



Vailshire Capital **March 2023 Update**

Block Height 778902

For more information about Vailshire Capital Management LLC's investment management services, please send an email to info@vailshire.com.

"Note: The information in this update is not a solicitation to invest in Vailshire. The information was prepared by Vailshire and is believed by Vailshire to be reliable and has been obtained from public sources believed to be reliable. Opinions, estimates, and projections in this update constitute the current judgement of Dr. Jeff Ross and are subject to change without notice. Any projections, forecasts, and estimates contained in this update are necessarily speculative in nature and are based upon certain assumptions. It can be expected that some or all of such assumptions will not materialize or will vary significantly from actual results.

The Bitcoin Layer and its affiliated guests and correspondents do not provide financial advice.



March has arrived! And every day here in Colorado Springs seems to alternate between winter and spring... which keeps things interesting.

I hope all is well with you, wherever this monthly update finds you.



(Graph: Net liquidity in the United States grew massively from early 2020 through the end of 2021. Since then, it has been on an equally strong path of shrinkage. Risk assets--you may have noticed--have followed suit!)

Current Market Conditions

In my last update, I discussed the fact that "everything changed in or around October 2022." While this still holds true throughout the wider world--central bank liquidity is still generally expanding--net liquidity in the United States has cooled off... and is now near two-year lows.

If this growth measure doesn't turn positive in a hurry, then it will be quite challenging for US-based risk assets to materially increase in price.

In addition to our liquidity deficiency in the US, the fear of sticky high inflation has once again swept over the minds of market participants. With it, Treasury bond yields have marched higher across the yield curve, and credit prices have fallen commensurately. Other rate-sensitive assets, like real estate and technology/growth stocks, have also been pulled down.

I am of the opinion that risk assets, bonds, gold, and bitcoin won't perform very well until the disinflation narrative is once again firmly entrenched... which I believe is likely to occur sometime over the coming quarters. At that point, the "Fed pause rally" narrative should again take hold, and risk assets may catch a bid similar to the four-month mini bull rally from October 2022 through January 2023.

Beyond that, there is still a high probability of a recessionary bear market sometime in our future. But, since my models are not currently flashing imminent warning signs, we can save this topic for another time.

Needless to say, I will be monitoring incoming inflation, economic, and liquidity data points closely throughout the coming months!

Strategies for Vailshire's Separately Managed Accounts

Over the course of this current decade, I believe that certain asset classes will perform quite well; such as sound money (e.g., Bitcoin, gold), hard assets (e.g., commodities), and select equities (e.g., value-tilted indices, companies with high free cash flow yields, emerging markets).

On the other hand, growth/technology stocks and most bonds are (in my opinion) still overvalued and seem destined to perform relatively poorly.

In light of that, Vailshire's separately managed accounts will be increasingly invested in the former, while generally avoiding the latter.

Here is a summary of our current Vailshire portfolio allocations:

Vailshire's Conservative SMAs have limited (long-only) trading privileges and are (or will be) allocated in the following manner (% base positions):

- 45% LONG large and small cap US equities with high free cash flow yields
- 15% LONG emerging market equities
- 10% LONG bitcoin proxies
- 12.5% LONG US Treasury ETF
- 12.5% LONG gold royalty equities
- 5% cash (most earning interest at IB)

Depending on your financial objectives and individual account investment privileges, Vailshire's **Aggressive and Moderate separately managed accounts (SMAs)** are (or will be) allocated in the following manner (% base positions):

- 45% LONG large and small cap US equities with high free cash flow yields
- 15% LONG emerging market equities
- 15-20% LONG bitcoin proxies
- 7.5-10% LONG US Treasury ETF
- 7.5-10% LONG gold royalty equities
- 5% cash (most earning interest at IB)

If you are a Vailshire Client, feel free to log into your Vailshire-managed account(s) at Interactive Brokers and see how your own portfolios are positioned. (It's a good idea to log into your accounts at least quarterly, just to make sure your settings and demographics are up to date.)

Vailshire in the News!

Swan Bitcoin recently made a couple of humorous commercials with the theme **"Bitcoin is Simply Better Money"** and **"Bitcoin Not Crypto"** based off of one of my recent interviews. Feel free to check them out. I think they are well done, but let me know what you think!

Conclusion

We are now at an inflection point, waiting to see if the recurrent "sticky high" inflation narrative will soon give way to one of disinflation and an impending "Fed pause" rally. Until it does, and until bond yields ultimately top and roll-over, risk assets and bitcoin may perform suboptimally.

A recessionary bear market remains a high future probability, but is unlikely to occur in the near-term without a surge in unemployment rates and/or a systemically important credit event, causing the Federal Reserve to quickly reinstate quantitative easing measures. Said another way, the credit markets still appear stable, so "heroic" intervention by the world's central banks is currently unnecessary.

Whatever happens, Vailshire portfolios will remain positioned in a diverse set of assets, designed to profit even during our rapidly changing economic, monetary, and geopolitical world order.

We are living in interesting times, and Vailshire clients are facing them with optimism, resilience, and intelligence. Thank you for the trust in which you have placed in me!

Living well and investing wisely with you,

Jeff Ross, MD, MBA

Phone: 719.330.1640

Email: jeff@vailshire.com