MORGIA WEALTH MANAGEMENT®

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Semi-Annual Update January 2025

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Going Bananas:

Despite much handwringing at what seems to be expensive stock prices, the bull market that began a little over two years ago has continued in full swing. All the major stock indices as well as gold, bonds, and bitcoin have had a very good year. But how can this be? With wars in Ukraine as well as the Middle East and more than a few economic indicators depicting a U.S. consumer that might finally be slowing down a bit, one might start to wonder. Isn't the market due for a breather? If not a correction? If not a bear market? Perhaps. It's an ever-present possibility. Yet, might I remind you of the fifth rule from our "Bull Market Rules" series in last summer's Update.

Bull Rule #5: Start positioning yourself towards the exit door but don't leave too early. You'll miss the encore.

Just like at a concert, in a bull market it's usually a good idea to stay for the encore. Don't leave too early! The last six months are a prime example of this rule in action. Of course, in the stock market, just like at the concert venue, there will come a point where the show ends, those obnoxiously bright lights are all turned on, and everyone heads hastily for the exits. Until then, however - enjoy the show.

Many investors thought the market was overpriced six months ago and would have a hard time advancing through year-end. Autumn has a justifiably bad rap for being the worst season for stocks so some speculated that after summer, a big correction (stocks drop) would be forthcoming. Nope. Autumn 2024 was one of those exception years. Stocks kept right on rising.

In conversations with clients over the past year we have been throwing around the term "melt up." That phenomenon is the kind of market environment where stocks start to go vertical. The increasing prices actually accelerate in pace. The moves become parabolic. We are not quite there yet, but there are a few macro-economists that we follow, who think it is a distinct possibility. With the Federal Reserve easing interest rates and corporations still posting respectable earnings gains, the current environment is quite conducive for further gains. Don't misconstrue this possibility for a probability however. If the market breaks down without a final big upswing... oh well, such is life. We don't plan on just sitting around wide-eyed with hope, waiting for something that may not happen.

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We plan to enjoy this move while it lasts, while at the same time, keeping our eyes on the exit doors in case we need to make a hasty exit (do some selling).

As the bull market ages, we are starting to see some signs of speculation and excessive risk taking. There are many indications that investors are getting a little bit too complacent. True, there could be more of this bull-run to come, as certain investments are still quite reasonably priced AND importantly, there still is a lot of cash (measured in trillions of dollars) on the sidelines. As interest rates drop, some proportion of this cash could be invested. That would be the fuel needed to push the market up further.

Looking back historically, before most of the big market drops or crashes, what stands out is that there were usually some telltale signs that the market was overdue for a fall. Bubbles were starting to form. Some "investment" decisions were becoming silly. But it was only with hindsight that most investors thought it obvious. In the heat of the moment, it was, and still is, never so apparent.

Today's bull market doesn't quite have a crazy aspect to it yet. Nobody is selling their home to "invest" in tulip bulbs like they did back in the 1600's. Nor is anyone paying 480 *times* revenue for a money losing dot.com company like they did back in March of 2000. For reference, some of today's technology giants trade between 5 -10 times their revenue. Importantly, today's technology stock darlings might be overpriced, but at least they ARE earning some very large profits – something that many if not most of the dot.com stocks could not attest.

So things aren't *that* crazy today. However, pockets of speculation seem to be erupting in more than a few different areas of various asset classes. Never a great sign.

Case in point: you may have seen the Sotheby's auction back on November 20th, when cryptocurrency maven Justin Sun outbid all the other participants for an art piece by Maurizio Cattelan. Sun paid $6.24 million for this one-of-kind creation! What *was* this modern masterpiece that was worth such an elevated price? Why, it was a creation ironically called "Comedian." (Pictured below) It was a banana stuck on a wall with duct tape. Not a painting, an actual banana.

Yes you read that correctly. I know it sounds ridiculous, but when you see the artwork, you will totally understand why it was such a valuable piece. OK, no... no you definitely won't understand it... because by any objective measure, it is quite ridiculous. But would it change your mind if you knew that the auctioneer himself described it as "iconic" and "disruptive" **and** the purchaser said "It represents a cultural phenomenon that bridges the worlds of art, memes, and the cryptocurrency community?" No? Yeah, me neither!

Years from now we might all look back and say that the $6 million dollar banana marked the high-water mark of illogic and speculative excess in many aspects of the 2024 bull market run. With hindsight we all might say that it should have been sign enough that it was time for defense and for caution.

Yet, it's never truly obvious until after the fact. The pessimists say that we're due for a bust - if they are right, we will all look back and think... *man that was obvious.* The optimists believe we're at the dawn of a productivity and technology revolution and that markets will go much higher before correcting - if they are right, we will all look back and also think ... *man that was obvious.*

Well, it's not so obvious right now. We could make a case that either may be correct. We need to be prepared for both contingencies. This means we shouldn't press our luck on either side. We can't be stubborn bulls, or stubborn bears. For now, at least, we are staying with our bullish stance that started over two years ago – albeit with a highly skeptical eye, and a decent amount of defensive planning. When the time comes to change course, we will shelf our emotions and stick to our disciplines and to our game plan. Same as always.

Are We There Yet?

As you may or may not know, for the past 56 years, we have attempted to predict the "big mistake" for each decade. And although it may be hard to believe, the decade of the 2020's is officially half-way over as of January 1st! Time for a check in.

Back in the summer of 2020, our call was that the big mistake for the 20's would be...drumroll please ... ***paper***. Paper assets. The short story is that we believed that the U.S. and the world was too awash in debt. Too many paper IOUs. We said that real assets would do better. What exactly are the main paper assets? The U.S. dollar and U.S. government bonds (currencies and bonds in general actually).

Halfway through the 20's we can report that – so far so good. I mean, *bad* I guess. Which is to say that what is good for our forecast is **not** so good for the country. The best way to measure the value of paper assets is by looking at the rate of inflation. How much erosion is happening in the dollar relative to real goods and services. The inflation rate was very high relatively speaking for the past five years. So high in fact that it caused the U.S. government bond market to have its worst performance since your Great-Grandfather was a kid! The period of 2021 through 2022 was a time best to be forgotten for the normally lower-volatility fixed income markets (bonds). Fortunately, since we thought we saw a storm brewing, we played heavy defense and managed to "hold the line" even better than we had hoped.

But **now** we can ring the all-clear bell, right? All is well with the paper world? The cash-crash should be over you say. I mean, inflation is *down* lately right? The headlines said so and the politicians bragged about inflation dropping in half??

Well, yes and no.

Remember that inflation dropping in half is not the same thing as prices going down. Take food prices for instance. Some measures show that in 2022 food prices went up 11.4% on average. The next year food inflation dropped to a bit less than 3%. Translation: food prices still rose, but just by a slower pace.

So the headlines can *say* that inflation dropped a lot, and they would not be incorrect. They would, however be playing with words and definitions and sugar-coating reality. And if you're anything like me, post-holidays, sugar coatings are the last thing we need.

Let's consider a $100 shopping cart of food that jumped up to $111.40 in one year. The following year (2023) it jumped a smaller, but nevertheless *additional* 3%. Add in the wonders of compounding and one further year, and you get to pay almost $117.76 today for something that a few years ago cost $100.[1] Looked at another way, this all means that the one-dollar bill (paper) is now worth only 82 cents and dropping!

So, our once-a-decade prognostication has worked so far. If pressed however, we would have to admit that we really feared something worse for the 2020's. Something even more dramatic than the high inflation we have witnessed so far. Let us explain:

With all the debt in circulation, there are only two ways out of our mess - the hard way or the harder way. The "hard" way is the easier way: which is for the U.S. government to print money and debase (steal) a healthy portion of the value out of everyone's cash savings. This method being "easy" for the government to do, yet not so easy for the people that have worked hard to accumulate those savings. The "**harder**" way out of our debt trap is for our country to actually buckle down, work more, and build/grow our way out of the problem. That second way also entails a healthy dose of cost cutting - something nobody likes, except perhaps for the taxpayers who are picking up the government's tab.

The first method (printing money) pays back our debt with veritable monopoly money. The second way pays our debt back with hard work and real money. When we made our prediction almost five years ago, our bet was that the government would take the easier path. Why not? Politicians are not known for forcing their constituents into taking fiscally proper (difficult) actions. It's more like "here everybody, have some more favors, money and stuff, just make sure to vote me back into office." That goes for corporations and individuals and non-profits, the rich and poor, everyone gets a share of the free stuff. Likewise, government bureaucracies are not known for relinquishing their funding – even if their spending is inefficient (to say it kindly).

We all know how wasteful corporate bureaucracies can be. Well, take those corporate bureaucracies with all of their issues, then subtract the necessity to satisfy your customers. Further subtract the necessity to do your work with any kind of spending responsibility. What do you get? You get a *government* bureaucracy - something far more fiscally dangerous than a corporation. Getting these bureaucracies to disgorge any portion of their annual funding to help with much needed deficit reduction, seemed like a pipe dream (a crack-pipe dream at that).

So, what was our investment game-plan to skirt around this danger of paper assets getting beat down? Our "investment life raft" was to invest in gold and certain commodities and certain stocks. The common denominator among these assets? They are real things. They are **not** paper. They are **not** contingent on someone else paying us back. Each has their own risks of course, but what asset does not?

[1] According to ChatGPT, AI can show how much groceries changed from 2022 to 2023 to 2024

Five years later? So far so good with our strategy. All of the above named asset classes have treated us well over the last few years. Very well indeed. Both stocks and gold have hit record highs in 2024.

Gold especially has been our go-to tactic in our quest to shelter clients from a breakdown in the currency and the bond market. It's working quite well to date, which means it is the perfect time to ask ourselves "What can go wrong with our premise?!" Part of our investment philosophy is to constantly question *every* investment we make, especially the ones that are doing well. That's precisely the area where most investors become complacent. But thirty-six years of watching the markets has taught me to trust nothing. So we must ask - what can go wrong with our plan? Which is to say, what can go right for our country?

For the 2020's so far, our government has spent trillions of dollars in excess of what we took in from taxes. Every... single... year. One way for our "buy gold" plan to go wrong, would be a reversal. Imagine a scenario where the United States woke up from its fiscal incompetence of over-spending.

Ha – that's a good one. Ok, ok... so it is highly impractical. But is it possible??

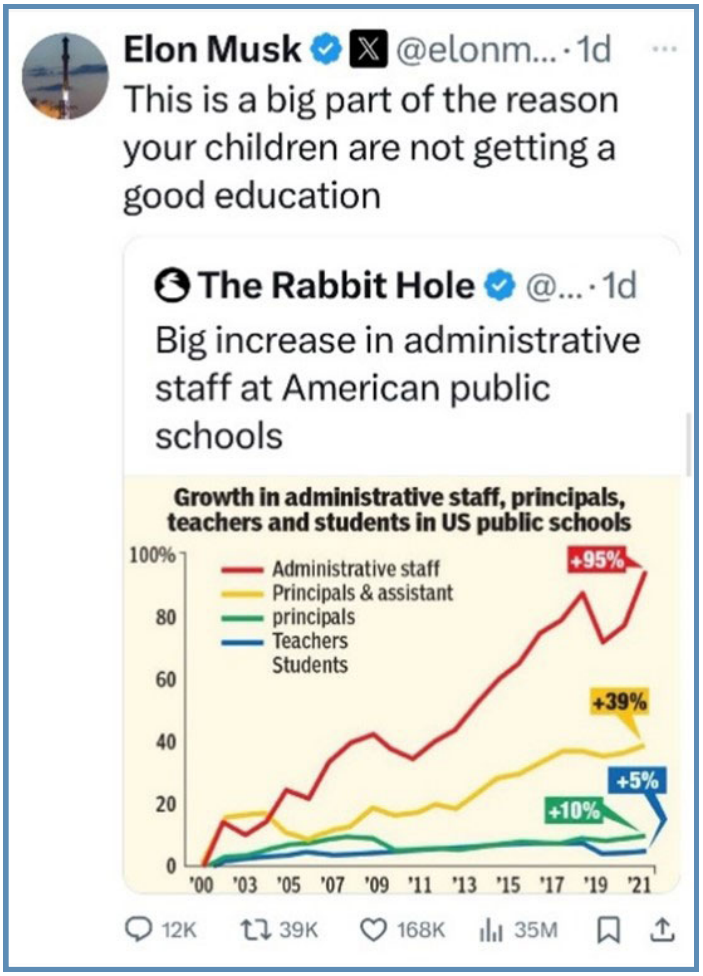
We can all probably agree that a fairly significant percentage of government spending is wasteful. Disagree? Just ask any one of your family or friends that are government employees how fast they could identify spending that they would consider either dumb, wasteful, or fraudulent. I have done this personally and have never, ever, found a government employee to be at a loss for words. It was more like a hardy laugh followed by "Let me TELL you..."

But even if waste was found, the government itself would have to be willing to do something about it. It's hard to tame the beasts of bureaucracy. And even if they *were* willing, cutting out waste cold-turkey would displace workers and disrupt the economy temporarily. With all these roadblocks, is it really possible for us to get our financial $#!t together before it's too late??

It would be like wrestling a needle out of the junkie's hand. Sure, it *must* be done to save the person, but it ain't gonna be pretty! He's not going to want to let go. And even if you succeed, he will be in for a painful detox. Such it is with the United States' debt addiction.

> ***" I've seen the needle and the damage done***
> ***A little part of it in everyone***
> ***But every junkie's like a settin' sun "***
>
> ***- Neil Young 1972***

Can our politicians really muster up enough gumption to do what is difficult? Very difficult?? Five years ago, our answer was an unambiguous NO WAY. But then...



...Enter DOGE (The Department Of Governmental Efficiency). Enter Elon Musk:

I'm sure everyone knows the story of how Musk and Vivek Ramaswamy have been tasked by the incoming Trump administration with slashing governmental waste. Musk is notorious for aggressive cost slashing. And he will soon be in a very target-rich environment.

Take some of his recent posts on X (formerly Twitter). Every day another worthy opponent enters his cross-hairs – Education stumbled into view recently. Musk shared a post (depicted on the left) showing education administrative staff to have risen astonishingly more than the numbers of teachers and students over the past 20 years. Over-administration in the education system IS a big problem (ask a teacher!) and a likely place to uncover waste. Administration is necessary, but if unchecked it is not unlike a basketball game that has more referees than players!

Musk does have a tendency to shoot from the hip however, and he will need to play a little less rough if he is to garner support on The Hill.

For all his quirks, Mr. Musk has a decent chance of making a difference. Enough of a difference? That is the unknown factor. Our country really needs this process to happen, and even if the new head of the new DOGE IS known for "winging it," no one can argue that he doesn't get things done. Fast and audacious. That, of course, can be a bit dangerous, but it is also just what the doctor ordered when fighting entrenched interests.

Need an example of Musk's distaste for inaction? Go Google the story of how he physically dismantled one of Twitter's data centers when he bought that company. After becoming quite annoyed with his staff's lack of progress with moving one of X's server farms to another facility, he took matters into his own hands. On Christmas Eve 2022, he diverted his private jet and with a few of his relatives, personally took apart the 2000 lb. server banks himself. Later he would admit that he may have been a little reckless with that move. He certainly tends to take quick dramatic action (good) even if it is sometimes too quick and too dramatic (bad).

The price of gold, having had a very big year pre-election, has sold off a bit post-election. The yellow metal was up 29% for the year,[2] but investors are taking seriously the possibility that Musk and company just might inject some fiscal responsibility into government. That would mean we need gold ***less*** than we needed it six months ago. Add in the hope that new artificial intelligence systems can *further* boost efficiency. Together, these productivity measures increase the possibility that the U.S. might be able to produce goods and services AS FAST as we are producing (printing) money. If that were to happen, we would have to rethink our thesis that paper assets will drop in value. We might have to sell our gold! As you probably know by now, we try hard not to be stubborn with any investment thesis or premise in which we may be invested. If the situation changes we must be quick to change with it.

But these are big "ifs" - huge "Ifs." Like the iconic line about Mordor from *The Lord of the Rings* - One does not simply walk into DC looking to take money out of the hands of the vested interests entrenched there. BBC recently noted that:

> ***Musk did not specify if he would aim to deliver $2 trillion in savings in a single year, or over a longer period, but many U.S. public finance experts, including those who are in favour in principle of reductions in U.S. government spending, are sceptical [that] such a scale can be found in the near term without either a collapse in the delivery of important government functions or sparking major public resistance.*** [3]

Success would mean that we will need something almost unprecedented to happen. If only we had a role model - a financial superhero of sorts. Someone who has already accomplished such a feat. Someone for Musk to emulate. Someone upon hearing that his country's structural government deficits can't possibly be fixed, would respond with:

"Oh Yeah? Watch This:"

Enter Javier Milei: Milei, Argentina's new president was elected just over one year ago. He has single handedly just shown all of us the way.

Milei seemed to hit the U.S. radar screen in mid 2023, before his country's election. It was then that a certain video of him went viral. In it, Milei stands before a chalkboard with stickers of the different Argentinian governmental ministries affixed to it. One by one he would call off the agency, take the corresponding sticker, and throw it over his shoulder yelling out the word "Afuera!" which is Spanish for "Out!"

Ministerio de Turismo y Deporte.....AFUERA!
Ministerio de Cultura.....AFUERA!
Ministerio de Desarrollo Social.....AFUERA!

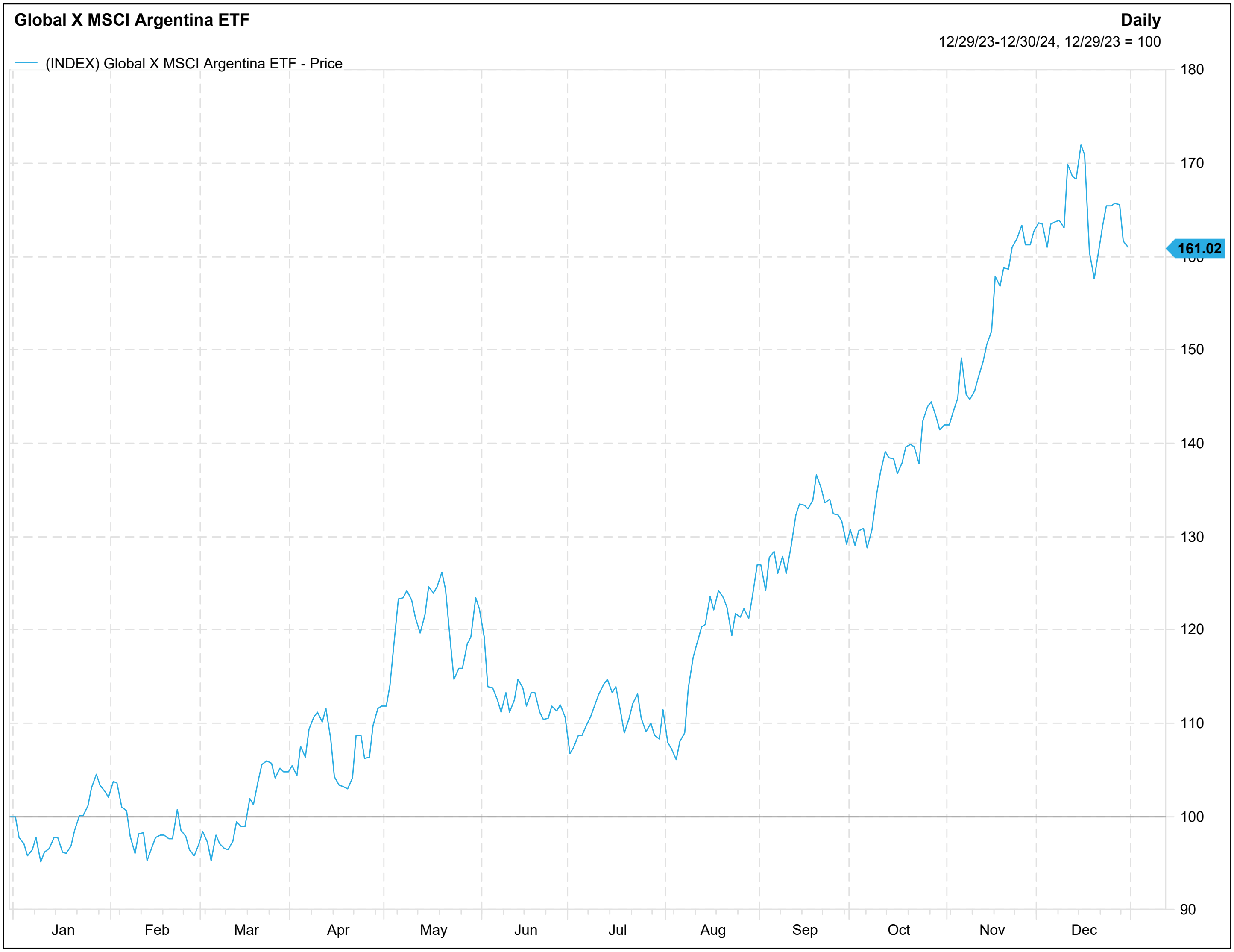
When it was over there were no more stickers on the chalkboard.

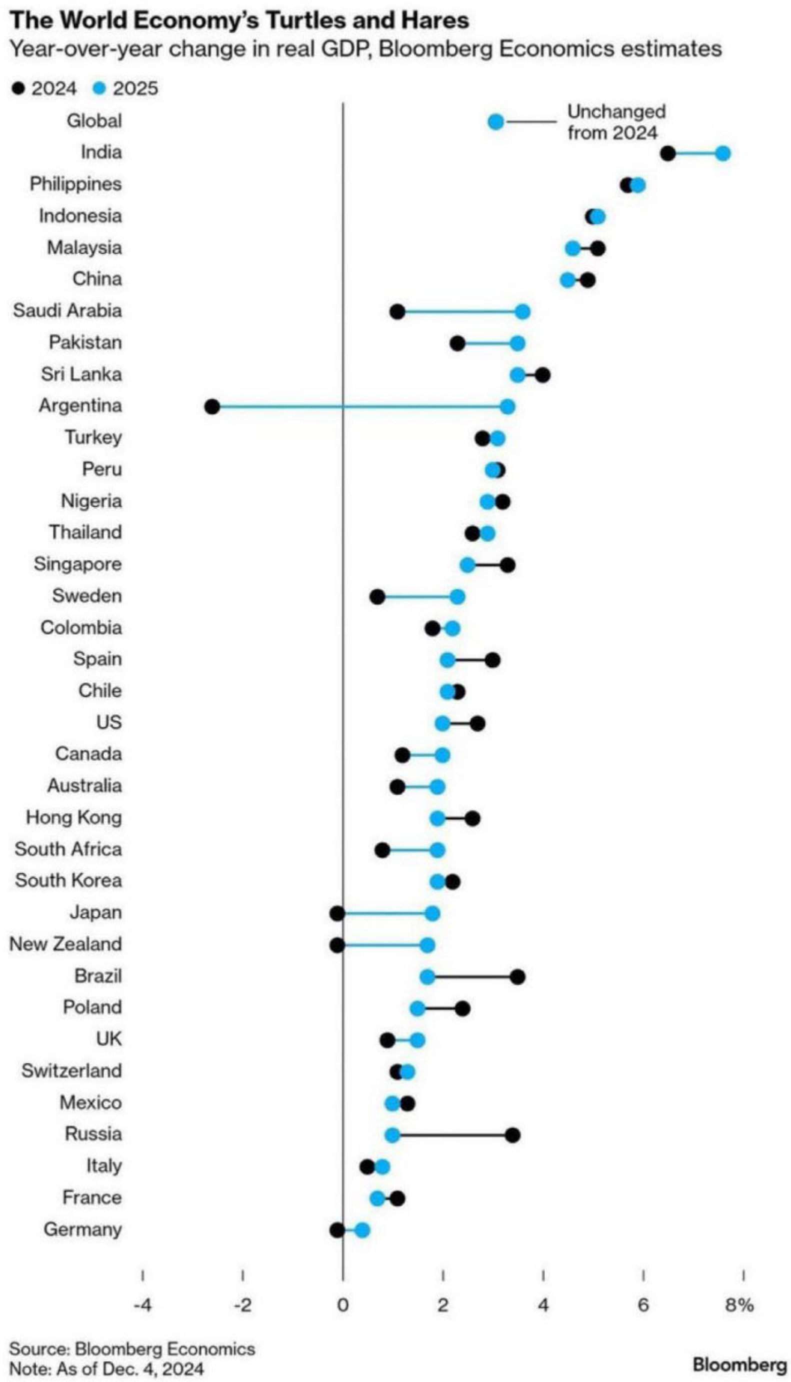
[2] The Motley Fool, Up 29% Year to Date, Can Gold Outperform the S&P 500 Again in 2025? 12/28/24

[3] BBC, Will Elon Musk be able to cut $2 trillion from U.S. government spending? 11/13/24 Ben Chu

Dramatic? Yes. Entertaining? For sure. Feasible? At the time no one knew. Argentina has been an economic basket case for longer than most of us have been alive. Many fixes have been attempted, but none as radical and as anti-governmental-bureaucracy as Milei is attempting.

The early results are promising to say the least and Argentinian stocks have been soaring in response, rising over 70% at the peak in 2024.





On November 15, the Buenos Aires Herald said:

*" Argentina's Economy Ministry announced Friday that the public sector had a AR$523.4 billion financial **surplus** in October — the ninth consecutive month in which the national government registered a positive fiscal balance. Javier Milei, who campaigned on building surpluses, has been able to achieve his aims by enacting abrupt and often draconian austerity measures."* [4]

That is quite an abrupt and amazing 180-degree change from the typical budget deficits that have plagued that country for years.

The chart to the left shows Bloomberg's estimates for various countries' economic growth rates from 2024 to the projected 2025 figures. Notice anything that stands out? Milei will have taken Argentina from basket case to booming if this forecast pans out. Negative 3% growth to positive 3% growth, far exceeding the change from any other country.

With Milei's example of success, Musk just might be able to coax enough politicians into the much needed budget changes to make a difference. And by changes, I mean **cuts.**

However, if Elon has trouble exercising his will with Congress or worse, if President-Elect Trump believes that the cost cutting measures are damaging the economy, employment, or the stock market, Musk just might find himself ***… Afuera!***

As of today our stance still holds that gold is a good hedge against the problem of the $36 trillion owed by the United States and the estimated $100 trillion in unfunded liabilities that have been promised for social security and healthcare. Even with the recent political changes, it still seems like our country will need to pay off our debts by **both** debasing the currency AND by cutting costs.

[4] Buenos Aires Herald, Argentina secures financial surplus for ninth month in a row, Nov 15th 2024, Facundo Iglesia

If so, that leaves gold with much more room to run. Earlier we said that the dollar's value, as far as food is concerned, has dropped down to $0.82 since 2022.[5] Keep up that pace for a few more years and we'll be paying our debt back with dollars only worth 25 cents. Debasement makes politicians' lives easier and thus we still believe it to be more likely.

Caveat: Even though our base case is for more eventual inflation, we will probably get lower inflation first. If the economy slows much more, **and** the Federal Reserve stays gun-shy about lowering interest rates too quickly, an eventual recession could be deeper than it otherwise would be. The **deeper** the recession – the more money printing will ultimately be necessary.

The Tax Man Cometh:

> ***Let me tell you how it will be***
> ***There's one for you, nineteen for me***
> ***'Cause I'm the taxman***
> ***Yeah, I'm the taxman***
>
> ***Taxman: The Beatles 1966***

Investment strategy and tactics are a critically important part of one's financial life. How much you **make** is a function of your investment strategy. However, there is another type of strategy that helps investors with how much they can **keep**. Tax strategy.

There are many facets of tax planning. From the proper use of tax deferred plans, 401(k)s and IRAs to comprehensive estate planning. Also, so-called "tax-loss harvesting" should be in everyone's playbook. Every year, investors should religiously comb through their portfolios looking for any losses that can be booked.

Regrettably, the government has more ways to tax you than there are available escape routes – regardless, it's always a good idea to check in with us every now and then to see if there is anything more that can be done in this domain.

As they say - the only things in life that are certain are death and taxes. It's even worse when the two certainties are combined! Taxes **upon** death can be salt in the wound for grieving family members.

> ***Now my advice for those who die (taxman)***
> ***Declare the pennies on your eyes (taxman)***
> ***'Cause I'm the taxman***
> ***Yeah, I'm the taxman***
> ***And you're working for no one but me (taxman)***

[5] According to ChatGPT, AI can show how much groceries changed from 2022 to 2023 to 2024

It's a complicated subject and we don't have time for a deep dive right now. The rules can be seemingly arbitrary and unfair. Some are outright ridiculous. As an example, to prove my point, we'll take a very quick look at one such beauty of the tax code. This one only applies to residents of New York State (lucky me). How ludicrous is the rule you ask? Well, under certain circumstances, a New York State resident on his deathbed would be better off to literally burn half a million dollars. Doing so would **save** him money. How is this even possible?

Well… gather 'round the campfire boys and girls and I will regal you with a tax horror-story about the poisoned penny of New York.

In 2024 a person who dies with an estate under $6.94 million has no NY estate tax. [6] Over that amount however, a "small" tax liability starts to accrue on the overage, reaching about $10,410 by the time an estate value reaches $7,286,999.99.

Now for the fun part. One more single penny of value on the date of death and the estate hits a "magic" level of 5% more than the $6.94 million exemption level. What then you ask?? Well, then the estate hits what is called "the cliff" and every bit of it becomes taxable! I told you it was a horror story!

That last penny changed the tax bill from about $10k to about $676k! An increase of $666k all because the estate value was one cent too high (the spooky number is probably just a coincidence). It seems hard to believe but if a New York resident on his deathbed noticed that he was over "the cliff" amount by, let's say, half a million dollars, he would be better off burning that money so as to save the $666,000. He would be net ahead by $166k! Of course, destroying currency is illegal so we would advise something more of lose-win-win scenario, like giving the half million dollars to a charity. Or perhaps something a little more fun, like going to Las Vegas and dropping $500,000 on one spin of the roulette wheel. Then just let it ride until you either pay for the entire tax bill, or alternatively, lose all the money. Either way you save big on taxes.

Moral of the story: There are many convoluted tax rules and if you aren't paying attention, you could be disaffected in surprising and frustrating ways. DO the work on this! Study the tax code and take the appropriate countermeasure. Or have us do it for you.

NOTE: This was NOT tax advice. -- Always check with your tax advisor for specific guidance!

Feel free to **check out our video library** on our website (**morgiawm.com**) or our YouTube channel or follow Morgia Wealth Management on LinkedIn. As always, please call or email with any questions and/or comments. On behalf of Tony, P.J. and the rest of Morgia Wealth Management, thank you for your continued confidence.

Sincerely,

Michael Morgia, CIMA®	**Tony Morgia**	**P.J. Banazek, CFP®**
Managing Director, Partner	Managing Director, Partner	Managing Director, Partner

[6] www.tax.ny.gov/pit/estate, NYS Dept of Taxation Estate Tax Basic Exclusion Amount 1/1/24 to 12/31/24

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