



## Be Here Now - Newsletter

**President "Bobby":** Mr. Gardner, do you agree with Ben, or do you think that we can stimulate growth through temporary incentives?

[Long pause]

**Chance the Gardener:** As long as the roots are not severed, all is well. And all will be well in the garden.

**President "Bobby":** In the garden.

**Chance the Gardener:** Yes. In the garden, growth has its seasons. First comes spring and summer, but then we have fall and winter. And then we get spring and summer again.

**President "Bobby":** Spring and summer.

**Chance the Gardener:** Yes.

**President "Bobby":** Then fall and winter.

**Chance the Gardener:** Yes.

**Benjamin Rand:** I think what our insightful young friend is saying is that we welcome the inevitable seasons of nature, but we're upset by the seasons of our economy.

**Chance the Gardener:** Yes! There will be growth in the spring!

**Benjamin Rand:** Hmm!

**Chance the Gardener:** Hmm!

**President "Bobby":** Hm. Well, Mr. Gardner, I must admit that is one of the most refreshing and optimistic statements I've heard in a very, very long time.

[Benjamin Rand applauds]

**President "Bobby":** I admire your good, solid sense. That's precisely what we lack on Capitol Hill.

The above dialogue is from the 1979 film "Being There" starring Peter Sellers. Chance, played by Sellers, is a simple gardener but he climbs to national fame when politicians co-opt his message about gardening and apply it to the economy. Given the conversation about stimulus and growth, it is almost quaint to go back and remember this work.

This is the political season so the messages about the economy are about as confusing as ever. So many misleading and distorting connections are made all in the effort of taking credit or assigning blame. That is not the conversation we want to have with you.

We don't even really want to have the conversation about what has happened from the perspective of government intervention into the economy. Why? Because the potential outcomes are so wide-ranging. But we will pick that up after the election.

Nassim Taleb – author of The Black Swan said recently "We have valuations that are built on a lot of hope and the economy is very confusing." Bloomberg October 11, 2024 With all of these cross-currents we approach this discussion with a lot of humility.

We are interested in giving our clients the highest probability of success, and that is not always easy. If you want to take an income from your portfolio or make investments that have a high chance of performing well, it is critical to know your starting point. Instead of predicting the future, let's just look at where we are.

## Matt and Tom

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### *Executive Summary*

- **Election Outcomes** - Let's address the elephant in the room – the upcoming election. What is happening in the betting markets and what that says right now about what we might expect after election day
  - **Market Valuation** - We have said it before and will say it again – valuation is not a timing tool, but it does give an indication of future return. Let's look at some updates on various methodologies.
  - **Create Your Own Economy Corner – Do not fear the future. Be in the present. Five regrets people have on their deathbed.**
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## Be Here Now

### **Election Outcomes**

Let's start with our view of the world. We are in a bubble. In our opinion, that bubble will eventually unwind regardless of who wins the election. We still see more economic weakness than is being discussed in the headlines, but our greater concern is over-valuation which we will address later. In 2000-2002 we did not have a severe recession, but we saw the Nasdaq fall 80%.

Our best guess is that If Trump wins, perhaps the bubble will inflate a bit more first, the logic being, animal spirits, lower tax rates, less regulation. In 2016, the market took off after Trump won. There is a general consensus that Trump's tariffs and immigration policy would be more inflationary and that cutting taxes further would exacerbate the deficit. If interest rates rise on these concerns that could be the trigger for the bubble being pricked.

Industries that generally would be favored: oil and gas, defense, banking; small-cap stocks that benefit from a reduction in regulation; materials, gold, and emerging markets that benefit from higher inflation.

If Harris wins, perhaps the bubble deflates sooner: higher tax rates impacting corporate earnings, and more regulation; larger companies that can handle the burden of regulation continue to benefit.

Industries that could benefit from a Harris win include renewable energy, health care, and biotech. Declining interest rates could benefit bonds, real estate, and other interest-rate-sensitive investments.

In keeping with the title of this newsletter, in the here and now, something interesting is happening. We want to point this out because right here and now there seems to be an effort to distort expectations through a popular betting market called Polymarket. We have sat through investment presentations by reputable firms - such as Federated Investors - that have based their conclusions on these betting markets. And then we saw this article in the *Wall St Journal*:

***“The Mystery \$30 million Crypto Bets on a Trump Win” WSJ October 18, 2024***

Here is an excerpt from the article:

*“Adam Cochan a veteran crypto investor who has monitored the activity on Polymarket, said the betting spree appears to be an attempt to generate a sense of momentum for Trump going into election day. If Trump loses, his*

favorable odds in the betting markets could bolster arguments that the election was stolen from him, said Cochran, who describes himself as a right-of-center voter backing Harris.

*“While the \$30 million might seem costly, it is sufficient to swing the odds on Polymarket and not a large outlay for a deep-pocketed individual seeking to influence the election, added Cochran, managing partner of the venture capital firm Cinnemhain Ventures. ‘It is by far the most efficient political advertising one can buy,’ Cochran said.”*

Here is our takeaway, as we go into the election much of what we see is being distorted. Investors are already suffering from FOMO, and voters are dealing with incredible anxiety. There will be a lot of dust to settle over the next few months. We would be cautious about being too certain of anything. If markets are predicting a Trump win and gains for Republicans, but we actually see the opposite on election day, we could potentially see a sharp reversal across many markets. In 2012, markets were predicting a Romney win as some polls had him up by as much as seven points over Obama. But that is not how the night played out.

Stansberry Research, which we follow and if anything has a political bias that leans right, pointed out recently that the market is often an indicator of who will likely win. Corey McLaughlin In the Stansberry Digest on October 28 discussed the “Election Indicator”:

*“Specifically, if the U.S. benchmark stock index has been up from July 31 to October 31, the incumbent president or party has won the White House more than 85% of the time since 1928.*

*The link, if you need to make one, is that a rising stock market means the economy isn't in shambles or a recession, so folks have fewer reasons to kick out the current president or his party.*

*History, if it doesn't repeat, often rhymes. In the 23 presidential elections since 1928, 14 were preceded by stock market gains in the three months prior. In 12 of those 14 instances, the incumbent (or the incumbent party) won the White House.”*

The title of the piece was “The Waiting Game” – and we may be waiting for a while.

## **Market Valuation**

In the September 23<sup>rd</sup> Issue of *Barron's* on page 30, there is an article written by Andrew Bary inserted at the end of the Market Week section titled “Berkshire’s Cash Trap.”

*“Berkshire Hathaway was a major beneficiary of the sharp increase in short-term rates from 2022 through early this year. It now stands to lose, given the drop in short-term rates now unfolding with the Fed’s half-point cut in a key rate on Wednesday...Berkshire had the largest holding of cash and equivalents of any U.S. company at \$277 billion at the end of June.”*

The article goes on to say that Buffet likes two investments cash and stocks and that Berkshire holds roughly \$300 billion in stocks, so roughly half of Berkshire’s holdings are cash. Huh. That is interesting.

The implication of the article is that Buffet may have benefitted from a large cash position due to high short-term interest rates, but now all bets are off. You can almost hear the writer saying, “What a bone-head move.”

The chart below is often referred to as Buffet’s favorite market indicator and it shows the relationship between market capitalization of the Wilshire 5000 and GDP (gross domestic product).

## Stock Market Capitalization as a % of GDP

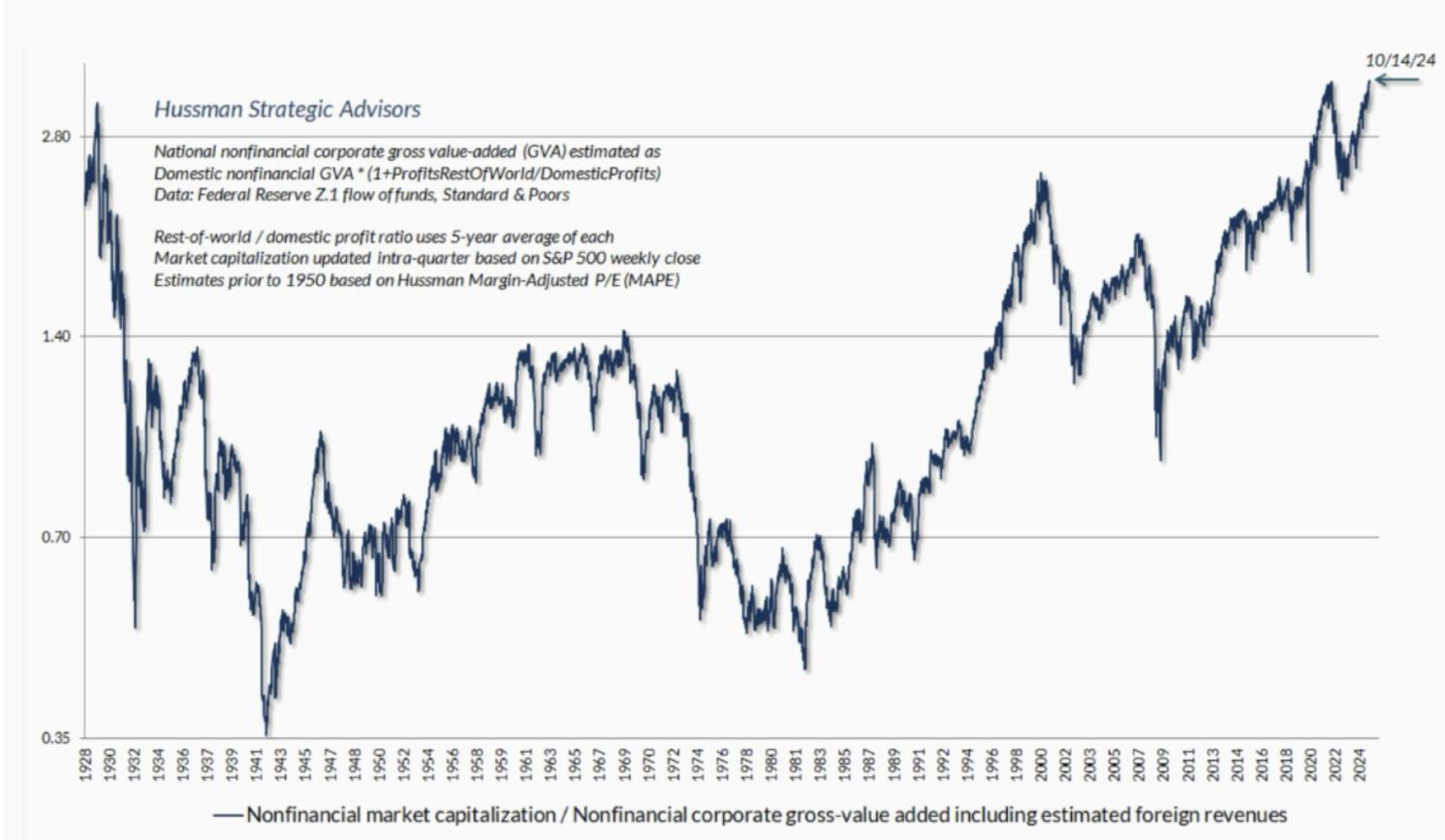
Last Point 8/24: 195.8%



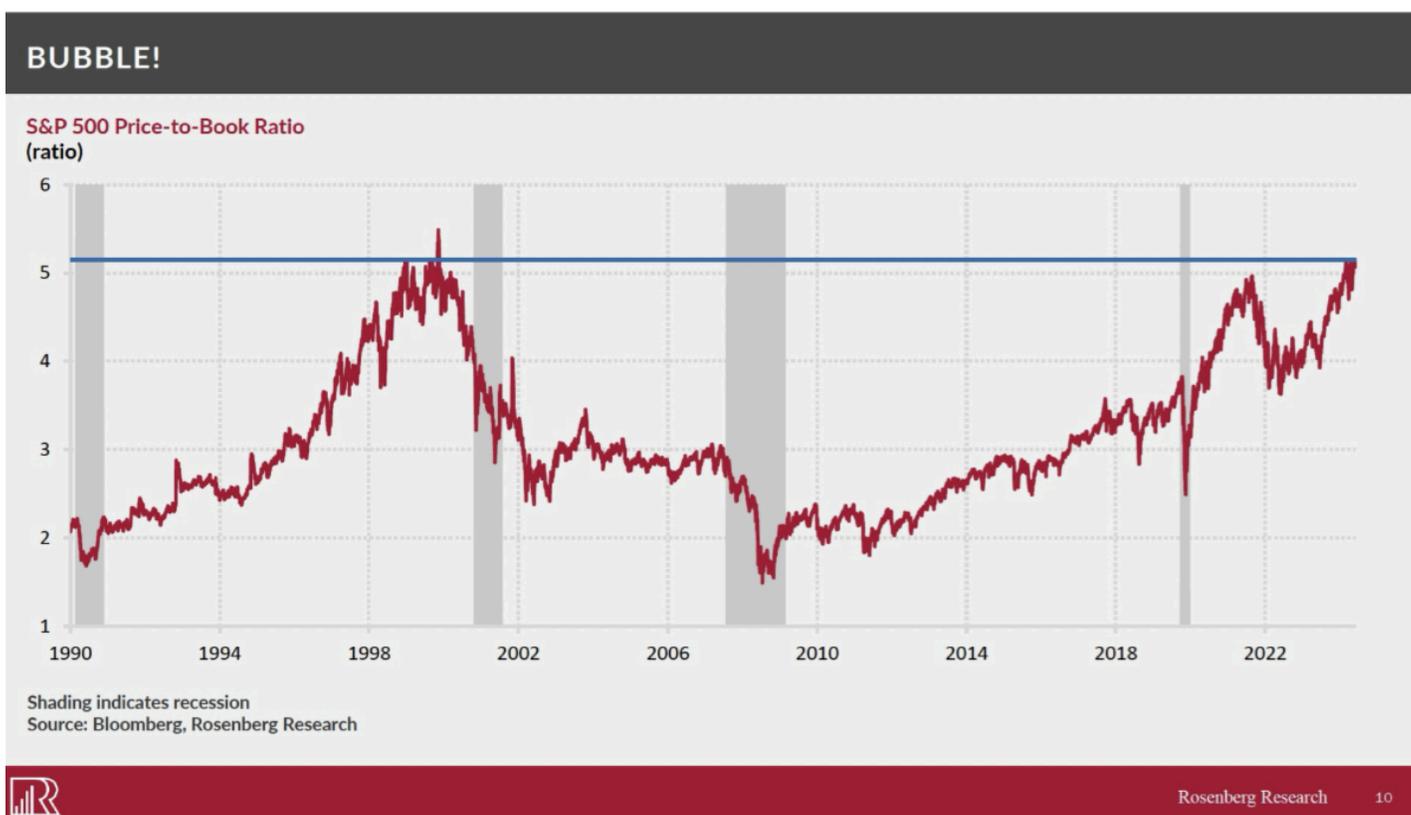
Note: Based on Wilshire 5000 Total Market Index Source: Bureau of Economic Analysis and LSEG

This chart represents a ratio. The fact that it looks like the stock market moving up and to the right is distorting. The relationship between the value of an asset and its cash flow is something that tends to revert to the mean over time. In this case, a reversion to the mean, or average, represents a significant decline in price or an incredible acceleration in GDP. Does anyone think that with all it has taken in terms of government intervention to get the economy and market where they are, we will see a rapid acceleration in GDP in any developed economy in the world?

Now we want to update you on the valuation methodology that Jeremy Grantham refers to as the best forecaster of future returns that he has seen and it comes from John Hussman.



What this chart illustrates is that the market is currently at the richest valuation of any time in relevant history - higher than 1929. Why this matters is that this is your starting point when you are investing today. Right here, right now. For good measure here are two more charts from David Rosenberg showing Price-to-Book and Price-to-Sales back to levels only seen in the 2000 Dot-Com Bubble.



# BUBBLE!

S&P 500 Price-to-Sales Ratio (ratio)



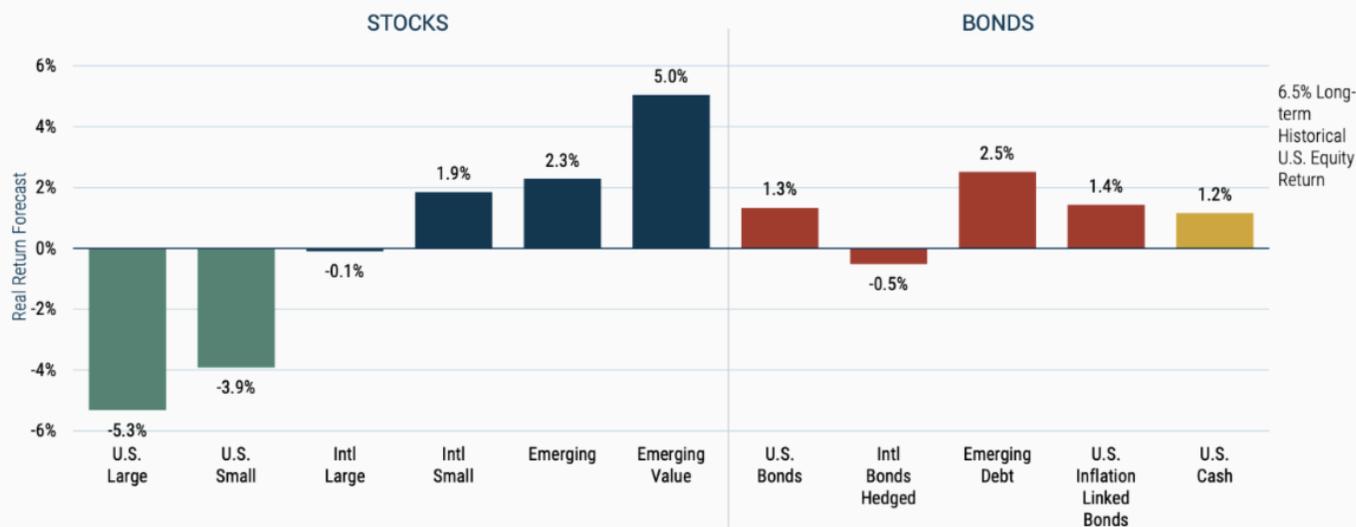
Shading indicates recession  
Source: Bloomberg, Rosenberg Research



Jeremy Grantham’s firm also shares its forecast for returns based on valuations. Below is the chart from the end of August showing an expected return for Large-cap stocks of negative 5.3 % per year over the next 7 years.

## 7-YEAR ASSET CLASS REAL RETURN FORECASTS\*

As of August 31, 2024



Source: GMO

\*The chart represents local, real return forecasts for several asset classes and not for any GMO fund or strategy. These forecasts are forward-looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance. Forward-looking statements speak only as of the date they are made, and GMO assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results may differ materially from those anticipated in forward-looking statements. U.S. inflation is assumed to mean revert to long-term inflation of 2.3% over 15 years.

Right here right now, the empirical evidence is that stocks are expensive by historical standards. If you are young with a small asset base and a long-time horizon, this is not as much of a concern. But if you are near retirement, in retirement, or if you are managing an endowment or fund that needs to distribute income, the consequences of loss are significant.

Raising cash when prices are high, and deploying capital when prices are low is not timing the market. It is smart investing. The market will go down at some point and Buffett will be there to buy good stocks at reasonable prices. We certainly think the wisdom of Buffett, Hussman, Grantham, Shilling, and Rosenberg is worth paying attention to.

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## Create Your Own Economy Corner - Do not fear the future. Be in the present. Five regrets people have on their deathbed.

I came across an article on *CNBC Make It* that caught my eye a while back and did what I often do – hit print and put it in my folder. The article is titled “Top 5 regrets people have on their deathbeds: What they can teach us about living healthy, fulfilled lives, from an internal medicine doctor.” - *CNBC Make It* September 23, 2024 Alex Koller @Alexkoller.

The article is partly an interview of Shoshana Engerleider who is a doctor who has a podcast “Before We Go” and founded the non-profit End Well Foundation. She suggests that people spend time focusing on their mortality and her experience in working with people near the end of their lives is that they share these five common regrets:

- I didn't spend enough time with the people I love
- I worked too much and missed out on life
- I let fear control my decisions and didn't take risks
- I wished I'd been braver in the face of uncertainty or opportunity
- I focused too much on the future and lost touch with the present

The article also referenced the work of Siddhartha Mulkerjee and Bronnie Ware. Ware, author and palliative care worker wrote “The Top Five Regrets of the Dying” in 2011 and in it, she said that the most common regret she heard was the following:

*“I wish I had the courage to live life true to myself, not the life that others expected of me.”*

She also wrote the following – which I find particularly powerful:

*“Many did not realize until the end that happiness is a choice. They had stayed stuck in old patterns and habits. Life is a choice. It is YOUR life. Choose consciously, choose wisely, choose honestly. Choose happiness,”*

We would not begin to say this is easy. Being present, being conscious, and choosing your state of mind. But what this conversation points to is that we have one life to live and we can learn from those who are at the end of their lives while we still have the time to impact our own.

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