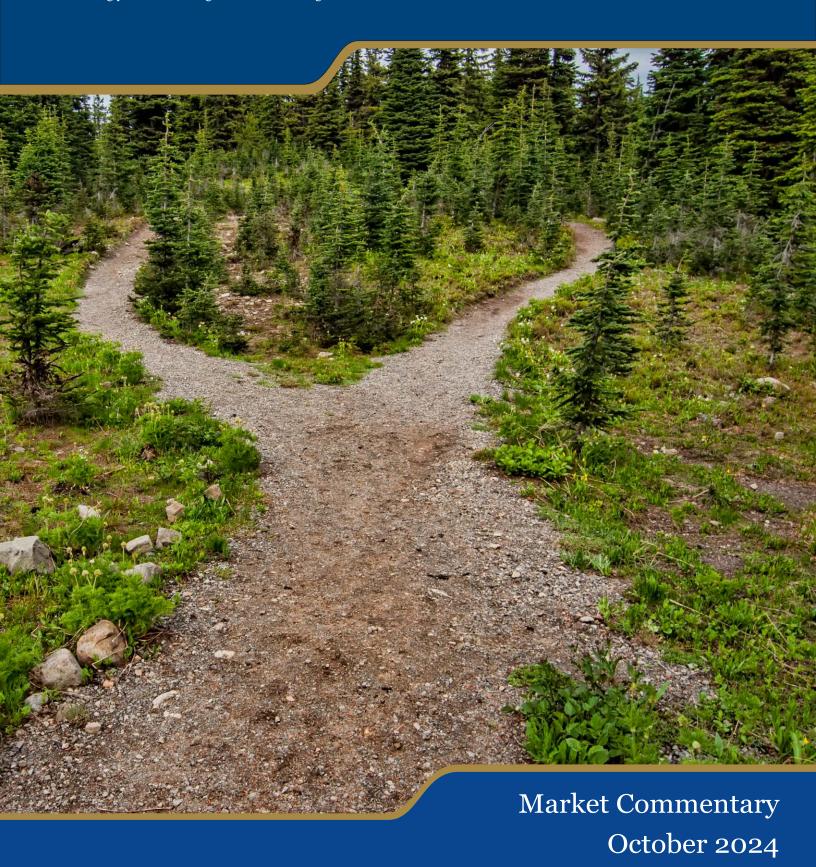


Securing your future through Precision InvestingTM



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Executive Summary

Geopolitical tensions are increasing, while the US Presidential campaign approaches its decisive moment. The capital market, however, remains optimistic and untroubled by the unsettled political landscape.



Russo-Ukraine War

Russia continues to grind away at Ukraine, but its advance is limited to about 0.8 km per week. Each meter of advance appears to cost the Russians one to two soldiers lives. Ukraine's great difficulty continues to be tardy delivery of military supplies and imposition of intrusive rules of engagement by its military backers. The US and Germany seem particularly at fault in this regard. Nevertheless, Ukraine has pulled off deep strikes using its own drones. A recent attack on an ammunition depot may have destroyed several months worth of artillery ammunition and rockets. The detonation of these supplies generated at earthquake which registered at 2.8 on the Richter scale.



Israeli-Hamas War

Israel continues to grind away at Hamas. It has also moved strongly against Hezbollah. Hezbollah's continuous attacks on Israel's northern borderlands have displaced 62,000 Israelis and with Hamas significantly destroyed Israel now feels it can prudently redress this situation.

Israel has responded with targeted attacks on Hezbollah operatives and leadership delivered through booby trapped communications equipment and "surgical" air strikes. Hezbollah's long time leader and approximately half of the organization's executive and top operational leadership have been killed. For the moment Hezbollah appears paralyzed by this decapitation attack, but its capacity to deliver damage remains high. The IDF has launched ground operations in southern Lebanon with the goal of pushing Hezbollah north of the Litani (historically known as the Leontes) river and thus about 20 miles from the Israeli border.

Iran is offering to negotiate about nuclear weapons while it presses ahead with building such weapons. It has probably secured technical aid from Russia with the result that its first generation weapon will be more advanced than would otherwise be the case. With apparent reluctance, Iran responded to the attack on Hezbollah with barrage of rocketry. This barrage was only marginally more effective than the prior assault. As we go to press, Israel is deciding on its counter strike. The Netanyahu government appears intent on substantially destroying Iran's capacity to threaten Israel, but it must deal with its foes one by one.



China

China has jailed a Taiwanese politician for advocating the independence of Taiwan from China. The politician had been visiting relatives on the mainland when he was arrested. He has been sentenced to nine years imprisonment. China is actively exploiting cultural and business ties with Taiwan in an effort to subvert Taiwan's de facto independence. These activities have reached the point where Taiwan will likely need to cut or at least dial back relations in the cultural and business spheres. President Xi spoke forcefully at the 75thh anniversary of the founding of Communist China about the inevitability of Taiwan's incorporation into the PRC.

China's goal is force the Philippines into abandoning territorial claims in the South China sea. Basically China is asserting control over the entire maritime zone and attempting to limit the Philippines to its core archipelago.

The Chinese government has announced a substantial program of reflation in an attempt to deal with the country's debt crisis and economic slump. Serious institutional reform or rapprochement with the Western world appear not in the cards at present, however. The lasting success of the reflationary program remains in doubt accordingly.



The Bridgewater View

Bridgewater is a respected asset management firm whose founder and CEO emeritus is Ray Dalio. It has published an annual review of 24 leading countries. It shows inter-country conflict currently at a level at which regional/border wars have broken out in the past. In fact, two such wars are currently raging: in Ukraine and in the Mideast.

We agree with Bridgewater that tensions are currently elevated. We regard an international incident involving the US and China as likely and a regional war between them as possible. The fundamental conflict is over the South China Sea and Taiwan. China perceives itself as the rightful suzerain and is determined to assert its sovereignty. The US regards itself as the Pacific Great Power and is determined to resist what it sees as China's encroachment on its established territory and violations of agreed international law (namely the UN Convention on the Law of the Sea.). Thus each power understands its position as essentially defensive and the other power's position as an aggression. This is a classic recipe for a border war.

Mitigating the risk of war, both the US and China are currently preoccupied with domestic issues. China is grappling with an economic crisis which marks the end of one stage of its economic development. In addition, corruption within officialdom remains a problem and there are probably fissures in the governing elite which are out of sight but bitter. In the US fissures are front and center. The US budget also is tight – the country would find a military build up more than a little inconvenient.

Finally, military technology is evolving rapidly, which will make planners hesitant to sign off on "once in a generation" procurement plans. In both countries there will be a constituency in favor of postponing a confrontation to "next year." These brakes could be overcome by a dynamic leader intent on pushing a nationalist agenda. Xi may be such a leader, but to date he has been a careful incrementalist rather than a dice roller.



Domestic Polictics

In our review of Supreme Court decisions (July 2024 Research Note) we noted under the case Department of State vs Munoz that President Biden had reformed a bureaucratic procedure which was being applied to effectively nullify the marriages of certain US citizens without due process. Unfortunately we must now report that a coalition of 15 "red states" have brought suit hoping to overturn this reform. The conflict is a measure of how bitter the conflict over immigration has become and how ambitious certain states are to usurp powers unquestionably part of the Federal government (namely instructions it gives its bureaucracy on administering US citizenship.)

The upcoming national election offers voters a clear choice of alternatives. The Republican party stands broadly for reducing the powers of the Federal government, while the Democratic party stands for maintaining the power of the Federal government.

Going beyond his party's basic stance, presidential candidate Trump offers a revolutionary change in policy. Approximately 10% of the current labor force will be deported. The US will withdraw from most of its foreign alliances. The previous tax cuts, which are expiring, will be renewed and extended. Instead there will be an across the board increase in tariffs. Senior ranks of the civil service, military and law enforcement will be purged and replaced with persons of demonstrated loyalty to the new program. Independence of the Federal Reserve will be ended. Former officials, both political and appointed, may face prosecution. The green economy program will be repealed and fossil fuel production will be further stimulated (it is currently at a historic high.)

Presidential candidate Harris, by contrast, offers a program of continuity. No major changes will be made in alliances, tax structure or government personnel. The 2017 tax cuts will be allowed to expire, which will move the Federal budget closer to balance. It will also remove a fiscal stimulus which has fed inflation. Laws in place will be enforced in their customary manner, both with respect to deportations and prosecution of former officials. The Biden green economy measures will be maintained. Some additional support will be provided for small businesses.

We comment that the Trump program is roughly a reversion to the policies of the 1920s. These policies are generally credited with having produced the Great Depression and the Second World War. Until Trump, no one since has seriously advocated for isolationism and high tariffs. In our view, these policies are known failures and there is no need to retry them.

The public sees things differently however. The top of mind issue for the plurality of voters is — as always - the economy and inflation is front and center in the economic picture for the majority of voters. Everyone observes the price of eggs, while only a handful of people experience job cuts or hiring freezes. As a result of this unbalanced perspective on the economy, a substantial part of the electorate views the economy as in bad shape and trusts Trump, by a substantial margin, to be a better guardian of the economy. Offsetting that advantage, however, Trump's criminality and willingness to corrupt institutions are disqualifying for significant voting blocks across the political spectrum.



The US Economy

The Federal Reserve decided on a half point decrease in its short term interest rate. We agree that this was the correct decision given the balance of risks between recession and inflation. We think the Central Bank will monitor results for sometime before making its next move. This easing cycle may look more like a staircase than like the gentle down ramp of some recent easing cycles.

The latest job report came in at twice the recent level and showed hiring broadening out into sectors that had been lagging recently. Data revisions may trim the perceived strength, but to all appearances the economy appears to be on track for steady growth lasting a number of years. We think once the election paralysis is behind us the stock market could reopen to IPOs. That would allow investors in VC to rebalance parts of their portfolio and to generate the liquidity needed to fund the next cycle of innovation.



Capital Markets

Security markets are rising across the board. In equities international emerging markets led the advance (+6%) followed by US large cap growth (+2%) with other sectors nibbling out advances of about 1%. We interpret this pattern as "risk on" moves by investors responding to the Federal Reserve's rate cut. In fixed incomes Preferreds were the leader (+2.75%) followed by TIPS, Investment Grades and REITs all at about 1.5%. With an easing cycle begun, investors are shifting to longer dated assets. Commodity markets are more mixed. Gold continues to rise as the geopolitical situation continues to deteriorate. Oil has been in a bear market, but has rallied recently on the possibility that Chinese reflation may stoke demand or Israeli-Iranian conflict may reduce supply. However the fundamentals remain bearish.

Table 1: Recent Market Performance

Asset Group	Asset Class	6-month trend	3-month return	1-month return
Equity	US Large Cap	rising	4.52%	1.29%
	Large Cap Growth	rising	2.95%	2.14%
	Large Cap Value	rising	7.45%	0.93%
	Growth – Value	outperform	- 4.50%	1.22%
	US Mid/Small Cap	rising	9.05%	1.25%
	Intl Developed	rising	6.75%	0.63%
	Intl Emerging	rising	7.63%	6.06%
Fixed Income	Treasury 3-7 year	rising	3.47%	0.76%
	Treasury 7-10 year	rising	4.45%	1.09%
	TIPS	rising	3.31%	1.47%
	Municipal	flat	1.80%	0.90%
	Investment Grade	rising	5.27%	1.59%
	Medium Grade	rising	4.03%	1.29%
	Preferred	rising	5.35%	2.75%
	REIT	rising	14.92%	1.46%
Commodity	Euro	rising	2.35%	-1.00%
	Gold	rising	14.14%	6.97%
	Crude Oil	falling	-8.27%	- 4.43%



Advice

Our advice is to remain with your long term strategy.

Cover Photo

The occasional moment in life when one must make a decisive choice has long fascinated the poets.

Dante wrote

 $\label{eq:incomplex} In \, mid \, life \, I \, found \, myself \, in \, a \, dark \, wood, \, having \, lost \, the \, true \, path.$

His poor, but highly educational, choice of path led him to the gates of Hell.

Shakespeare preferred a nautical metaphor

There is a tide in the affairs of men which taken at the flood leads on to fortune. Omitted all the voyage of their life is bound in shallows and miseries.

So spoke Cato, who grasped at greatness, but found instead ignominy and death.

Robert Frost returned to the path metaphor

two roads diverged in a yellow wood, and sorry I could not travel both And be one traveler, long I stood and looked

I shall be telling this with a sigh Somewhere ages and ages hence: Two roads diverged in a wood, and I, I took the one less traveled by, And that has made all the difference.

Which leaves us wondering how the traveler in his imagined future self could know the consequences of the road not taken.

Today we see the United States, Israel, Iran, Russia and China all at forks in the road — choosing paths that may lead to Hell or to nowhere in particular. More generally the countries of the developed world are facing forks in the road as to how they adapt to AI. The poets are gnomic in how they would advise us, but perhaps ultimately they agree on the need for thoughtful choice.



About Lloyd Tevis Investments

Lloyd Tevis Investments LLC is a registered investment adviser offering its services over the internet to US individual investors and their families. Our Precision investing TM service provides clients with highly personalized investment solutions tuned to the client's specific circumstances and objectives. We believe the strategic asset allocation decision is the key decision faced by our investors. Accordingly, our monthly commentary focuses on matters which can shape the longer term performance of asset classes. We do not time market swings or pick individual stocks. Discussion at this level of detail is made for the light which it throws on relative valuations and such discussion should not be read as an investment recommendation. Indeed, our investment focus is on maximizing diversification, careful risk budgeting and maximizing implementation efficiency. These are the proven builders of long term investment success.

In evaluating political and social developments our perspective is that of long term investors. We believe the investor's interest is best served by a stable environment in which change occurs incrementally as broadly supported policies rather than by an environment of abrupt changes and frequent U-turns driven by transient partisan advantages. Finally, our assessments should always be read as what we consider likely to occur and not as expressions of what we would like to see come about. To learn more about our firm visit us at lloydtevis.com.