effects of this draconian measure? And this is just one example of a policy that has not been thought through and sufficiently analyzed. With a planned mass deporta-tion 27 times the largest one previously attempted in American history, it's time to brace for economic disruption, higher inflation, and hits to the quality of life for the average American. ■

The Markets	December 31, 2024	Price/Yield	Gain, Qtr	Gain, 2024
US Stocks (S&P 500/Vanguard Index)		5881.63	2.37%	24.84%
International Stocks (Vanguard Index)		27.54	-7.40%	5.14%
Emerging Markets Stocks (Vanguard Index)		28.02	-5.45%	10.81%
Real Estate Stocks (Vanguard REIT Index)		29.62	-7.68%	4.76%
Bonds (30 year US Treasury/Vanguard Index)		4.75%	-9.04%	-6.74%
Dollar (US Dollar Index)		108.48	7.67%	7.06%
Gold (London Afternoon Fix)		$2609.10	-0.79%	25.53%
Money Market Funds (Vanguard Federal - VMRXX)		4.42%	-0.46%	-0.88%*

*change in yield

Portfolio Planning

Trump and your portfolio

About the time you receive this, Donald Trump, our former 45th President, will be inaugurated as our 47th President as well. Roughly half the country is nervously excited. The other half is steeling itself. The latter includes myself and, by my count, all of my clients. My task as your Investment Adviser is to roll with the punches and position your portfolio based on the way things are and likely will be, not how we would wish them to be. There is a nearly overwhelming number of things that we cannot change, but what we can do is adapt and adjust your portfolio to the circumstances of another Trump presidency, with its stronger mandate than 2016 and clear conservative control of all three branches of government.

What we cannot change: Trump's policies

Trump won on the promise of broad and deep tax cuts, extreme deregulation, and high tariffs, as well as mass deportations. Every one of these measures has its independent consequences, but all are inflationary. Trump is clearly willing to risk a ballooning of the national debt in pursuit of high economic growth. Balance is not a feature of his economic plan. It is a heavy step on the accelerator, and to hell with the brakes. With a favorable Congress, he is likely to get much of his agenda enacted.

Under the first Trump presidency, the Federal debt increased by $7.2 trillion, or half as much as it had under all 44 prior Presidents combined. Granted, part of that was a response to the pandemic and lockdown, emergency medicine for a rapidly failing economy. But it also took place with some checks and balances on Presidential authority that no longer will be in place from 2025 to 2028. Goldman Sachs projects that Trump's economic plan will add more than $10 trillion to a public debt that is already eating deeply into the government's ability to spend on proven long-term projects like infrastructure and education.

The implication is that the gradual and steady descent of interest rates that investors have bet on for more than a year may not only abate, but be reversed by inflation fears and in turn, actual higher inflation. Already, the bond market has slumped markedly since November 6. With it, the US Dollar has rallied in the short-term (global investors flock to where they can obtain the highest yields).

US stocks, too, rallied more than 4% in the few days after the election, but then gave back half those gains in the following few sessions. Investors were initially excited about the prospect for corporate profits given promised corporate tax cuts and deregulation. But a sense of moderation, even caution, has since set in, given the substantial uncertainty that accompanies Trump's second term.

What we can change: Portfolio allocation

There is a wide band of scenarios for US stocks under Trump's presidency, given that his policies are growth-goosing but inequitable and inflationary.

But for the other asset classes, scenarios are somewhat clearer.

Fixed income challenged

In Bonds, fixed-rate income is likely to be under pressure from the firmer rates that accompany price pressures. But floating-rate securities like leveraged loans should

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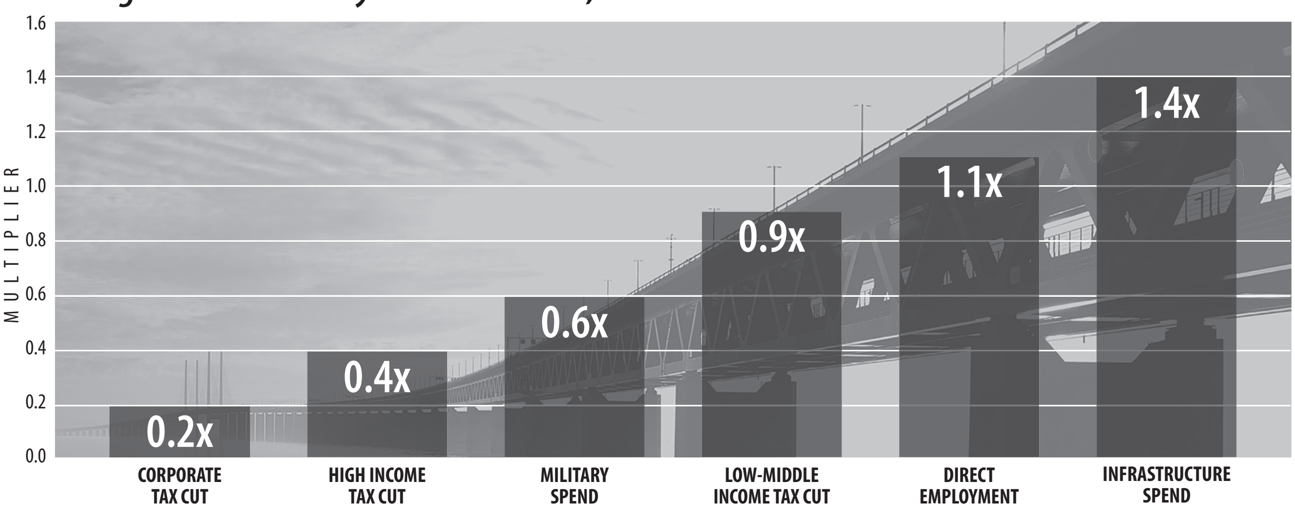
Want to grow the economy? Infrastructure, not tax cuts

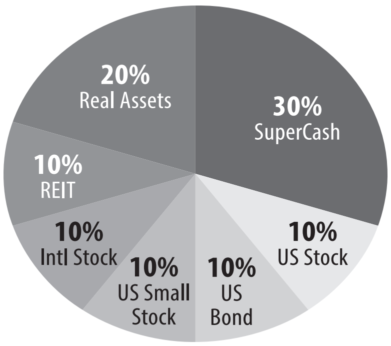


The highest fiscal multiplier (GDP boost per dollar of spending) of all government spending programs is infrastructure, while the lowest is corporate tax cuts. In his first term, Donald Trump promised a trillion dollars in infrastructure spending — and delivered zero. But tax cuts for firms and the wealthy were a centerpiece of his policy. If GDP is going to outrace the deficit in his second term, he needs to shift priorities. Source: Goldman Sachs, 2016

SuperDiversified Portfolios (SDPs)

Buffett & Berkshire cast votes for a bear

SDP1 *Conservative*

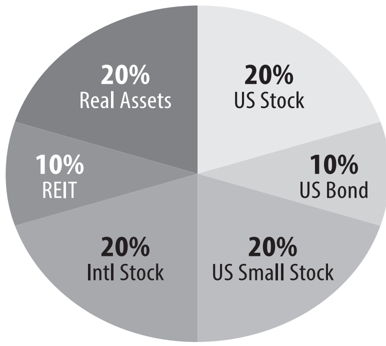


4th Quarter **-2.06%**

2024 **6.01%**

It's likely that 95-year-old Warren Buffett will never have a year this good for the rest of his life. *Berkshire* rose more than 27% in 2024, and both its private and public portfolios seem to be running on all cylinders. Amidst this bounty, Buffett has been busy lowering risk for many months.

SDP2 *Moderate*



4th Quarter **-2.22%**

2024 **4.59%**

He has sold most of his largest position, *Apple*. He has been a net seller of stock for two years in a row now, raising *Berkshire*'s cash to a record $325 billion. And for the first time in seven years, he has bought back none of his own company's stock. He is adhering to his motto: Be fearful when others are greedy.

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

Valuations rich across most target asset classes

Asset Class	Mutual Fund	Performance 4th Quarter '24	Performance 2024	
SuperCash	PIMCO Instl Low Duration	-0.26%	4.46%	Best
	Merger	0.62%	2.91%	Worst
	Calamos Market Neutral	1.26%	7.13%	
US Stock	Vanguard Index Trust 500	2.37%	24.84%	
US Bond	Vanguard Long-Treasury	-9.04%	-6.74%	
US Small Stock	Vanguard Small-Cap Index	1.63%	14.10%	
Intl Stock	Vanguard Intl Index	-7.40%	5.14%	
REIT	Vanguard REIT Index	-7.68%	4.76%	
Real Assets	PIMCO Commodity Real Return	-2.09%	4.13%	

As 2024 nears its close, the cyclically-adjusted 10-year price-earnings ratio of the S&P, also known as the CAPE Ratio, stands at a stratospheric 38.8, an all-time high except for about 20 months in 1999 and 2000. Small stocks and international stocks are also pricey, though not quite at such extremes.

In Bonds, high-yields are near their tightest spreads to Treasuries in 25 years, aka very expensive. Elsewhere, the situation is a little more promising. Real Estate is somewhat close to fair value, both domestically and globally. Aside from precious metals, the Real Asset complex still holds opportunity. And so does SuperCash.

Cat Bond update

With opportunity present in catastrophe bonds, we didn't wait for the debut of the ROAR ETF, which is still in process. Instead, at the end of Q3, we invested in the most popular cat bond mutual fund, *Pioneer Cat Bond* (CBYYX) for nearly all of our clients, taking either a full 5% allocation or a 2.5% starter position.

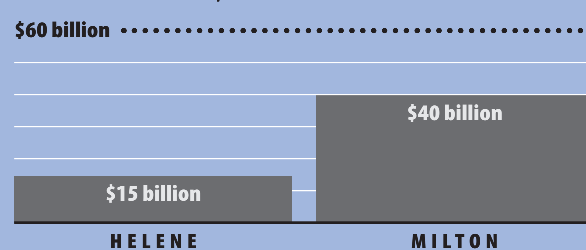
We thought the timing was solid, since Hurricane Helene had just swept through the Gulf Coast of Florida on September 26, and the best time to invest in catastrophe bonds is just after a major event, as the damage to the bonds is already done, and ahead lie rises in premiums and deductibles, firmer underwriting standards, and the kind of stronger building codes that limit future liabilities and raise cat bond returns.

But two weeks later, along came Hurricane Milton, in the worst one-month one-two punch the Florida coast has ever seen. Result? CBYYX lost about two percent — and recovered it all within a week.

Reason: It takes a $60 billion adverse event to affect Net Asset Value (NAV), and as reports came in that the Tampa/St. Pete area avoided a direct hit, it was clear that damage would be well under that figure. The bonds continued to firm. In Q4, our investors gained 3.4% in CBYYX. And we're collecting roughly 1% per month in bond interest.

It takes a lot to damage our cat bonds

Insured losses for Hurricanes Helene and Milton vs. reinsurance limit per event



It takes a massive event to trigger reinsurance limits and begin to impact the NAV of CBYYX. Even Hurricane Milton, the so-called Storm of the Century on the Florida Gulf Coast, did not come close to hitting those limits. Hence the fund NAV remained fully intact.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Robert J. Gavrich
CA-Licensed Investment Adviser
President, Seasonal Strategy
1517 Fountain Street • Alameda, CA 94501

Phone 415.956.1721
Fax 415.956.1722
Email bob@seasonalstrategy.com

seasonalstrategy.com

Trump and your portfolio

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continue to do well. And the private credit funds we invest in (nominally under SuperCash, but filled with floating rate obligations) should do especially well under a growth-promoting administration. We like our high allocation there.

Intl Stocks, Real Estate a mixed bag

As for International Stocks, we think that the Dollar will eventually reverse when it's clear that the American debt is nearly unsustainable. This should put a tailwind under the select foreign countries that are least impacted by Trump's tariffs. Also, investors underestimate how much many foreign countries have increased trade with each other versus with the US, boosting their insulation. Finally, foreign stock markets should fully discount the pain of Trump tariffs by early in his Presidency, and we expect bargains there, especially in ex-China Asian emerging markets, where inflationary pressures should help their commodity-driven exports.

Meanwhile, Real Estate is a mixed bag, with rents strongly supported, but the high-income nature of REITs impacted if rates firm. Real estate operating companies (REOCs), usually income-free, will beat REITs in this environment.

Real Assets and SuperCash should thrive

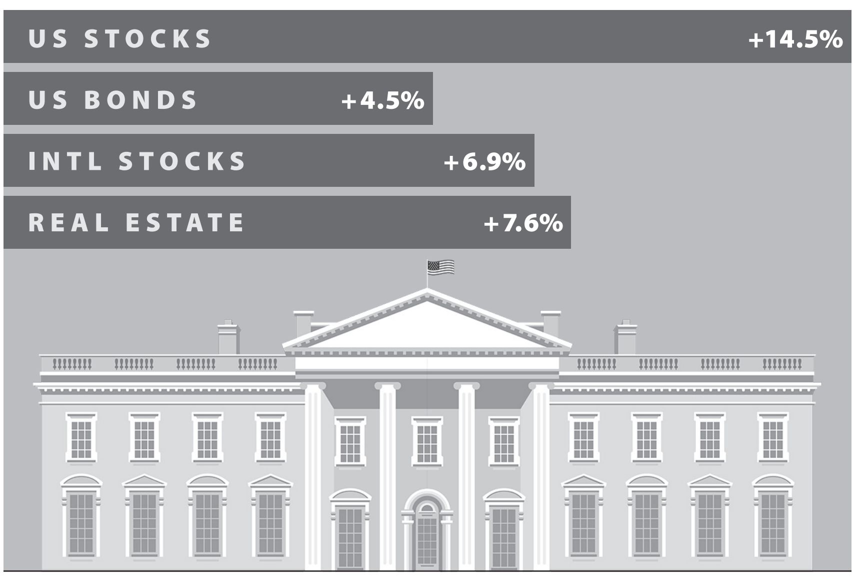
The big beneficiary should be Real Assets, especially those supported by cash flows, like infrastructure, energy infrastructure and energy stocks. Farmland and timberland also should benefit. Finally, raw commodities should be supported in an inflationary backdrop. And while precious metals initially sold off after the election, they should thrive with the combination of firm inflation and geopolitical uncertainty. We look to increase Real Assets exposure to an Overweight in the next couple of quarters, as opportunity merits.

Finally, many of our SuperCash funds do well in an environment of high or rising interest rates, so we maintain full allocations there.

Overall, we think that the growth-at-all-cost nature of a second Trump term will result in higher inflation and favor real income-producing assets over financial assets. The outperformance could be substantial, given that as of 2024, real assets are at or near all-time lows relative to financial assets. We think that in Trump's first year, smart investors will begin tilting their portfolios toward real assets for both offensive and defensive purposes. And we would like to be a move or two ahead of that shift. ■

Major asset classes under Trump's first term

Average annual returns, January 2017 to January 2021



US stocks thrived under Trump's first term, pandemic notwithstanding. The other major asset classes, not so much.

The dirty little clean energy secret of Trump's first term

Clean energy stocks and ETFs sold off an average 7% in the days after Trump's election. But are these fears warranted? For all his bombast, Trump was not unfriendly to clean energy in his first term. The industry fared well, as strength in energy in general and favorable global demand and regulatory trends overwhelmed any anti-clean energy rhetoric or action. In a second term, with Elon Musk looking over his shoulder, Trump likely will be no more antagonistic toward renewable energy than he was in term one.