MH & ASSOCIATES • SECURITIES MANAGEMENT CORPORATION

INVESTMENT VIEWS

AUGUST 31, 2024

MIND THE VALUATION

As an active investment management firm, MH & Associates continuously engages in various methods and processes to evaluate current and prospective holdings. Whether using fundamental analysis and looking at PE, revenue, or book value multiples, free cash flow, or technical analysis and evaluating various metrics and patterns, our firm attempts to invest in securities that generate solid long-term returns for our clients.

Over time, it is our goal to provide solid returns for clients based on their risk preferences. On occasion, that may involve going against the investing crowd. Our process involves evaluating securities, whether equites or commodities or bonds for value. The word “value” itself may take on different meanings within our process. Value can mean a favorable risk and reward, it can mean a cheap stock based on fundamental analysis, or it can take on a more strategic meaning as something that we anticipate will be appreciated by general investors at some point in the future.

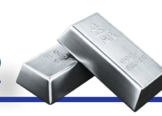
Our process is continuously dynamic, meaning that we are constantly evaluating our current holdings and comparing them to other potential assets. We monitor the financial markets and economy to determine any positive or negative impacts to the portfolio holdings. As stated earlier, our investment process leads us to make decisions based on value and that process can and will go against the investing crowd. However, over time we believe that this process will lead to solid returns for our clients.

BLOCKCHAIN GETS LEGITIMATE

Over the past several months, blockchain has gained a great deal of acknowledgement and legitimacy from institutional investors and financial authorities. Over time and with plenty of regulatory oversight, blockchain technology will transform our society, allowing for more security, transparency and the streamlining of currently time-consuming process such a real estate transactions.

We have taken an initial position in a blockchain related ETF as it is unclear to us at the time which companies will be the long-term winners. Once we have decided it is likely we will own individual companies. Also, due to the volatility of the blockchain space we will employ certain loss limitations on the position.

GOLD AND SILVER



As we have written previously, the case for precious metals rests on the global desire for assets that can protect purchasing power from currency weakness and inflation, as well as general uncertainty. Billions of people across the globe do not have access to the US dollar and those with access increasingly want protection from inflation. Reflecting that, gold closed August at an all time high of $2,500 per ounce. The precious metals continue to show that after 5,000 years, they remain a reliable store of value.

Even beyond that, Samsung recently announced a breakthrough in solid-state battery technology. In short, a solid-state battery allows for much longer driving ranges in EVs, much fast changing time and a markedly longer life. Samsung disclosed that it’s technology involves a significant quantity of silver, with some experts estimating over 2 pounds per EV.

Silver is already in a primary deficit, with declining production globally. If Samsung’s solid-state battery enters production within the next 5 years, silver will become much more expensive!

TBILLS AND CHILL

"T-Bills and chill" has been a popular expression for the past 2 years after the Federal Reserve aggressively raised interest rates. Investors could get a 5% yield from a T-Bill with no risk (that's the chill part of it). This has been our position after being very negative (we were correct) for several years on bonds. Our bond portfolio has essentially been US Treasury Bonds with a maturity of 2 years and under. Going much further out exposed our portfolios to too much duration risk and we still believe that interest rate are headed higher over the medium to long term.

Currently, with the investment community expecting a series of rate cuts, it is not longer a "T-Bills and chill" environment, at least not for the next few months. Investors anticipating interest rate cuts are scrambling to lock in a solid yield before the cuts happen to protect against interest rate risk.

When we survey the yield curve we still are not attracted to much more than what we have been doing. While it might make sense to take shorter-term or temporary positions in long yield maturities, many area of the bond market just do not offer "the spread" (or difference in interest rate yield) that would make buying other fixed in securities really attractive…in short there is little value in them. When the spread becomes wider, we may reevaluate our position. To the right is a simplified yield curve that visually demonstrates our perspective.

	3-Month	1-Year	2-Year	5 Year	10-Year	30-Year
US Treasuries	5.2%	4.4%	4.0%	3.7%	3.9%	4.2%
AAA Corporates	5.0%	4.3%	4.0%	3.9%	4.3%	4.9%
A Corporates	4.7%	4.6%	4.4%	4.4%	5.6%	5.6%

TECHNICALLY *Speaking*

Breadth Has Improved But Where Is Money Moving

We have spoken a lot in prior newsletters about the market being led by only a handful of stocks and this lack of breadth was not healthy for the overall market. Breadth has improved of late, but it is important to keep in mind what is leading the market. Is it aggressive sectors or more defensive? The chart at the right shows the S&P 500 index in the top window and you can see the strong rise it has been on, particularly since last November (with a couple severe dips along the way). Below the S&P are several ratio charts attempting to give a visual picture if defensive sectors are leading or aggressive. These ratios are have all been in decline for most of 2024 and the bottom chart (small caps versus large caps) has been in decline for much longer. This makes sense as small stocks tend to be more interest rate sensitive and you can also see the ratio has started to tick up of late. The other ratios have yet to show much improvement as it appears investors are removing bets from offensive/growth stocks to more defensive/value areas. If indeed interest rate cuts come to pass, it will be worth watching these ratios to see if aggressive areas will deteriorate further.

Recommendation List: A list of all previous specific investment discussions published over the past 12 months will be provided upon request. Please email lara@mhandassociates.com or call our office for this list.

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