



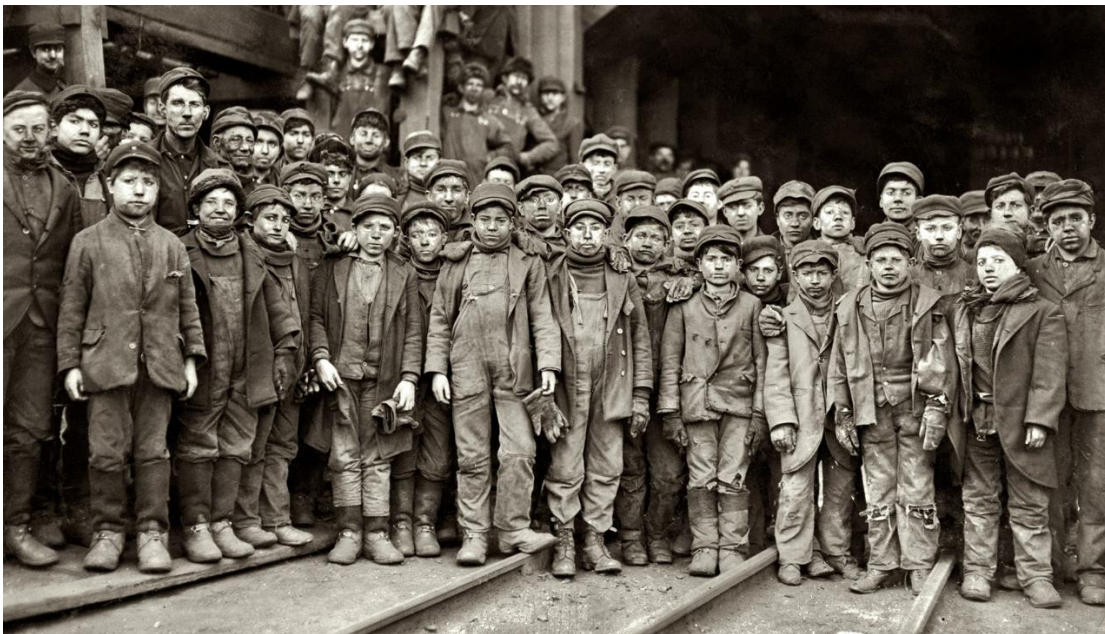
MEDALLION

WEALTH MANAGEMENT

August 2024 Market Commentary

Perspective

For a quick moment, imagine you were born in 1900. You may have been employed by the Pennsylvania Coal Company when this picture was taken in 1910, on your 10th birthday.



When you are 14, World War I starts, and ends on your 18th birthday with 22 million people killed. Later in the year, a Spanish Flu epidemic hits the planet and runs until you are 20. Fifty million people die from it in those two years. Yes, 50 million, or about 2.7% of the world's population. For comparison purposes, it is estimated that Covid-19 has killed about 7 million or 0.09% of the world's population.

When you are 29, the Great Depression begins. Unemployment hits 25%, global GDP drops 27%, and the stock market falls 86%. That runs until you are 33. The country nearly collapses along with the world economy. When you turn 39, World War II starts. You aren't even over the hill yet.

When you're 41, the United States is fully pulled into WWII. Between your 39th and 45th birthday, 75 million people perish in the war and the Holocaust kills six million. At 52, the Korean War starts and five million perish.

Approaching your 62nd birthday you have the Cuban Missile Crisis, a tipping point in the Cold War. Life on our planet, as we know it, could well have ended. Great leaders prevented that from happening. At 65 the U.S. joins the Vietnam War, and it doesn't withdrawal for eight years. Four million people die in that conflict.

Think of everyone on the planet born in 1900. How did they survive all of that? Many of us had grandparents or parents on the front lines of these conflicts, just ordinary people, who above all else were survivors.

History is important because it teaches us to put our current circumstances into perspective, and perspective is an amazing thing. As we churn through what is often labeled as "unprecedented times", remember that in all likelihood our ancestors have faced far more difficult times and survived. We should take solace in that fact and realize that mankind has never had it so good.

As we enter election season, I try not to get too worked up about one party or the others outrageous claims or promises. I'm comforted in the knowledge that the human race has overcome thousands of years of horrible, inept rulers and governments, and not only survived but thrived. **You see, the one thing more powerful than any government is the people's desire for a better life, and in order to have a better life you must have economic growth.**

Without growth, none of the politicians' promises are possible. Growth, or more importantly the lack thereof, is the main reason socialism always fails. As Margaret Thatcher so eloquently stated, ***"the problem with socialism is that eventually you run out of other people's money."*** Take the recent election in Venezuela as a real-time example. The people of Venezuela have realized that the promises of socialism are ephemeral, but the reign of the dictator Maduro is more permanent.

Unfortunately, in our current election, neither party is running on a pro-growth platform. Both major parties have to varying degrees embraced a populist, anti-free-market platform.

Both sides are protectionist: They believe in high tariffs to protect American industries from foreign competition. They both support reshoring of manufacturing processes that we've spent 40 years setting up in countries around the world. This globalism resulted in lower inflation and cleaner air here in the U.S. of A., and a higher global standard of living which benefits the entire human race. Now our politicians want to unwind this process, in the unfounded belief that bringing unskilled, dirty jobs back to America will somehow make us a wealthier country. Not to mention the fact that we will also be reshoring inflation as we replace low paying foreign jobs with higher paying American jobs.

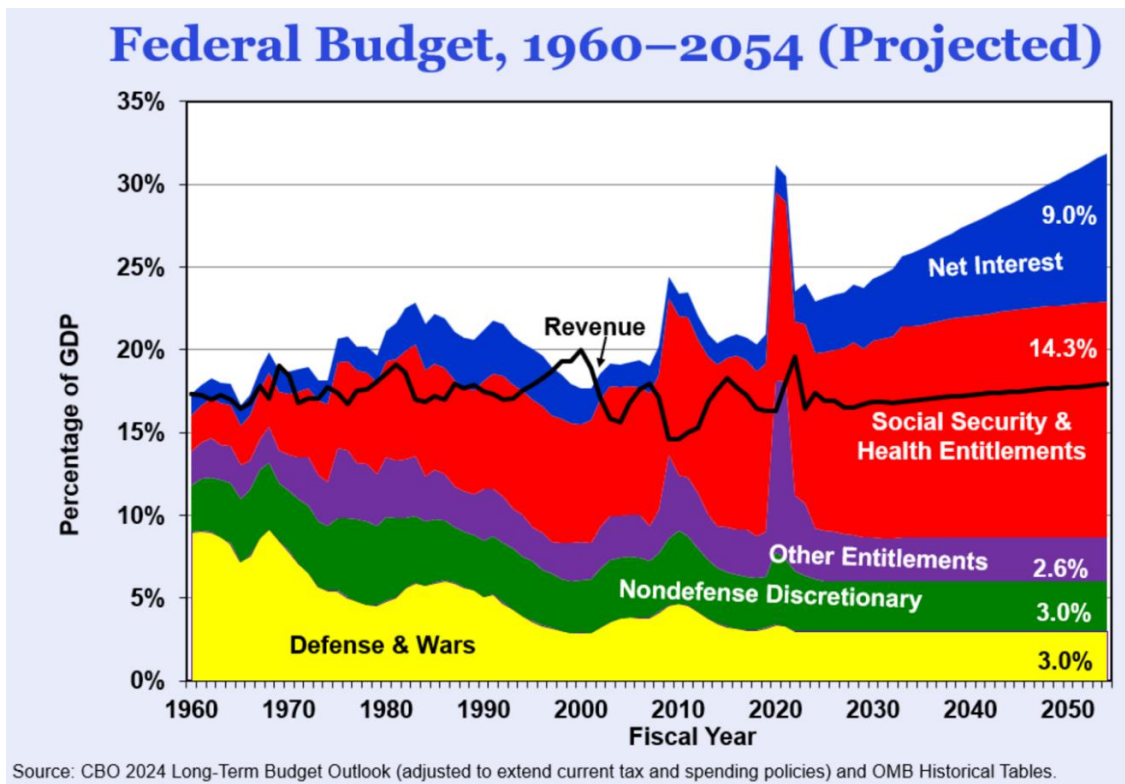
Both sides are anti-free-market: They believe that the government should steer investment towards their "favored" industries, instead of allowing the citizens/marketplace to decide winners and losers. An example; one party likes to give \$7,500 tax credits to electric vehicle manufacturers, while the other is suggesting giving a similar tax credit to gasoline powered

vehicles. Here's a thought, why don't we let the auto companies create cars that we want to buy. If they can create a high-performing, zero polluting, low-cost car, I'm sure they will be rewarded.

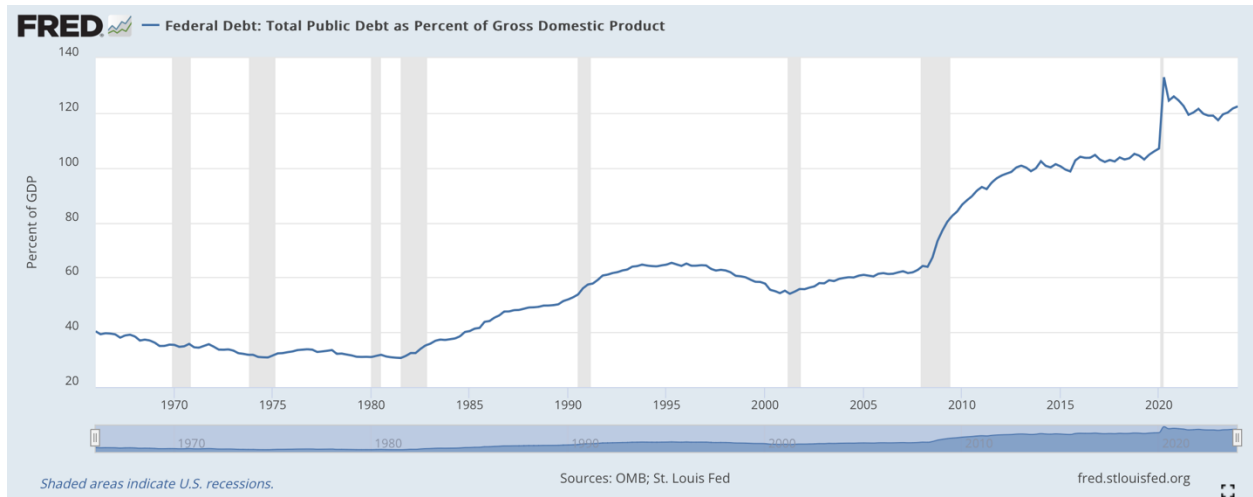
Both sides are pro-union: Both parties are pandering to union members with promises that stifle growth. An example; both parties are opposed to a very attractive merger of US Steel and Nippon Steel of Japan, simply because the United Steel Workers would prefer the company be sold to union friendly Cleveland Cliffs. Whatever your thoughts on the benefits of unions, one fact remains, unions are not known to attract capital investment and growth.

Both sides are anti-Big Tech: Both parties would like to curb the power of Big Tech and their billionaire owners. Even JD Vance thinks that socialist Chairman of the Federal Trade Commission, Lina Khan, is "doing a pretty good job." The reality for many small entrepreneurs is that they have a good idea, but not necessarily the expertise to grow that idea into a major company, so they seek to sell to a bigger company that can grow their idea. If politicians really cared about the little guy, they would cut red-tape and regulations to make it easy to start businesses, and not block the profitable potential exit.

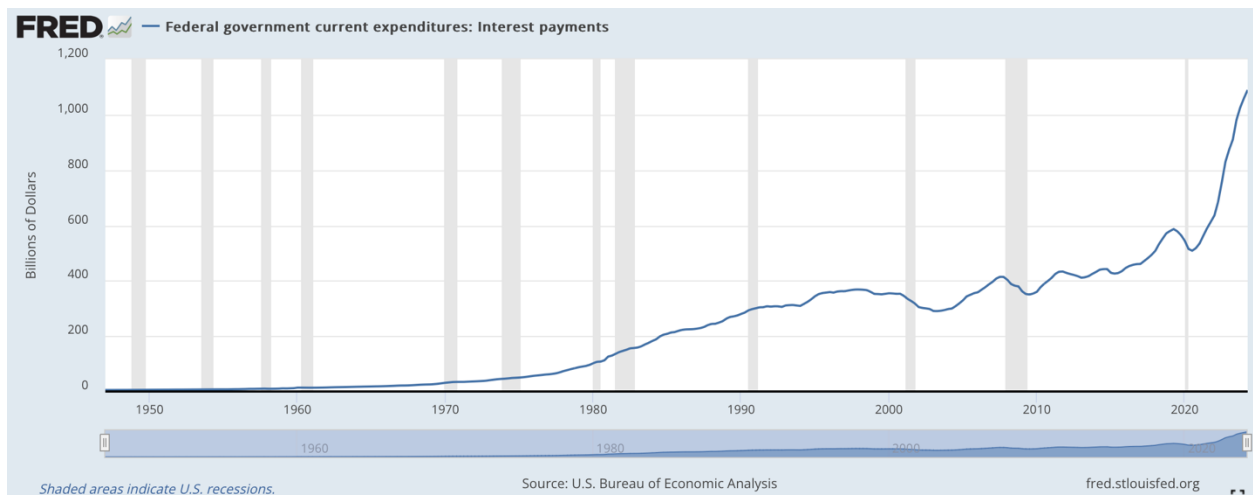
Both sides embrace deficit spending: Neither party has any intention of addressing the massive amount of government spending going to Social Security and Medicaid. They may differ on what they are spending on, but neither is talking about reducing spending. Now just paying the interest on this debt is crowding out other more productive uses of our tax dollars. Yes, we have a spending problem.



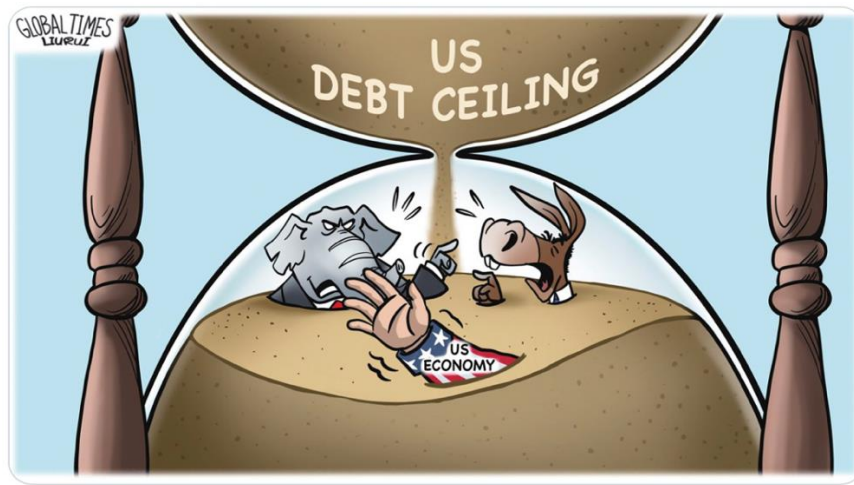
Federal debt is now over \$35 trillion, and as a percentage of GDP it has ballooned to 122% from just 65% at the start of the financial crisis in 2008.



The problem with such massive amounts of debt is that they come with massive amounts of interest. Interest payments on the Federal debt are now over \$1 trillion a year. That is larger than what we spend on defense, and is only smaller than Social Security and Medicare spending. It is pretty basic, the more of our tax revenues that go to making interest payments the less there is for productive growth.



There are clearly significant differences between the two parties, but when it comes to economic growth and fiscal responsibility there are more similarities than differences.



While none of this is very optimistic, again I want to remind everyone to keep it in **perspective**. We've survived a lot over the years, and as long as mankind continues to crave growth and higher living standards, we'll survive this too. It may be a sloppy few years, but eventually the human spirit and growth will win out.

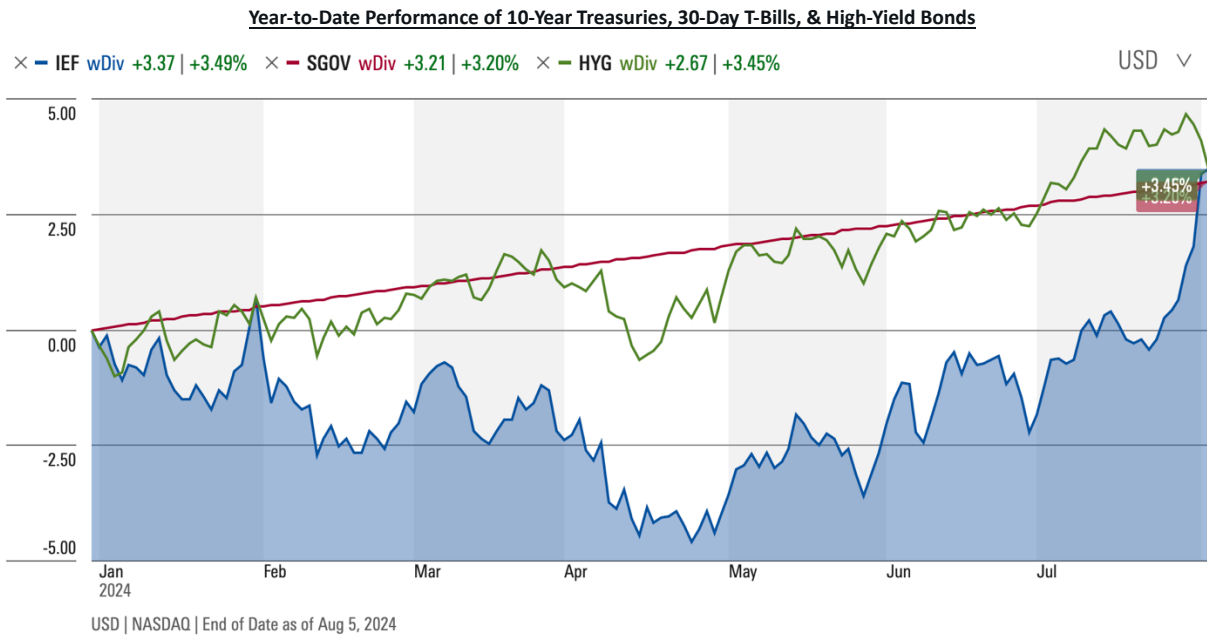
Market Update:

Markets have gotten a little volatile of late, as it's become more evident that the economy is slowing some; jobs data has weakened, the Bank of Japan has raised rates causing a partial unwind of the decades old carry trade, A.I. euphoria is fading, and Warren Buffett sold half of his stake in Apple. But again, let's keep things in **perspective**. The S&P 500 is still up over 9% year-to-date, and 17% over the last year.

Year-to-Date Performance of S&P 500, NASDAQ 100, & Russell 2000

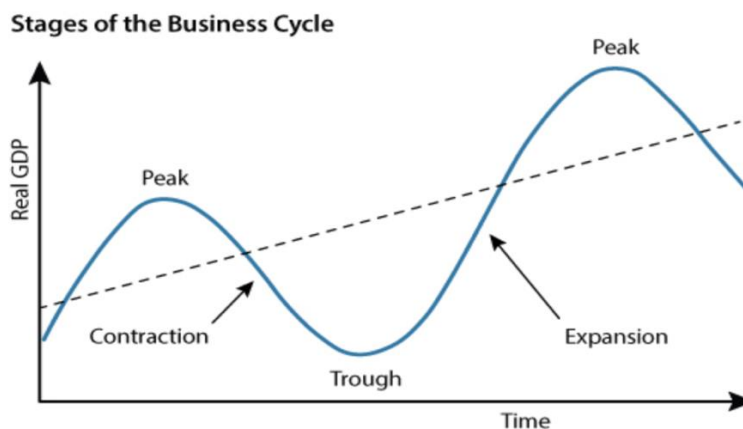


Fixed income has also become more volatile, as yields have fallen quickly under the belief that the Fed will have to cut rates at an accelerated pace to ward off recession.



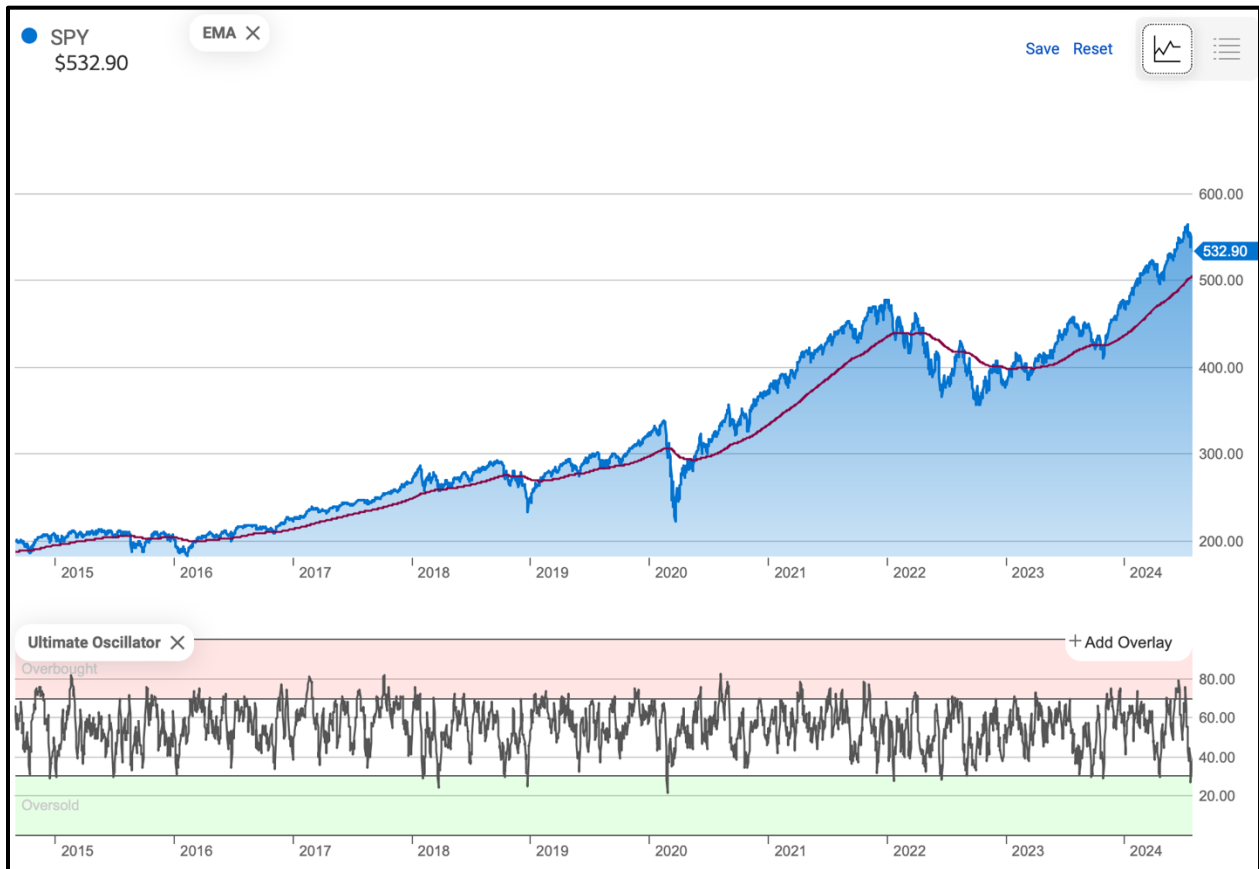
Fed Chairman Powell and his Federal Reserve brethren are getting a lot of blame for being slow to cut rates, but global monetary policy is not an exact science. They are trying to balance the long-term inflationary forces created by our politicians reckless spending, with slowing economic growth and rising unemployment. By raising interest rates, Chairman Powell and company have been able to at least reduce the rate of inflation to a more normal rate, but the result may be a recession.

Recessions aren't necessarily bad things; they are a natural cleansing process in a business cycle. You remember business cycles, right? Those periods of expansion followed by periods of contraction. Recessions were vital to wring out excesses in the system. Marginal companies failed, and those employed at those marginal companies lost their jobs.




Since 1977, the Fed has had a dual mandate of promoting maximum employment and stable prices. Somewhere along the way, that mandate has morphed into the belief that the business cycle can be repealed and recessions should be avoided at all costs. This belief has led to extraordinary measures, such as quantitative easing and zero interest rates (ZIRP). While these exercises may work in the short-run, they also run the risk of unintended consequences and a bigger boom-bust cycle. It will be interesting to see if we are allowed to have a normal business cycle recession, or if extraordinary measures will be taken to avoid recession again.

In the meantime, the stock market has had a great ten-year run, and after the recent sharp correction is oversold.



Stocks have had a little correction, just over 9.5%. This is entirely normal. Anyone invested in stocks should be emotionally prepared for 20-30% corrections at any time.

@CharlieBilello	S&P 500 Corrections >5% since March 2009 Low				
Correction Period	# Days	S&P High	S&P Low	% Decline	"Stocks Fall On..."
2024: Jul 16 - Aug 5	20	5670	5119	-9.7%	Disappointing Earnings Results, Recession Fears, Fed Behind Curve
2024: Mar 28 - Apr 19	22	5265	4954	-5.9%	Stubborn Inflation, Fed Pushing Back Rate Cuts, Iran/Israel Conflict
2022: Jan 4 - Oct 13	282	4819	3492	-27.5%	Inflation, Rising Rates/Fed Tightening, Russia/Ukraine War, Recession Fears
2021: Nov 22 - Dec 3	11	4744	4495	-5.2%	Covid Omicron Variant, Fed Taper Fears
2021: Sep 2 - Oct 4	32	4546	4279	-5.9%	China Contagion Fears, Fed Taper Fears, Covid Delta Variant
2021: Feb 16 - Mar 4	16	3950	3723	-5.7%	Inflation Fears, Rising Rates
2020: Sep 2 - Sep 24	22	3588	3209	-10.6%	Coronavirus, No New Stimulus Deal, Election Fears
2020: Feb 19 - Mar 23	33	3394	2192	-35.4%	Coronavirus, Global Depression Fears
2019: Jul 26 - Aug 5	10	3028	2822	-6.8%	Trade War, Tariffs, Yuan Devaluation, Recession Fears
2019: May 1 - Jun 3	33	2954	2729	-7.6%	Trade War, Tariffs, Inverted Yield Curve, Global Slowdown/Recession Fears
2018: Sep 21 - Dec 26	96	2941	2347	-20.2%	Rising Rates, China Slowdown, Trade War/Tariffs, Housing Slowdown
2018: Jan 26 - Feb 9	14	2873	2533	-11.8%	Inflation Fears, Rising Rates
2016: Aug 15 - Nov 4	81	2194	2084	-5.0%	Election Fears/Concerns/Jitters
2015/16: May 20 - Feb 11	267	2135	1810	-15.2%	Greece Default, China Stock Crash, EM Currencies, Falling Oil, North Korea
2014/15: Dec 29 - Feb 2	35	2094	1981	-5.4%	Falling Oil, Strong Dollar, Weak Earnings
2014: Dec 5 - Dec 16	11	2079	1973	-5.1%	Falling Oil, Strong Dollar
2014: Sep 19 - Oct 15	26	2019	1821	-9.8%	Ebola, Global Growth Fears, Falling Oil
2014: Jan 15 - Feb 5	21	1851	1738	-6.1%	Fed Taper, European Deflation Fears, EM Currency Turmoil
2013: May 22 - Jun 24	33	1687	1560	-7.5%	Fed Taper Fears
2012: Sep 14 - Nov 16	63	1475	1343	-8.9%	Fiscal Cliff Concerns, Obama's Re-Election
2012: Apr 2 - Jun 4	63	1422	1267	-10.9%	Europe's Debt Crisis
2011: May 2 - Oct 4	155	1371	1075	-21.6%	Europe's Debt Crisis, Double-Dip Recession Fears, US Debt Downgrade
2011: Feb 18 - Mar 16	26	1344	1249	-7.1%	Libyan Civil War, Japan Earthquake/Nuclear Disaster
2010: Apr 26 - Jul 1	66	1220	1011	-17.1%	Europe's Debt Crisis, Flash Crash, Growth Concerns
2010: Jan 19 - Feb 5	17	1150	1045	-9.2%	China's Lending Curbs, Obama Bank Regulation Plan
2009: Oct 21 - Nov 2	12	1101	1029	-6.5%	Worries About The Recovery
2009: Sep 23 - Oct 2	9	1080	1020	-5.6%	Worries About The Recovery
2009: Jun 11 - Jul 7	26	956	869	-9.1%	World Bank Neg Growth Forecast; Fears Market Is Ahead Of Recovery
2009: May 8 - 15	7	930	879	-5.5%	Worries That Market Has Gotten Ahead Of Itself
Median	26			-7.6%	

I don't know what is going to happen to stock prices or interest rates in the near-term. I also don't know who our next President will be. But I do know that mankind will always seek a higher standard of living, and that growth is the only way to get there. **Perspective is important.**

As always, be careful out there.

Chris Wiles, CFA

Where Trust is Earned

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