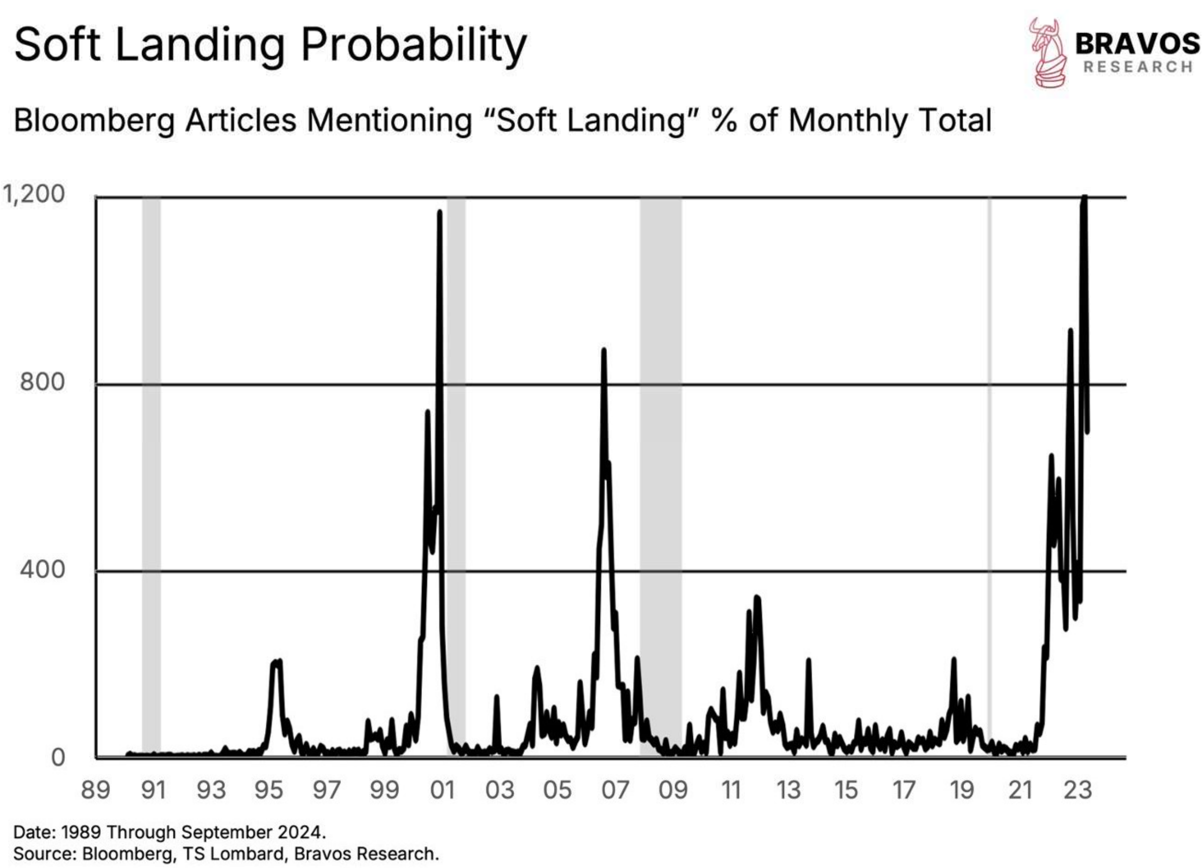
October 2024: Would you please put some pants on?

"Only when the tide goes out do you discover who's been swimming naked." – Warren Buffett

"Would you please put some pants on? I feel weird having to ask you twice." – Phil Wenneck, The Hangover

Running Oak's investment process is disciplined and rules-based, eliminating the impact of emotions, fear and greed, in particular. A natural result of that well-defined, repeatable process is a portfolio that consistently provides investors with specific desirable qualities - higher earnings growth, profitability, attractive valuations, lower downside risk - and avoids clearly undesirable traits, like overvaluation, unprofitability, insolvency, and risky portfolio construction. Our rules-based process ensures that we - and therefore our clients - never leave our pants behind. Per BTIG, "Fear has left the building." Many are swimming naked. The number of articles mentioning Soft Landing, as seen in the chart below, have reached a fevered pitch.



A Soft Landing implies that the economy will slow but avoid recession, kind of like pumping the brakes on a cruise ship headed for an iceberg. It also implies that the Federal Reserve has perfectly executed the following:

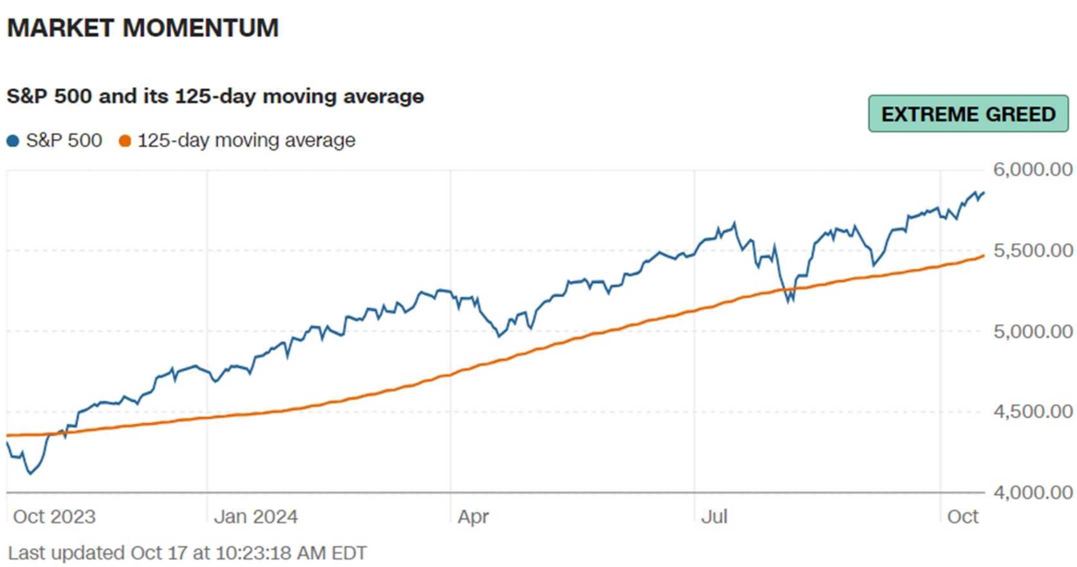
- QE1, QE2, QE3, QE4 (money printing x4),
- ZIRP (Zero Interest Rate Policy, leading to fixed income returning next to nothing for an extended time),
- By many accounts, the largest fixed income bubble in history,
- An expansion in the Fed's balance sheet beyond anything previously imagined,
- Jerome Powell announcing a plan to reduce the size of the Fed's balance sheet,
- Jerome Powell cancelling said balance sheet reduction due to a few angry tweets,
- The highest inflation in 45 years,
- A Jumbo Cut (50bps interest rate cut), and
- Interest rates rising 11% over the 22 days following said Jumbo Cut (the intent of a rate cut is lower rates, not higher).

But… I'm sure the Federal Reserve, which has a well-documented history of regularly being incorrect, has executed the ever-elusive "Soft Landing". Ben Bernanke, a former Fed Chair, once said that "if making monetary policy is like driving a car, then the car is one that has an unreliable speedometer, a foggy windshield, and a tendency to respond unpredictably and with a delay to the accelerator or the brake."

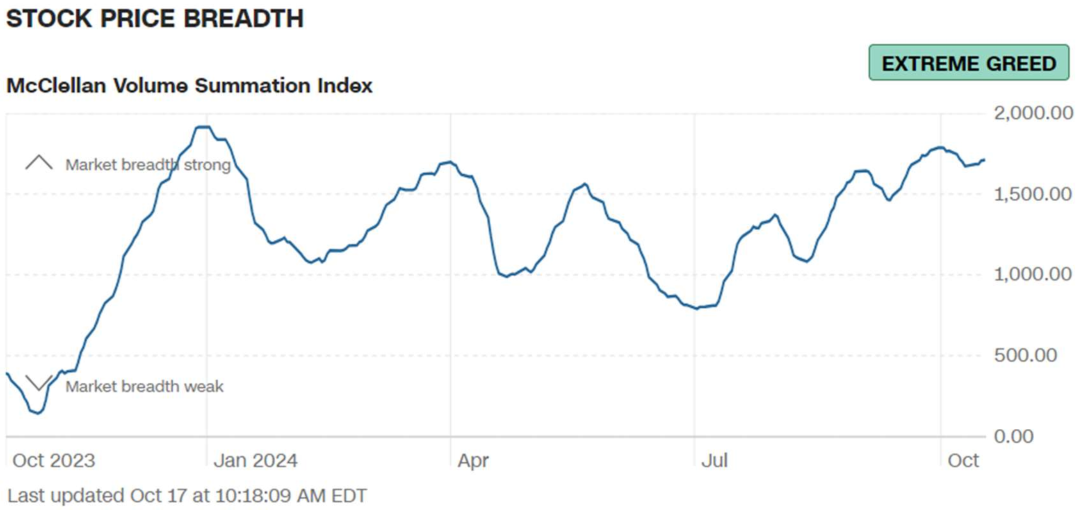
“Be fearful when others are greedy… be greedy only when others are fearful.” - Warren Buffett

If Fear has left the building, Greed is in the house.

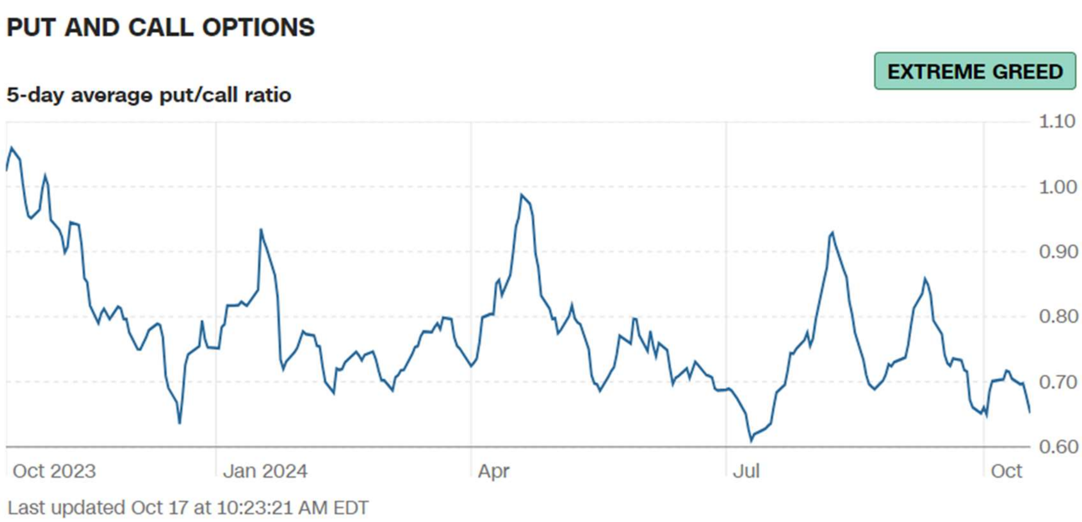
Market Momentum is a measure of the degree to which people buy stocks because they are up, which makes them rise further, then buy stocks because they are up, which makes them rise further, then buy stocks because they are up… A couple months ago, Market Momentum hit the 99.8th percentile in history. Human emotions often swing from one extreme to the other. Beware the hottest, most popular stocks, particularly when Fear is low and Greed is high.



Breadth measures the number of stocks that are up on a day. If everything is up, investors aren't being selective and disciplined.



The Put/Call ratio measures the degree to which people are hedging versus speculating. Speculation is high; caution is low.



**The above charts were sourced from CNN*

"Honey, where are my pants?" - Where Are My Pants Guy, The Lego Movie

Efficient Growth has you covered in times of greed, fear, and in between. Efficient Growth has delivered top 1% returns versus its peers and performed roughly in-line with the S&P 500 over the last decade, *despite* being historically out of favor. It did so with minimal exposure to the Magnificent 7, providing the diversification that clients need, particularly at this moment, AND rare performance.

And if the current environment of greed swings to fear, Efficient Growth is constructed to systematically and proactively address the risk of loss at all times. The portfolio will ALWAYS:

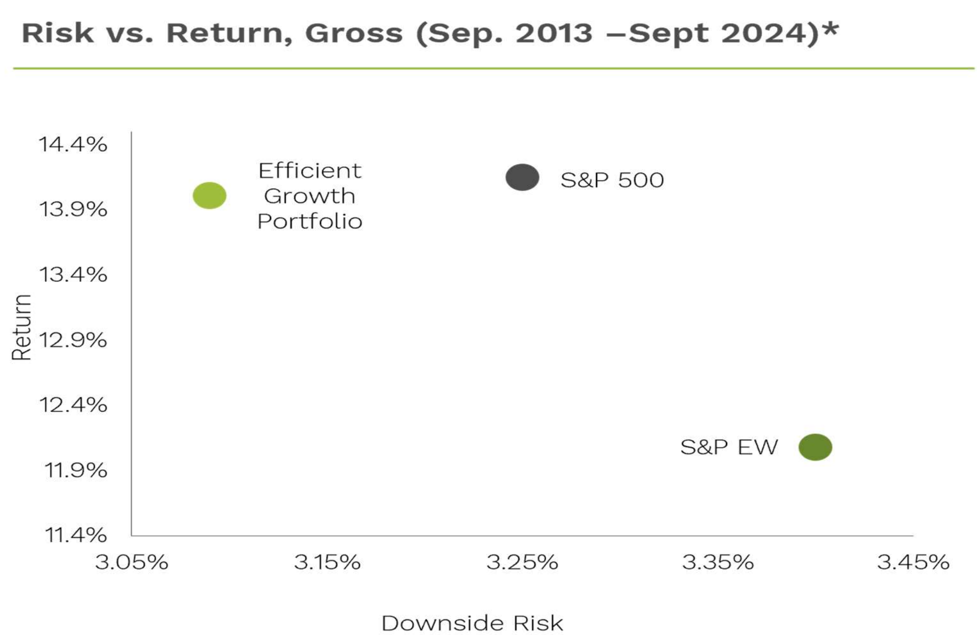
- Avoid over-valued companies - You don't want mean reversion working against you. The hottest companies very often become the coldest in a recession.
- Avoid over-leveraged companies - Debt is a double-edged sword that tends to turn on its wielder in a recession.
- Avoid over-concentration - Efficient Growth is equally-weighted, diversifying risk across companies and industries.

Efficient Growth's philosophy is simple, easy to understand, and common sense:

- Above Average Earnings Growth – Because owning a company that is making more and more money is obviously a good thing.
- Attractive Valuations – Because paying a dumb price is, well, dumb.
- Lower Downside Risk – Because losing money stinks. Lower drawdowns mean smaller bounces are required to get back to new highs.

With just the slightest bit of critical thinking, one would theorize that Efficient Growth is likely to outperform due to higher earnings growth and investment in under to fairly valued companies and do so with less downside risk, due to the avoidance of overvalued, unprofitable, and insolvent companies. Efficient Growth would also never have almost 30% of the portfolio invested in just 6 highly correlated companies. (Because that would be irresponsible, putting clients at risk...)

Running Oak's goal is to maximize the exponential growth of clients' portfolios, while subjecting them to far less risk of loss. In other words, we aim to help your clients realize their dreams and avoid their nightmares.



If you appreciate critical thinking, math, common sense, and occasional sarcasm, we would love to speak with you. Please feel free to set up a time here: [Schedule a call.]

For additional data and context regarding the claims made within this letter, please refer to the Disclosures and Additional Data document located here.

Investment Advisory Services are offered through Running Oak Capital, a registered investment adviser.

**Past performance is no guarantee of future results. Performance expectations are no guarantee of future results; they reflect educated guesses that may or may not come to fruition. All indices are unmanaged and may not be invested into directly.*

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