



Vailshire Capital **April 2023 Update**

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

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Greetings from Colorado Springs!

March is winding down and attention is now being turned to the new beginnings of Spring. If you happen to celebrate Easter, as my family does, then I hope it is a great celebration for you and your loved ones.



(Graph: Although not as impressive as Bitcoin, gold has also fared quite well since worldwide liquidity stopped contracting and began rising again in early October. Its price has surged approximately 21% since that time... A big move for such a heavy metal!!)

Current Market Conditions

Much has happened since our last monthly update, not the least of which has been the surprisingly speedy demise of multiple US regional banks, as well as a systemically-important bank in Switzerland: Credit Suisse. In my opinion, the combination of rapidly rising interest rates, poor duration risk management, and severely contracted liquidity set the stage for some of the weaker players in the banking sector to fall. "Only when the tide goes out," Warren Buffett famously quipped, "do you learn who has been swimming naked." to say, I will be monitoring incoming inflation, economic, and liquidity data points closely throughout the coming months!

The Federal Reserve, in the name of "price stability," is succeeding in its steadfast desire to destroy demand; thus aiding the decline in too-high price inflation. The downside of its "hawkish" policy is that many more companies will go out of business and, accordingly, tons of regular Americans will lose their jobs. For those of us who have lived through multiple prior recessions, we know that life will probably get harder before it gets better again.

For the struggling US banks, the Fed has yet again deployed multiple liquidity "patches," which can serve to temporarily stop the bleeding and quench the historically high volatility that is currently rippling through the US bond market. Similar to 2007 and 2008, these patches don't actually cure the underlying problems and often simply compound and shift troubles to a later date. Unfortunately, at some point the bill comes due.

The upside to the recent turmoil is that the Fed appears mildly less obsessed in their zeal to lower inflation at all costs. Market participants, in turn, are sensing that the current rate hike cycle peak is close at hand, and a "Fed pause" rally has once again ensued.

For now, it appears that we are in the eye of the financial and monetary storm, and risk assets may perform admirably for a season after a painful 2022.

Strategies for Vailshire's Separately Managed Accounts

As I wrote last month, 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):

- 30% LONG large and small cap US equities with high free cash flow yields
- 15% LONG emerging market equities
- 2% LONG bitcoin proxies
- 14% LONG gold royalty equities
- 38% cash (most earning up to 4.3% 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):

- 30% LONG large and small cap US equities with high free cash flow yields
- 15% LONG emerging market equities
- 3-5% LONG bitcoin proxies
- 7% LONG gold royalty equities
- 43-45% cash (most earning up to 4.3% interest at IB)

Note that many of these positions may be increased over the coming days and weeks as oversold opportunities arise.

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.)

Conclusion

Many assets have turned bullish in recent months due, in part, to being in the proverbial eye of the storm. The Federal Reserve appears closer than ever to the end of its current rate hike cycle and liquidity patches have been deployed to aid multiple flailing regional banks in the United States. Given this, the "Fed pause" rally has legs... for the time-being.

As long as the bullish momentum continues we will continue to hold our current portfolio positions. As prices pull back from recent highs--and they will pull back--then we will be happy to add to our fantastic asset holdings at even better prices.

I appreciate you and the trust you have placed in Vailshire to manage your hard-earned savings and investment portfolio.

Living well and investing wisely with you,

Jeff Ross, MD, MBA

Phone: 719.330.1640

Email: jeff@vailshire.com