CLOTHIER SPRINGS
CAPITAL MANAGEMENT

Premium Points

Timeless Truths | New Perspectives | Endless Evolution

In this issue:

From the CIO's Desk

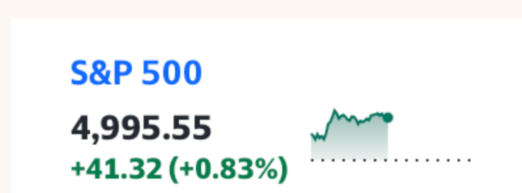
The markets rallied sharply across the board in 4Q-2023 and both the S&P 500 and Dow Jones Industrial Average made new all-time highs in mid-January 2024. The economy continues to perform with inflation under control, unemployment low and GDP growth a respectable 3.0% at the most recent report. As one Nobel Prize winning economist put it recently: "Better Than Goldilocks." The markets have taken notice.

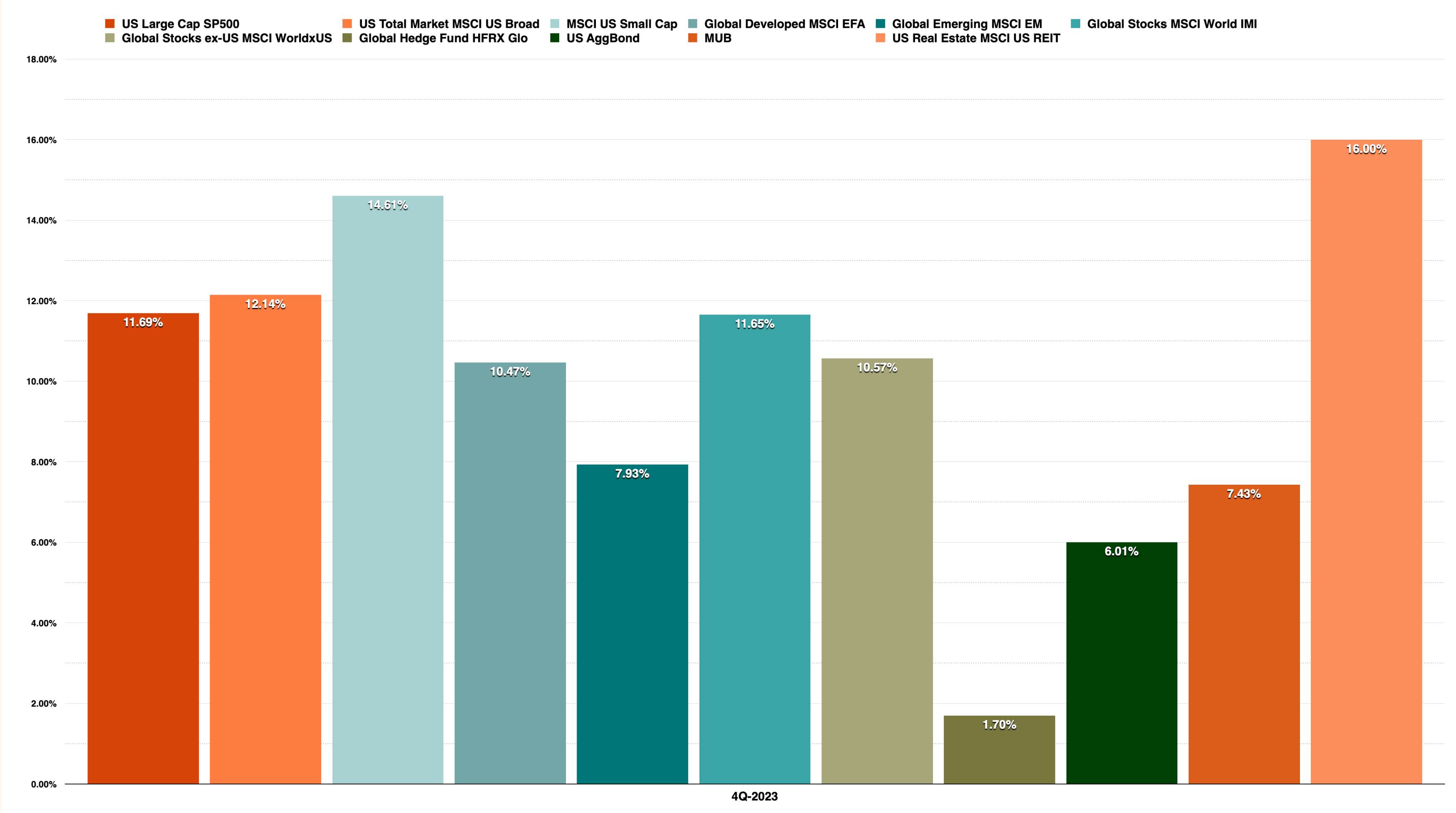
Humans like round numbers. Although quite arbitrary, they appeal to our sense of order. Growing up in suburban Philadelphia my mom always had a small black and white TV in the kitchen. Invariably, the nightly news was on at dinnertime. Although my family never did any investing in the markets, the big round number I recall from the nightly news is the Dow Jones Industrial Average at the 1,000 level. My recollection is that the Dow meandered back and forth across the 1,000 level endlessly in the late 1960s and early 1970s. When I first entered the financial business in 1980, the Dow was still fluctuating around 1,000. Its first yearly close above 1,000 was 1972. Its last yearly close below 1,000 was 1981. Some of us will remember the 1970s for the oil embargo, the runaway inflation and the end of the Vietnam War. The other metric I remember quite clearly from the nightly news back then was the daily body count from that awful conflict in Southeast Asia.

The Dow is now barely 3.5% from 40,000 and the S&P 500 is barely a few tenths of one percent below 5,000...a big round number and another new all-time high. If the past is prologue—and for the markets I believe it is—the market averages will make new highs and ultimately reach and surpass other big round numbers, over time.

Helping our clients look past the sometimes dispiriting news of the day, to remain invested and focused on their long-term objectives is a big part of how we earn our keep. Stay invested my friends. Over time the short-term volatility fades to nothingness.

Thomas F. McKeon, CFA | February 8, 2024





Review & Outlook 4Q-2023

The equity, bond and real estate markets staged a strong 4Q-2023 rally as investors began to believe that the Federal Reserve was through raising interest rates and may even begin to lower rates sometime in 2024.

Whatever the reason, the broad US equity markets gained a little more than 26% in 2023, a welcome return after a forgettable 2022. Counterbalancing that sparkling US Broad Equity market return was the lackluster returns from the US bonds market. After 2022 (the worst year for bonds in 200 years according to Bloomberg) bonds largely went nowhere. The consolation for bond investors is that at least now there is some yield and current income to be collected that is more like historical averages.

Recent data reveals that inflation has subsided significantly, GDP growth is healthy and unemployment remains low. In our 3Q-2023 newsletter we wrote in late October, we opined that the market inflection point may have already arrived as equity markets were rallying smartly. Indeed, both the S&P 500 and Dow Jones Industrial Average made new all-time highs in mid-January 2024. Patient investors rewarded again.

Higher interest rates have made mortgages more expensive and the housing shortage has kept home prices high. Something has to give. An increased housing supply would be helpful and with subsiding inflation, the cost of material may be somewhat more favorable to builders than in 2022 and 2023, and may encourage builders to ramp up their volumes, and earn better margins again.

Bitcoin Never!

Shamefully, much of Wall Street is scrambling to bring funds and ETFs of cryptocurrency to market. It seems that after a full court lobbying press, the regulators have relented (which they always seem to do when there is money to be made) and allowed crypto's to be packaged into products for investors.

*From where we sit there is just one glaring and obvious problem with cryptocurrencies: **they are not assets.***

Investment advisors like Clothier Springs Capital Management are fundamentally asset managers. We manage portfolios of actual assets on behalf of clients. What are assets? In our world assets are securities that represent a claim on the real assets of an issuer. stocks are assets, bonds are assets, real estate is an asset, preferred stocks are assets, money markets are assets. And as such, there is a way to connect an asset's market price to its underlying value and to understand why that value may change or appreciate.

Cryptocurrencies are not assets. There is no connection to any tangible asset or intrinsic value. There is no reason why any crypto should appreciate other than pure promotion and an endless supply of greater fools. That is not a worthy investment proposition for anyone, or especially for fiduciaries like CSCM.

Reasonable people could disagree on the price of a private business selling 1,000 acoustic guitars each month for example. The business has capital, property, plant and equipment, revenues, profits (hopefully), equity, goodwill, brand value, etc. But we could agree it has some intrinsic value. Not so for crypto's.

Don't lose any sleep for the Wall Street sharpies. They will collect fees as they promote and gather investors and the proprietary trading desks will take their usual haircut of all the trading volume. They just won't get any from our clients.

Connected | Clothier Springs Capital Management | Portfolio Reporting Platform | Tuesday, February 6th, 2024 | 10:15:28 AM

Portfolio Report | Investment Performance | Time Weighted Return (TWR)

Account and Period Information

Account Alias	Period Days	Begin Period	End Period
Sample Client GLO	92 days	2023-09-30	2023-12-31

Summary of Deposits, Withdrawals and Transfers

Alias	Date	Amount	Days	Begin SUM-WCF	WCF	Total SUM-WCF
Sample GLO	2023-12-26	100,000.00	5	0.00	5,434.78	5,434.78
		100,000.00			**5,434.78**	

** Includes internal transfers between duplicate accounts.*

Time Weighted Return (TWR)

Alias	BMV	Net DEP-WD	TWCF	EMV	Total Return	TWR
Sample GLO	190,171.44	100,000.00	5,434.78	310,063.86	**$19,892.42**	**10.170%**

Portfolio Policy Benchmark	TWR	Global Benchmarks	TWR	Annual
Benchmark Code: glo_taxable	**10.579%**	S&P 500	11.69%	-
Annualized:	**-**	MSCI US Broad Equity	12.14%	-
Name: Global Long Only: Taxable		MSCI US Value	10.27%	-
Objective: Global Growth		MSCI US Yield (Dividend Income)	9.40%	-
Total Return Relative to Benchmark	**-0.410%**	MSCI US Growth	13.74%	-
Annualized Return Relative to Benchmark	**-**	MSCI US Small Cap Equity	14.61%	-
		MSCI All-Country World Equity	11.15%	-
Legend		MSCI World ex-US Equity	10.57%	-
BMV: Beginning Market Value		MSCI Developed Markets Equity	10.47%	-
Net DEP-WD: Net Deposits or Withdrawals		MSCI Emerging Markets Equity	7.93%	-
TWCF: Time-Weighted Cash Flows		MSCI US Real Estate	16.00%	-
EMV: Ending Market Value		Barclays US Aggregate Bond	0.41%	-
Total Return: in dollars		Barclays US Municipal Bond	7.43%	-
TWR: Time Weighted Return		CBOE S&P 500 Buy-Write	4.35%	-
TWR is the GIPS Compliant return calculation		Clothier Springs Capital Partners LLC	3.07%	-
GIPS is the CFA Institute Global Investment Performance Standard				
		Global 60% stocks | 40% bonds	6.87%	-
Global Hedge Fund Index (TWR)	1.70%	Global 100% stocks with no hedge	10.46%	-
Consumer Price Index (CPI)	-0.34%	Global 60 | 40 with BXM buy-write hedge	6.00%	-

Returns are net of all fees and transaction costs.
Portfolio Policy Benchmark Description: This is a globally allocated benchmark biased towards growth for taxable accounts.
GIPS is the CFA Institute Global Investment Performance Standard.

Performance Sample Client GLO | 2023-09-30 | 2023-12-31
Report produced: Tuesday, February 6th, 2024 | 10:15:28 AM
Clothier Springs Capital Management, LLC
Current page URL http://www.clothiersprings.com/backoffice/portfolios/twr_report.php

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Time Weighted Return (TWR) | What Is It, Why Is It?

Time Weighted Return is the Global Investment Performance Standards (GIPS) required methodology for performance calculation. The objective is to give investors the truest, most accurate representation of investment performance possible.

All investors invest to earn a return. While there are many different types of investors and myriad varying objectives operating in the markets, calculating returns provides the best metric for assessing performance, absolute and relative to targets.

Time Weighted Return (TWR) is the methodology that removes client deposits or withdrawals from the calculation of total return, in order to measure the true return of the portfolio. Deposits and withdrawals have to be removed from the total return calculation as they are not returns. Total return is the numerator of the equation.

However, deposits and withdrawals have to be accounted for as deposits into a portfolio provide a larger capital base for investment, and the opposite is true for withdrawals. The TIME they are in or out the account does have to be accounted for. The Beginning Market Value (BMV) and Time-Weighted Cash Flows go into the denominator of the TWR calculation.

The image on the left is an actual performance report for a client portfolio. The client made a deposit of $100,000 into the account on December 26, 2023, five days before the end of the year.

The Time Weighted Return calculation weights that deposit which was only in the account for 5 out of 92 days in the period. The time weighted equivalent of that $100,000 is thus $5,434.78 (Time Weighted Cash Flow-TWCF).

The TWR calculation properly does not include deposits and withdrawals as returns, while also properly giving them a weighted contribution to the capital base in the portfolio, which earns the portfolio return. So while deposits and withdrawals are not returns, they do figure into the return calculation, appropriately weighted for their time in or out of the portfolio.

The Plunderers Are Coming For Your Money

We have written previously about how the private equity plunderers are moving down market to regular investors and investment advisors like us. We have long been aware of how self-serving, destructive and extractive the private equity "business" is. We put the word business in scare quotes purposely. The PE model is not the standard win-win proposition of an actual business. It is a decidedly win-lose proposition and we are at a loss to understand why they continue to thrive.

Consider the excerpt below from "These Are the Plunderers" written by Gretchen Morgensen and Joshua Rosner:

> *As the results of the private equity investigations sank in, some wondered it public pensions would continue to invest with the firms. After being ripped off by these powerful and wealthy firms, shouldn't they fire them? Apparently not.*
>
> *The Pennsylvania Public School Employees' Retirement System was one investor Apollo had not advised about its monitoring fee extractions. Under its agreement with the SEC, Apollo paid $30,000 to the pension, essentially admitting that it had improperly taken $30,000 from the pockets of public school workers across the state. And yet the following year, the Pennsylvania pension agreed to invest a fresh $100,000,000 with Apollo. Was it because Apollo had done so well for the pension? Not according to an analysis by Philadelphia Inquirer columnist Joe DiStefano, who concluded that Apollo's returns for the pension had been less than 3 percent annually over nineteen years. Far below, in other words, what stock market returns had been.*
>
> *The Pennsylvania pension's decision to keep investing with Apollo mirrored similar actions taken by public funds across the country. They throw their beneficiaries' money into high-cost investments rewarding the very same plunderers who fire lower and middle-class workers and diminish government revenues through tax loopholes. As such, these pensions are among the chief contributors to the widening wealth gap in the U.S., a gulf that harms the very people the pensions are supposed to benefit.*

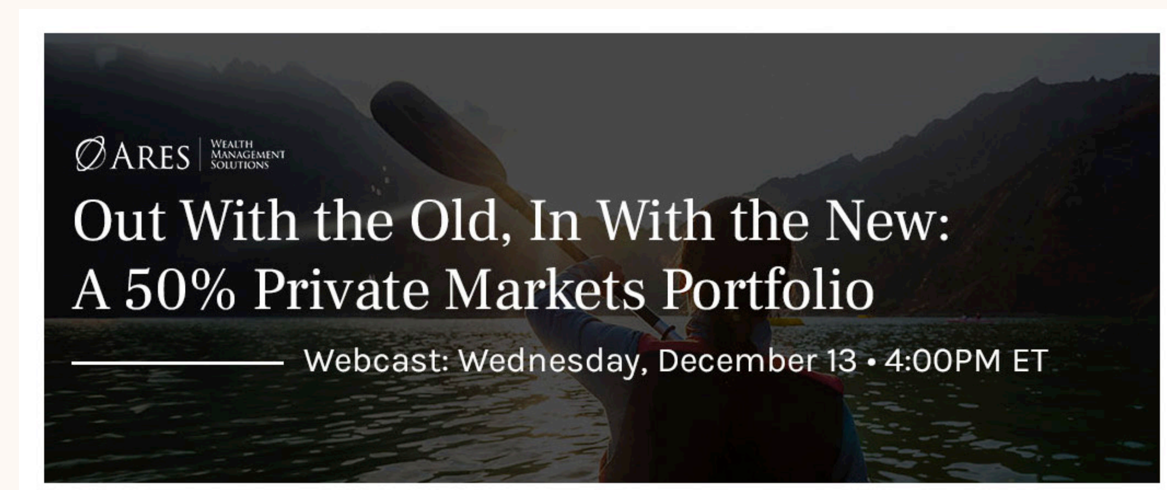
It is possible that the institutional investment world is slowly wising up to the terrible business proposition of the private equity model and moving back to traditional investments. That may partly explain why the ETF business has attracted so much money: ultra-low fees and better net returns. So private investors and investment advisors appear to be the next targets for the plunderers.

The Marketing Messages

We get daily pitches from the marketing and distribution foot soldiers of the private equity complex. Below is an email from an eager PE wholesaler we received recently. It is from one of the founding entities of PE: KKR (Kohlberg, Kravis and Roberts), they of the first PE mega-deal RJR/Nabisco circa 1985-1986 and the subsequent book ***"Barbarians at the Gates."***

> *Hi Thomas,*
>
> *I hope you are well. My name is John Doe and I lead KKR's coverage of RIAs in the Northeastern US. I wanted to reach out to introduce myself. I'd love to learn about your areas of focus, how you work with asset managers like KKR, and how you think about asset allocation/alternatives. Would you be interested in scheduling an introductory conversation in the coming weeks? We can talk through KKR's key macro investment themes, HNW investment solutions, and where we are finding opportunities across private equity, infrastructure, real estate and credit. I look forward to connecting and happy to be flexible around what works for you!*
>
> *Thanks, John*

Below is an image from another PE marketer email recommending that a 50% allocation to Private Equity is the future.



Respectfully, I think not. All the evidence points in one direction: PE funds charge too much and deliver far too little in the way of returns, with the kicker of destroying companies and communities as the side effect. Our wealth obsessed culture continues to fawn over the plunderer billionaires who have feathered their own nests so lavishly while delivering sub-standard returns and running roughshod over entire industries from manufacturing to healthcare. ***Rest assured…we will never do business with any of these pirates.***

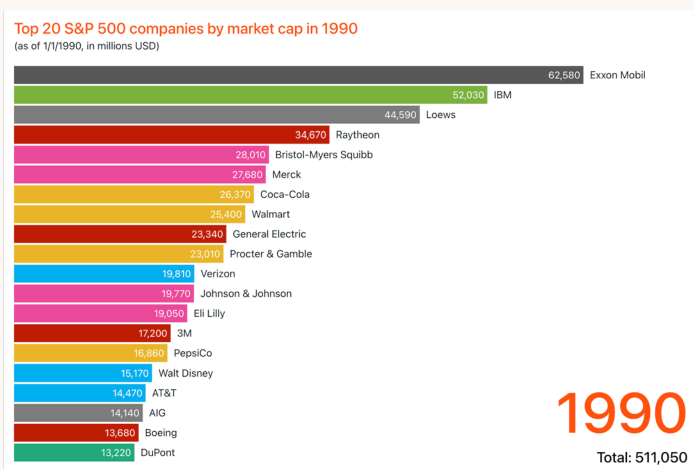
The Magnificent Seven

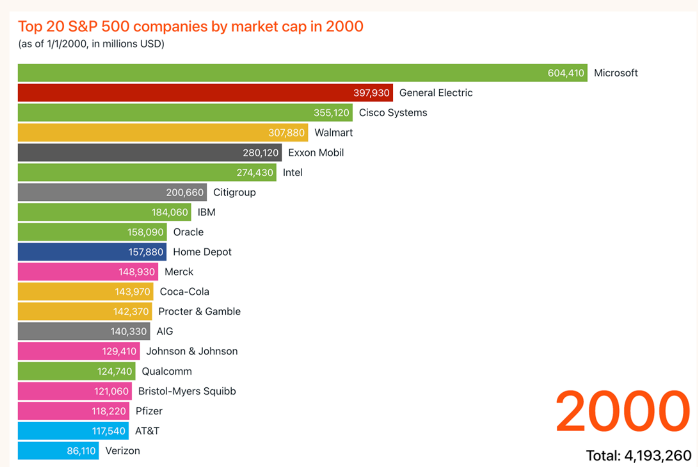
Much has been made lately of the so-called "Magnificent Seven", the 7 largest companies in the S&P 500 ranked by market capitalization. The S&P 500 index is a capitalization weighted index. Larger companies (market capitalization) get larger weights in the composition of the index.

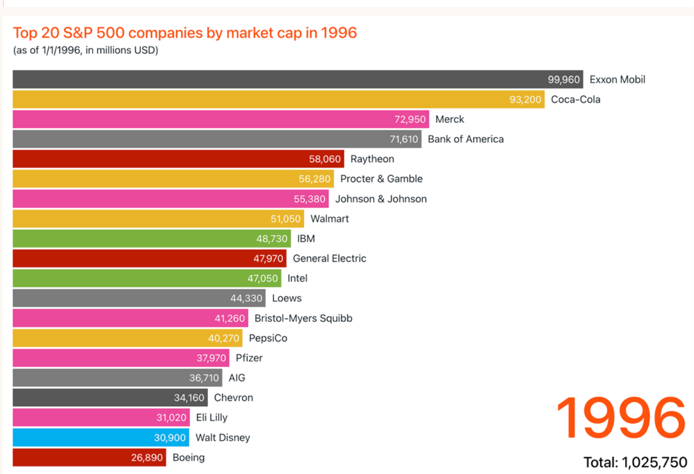
Since 1990, the list of companies holding the top spot in the index are names familiar to most investors: Exxon-Mobil, General Electric, Microsoft, Apple, and Coca Cola. The make-up reflects the dominant names in American commerce at any given time. Being cap weighted, the big companies always have an outsized influence on index performance.

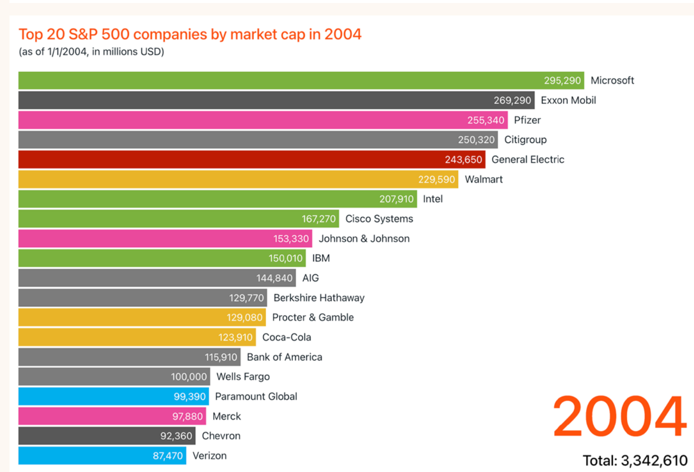
Lately, a handful of tech companies dubbed the "Magnificent Seven" have dominated and account for an outsized proportion of S&P 500 Index returns. They are: Microsoft, Apple, Alphabet, Amazon, Nvidia, Meta and Tesla. Number 8 is Warren Buffet's Berkshire Hathaway which may soon replace the tumbling Tesla.

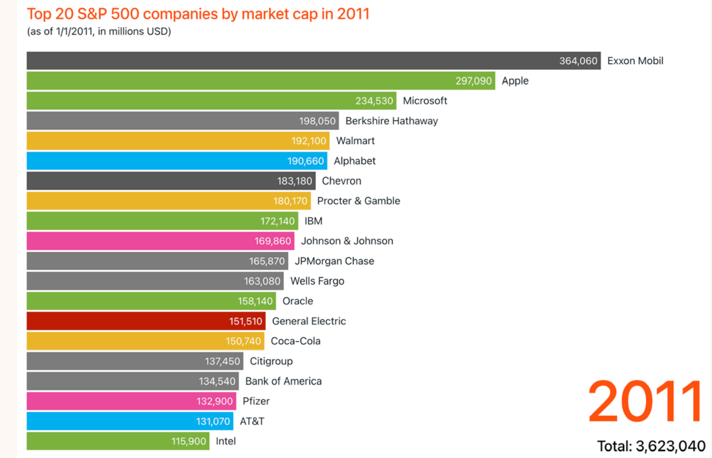
Some market observers caution that there is too much concentration at the top of the index. That may be so, but throughout market history, concentration appear to be a standard arrangement of the index. And when the performance is measured, it does not seem to matter.

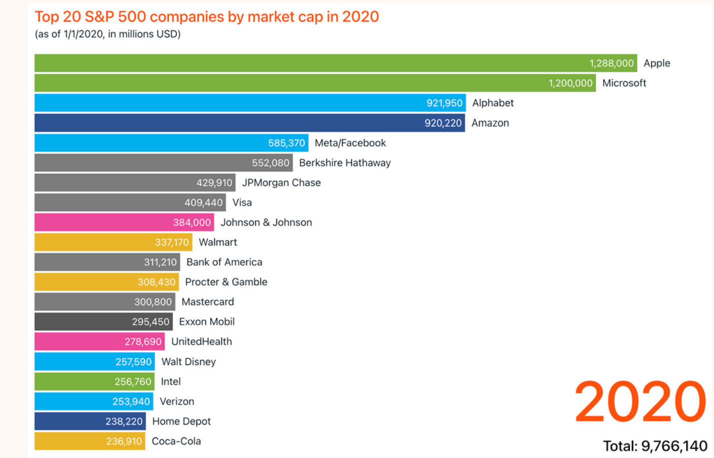


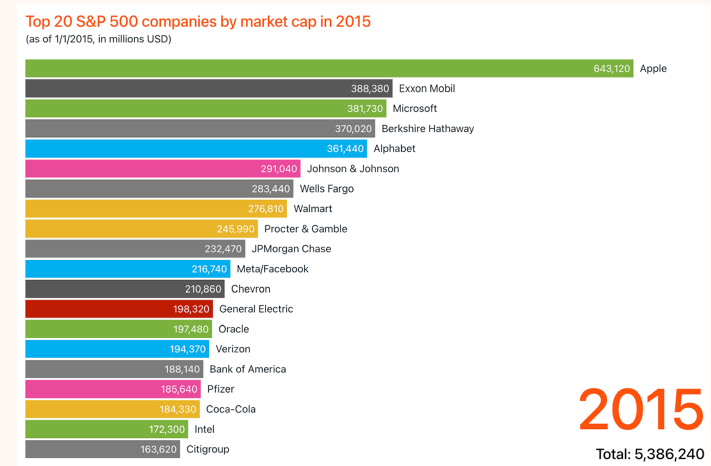










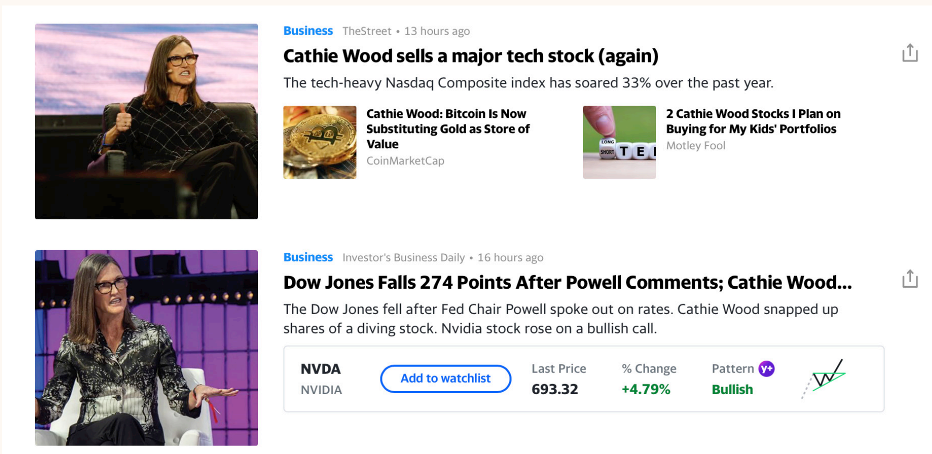


Year	Largest	Largest Market Cap ($bb)	Total Top Twenty Cap ($mm)	Gain / Previous
1990	Exxon Mobil	62,580	511,050	
1996	Exxon Mobil	99,960	1,025,750	100.7%
2000	Microsoft	604,410	4,193,260	308.7%
2004	Microsoft	295,290	3,342,610	-20.2%
2011	Exxon Mobil	364,060	3,623,040	8.3%
2015	Apple	643,120	5,386,240	48.6%
2020	Apple	1,286,000	9,766,140	81.3%
2024	Apple	2,944,000	17,685,160	81.0%

These randomly chosen dates are intended to represent various obvious inflection points. 1990 begins the data. 1996 is right at the beginning of the four-year bull market rally. 2000 is at the end of the rally before the tech bubble bursts. 2004 is after the multi-year tech meltdown. 2011 is after the mortgage market debacle. 2015 is mid-decade. 2000 is after the Covid lockdown market panic and snap-back rally. 2024 is current. One can argue the finer points about index weightings, sectors and whatever, but the long term data sure looks attractive and hard to argue with, for long-term investors.

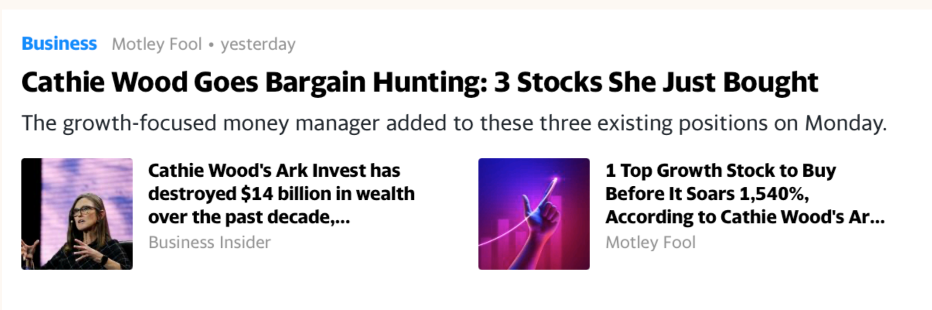
Cathie Wood Must Have a Really Good PR Firm Working For Her

Not a day goes by that the home page (Yahoo Finance) on my browser that the feed does not feature some update about Cathie Wood and her activities as portfolio manager of the Ark Innovation Find (ARKK). It is the only explanation for why she gets any press, for as independent industry observer just revealed, her funds have been some of the largest destroyers of investor wealth.

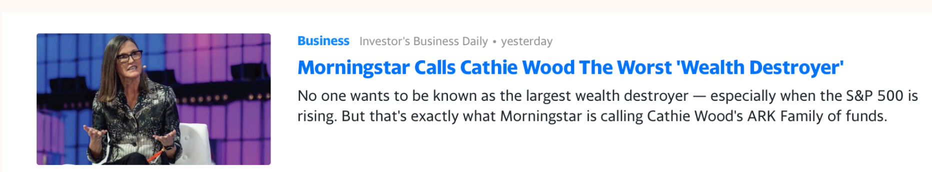


Cathie Wood does this,

Cathie Wood thinks this,



Cathie Wood goes bargain hunting.



Then this from Morningstar with the data to back it up:

To be fair, some of the funds on the Morningstar list on the next page are mere victims of their markets. Emerging markets for example have had a protracted period of abysmal returns. The inverse or short funds bet against the market...a bad long term bet. Cathie Wood's funds (ARK) just don't seem to be very good at stock-picking. When the Covid lockdowns were begun, hordes of at home investors drove up her ARKK fund. That attracted piles of money which have been hammered since the end of 2021. As we shared in last quarter's newsletter, the average investor in the ARKK fund is down more than 50%. At least her PR firm is earning its fees.

Top 15 Wealth-Destroying Funds Over the Past 10 Years

Fund	Ticker	Morningstar Category	Estimated Wealth Destroyed ($bil)	Size ($bil)
ProShares UltraPro Short QQQ	SQQQ	Trading--Inverse Equity	-8.5	3.5
ProShares Ultra VIX Short-Term Futures	UVXY	Trading--Miscellaneous	-7.2	0.3
ARK Innovation ETF	ARKK	Mid-Cap Growth	-7.1	9.3
KraneShares CSI China Internet ETF	KWEB	China Region	-5.9	5.4
ARK Genomic Revolution ETF	ARKG	Health	-4.2	2.2
PIMCO Commodity Real Return Strat I2	PCRPX	Commodities Broad Basket	-3.8	5.1
ProShares UltraPro Short S&P500	SPXU	Trading--Inverse Equity	-3.7	0.8
iShares China Large-Cap ETF	FXI	China Region	-3.7	4.4
ProShares UltraShort S&P500	SDS	Trading--Inverse Equity	-3.3	0.8
ProShares Short S&P500	SH	Trading--Inverse Equity	-3.2	1.4
iShares Core MSCI Emerging Markets ETF	IEMG	Diversified Emerging Mkts	-3.0	74.7
iShares MSCI China ETF	MCHI	China Region	-2.8	5.9
Direxion Daily S&P 500® Bear 3X ETF	SPXS	Trading--Inverse Equity	-2.7	0.7
Cromwell Marketfield Long Short Fund	MFADX	Long-Short Equity	-2.6	0.1
VanEck Russia ETF	RSX	Miscellaneous Region	-2.5	0.0

Source: Morningstar. Data as of Dec. 31, 2023. Fund size and wealth creation estimates reflect the total of all share classes for each fund.

Andrea Bocelli and his son Matteo performing [“Fall On Me”](#) Came across this song early in the Covid lockdown of 2020 and it seemed a fitting song for the terribly unsettling time that was, with so much uncertainty about our modern lives, health, livelihoods and a dangerous new pathogen loose in the world. The song is both haunting and heartwarming. Two remarkable voices.

Closing Thoughts

I began my time in the capital markets in September of 1980. Then Federal Reserve chairman Paul Volcker was aggressively trying to tame runaway inflation by raising interest rates. The Prime Rate peaked at 21.5% on December 19th 1980. It is a terrible cost of capital for borrowers and entrepreneurs. My dad found out the hard way. Asset prices were naturally under pressure. The prime rate was less than half that by the end of the 1980s and was as low as 3.25% in December 2008 and March 2020. The impact of rates on asset prices was quite apparent in 2022 as aggressive rate hikes by the Fed put serious pressure on all assets. No asset class was spared. 2023 saw the anticipated end of rate hikes and assets re-priced accordingly. Stocks can now focus on fundamentals like revenues, profits, growth, dividends, valuations and such.

We close this quarterly newsletter with a duet by Andrea and Matteo Bocelli singing a song we discovered in the spooky and unsettling early days of the Covid Lockdown in March 2020. Seems like a long time ago already, but the song still gives me the chills.

Thomas F. McKeon, CFA | February 8, 2024