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3rd Quarter 2021 Wrap Up: Equity Overview & Rambus Chartology with Jason Worth
Catherine Austin Fitts: Ladies and gentlemen, welcome to The Solari Report. It’s the 3rd Quarter Wrap Up, The Equity Overview. We’ve had many questions for the last quarter about what in the world is going on in the markets. Here to help me ‘chew’ through this is a long-time friend of The Solari Report, Jason Worth, who has worn many hats in his career. I always tease him because for about two seconds, he did work for JP Morgan Chase. Congratulations, you got out of there. They did buy your firm.

Jason was an investment banker, a serial entrepreneur, and now he’s an asset manager. For a long time, he has written many different pieces for The Solari Report – both in the Wrap Ups and some great book reviews. If you do a search for his name at http://Solari.com, both at the homepage and at the library, you will pick plenty up. We put a detailed description of his background in the commentary for this Equity Overview.

I want to remind everybody about the web presentation. I’m going to screenshare now. From the commentary in the 3rd Quarter Wrap Up, you can find the web presentation for the 3rd Quarter 2021 Wrap Up. I’m going to run through two pieces there. One is the charts. If you drop down in the navigation bar from ‘Financial Markets’ you will see ‘Fixed Income’, ‘Commodities’, and ‘Equities’. We will run through that as well as the ‘Rambus Blockbuster Chartology’.

For every Quarter Wrap Up, we publish a technical analysis by Rambus, who I think, hands down, is the best technical analyst I know. So, I’m going to run through those, and then Jason has prepared a very special presentation. It’s been plenty of work, and it’s very important. It’s on running a hedge book on equity. I want to mention, Jason, how much I appreciate your doing this. This is a topic that comes up again and again and again.

I thought, “This is going to be the definitive ‘chew-through’ on hedged equity to last, hopefully, for many years so that people can really understand the issue.”

Before we start, is there anything else that you want to say about your background?
Jason Worth: I want to say thank you for having me on. It’s a pleasure to be on, and I’m looking forward to this. Thank you.

Fitts: No comments about how much fun it is to deal with managing money in this environment?

Worth: We’ll get into that when I start talking.

Fitts: It could be more exciting; it could be a pilot.

Let’s just dive in. I’m going to do this quickly. I will start with going to the Wrap Up Presentation at http://OurMoney.Solari.com. Let’s just walk through the markets, and then we’ll have a few words about Rambus. Hopefully, Jason, you will jump in.

After spending all quarter and all year in Money & Markets describing all the amazing things that are happening to the US Treasury and military, it’s always astonishing to see the dollar strong and rising, but there it goes again. So, the dollar has had a very strong year so far; it’s up 5%.

We’ve been talking for many years about the long-term bull market, and bonds are over. Here you see in the first full chart the U.S. Bond Aggregate (AGG), which is an ETF of mostly junk bonds up 3.21% for the year. It’s always amazing that the high-yield bonds outperform because investors want yields. The Bond Aggregate is down 1.74%. I would certainly say that bonds are not keeping up with inflation. I don’t know if you have any thoughts on that.

Worth: I agree.

Fitts: It’s making cash look attractive.

In the second chart, we have the Intermediate Treasury (IEF) and the Long Treasury ETF (TLT). Long Treasury and the Intermediate Treasury are performing even more poorly than the bond aggregate. So Intermediate is down almost 4%, and the Long Treasury is down 7%. So, they are clearly not holding with inflation.
This is a bit nerve-wracking for me to look at because these are some of the biggest holdings in the pension funds. Pension funds struggling to make their yields and insurance companies are struggling to make their yields with this kind of performance.

Let’s quickly look at Commodities. One of the questions in the stock market is: What is the cost of energy going to do to stocks?

We’ve seen crude oil spiking tremendously this year. That’s the Crude Oil chart. Of course, with it is Russia, who is very dependent on fossil fuels.

I spoke with somebody in Australia. He said that coal stocks are ‘flying’ on the Australian exchange, but fossil fuel is clearly having a good year. When we look at the inflation chart, we will see that natural gas is up.

Silver and gold are not having such a great year, to many people’s surprise. I thought they would do a bit better.

**Worth:** They are starting to turn now, though, which is good.

**Fitts:** That’s what Rambus says. One of his three pieces in this Rambus Chartology is he thinks that precious metals are perking up. So far, they are down; GLD-the Gold ETF- is down 7.31% for the year, and silver is down a little more than 12%. Then, of course, the miners are down worse than that.

The bottom chart is one of the charts that we show every week on *Money & Markets*. It’s the inflation chart. What this keeps flashing for me every time is it’s just, “Inflation, inflation, inflation.” The only thing that is really down in the basement is the VIX. That’s the Fed protecting many people from a lot of risk of the real world. So, inflation is clearly with us, and we are hearing much more about that in the 3rd quarter.

Let me turn to Rambus Chartology; Rambus is a technical analysis. He is self-taught, and I think he is really gifted. He has three pieces. If you go to Rambus Chartology and go to the bottom of the page, you will see links to all of the historical ones. It’s a wealth of charts; he is an amazing chartist. I don’t know
how much you use charts, but I use them a good deal. I love to watch them because they compress so much historical knowledge about where things have been and how they’re traded.

**Worth:** You definitely see in retrospect where trends turn. It’s very clear in the charts.

**Fitts:** First of all, he covers the Precious Metals Complex. They are ‘perking up’ quite a bit. For those of you who don’t know Rambus, he has ‘taken it on the chin’ for many years. He was one of the goldbugs following the bull into 2011, and then he basically said, “Precious metals is over, and stocks are going to fly.”

The precious metals community went ‘nuts’ on him. It was almost a religion, and the way they attacked him was quite remarkable. So, he is very sensitive about precious metals.

He goes through the PM Complex, and then he goes to the US and World Stock Markets. I love looking at his stock charts because he calls the stock market the most hated bull market in the history of the stock market. Every quarter, he goes through the ‘wall of worry’ and why people believe it can’t keep going up. He has continued to call it as a bull, and he has been steadily right.

He says this time that he continues to see all the technical signs indicating that the bull market is still underway.

The chart that I really wanted to focus on from Rambus is the ‘History Chart of the World’. I always love to look at charts like this. When people tell me, “The stock market is going to crash and it’s going to be over forever,” this chart takes you back to 1978. What you see is that the market has trended up. I would argue that much of that is simply debasement of the currency, but the market has trended up. It’s been kind of a ‘wild ride’.

One of the reasons I like looking at this chart is that you can see there were many times on the way up that you would have loved to have been hedged. We’re talking about some very deep dives.
This is the internet crash in 2000, and then we have the 2009 crash. Here is the crash last February and March. So, there is a long trend up, but some rather ‘wild rides’.

I always tell people, “Go back to 1900 and pretend you had to protect your family capital through two world wars and a Great Depression. That’s what real resilience looks like.”

Do you have any thoughts on the history here?

**Worth:** As often as people think, “Oh my God! It’s over. The market is crashing. It will never be the same again,” it always finds a way to come back. I think it’s smart if you can find a way to be in the market, but be in a market that protects you in case there is a crash.

**Fitts:** For many years, I have talked about a scenario called Planet Equity. I said at the end of the financial crisis, “If you are Mr. Global, you can either mark the equity up or mark the debt down. If I were Mr. Global, I would mark the equity up.” That is what I continue to see happening.

If you look at the extraordinary performance of the stock markets since the drop in February 2020, you see unprecedented monetary and fiscal stimulus. Of course, it’s trading into asset inflation in the equity markets. That is one of the reasons I think it’s very painful to stay in bonds.

Rambus’ last section is on the energy markets. Most of this is the equity markets. Then he goes into the energy complex and shows you the extraordinary rise, particularly in fossil fuels. One of my big concerns for the equity markets has to do with this: The biggest component of corporate expenses in the US, particularly manufacturing, is energy. If the energy complex continues to rise dramatically, it is going to absolutely have an impact on the corporate front.

**Worth:** They are certainly calling for that this coming winter, so we will get to see it firsthand if it comes true.

**Fitts:** One of the things that I concluded when I was still managing money
was that if you were going to come up with a strategy that worked, the best strategy was to buy and hold unless you turn from a bull to a bear market, and then you just go to cash. If you sit in cash until you go back to proving a bull, you will be fine.

That sounds great but implementing it is a different story. Several times now we’ve seen the market go down, depending on whether you count close or end-of-day 30-35%, and then – boom! – it pops back out.

I talked to one manager who swore he had the formulae. He had the algorithms and the AI. He was in a big firm. He swore that they could figure it, and all you had to do was follow the program. Sure enough, in February of 2020, down they went. They waited, and then they got out, and then – bam! – it ‘flew’ back up and they were hung. So, it’s much harder to do than you think. It can be down 35% before a bear is proven or it can be down 40% before a bear is proven. I think it’s hard for many people, particularly coming out of the financial crisis, to take that kind of down.

Obviously, one of the strategies that works is hedged equity. When I say this, there are many laypeople who are not financial people who think I mean hedge funds. No. It has nothing to do with hedge funds.

What is hedged equity? I believe this is a very attractive strategy in a world where bonds don’t work the way they used to. This is a way of staying in the market but protecting yourself on the downside. What is interesting is that while I was still an investment advisor, I spent many years talking people through the pros and cons of hedged equity only when the market swung wildly to have it all run out of their head and to call me back and say, “Are you sure this is what we should be doing?”

I finally realized that what I want to do is go through hedged equity-the pros and cons in great detail- so that we have one place where everybody can hear it. I’m very grateful because this is a strategy that I know you have worked through, and you have thought plenty about the pros and cons – both with clients and personally. So, you are the perfect person to do this.

Let me turn it over to you. You have a presentation. Take us away.
Worth: Before I dive into the presentation, let me say that I am someone who came from a modest blue-collar family where I was taught, “Finish the food on your plate, save your money, do not gamble, do not throw your money away, and be very careful.”

As I have gone through life, and when you get that ‘instilment’ at a young age, that carries through a long time with you. I managed to go to a good school and got a good business degree. I came out and was working in Wall Street of all places, and about three years after graduating from business school I finally felt like, “Okay, now I’ve got some money that I can invest.” I had been paying off my student loans, I had moved around the country with new jobs, and I finally had some money to invest.

I thought, “Okay, I’m going to put some money in the market.” It was hard for me to do this because I viewed the market, from my upbringing, as being risky. You can lose your money in the market. So, lo and behold, around the year 1999, tech stocks were ‘going through the roof’ and everybody was making large amounts of money.

Fitts: Oh no!

Worth: You know where this story is going. I don’t have children now, and I certainly didn’t have children then, but I thought, “I’m going to put $3,000 each into two trust accounts for my nephews.” My sister had two boys who were very young, and I thought I could put $3,000 in for each. I thought every year I would add a little to it. By the time they were ready to go to college, I thought there would be a nice pot there for them to use.

In January of 2000, I bought $6,000 worth of technology mutual funds.

Fitts: This is so painful!

Worth: Within days, that $6,000 was worth $3,000. My memory is a little foggy, so it could have taken a little more than a few days, and it could have not quite been $3,000, but nevertheless, looking back on it, I lost half of my money in a very short time period. I would have done better going to Atlantic City.
That really set me back. The inclination to be very cautious, and then the first time I ventured into it and have that happen, it took years for me to become comfortable investing again. In fact, I owe it to you because we had a consultation. I sat down with you in 2015. You looked at my situation, and you said, “Jason, you have far too much in cash. You can’t just be sitting in cash.”

I said to you, “But, Catherine, as soon as I go to invest the money, I’m going to lose part of it.”

You said, “Then invest with a hedge.” It was one of the best words I’d ever heard in my life.

I went to business school, I worked on Wall Street, and I thought I knew what hedging was. I didn’t know what hedging was. I really spent a lot of time learning this and studying it to understand it.

Let me just say this: Anyone out there who is concerned about the markets and is hesitant to put your money to work, I get it. I’ve been there, and I understand that. But I can tell you that I hope that my experience over the last decade or so will be of benefit to people listening or reading this. With that, let me dive into the charts and explain how hedging works. Let me do the screenshare here.

This represents two-thirds of an account. You will see the final third on the next page. The red line represents equity investment in common stocks that pay good dividends. There are about 20 stocks that are in that red line. Statistics show that you buy 20 nicely-diversified stocks and you’re going to get good diversification.

**Fitts:** It starts in 2015, correct?

**Worth:** Yes, the beginning of the fourth quarter in 2015. The green line below it is cash.

This is a person’s portfolio who gave me permission to discuss this. I want to say that as a backdrop.
Around the time that this money was invested, there had been a downturn just before this. So, the stock market was looking a bit shaky. There was another downturn shortly after this was invested. So, if you see the cash amount, there is a fairly good amount of cash there. It’s because the person managing this account wanted to be careful and cautious in case there was a further downturn. So, not everything was put into equities right away.

You follow that red line, and it’s hard to see what’s really happening with the equities because you have cash going in and coming out at times. So, if you look at the black line at the top, it represents the total of the equities invested and the cash that’s not invested. You can see that it ‘bumps’ along close to that $500,000 mark for about two years. Then in the beginning part of 2019, it starts to go up.

As we all know from recent memory, this big downturn is the COVID crash in the first quarter of 2020 last year. If you think about it, if you were to draw a line backwards from where the bottom of that V-shaped crash is, so to speak, back in time, the last time you crossed that mark was a little over three years earlier.

If you had sold at the bottom of that COVID crash, you may as well have not been invested for three years, or you would have been better off putting it in something else.

Too often people react incorrectly when you have a crash like that. You sell at the bottom; you sell on the way down. Then without the patience or fortitude to wait it out, you’ve lost money.

**Fitts:** Before you leave that chart, I want to mention that one of the things to do when you are managing money is always have cash to buy opportunistically in any condition. I’ll never forget one stock that I really liked got ‘whacked’ on an earnings report. It was down 18%, and the market was stable. So, you have opportunities like that, and you want to have cash.

If you look at that big drop, there is a little more cash, and then – wham! – you’re down. That is a real opportunity, and that really helps a portfolio. It’s hard to have cash sitting and not doing anything, but there is a reason you always want to have some cash in a portfolio like this.
Worth: I’m going to advance to the next screen, but before I do that, I want people to look at that black line and try to memorize it to the extent possible. See how much it’s moving up and down, especially where that COVID correction is that we were just talking about. Look at how far that V-shape down and up recovery is.

I’m going to advance to the next slide now. This is the same account that you were just looking at. The red line is the same and the green line is the same, but this has the third element included in it. The third element is the ‘hedge’. The hedge, in this case, are put options on the Standard & Poor’s 500 Index. In the next couple of slides, I’ll go into a little more detail on how a hedge actually works. Suffice it to say, the hedge kicks in and becomes more valuable when whatever you are hedging against goes down in value.

I think that people have a hard time understanding, “How can I buy something that goes up when the stock market goes down?” Well, you can; it’s called a ‘put’.

A lot of times you buy a put. If you don’t need it, the put slowly loses value. This is probably a situation here where it goes up. The manager bought a new put, and it slowly goes down in value.

When you don’t need the put, it’s like an insurance policy. You have car insurance in case something bad happens to your car. You have house insurance in case something bad happens to your house. In a hedge portfolio, a put, is much like portfolio insurance. In fact, people actually use the term ‘portfolio insurance’ to describe its role.

If you buy it and you don’t need it, it’s okay. It’s like your homeowners insurance policy, when the tree falls on your roof, you’re glad you have it. That is exactly what happened here with COVID. When the stock market had its big decline, that put went up in value because it’s a hedge. It’s a bet that if something goes bad in the market, it gains value.

I think the real interesting takeaway is the black line at the top. It doesn’t move around quite as much as on the prior page because that put goes up when the market goes down. It helps to smooth things out quite a bit. You can especially
see in this area here, where COVID hit, that this didn’t drop down because the put going up in value offset the decline in the equities going down in value. I would much rather wake up on the morning of a crash with a cup of coffee and the newspaper in hand, and read how bad things are when I have a put in my account rather than not.

I’m sure everybody is wondering how this goes up in value when the market goes down. I’d like to transition to that on the next couple of slides.

To talk about a put and how a put works, I find that it is helpful to talk about the opposite of the put, which is a ‘call’. If you understand a call, which is easier to ‘wrap your mind around’, then it’s a little easier to transition to how a put works.

A ‘call’ option gives you the right – but not the obligation – to buy something, whatever the call is written on, at a predetermined price in time. We’ll just make an example here with ABC Beverage Corporation. You may think it’s a good investment. Maybe it’s trading at $40 a share right now. You could pay $5 for the opportunity to buy it. The call would cost $5 to buy it at some later point in time. Typically, you agree to buy it at a higher price. Maybe today it’s trading at $40. You say, “I’d like to pay $5 for the opportunity to buy it at $45.” If it goes up, then you can exercise the call and buy it and make a profit. If it doesn’t go up, you haven’t lost anything more than what you paid for it.

**Fitts:** If people have large capital gains in a taxable account, you will see advisors recommend, rather than selling or taking the gains, to generate income by selling calls.

**Worth:** If the stock price goes up, it works out. If it doesn’t, all you have at risk is what you paid for the call in the first place.

Here are a couple of examples to put some numbers to it. If you think something is going to go up in value, in this column, there is no call involved; you are buying the stocks. You spend $40 to buy ABC Beverage Corporation. If everything works out and you think it’s going to double in price and it goes to $80, congratulations. You’ve made $40 or you’ve made 100% return on your investment.
Another way that you can bet that something is going to go up is buy a call. It takes much less money. Maybe you spend $5. In this case, the strike price is usually a little above where you’re buying it. That causes you to pay less for the call. If everything works out properly and the stock goes to $80 – just like in the first example – you can make much more money. The reason is that you are putting less upfront, and you’re getting more of the up side.

In that same situation, if you bought a call instead of the stock itself, you would make 600%, as opposed to doubling your money and making 100%. But for all the extra that you get there, there is a down side. There is the opposite where if things don’t work out exactly like you thought-if you buy the stock and it goes up $5, you make 12.5% and you’ve still made some money. But if you buy the call option and it doesn’t get above the strike price that you enter into, you’ve lost what you’ve invested on the call. So, there is plenty more reward, but much more risk with these options.

With that as a backdrop, the strategy that you saw on the prior page didn’t use calls but did use puts, so I wanted to introduce the call as a way to show how the put works. The put is the opposite. The put gives you the right to sell something at a predetermined price. These put and call options are good for a certain time period. The put and call markets are very complex. You can agree to have the right to buy or sell something for a quarter, six months, a year, eighteen months, or you could go out to very long-term periods. Likewise, the strikes can vary quite a bit, too. The strikes do vary quite a bit. You could agree to sell something at $45, $46, or $46.50.

When you add up all the different timeframes and all of the different strike prices, it is a complex myriad of options out there.

How the put works and how you make money when something goes down in value is, in this case, you pay $5 to buy the put. Let’s say ABC Beverage Corporation is trading at $40 a share today. The put gives you the opportunity to sell it at $35 a share. If that stock falls $5, then you’re starting to get to a point where you can make money.

An extreme example here is if the company goes bankrupt and goes out of
business. You could buy for a penny a share or $0.10 a share – some very low price – and you turn around to the person who sold you the put, and you have a contract with that person. That person is legally obligated to buy the shares at $35 if you have agreed in advance and you have paid them for the put option. So, you could go to that person with something that is very low value or practically worthless and say, “Hey, remember that contract we entered into about five months ago? I’d like you to buy these worthless shares for $35,” and they are obligated to do that, and will do that.

Here is a mathematical example: Just like we did with the calls, the equivalent of trying to make money on a stock if you think it will go down, you sell it short. Selling it short means that you borrow it from ‘Paul’, and turn around and sell it to ‘Steve’. If the price goes down in value, you buy it back from somebody on the open market to return to Paul, and you capture the difference between the lower price that you repurchased it and the price that you borrowed it from Paul. That is selling short. It’s very dangerous, very risky, and I don’t recommend anybody but the most experienced traders and money managers do it.

You can accomplish a very similar objective by owning a put. In this case, you could buy a put for $4 a share. In this case, this is the obligation where the person agrees to buy it back at $40. If it drops down to $10 a share, you capture all the profit between the strike price and what it fell to because you can buy it back and sell it to the person who agreed to buy it from you. Consequently, you see 525% is one example of the potentially large gains that you can achieve when the market falls.

The contrary is that if things don’t work out, as shown in the bottom example, you lose what you pay for the put. It’s like insurance; you pay for insurance on your house.

**Fitts:** If you don’t have a car crash, you’ve paid your insurance, and you get nothing from it other than knowing that if you’d had a car crash you would be covered.

Here is one of the reasons I wanted to do this today: When I was still doing investment advisory, I would have clients who didn’t mind paying for car
insurance that they didn’t have to exercise, and they didn’t mind paying for home insurance that they didn’t have to exercise, but the idea of paying for a put that they never needed to use was infuriating. They would watch the money run out the bottom of their portfolio.

**Worth:** If they were to go through a 9/11 event, a COVID event, or an event where they saw much of their wealth being wiped out, it changes their viewpoint. You need to take a long-term view and understand that it’s there for a reason. It’s not always going to provide you a return, but when you really need it, you will be glad that you have it.

**Fitts:** Which is worse for you: To wake up and find yourself down 50% because you wanted to save money on the put, or is it worse to wake up and see the money drained out of the put? In other words, you have to look at the worst side of being hedged or not hedged and decide which one is worse for you. That is what it comes down to.

**Worth:** Exactly. Another way to think about it is, obviously, you will be glad that you have it when there is a market downturn. But let’s assume that there isn’t a market downturn. ‘At the end of the day’, you are still 90-95% invested in equities. Therefore, as the market is drifting up, you are making money, but what you’ve spent on the put that didn’t provide a return is just eating a little into the profit that you might otherwise have captured.

**Fitts:** Right, it’s a drag on the profit.

If we knew we were in a long-term bull market and didn’t care about the ups and downs, we would never do a hedge and just let it go up and down and not worry about it. If you are 20 years old and are putting your first amount of money into the stock market and not planning on touching it until you retire, you probably wouldn’t want to do a hedge. Why spend the money? Just let it run up and run down, and not worry about it.

But if you’ve spent your whole life saving, and you’ve made it through the financial crisis, and you don’t want to take a 35-50% down, then a little drag on your portfolio is worth it.
Worth: In this lower right example here, you see that you bought a stock for $40 and it went up to $50, so you have a $10 gain in the security itself. If you paid $4 for the put, instead of making a 10% return on that scenario, you made 6%, and you still made money. That’s an example of what we were just discussing.

Fitts: It’s better than nothing in the bond market.

Worth: Going back to the prior slide, I want to zoom in. Now that we understand a little better how the puts work and how they can go up when the market goes down, I want to zoom in on this COVID era and show what this portfolio did when we experienced COVID.

The prior page was weekly; this page is daily. So, there is more detail, and this is from the beginning of 2020 until the end of May 2020. It’s a five-month snapshot before and after COVID.

You can see here that with this portfolio, the highest that the equities were prior to the downturn was in late January, and the equities were worth about $631,000. You can see it zig-zag along a bit. Then when news of COVID was hitting, it went down in a classic crash downturn.

About 32% of the value of these equities were lost in a very short timeframe. During that time, as you see here, right around this time, there was a put that was in the account that had been sold and a new put was purchased to take its place. I think the person managing this account was worried about the outlook, and they wanted to get the best protection at that point in time.

For this size portfolio, it was determined that about $35,000 worth of puts was the appropriate investment to protect the account. You can see here after the market started to decline, that put went up in value.

That $35,000 investment became as valuable as $160,000 at the peak in mid- to late March. Then about three days later, when that put was ultimately sold and ‘cashed out’, so to speak, $109,000 was realized on a $35,000 investment.

Fitts: Which is now available; if you don’t roll over completely, it is now
Worth: Exactly, and that is what happened in this case. I have a comment here on the slide that after that put was sold, about $80,000 worth of equities were purchased at, in retrospect, turned out to be a very good time in the market. We saw the market recovering and going up at that point. A good portion of the money used to buy those equities was the proceeds from the put, and the rest was from cash sitting in the account.

The key takeaway here is that with the puts in this account, this account only went down at the worst point 7.9% in value. Ideally, you have the right amount of protection that you don’t lose any value. Nevertheless, in this ‘crazy time’, the account had declined close to 8%, but that is much less than this person would have experienced if they didn’t have the put. They would have been down 32% without it.

As we can see, the market recovered, and everything started to trade up from there, and the rest is history. The key takeaway is that you don’t have to worry that you will wake up and see that you’ve been wiped out because that put is going to kick in when you need it if everything is done properly.

Fitts: I have to say that for most people, watching the value of their portfolio drop that much in a short period of time is absolutely breathtaking, especially if you are like you and me and know what is going on.

The markets live through ‘thick and thin’, but World War III may be too much for it. It’s a scary feeling.

Worth: I don’t think that every investor should have a hedged portfolio, but we will see on the next page an example where I think it makes sense.

I’ve taken the same chart that we’ve been looking at with the hedged account, and I’ve overlaid it with this magenta-colored line on top of it. That is the Standard & Poor’s 500 Index. You can see that if you had put $500,000 into both strategies near the end of 2015, the hedged strategy would have done better in the early couple of months here because this is where the stock market had declined, but this portfolio held up. I’m not exactly sure what happened
here towards the end of 2016, but the S&P just ‘took off’. It could have been some of the high-flyer tech stops that really went up.
The stocks that are invested in this portfolio tend not to be high-flyer tech stocks; they are more stable, dividend-paying, high quality stocks that are number one, two, three in their industry, but not necessarily Google.

**Fitts:** Part of drag is the beta of the portfolio just being more conservative.

**Worth:** Right. So, the S&P does get ahead of this portfolio, but here you see during this COVID crash, had you not had the hedge, even though you may have risen to a higher point before all of this, it still fell through the value of this hedged account because this hedged account is more of a ‘steady Eddie’ kind of ‘march along’ and not lose value in bad times. But then again, after the COVID crash, we have seen a big hop in the market. Unfortunately, those people who got out and didn’t get back in left a large amount of money on the table.

It’s so easy to do that; it’s so easy to get out. You get spooked, and then you don’t know when the right time is to get back in.

The really nice thing about having a hedged account is that you can be in the market for the times that the market is going up and building value, and you don’t have to worry about losing it all in a big downturn because that hedge will kick in.

Who should have a hedge and who shouldn’t have a hedge? The way that I like to look at it is if you are mowing lawns at the age of 15 and putting money in the bank, you don’t need a hedge. If you are in your younger years and you are saving up to build a house, or you want to put your child through college, and you’re saving up for those big bills, you shouldn’t have a hedge because at that stage in your life, you want to build value and build your nest egg and be able to utilize it for your needs.

There is no magic age, and I’m not going to say that at any one age you should start doing it, but once you start getting into your 40’s or 50’s, and certainly your 60’s and 70’s, and when you are at the point where you’ve made your lifetime money, and you have your nest egg, it’s more important at that point to make sure that it doesn’t go down than it is to get that extra dollar on the upside. That
is when you should be thinking about having a hedge, and I think that is where it makes sense.

**Fitts:** Ten years ago, everybody would say, “We’re just going to move the amount of fixed income higher and higher.” So, you would reallocate out of equities and into municipal bonds, but more into fixed income. The problem is that given the credit deterioration and the yield deterioration in the fixed income, fixed income is not the alternative it was ten years ago.

One of the things that I like about hedged equity is that it’s not zero-one (provide answers to capital problems and to optimize investment returns). Let’s say the day had come when you would have gone more to fixed income, and you say, “No, I don’t want to go there because it’s just an inflation arbitrage that works against me. I’m going to stay in equities,” you don’t have to have 100% of your equities in hedged equity. You can decide to hedge 50% or 25%. It depends on your risk profile and how much you can tolerate going down.

I think that if you believe the Planet Equity/Rambus scenario but you don’t want to take that 30% down, and you don’t trust the politicians to run the equity markets in an enlightened manner, then hedged equity is something that you may want to consider.

**Worth:** To your point about bonds, the next slide will make that point. In the ‘good old days’, you would put maybe 90% in equity and 10% in bonds in your younger years, and then as you got older, you start moving that more to 50/50. Then when you are up in age, you are 90% in bonds and 10% in equity. That was a possibility back when bonds were paying a reasonable rate.

You can see here that this is the 30-year Treasury. Back in the 1990’s, you could get 5%, 6%, 7%, or sometimes even higher. That worked out then. As we’ve seen this destruction in the rates they’ve paid for the last decade and more, we’ve seen a bit of a rebound here where it’s up to 2%, but you are lucky to keep up with inflation at that point. If anything, you are probably falling behind.

**Fitts:** There is no way that you can keep up with inflation. If you look at what is going on with food prices and common household goods, there is no way you will keep up. I don’t know what things are like in Pennsylvania, but I daresay
that your food bill is not holding steady at 2% gains.

**Worth:** Right.

**Fitts:** This has been very useful.

I’m going to ask you to guess here. Of all the people who say that they don’t mind living through the downs, what percent can really live through the downs?

**Worth:** Inevitably, they are forced to because they don’t have a choice, but all things being equal, I’ll answer that in a slightly different way. I’ll say that now you know what a hedge can do for you, if you have the option to do it, why not?

It’s hard to say how many people can’t live through the downs, but by extension, you have to cut back on everything just to get through, otherwise, you run up your credit cards. Then you get a whole new set of problems at that point.

**Fitts:** Anything else that you want to point out at the market? I had one question that I wanted to ask. I’ve been following the government’s efforts to do employee mandates quite closely. I’m preparing *Money & Markets* for this week.

There is a new article out that says they have put fines in the $3.5 trillion infrastructure package. I don’t know if it’s going to go through, but they’ve put in fines of $70,000 to $700,000 for companies that don’t implement the mandates, even though there is no basis in law. We don’t have a law; we don’t have a rule; we don’t have anything.

Whether you like them or not, the strength of the US stock market has always been based on confidence globally in the rule of law. If the ‘Sheriff of Nottingham’ is going to start shaking down companies to implement a whole variety of policies and control the equity markets, are equities the place to be? That is really my question.

**Worth:** I think the answer is yes, mainly because where else are you going to put your money. We just discussed bonds, and they don’t play the role they used to. You could go out and buy rental income, which I think can play a nice role
in some people’s portfolios. I know some people who do that as opposed to investing in the stock market at all, but you have many headaches there and plenty of upkeep. Maybe you have a property management firm, but that firm ends up eating into your profits anyway.

If you want to ‘dabble’ in cryptocurrencies, I view it as a gambling joint. Maybe you will do really well, but it could disappear just as easily. Where else are you going to put your money?

To use an example, look at Bill Gates; Bill Gates is a very powerful person. We may not all agree with his world viewpoints, but he is in the stock market.

**Fitts:** Now he’s in farmland. He’s running up the housing prices all across America.

One of the things I talk plenty about – and I’ve done much more in the other *Equity Overviews* – is the importance of resilience. So, any investment that you can make to lower your nut (monthly expenses). You are a person who has done a great deal, whether it’s in your household or in your portfolio, and you have invested a lot of time and money in resiliency. You believe in that.

**Worth:** I do. What I like to caution people about or recommend to people who are worried is, “Are we heading into a really dark time ahead? Should I take everything and buy gold coins and silver bars?” This is what I tell people they can do: First and foremost, get a pantry of food supplies – whether it’s dehydrated food or canned goods or something that if things get really bad, you don’t have to worry about food so much.

Secondly, depending on where in the country you live – at one point I lived in a desert and had barrels of water in my garage because that was a risk to me-stock up on food, stock up on water, and have a generator so that if you lose power, you can at least keep your refrigerator and freezer going.

I live in a part of the country now where I can drive just a couple of miles down the road and buy a quarter of a cow from a farmer. I’ve done that twice now.

If we are in a lights-out scenario; if there is a nuclear bomb that explodes over
the country and the electric grid and the communications grid and everything goes out, get yourself set up. I don’t mean to be so ‘doom and gloom’, but when you get that behind you and stop worrying about that, it gives you so much freedom and power to begin to think about other things.

Fitts: It’s a real asset hedge.

Worth: Beyond that, then you can start saying, “How much gold coins and silver bars should I have?”

I don’t recommend people keep more than 15% of their wealth in that. For one thing, ‘God forbid’, someone breaks into your house and puts a gun to your head or your wife’s head and says, “Where is the gold and silver?”, what are you going to do then? So, have as much on hand as is going to be prudent for when you actually need it, but don’t have so much on hand that it’s not safe.

Of course, you can have it in a vault or somewhere offsite, but then there are issues getting access to it if you really need it at some point.

Do what you can to sleep better at night regarding food, water, and precious metals.

Fitts: It’s not either/or. I’ve watched you for many years work through all the issues, from stockpiling and managing real assets to having your money in securities or in other jurisdictions. It’s never either/or. I think of it as a chessboard; you want to field your players on the board in a way so that in World War III, you are making sure that in the worst case, they get some of your players, but they don’t get all of them.

Worth: I totally agree. It takes time and effort, and energy. It was hard for me to make that first step. I used to complain to my wife a lot about my fears and concerns and worries. One day she stopped and looked me ‘straight in the eye’ and said, “So what have you done about it?”

I was taken aback. This was when I was in a desert and worried about water, so within a very short time period, I got the barrels and filled them up with water. Once I did that, I thought, “I can do this.”
I think that the most important thing is to take the first step. Once you get the first step, then the rest falls into place because you are on a path at that point.

**Fitts:** This is the hardest thing that I need to communicate. Many people who subscribe to *The Solari Report* have been brought up to believe that they can’t figure it out for themselves. What I keep trying to tell them is, “Yes, you can.”

One of the things that I learned as an investment advisor is the plan that I came up with for this person is totally different from the plan for another person. If any of my clients had ever managed their money the way I manage my money, I would have ‘killed’ them.

“No, I have a purpose. I’m going to spend my money for my purpose. My purpose is right for me, but it’s not right for you.”

Everybody can take responsibility to go through all the different aspects, whether it’s stockpiling or doing a disaster recovery kit or getting a generator, or making investments. There is a whole portfolio of different options. Only you can govern that; only you can make those decisions after going through the different decisions and the different scenarios and knowing why you own what you own.

I’ll tell you a funny story. When I first started investing in gold and silver, gold would take these enormous swan dives down. It would be at $400, and then the next day, it would be at $340. It was unbelievable.

The first time I bought gold and it took a nosedive, even though I was prepared, it took my breath away. Then I got used to it, and I got used to saying, “Oh, well. It’s good I have some nice land and I’m growing food.”

Then I remember putting my first client into gold. I warned them for days, “Gold is very volatile. You need to understand it,” and so on.

We got in at $400, and it went to $340 a week later, and all of his friends were trying to convince him that I was a charlatan. When it went over $1,000, we would laugh about how great it was that he got it at $400. Each one of us has to take responsibility. No one can give you that plan. In this
environment, you have to do it yourself. What we are dealing with is not investment risk; we are dealing with political risk, and there is no financial solution for that kind of political risk. We are dealing with real risk, and we are dealing with having to navigate in a world where there are many people and institutions that are not trustworthy. It’s just the way it is.

**Worth:** But yet you have the power to get yourself as well-fortified and positioned as you can. You can’t control everything, but at least that much you can control.

**Fitts:** I know that whatever goes on, you are going to be in good shape.

**Worth:** I’m trying.

**Fitts:** I knew you would say that! Jason Worth, thank you for joining us on the 3rd Quarter Wrap Up Equity Overview. Happy hedging! I look forward to being in ‘cahoots’.

**Worth:** Thank you. Take care.