SEASONAL STRATEGY

The Conservative Strategist

JULY 2026

A QUARTERLY INVESTMENT NEWSLETTER PUBLISHED EXCLUSIVELY FOR CLIENTS OF SEASONAL STRATEGY

Lost in SpaceX

It's an eventful season. America's 250th. The World Cup here in the USA. The Knicks winning the NBA Championship for the first time since 1999 (oops).

And it's been a season of the mini-bubble. In semiconductor stocks. In memory stocks. And now in the stock of a new space exploration company.

SpaceX. The largest IPO ever, making Elon Musk the world's first trillionaire. Coming out at a dizzying $1.75 trillion initial valuation, it proceeded to rise 19% on Day One, and another 19% on Day Two. By the middle of Day Three, the stock was up 50% since the IPO, and arguably the most expensive large-company stock ever, selling at an absurd 135 times revenues. Not earnings. Revenues.

Listen to Scott

To give you an idea of how expensive that is, *Sun MicroSystem's* founder Scott McNealy once said:

"Two years ago, we were selling at ten times revenues when we were at $64. At ten times revenues, to give you a ten-year payback, I have to pay you 100% of revenues for ten straight years in dividends. That assumes I can get that by my shareholders. That assumes I have zero cost of goods sold, which is very hard for a computer company. That assumes zero expenses, which is really hard with 39,000 employees. That assumes I pay no taxes, which is very hard. And that assumes you pay no taxes on your dividends, which is kind of illegal. And that assumes, with zero research and development for the next ten years, I can maintain the current revenue-run rate... Do you realize how ridiculous those basic assumptions are? You don't need any transparency. You don't need any footnotes. What were you thinking?"

Ten times revenues. From those Internet Bubble days, that has come to be the standard for a stock that is at an absurdly high, unsustainable valuation. A company would have to execute flawlessly and compound capital at high rates over a very long-time horizon to justify paying that kind of price.

Show us the money

But *SpaceX* debuted at a valuation of **90 times** revenues, and in three days sold at **135 times** revenues. This for a company that *lost* $4.9 billion in 2025. Its primary way to transport to and build in space, *Starship*, has yet to have a successful launch.

Granted, *SpaceX* has considerable upside if its three main businesses can execute over the long run. But currently, it's the highly visible symbol of a hyped-to-the-moon, hope-as-a-plan style of investing that has become all too common in the US Stock asset class today. ■

SpaceX: The Bull Case

For SpaceX to even come close to justifying current valuations, it has to boost revenue from about $18 billion today to nearly $1 trillion in ten to fifteen years. Here's the pitch for its three main revenue sources:

GLOBAL CONNECTIVITY *StarLink*, the satellite business, is a real company with potentially explosive growth. 10,000 satellites already in earth orbit. 100,000 planned for the next few years. Eventually? One million. The idea is to cover every place on the globe, no matter how remote, in Internet service, and become a de facto monopoly provider.

DATACENTERS IN SPACE Terrestrial datacenters are becoming increasingly problematic. Energy usage. Water usage. Land usage. Political opposition. Musk wants to put them in space. Energy from the sun. Cooling not an issue. All the room to construct without opposition.

COMPUTE FOR AI This is the newest catalyst driving the post-IPO mania. With the inclusion of xAI assets and the massive *Colossus* supercomputer clusters into the public entity, *SpaceX* is being valued as a core AI play. Landing massive enterprise deals — like *Anthropic's* reported $1.25 billion-per-month compute agreement — is the key. A big ask.

The Markets June 30, 2026	Price/Yield	Gain, Qtr	Gain, YTD
US Stocks (S&P 500/Vanguard Index)	7499.36	15.16%	10.13%
International Stocks (Vanguard Index)	27.47	11.99%	13.93%
Emerging Markets Stocks (Vanguard Index)	37.74	11.36%	11.07%
Real Estate Stocks (Vanguard REIT Index)	32.05	9.64%	11.04%
Bonds (30 year US Treasury/Vanguard Index)	4.91%	0.90%	0.71%
Dollar (US Dollar Index)	101.16	1.30%	2.93%
Gold (London Afternoon Fix)	$4026.05	-12.64%	-7.82%
Money Market Funds (Vanguard Federal - VMRXX)	3.60%	0.00%	-0.11%*

*change in yield

Portfolio Planning

Happy medium

In our winning-is-everything culture, *medium* doesn't catch any slack. We dismiss it with terms like *middling, mediocre,* and *run-of-the-mill.* Being *middle of the road* or *middle of the pack* is tantamount to being nowhere. I used to get teased in gym class as *Average Gavrich.*

But there's one place where medium shines. That's in portfolio construction. In the volatile world of investing, embracing the medium is not a compromise, it's a demonstrable edge.

Consider SuperDiversification, the portfolio construction of hyper-broad asset allocation *Seasonal Strategy* uses for clients. We intentionally spread client assets across seven major asset classes. If you consider Cash a separate asset class, that's eight.

In any one period (month, quarter, year), it's typical that one of these asset classes may soar, one may lag badly, and the other five will sort themselves somewhere between them. A portfolio balanced among all seven asset classes will seldom if ever perform as well as the best-performing asset class. It will also perform typically much better than the worst-performing asset class.

Correlation is destiny

While the medium return of SuperDiversification may appear somewhat uninspiring over any one year, something magical happens over the longer-term. It's the alchemy of diversification, working three ways.

First, there's the simple math of correlation. Owning dozens of assets that zig and zag in reaction to news produces a more stable return pattern than concentrating the portfolio in one or two asset classes. It's not merely theory. In 2000-2002, when US Stocks plunged more than 50% over several quarters, our portfolios actually averaged a slightly positive return, with great performances from our Real Estate and Real Assets categories, solid returns from Bonds (high-quality bonds can perform well in recessions), and a capital-preserving performance from SuperCash.

Preserving capital in challenging markets is critical, because it takes a lot to dig out of a deep hole. A 50% decline requires a 100% rally just to get back to breakeven. But a 10% decline only requires an 11% advance for the same result. It's called the *asymmetry of returns effect,* and it's the reason why SuperDiversification's shallower troughs help it prevail over long periods.

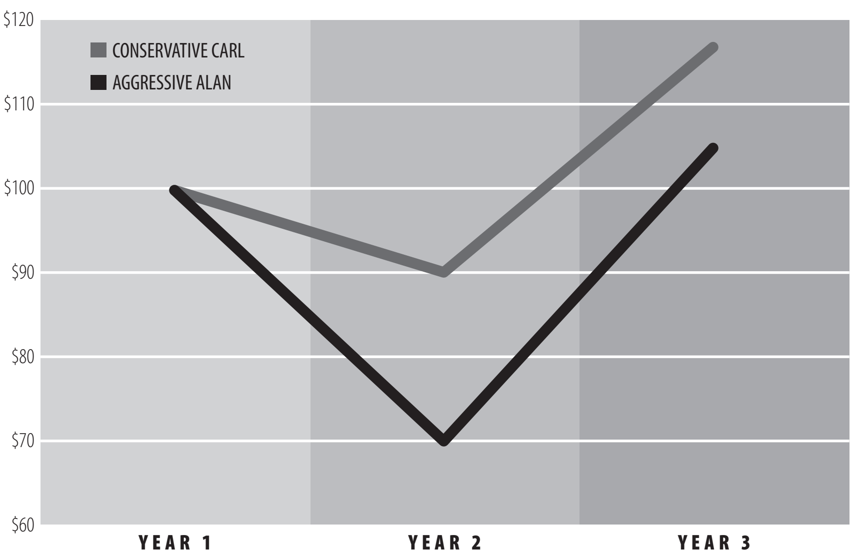
Why rebalancing works

Second, by rebalancing the portfolio periodically back toward our target percentages for each asset class, we automatically buy low and sell high. That's because the asset classes that have underperformed, and so quite often are cheap, will be added to. And the asset classes that have outperformed will weigh too heavy in the portfolio, and we will trim them.

An open field

Third and finally, because we focus on seven asset classes rather than one, two, or three, our *field of opportunity* is much broader. When one asset class is bereft of value, as US Stocks seems to be today, we don't have to sit on our hands. We have six other asset classes available in which to hunt for bargains. ■

How lower risk brings higher return



Two investors, Conservative Carl and Aggressive Alan. Both start with $100 and invest for two years. ***Both earn average annual returns of 10%.*** *(Carl loses 10% in year one but makes 30% in year two. Alan loses 30% in year one but makes 50% in year two). By the end of year two, Conservative Carl ends up with $117, Aggressive Alan only $105.*

SuperD: 55 years of looking Sharpe

The 55-year Sharpe ratio for the six non-cash asset classes and the SuperD equal-weighted strategy:

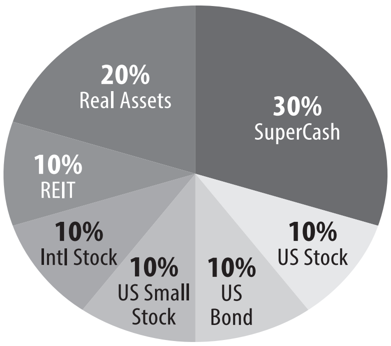
US STOCKS	0.47
US SMALL STOCKS	0.47
FOREIGN STOCKS	0.32
BONDS	0.26
REAL ESTATE	0.44
REAL ASSETS	0.20
SUPERD	**0.56**

The Sharpe Ratio is a universally-accepted measure of risk-adjusted return. Higher is better.

SuperDiversified Portfolios (SDPs)

SuperD lags stocks in Q2, but cuts a consistent swath YTD

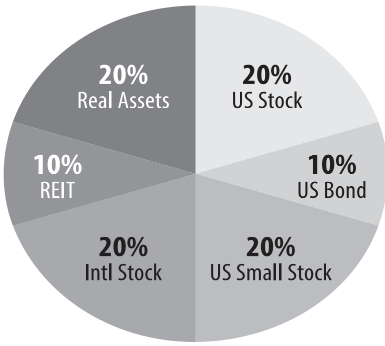
SDP1 *Conservative*



2nd Quarter	*Year-to-Date*
4.50%	***9.00%***

Consistent with our notion of a *happy medium*, SuperDiversification in Q1 was a welcome average of diverse asset class performances (US Stocks –4.37%; Real Assets +21.25%). Again in Q2, SuperD returned a happy medium of leading Stock indices and lagging Bonds and Real Assets.

SDP2 *Moderate*



2nd Quarter	*Year-to-Date*
8.41%	***12.93%***

So while the individual asset classes in the first two quarters varied from single-digit losses to 20%+ returns, the SuperD models cut a rather consistent swath in the 4%-per-quarter range, well ahead of the roughly 1%-per-quarter rate of inflation, and YTD still well ahead of the conventional asset benchmark, VSCGX.

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

Here comes an eventful 2nd half of 2026

Asset Class	Mutual Fund	Performance 2nd Quarter '26	Performance Year-to-Date
SuperCash	PIMCO Instl Low Duration	0.63%	0.63%
	Merger	0.75%	1.45%
	Calamos Market Neutral	2.67%	2.92%
US Stock	Vanguard Index Trust 500	15.16%	10.13%
US Bond	Vanguard Long-Treasury	0.90%	0.71%
US Small Stock	Vanguard Small-Cap Index	15.99%	18.16%
Intl Stock	Vanguard Intl Index	11.99%	13.93%
REIT	Vanguard REIT Index	9.64%	11.04%
Real Assets	PIMCO Commodity Real Return	-6.35%	13.55%

Best
Worst

Should be interesting! We have a tentative peace agreement from Iran, though it seems a stretch that they will give up control of the Strait of Hormuz. We have a new Fed Chairman. And we have an upcoming midterm election season. Any of these can produce surprises.

It's likely we will see greater-than-normal dispersion and volatility among our seven asset classes. SuperDiversification should continue to cut a path through this chaos that smooths some of the inevitable ups and downs. Inflation is both our bogey and something of a wildcard this season.

Big IPOs, Bad S&P

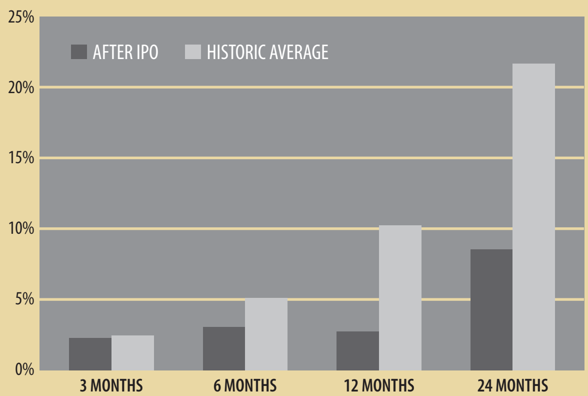
SpaceX, Anthropic, Open AI. Four trillion dollars of market capitalization going public within weeks. The US stock market has never had to deal with this kind of cluster of mega-IPOs. It's reasonable to assume that digesting that level of supply will keep stock prices in check for some time.

History confirms this assumption. Bloomberg looked at the top five IPOs of each decade since 1980, and subsequent S&P returns. The result? In the first three months after a major IPO, the S&P shows only slightly below-average returns. But in the 6 months, one year, and two years after the event, the S&P's returns are much lower than average.

Why this pattern of returns? It seems that initial enthusiasm gives way to a degree of sobriety, as lock-up periods expire in 90 to 180 days after offerings, and much stock comes onto the market from founders and employees. It also seems that the folks in charge of these companies are smart enough to come public when the general appetite for stocks is near an apex. And you can't spell SpaceX without apex.

Oversupply puts a lid on S&P returns

How the S&P 500 performed after major Initial Public Offerings vs. historical S&P average 1980-2025*



The S&P is much weaker than normal 6 months, one year, and two years after major companies go public.

**Defined as a top five IPO of its decade*

Source: Bloomberg, Hightower

Robert J. Gavrich
NV-Licensed Investment Adviser
President, Seasonal Strategy
344 West 2nd Street #503 • Reno, NV 89503

Phone 415.956.1721
Fax 415.956.1722
Email bob@seasonalstrategy.com

seasonalstrategy.com

Making medium happier

We now have 55 years of annual return data for our Seven Asset Classes. The evidence of the long-term value of SuperDiversification is in. From 1971 through 2025, US Stocks have returned 11.14% per year, but with a standard deviation of 17.1. By contrast, a portfolio spread evenly among our seven asset classes and rebalanced annually has returned 9.73% per year, compounded, with a standard deviation of only 10.2.

So SuperDiversification earned 87% of the compound return of US Stocks, while experiencing less than 60% of the risk. Beyond the stats, the calendar year results were impressive. In 1973-1974, when US Stocks lost nearly 40%, SuperD was down just 5%, thanks to the soaring price of oil and the performance of Real Assets. In the three calendar years 2000-2002, US Stocks lost more than 40% cumulatively (and 50% peak-to-trough), while SuperDiversification gained 4% (*Seasonal Strategy's* return approximated that of SuperD). And in 2008, when the Global Financial Crisis hit most asset classes, SuperD was down 26% versus the S&P's -37%. (*Seasonal Strategy's average portfolio* was down less than 14% that year).

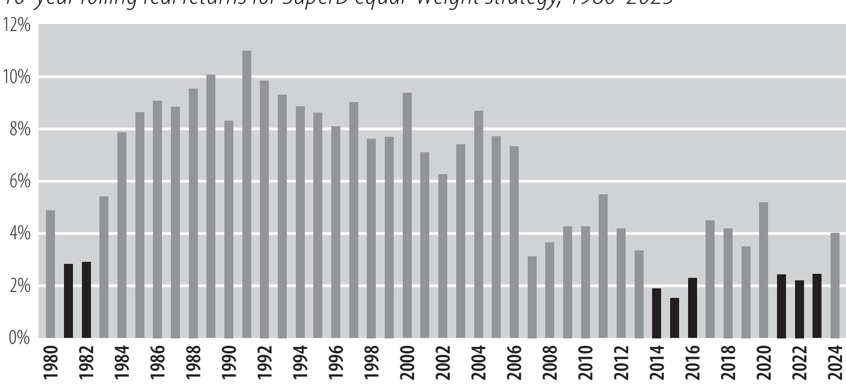
We try to make SuperD stronger in at least three ways:

Have a goal

Before our management begins, each client receives an *Investment Policy Statement* (IPS) which shows our target absolute return for the client — usually inflation plus 3% per year, or a so-called *real return* of 3%. We aim to achieve this with modest volatility. This return goal anchors us away from the action of the investment indices and grounds us in the role of wealth-building. Our seven asset classes are *not guides but tools* in our effort to earn a steady absolute real return over time and grow our clients' purchasing power.

SuperD has shown steady real returns

10-year rolling real returns for SuperD equal-weight strategy, 1980-2025



Over the 46 ten-year rolling periods ending in 1980 through 2025, the equal-weighted SuperD never failed to deliver a positive annual real return (return above inflation). In only eight periods (highlighted) did it fail to reach our 3% real return policy goal. In six of those eight, the annual real return was between 2% and 3%. And in the other two, it was between 1% and 2%.

Diversify within asset classes

We not only diversify among asset classes but within them. Our typical asset class allocation consists of five to ten subclasses, which often move out of sync with one another. This stabilizes the return of the overall asset class allocation and often helps us beat the asset class benchmark on a risk-adjusted basis.

Take Bonds, for instance. Within the asset class, we allocate to as many as ten subclasses, including bank loans, inflation-indexed securities like TIPS, US high-grade, US high-yield, foreign developed markets, foreign emerging markets, mortgage-backed, catastrophe, multi-sector, and even closed-end bond funds, which we often farm out to our lone outside manager, *Shaker Financial Services.* This provides us a lot of opportunity to tilt toward the most attractive subsectors.

Be humbly contrarian

Study after study shows that the typical fund investor tends to underperform the performance of the fund itself. Why? It's due to the tendency of investors to *performance-chase.* They add to their stakes only after a strong run in the fund, and pull back after a period of underperformance.

We seek to do the opposite — adding to asset classes and subclasses that have underperformed for some time and seem historically cheap, while trimming those that have run mightily and appear historically expensive. We have rebalancing (which does that automatically) working in our favor, and our modest contrarian tilt can help further. ■