



DISINGENUOUS...

"a fool's voice is known by his many words" Ecclesiastes 5:3 NKJV

It would be safe to say that I do a fair amount of reading. Not just in the world of finance, economics and investing, but across the gambit. That being said, outside of finance, my attention is most frequently focused on history, motivational self-help and behavior science ... human behavior is fascinating to me, especially as it pertains to beliefs; how they are formed, how they can become so strong, even when supported by little more than hearsay.

Empirical facts, data or charts be damned, should the belief be strong enough, it doesn't matter if people see things with their own eyes or hear them with their own ears, the behavior surrounding our inability to admit when we're wrong most often produces a fierce defensive response ... it's become prevalent in our society.

And yet, we're living in a world where credibility most frequently lies in popularity of the source, or their position of authority/power, NOT by the facts or data they present.

We've touched on this [back in 2018](#), writing:

In general, people don't like to be wrong; we abhor being questioned. In the face of constructive criticism, the typical response is defensive; the critique is often taken personally.

As years pass, my observation has been people get more and more defensive and less willing to admit they may be wrong. Individuals are no longer willing to admit fault or accept personal responsibility.

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In that same 2018 note we tied this in with the concept of confabulators. The first meaning of confabulate is merely to talk casually or “chat”, while the second definition, which revolves around psychology is: *to fill in gaps in one’s memory with fabrications that one believes to be facts.*

The medical community would have you believe that confabulators are not liars ... that their brains have simply filled empty space with false information ... “honest lying” is what some have called it ... think of it as your “big fish” story; the one in which the fish you caught years ago miraculously gets bigger every time you reminisce.

While we’d definitely agree there’s some truth to “honest lying”, anyone who has put any effort into observing human behavior has more than likely looked into the telltale signs of outright dishonesty ... things like being vague while repeated the same rehearsed story often finds itself at the top of the list, as does getting defensive when challenged while failing to provide detail ... especially when combined with certain forms of physical changes such as fidgeting, increased perspiration and restlessness to mention a few ... (paging Dr. Fauci anyone)?!

FBI research shows both verbal and non-verbal “leakage” helps in predicting the accuracy of determining whether or not someone is lying or being truthful.

[Analyses by the authors indicated](#) that the liars produced significantly more nonverbal behaviors inconsistent with the context or content of their words than truth tellers. For example, a participant in the crime scenario may have denied stealing the check, but showed fear or distress while making that claim. Conversely, the nonverbal behaviors (e.g., nodding their heads up and down while saying “yes”) of truth tellers remained much more consistent with their verbal statements.

Interestingly, the nonverbal behaviors by themselves were not as indicative of truth telling or lying; instead, it was their level of consistency with the verbal statements or context that determined truthfulness at a high degree.

With this in mind I want to share with you a back and forth from the Federal Reserve Chairman Powell’s June 12, 2024, press conference following their Federal Open Market committee’s (FOMC) meeting:

STEVE LIESMAN: Thank you, Mr. Chairman, Steve Liesman, CNBC. Just wondering if you could walk me through the Committee’s **average inflation forecast**?! Core PCE is now forecast to be 2.8 percent by the year-end. It’s already 2.75, and after today’s number, there were several forecasts on the street that it would be 2.6 at the end of this month. Does that tell you that the average official expects no further progress in inflation and, in fact, that it’s going to get worse? **And if you have this wrong, doesn’t it mean that you sort of—you, you could have wrong the outlook for rates there?**

CHAIR POWELL. Yeah. So, what’s going on there is that we had very low readings in the second half of last year—June through December, really. And we’re now lapping those. So, as you go through the 12-month window, a very low reading drops out, and a new reading comes in. The new reading gets added to the 12-month window. So, it’s just a, a slight element of conservatism that we’re, we’re assuming a certain level of—of, you know, incoming monthly PCE and core PCE numbers. We’re assuming, you know, good, but not great, numbers. **And if you put that on top of where we are now, you get a very slight increase in the 12-month—in the 12-month, you know, reading. Now, do we have high confidence that that’s right? No. It’s just the kind of conservative way for forecasting things.** If we were to get more readings like today’s reading, then, of course, that wouldn’t be the case. So, it’s just a forecasting device. I think, I think—let me say that we welcome today’s reading and then hope for more like that.

STEVE LIESMAN. **But if it comes in—just to follow up—if it comes in the way you forecast it, it would seem strange for you to be cutting rates at all in context of a rising core PCE.** Thank you.

CHAIR POWELL. Yeah—no. I mean, I think we’ve, we’ve—what we said is that we don’t think it’ll be appropriate to, to reduce rates and begin to loosen policy until we have more confidence that inflation is moving back down to 2 percent on a—on a

sustainable basis. And that's the—that's the test we've applied. I don't know that—I think if we—I don't know that this rules that in or out. I mean, really, it's, it's a forecast—a fairly conservative forecast month by month **that would lead to slightly higher, you know, 12-months rates by the end of the year**. If we get, you know, good—better readings than that, then you will see that come down or, or remain the same. If you're at 2.6, 2.7 [percent], you know, that's, that's a really good place to be.

Super eloquent, right?! I'm embarrassed for him, but if you're unsure as to why ... it's important we discuss! I mean, it's only the head of the Federal Reserve telling you he has limited confidence in the forecasting ability of his 700+ PhDs at the Fed, telling you inflation is going up (while being unable to coherently explain why) as he talks rate cuts ... what could possibly go wrong?! (palm meet forehead)

My initial knee jerk reaction to Steve Liesman's (CNBC) opening question to Powell was surprise ... what?! Liesman questioning if the rate cut the Fed is considering the wrong policy given the Fed's most recent Core PCE **forecast** (an inflation indicator) now being HIGHER?! Again, to reiterate Liesman's 'concern':

"And if you have this wrong, doesn't it mean that you sort of—you, you could have wrong the outlook for rates there?"

Whoa, hold up ... who let this guy in the building?!

Again, I said my initial reaction was surprise, but after scanning the transcript I just began to shake my head ... for through all of Powell's "yeah, no ... I mean, I think we've, we've ... I don't know that – I think if we – I don't know" it took me a minute to sort out what he was trying to say.

Base effects

The grade level of Powell's first answer is embarrassing. Though, through all of his stuttering, vagueness, and fumbling though his, "*readings through the 12-month window*" garbage, what he's failing miserably at trying to explain are the comparable "base effects" we've been discussing for years now; only he's attempting to discuss them in relation to his inflation metrics.

In Powell's childlike attempt to discuss the set-up of the base effects, he's admitting that rates are likely to move higher because of them ... as he states, "**that would lead to slightly higher, you know, 12-months rates by the end of the year!**" I'm thinking it's fairly difficult to discuss rate cuts during a discussion on increasing inflation, but higher is higher, base effects or not, which he's clearly attempting to downplay.

It's funny he's just talking base effects now as we've been taking a higher for longer stance on inflation for well over 9 months now (at a minimum), though [just this February we wrote](#):

*While just this week the Case Shiller Home Index accelerated from 5.4% YoY to 6.1% YoY, and again, as we noted last month, we understand that there is nuance to how it all flows through into the headline data on a lead/lag basis **in addition to comparable base effects**, but at the same time, Housing and Energy add up to north of 40% of Headline CPI, which poses a bit of a problem for both the Fed as well as those in the "rate cut" camp!*

This conundrum leaves Hedgeye Macro team member Christian Drake ([@HedgeyeUSA](#)) begging the question: Is [INFLATION RISK: Controlled or Recoiling](#)?!

INFLATION RISK: Controlled or Recoiling?

HEDGEYE

Are we sure inflation risk has been vanquished? Headline Inflation is still above target, Core measures & Wage growth are still running ~2X target, Home Price Growth is re-accelerating and a meaningful cross-section of price series are already reinflection.



Data Source: Factset, Bloomberg, NYFED

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[We continued:](#)

The Fed's frequently discussed Core services EX-housing number accelerated to +4.3% YoY, arguably creating a bit of a problem.

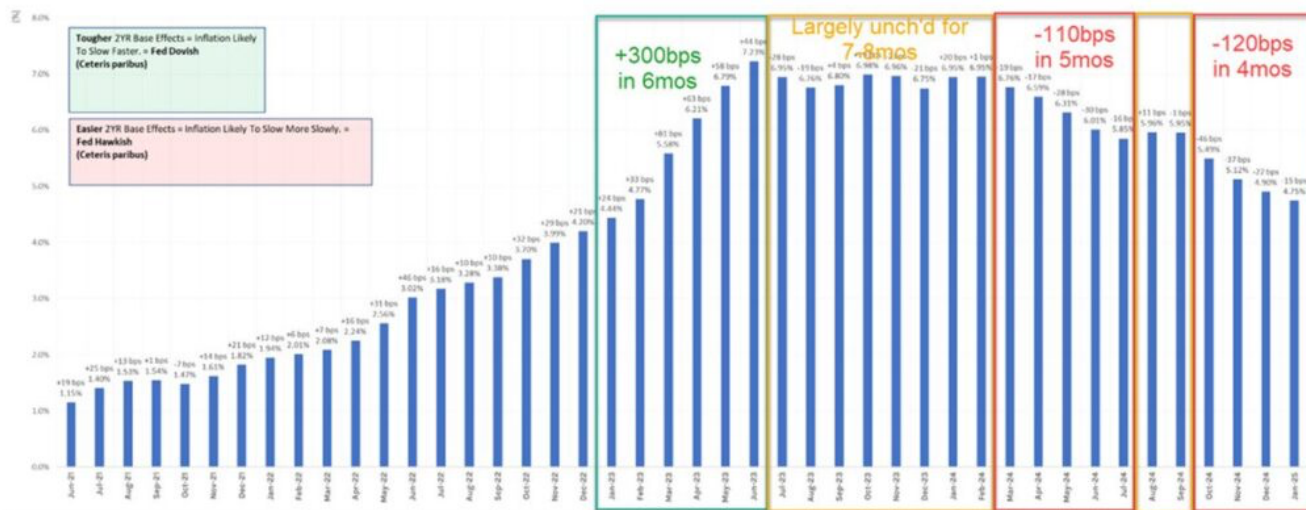
While we may see some softening into next month's print, also [per the work of Hedgeye's Josh Steiner](#) ... **given the easing base effects into the back half of the year**, and rising pressures in things like shipping (which is on an approximate 8-month lead/lag flowing through into the data), and other commodities, like meat, eggs, milk, copper, etc ... it becomes extremely difficult mathematically to get anywhere close to the Fed's 2% inflation target! **Thus, we remain in the "higher for longer" rates camp ... UNLESS ... something "markets related" breaks bringing us much larger issues.**

We shared a brilliantly laid graphic showing this easing of the base effects into the back half of the year courtesy of an [@Hedgeye chart of the day from 2/14/2024](#) (immediately below):

Framing The Inflation Outlook – A Three-Part Series

HEDGEYE

Beginning with the March print in April, Base Effects will ease (-110bps in 5mos), creating upside pressure/risk to inflation for the five months (March-July) reported over Apr-Aug. Then, there will be two months (Aug-Sep) of benign conditions. Then, four months of sharply easing Base Effects (-120bps in 4mos) (Oct-Jan) reported in Nov-Feb.



Data Source: BLS, Hedgeye Estimates

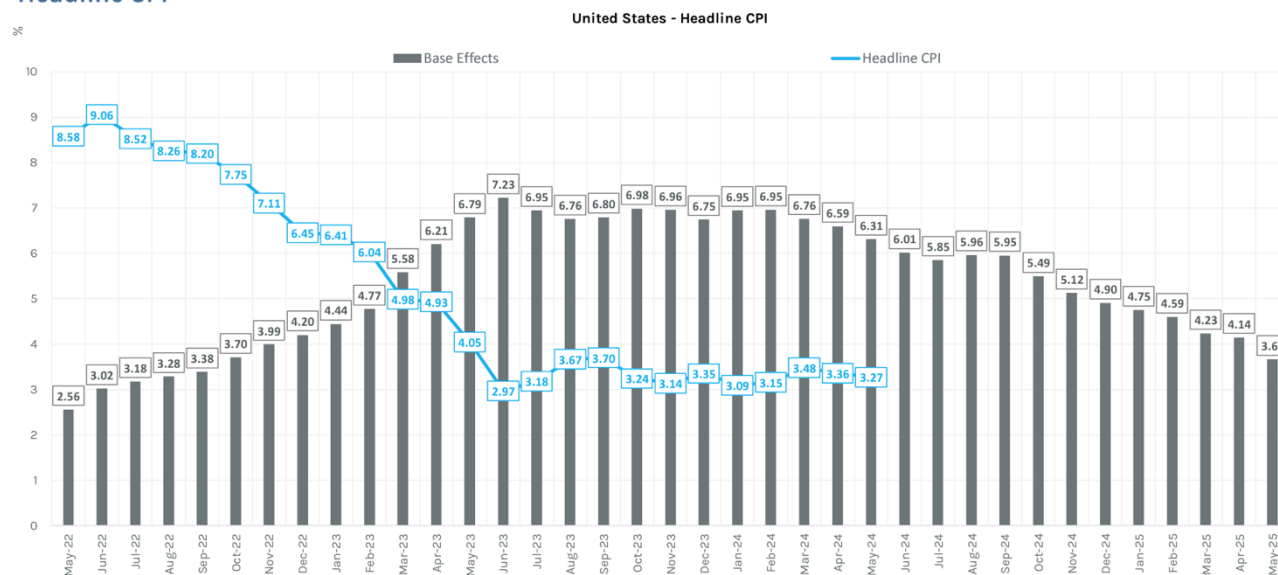
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Though, below is a more updated chart providing even more context into the base effects as it relates to inflation as it was shared (see below) in a [recent edition of "Rooster Reacts"](#), where Hedgeye Macro Team member, Ryan "Rooster" Ricci provides "in-depth, play-by-play commentary" on Powell's FOMC remarks!

2-Year Base Effects

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Headline CPI



Data Source: BEA, Hedgeye Estimates

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So, we've been explaining base effects, tethered to the work of Hedgeye, who has been about as accurate as it gets in relation to their macro forecasting, inclusive of base effects and the Chairman of the Federal Reserve has very little confidence in this forecasting ... as he states, "**Now, do we have high confidence that that's right? No. It's just the kind of conservative way for forecasting things.**"

We're going to pause for a moment and circle back to Steve Liesman's disingenuous question for a minute:

After reading the exchange over a few times I was reminded of the movie "Usual Suspects" in two ways (from the same scene) first, when Kevin Spacey's character, Roger "Verbal" Kint is describing the horrific terror spree of the mythical Kaiser Soze ... Kint began the monologue by saying ... *"The greatest trick the Devil ever pulled was convincing the world he didn't exist"* ... and then ended it by saying ... *"And, like that, (poof) he's gone!"*

On the surface, Liesman immediately pointed to the proverbial elephant in the room ... but all he really did was shift the Fed's narrative from the inflation metric they've recently been focused on to a FORECAST of what they now want you to focus on ... which is CORE PCE!

Again, their discussion is around a forecast of Core PCE being 2.8% by years end, which is a mere figment of their imagination, for as we noted last month, Core PCE is currently at 3.7% QoQ with inflationary measures rising ... [we couldn't have been more clear](#):

*"Core PCE (Personal Consumption expenditures) **increased +3.7% QoQ into 1Q2024!** PCE measures the changes in prices of goods and services purchased by consumers in the United States"*

Powell didn't mention HOW or WHY they believe these forecasts would miraculously come down, just that they would. No mention of the *"rising pressures in things like shipping (which is on an approximate 8-month lead/lag flowing through into the data), and other commodities, like meat, eggs, milk, copper, etc ...* as we mentioned last month ... nor that *"it becomes extremely difficult mathematically to get anywhere close to the Fed's 2% inflation target!"* as we also included last month ... it just will, because he vaguely says so; if you can't tell ... he's lying!

Core Services Ex-housing (shelter) has been the Fed's recent preferred inflation measure ... which, remained elevated at +4.3% YoY back in February, with this month's reading being +5.01% YoY; which is SIGNIFICANTLY HIGHER than February's as it's been ratcheting incrementally higher for well over 6 months now; slightly inconvenient for the Fed's narrative, so it's not surprising they wanted to shift your attention away from an empirical 5.01% to a fictitious 2.8%.

We find zero irony in the fact that there was not a single mention Core Services Ex-Shelter in this most recent Fed meeting (feel free to [scan the transcript for yourselves here](#)) with NOT A SINGLE reporter in the room asking about it?!

And, like that, (poof) it's gone!

At this point, it's a show. Powell isn't filling in gaps in his memory with fabrications that he believes to be facts, he's deliberately being deceptive, attempting to control a narrative, but the data isn't helping his cause.

And as much as this high-profile public figure tries to shape the belief of Americans, they're just not buying it anymore and it's easy to see why...

Jo Ling Kent from CBS News asked:

What's your message to Americans who are seeing encouraging economic data but don't feel good about this economy?

And true to form, Powell's stuttering response couldn't have been more disingenuous:

I, you know—I, I don't think anyone knows—has a definitive answer why people are, are not as happy about the economy as they might be. And we don't tell people how they should think or feel about the economy. That's not our job. We—you know, people experience what they experience. All I can tell you is what the—what the data show, which is, we've got an economy that's growing at a solid pace. We've got a very strong labor market with unemployment at 4 percent. It's been a long time since we've had, you know, a long stretch of time with unemployment at or below 4 percent—very long time. We had a period of high inflation. We—inflation has come down really significantly, and we're doing everything we can to—you know, to bring that inflationary episode fully to a halt and fully restore price stability. We're confident that we'll get there. And in the meantime, you know, it's going to be painful for, for people, but the ultimate pain would be a, a period of long, high—a long period of high inflation. It is people who—lower-income people—people who are at the margins of the economy who, who have the worst experience—who experience the most pain from inflation. So, you know, it's for those people—for all Americans, but particularly for those people—that we're doing everything we can to bring inflation back down under control.

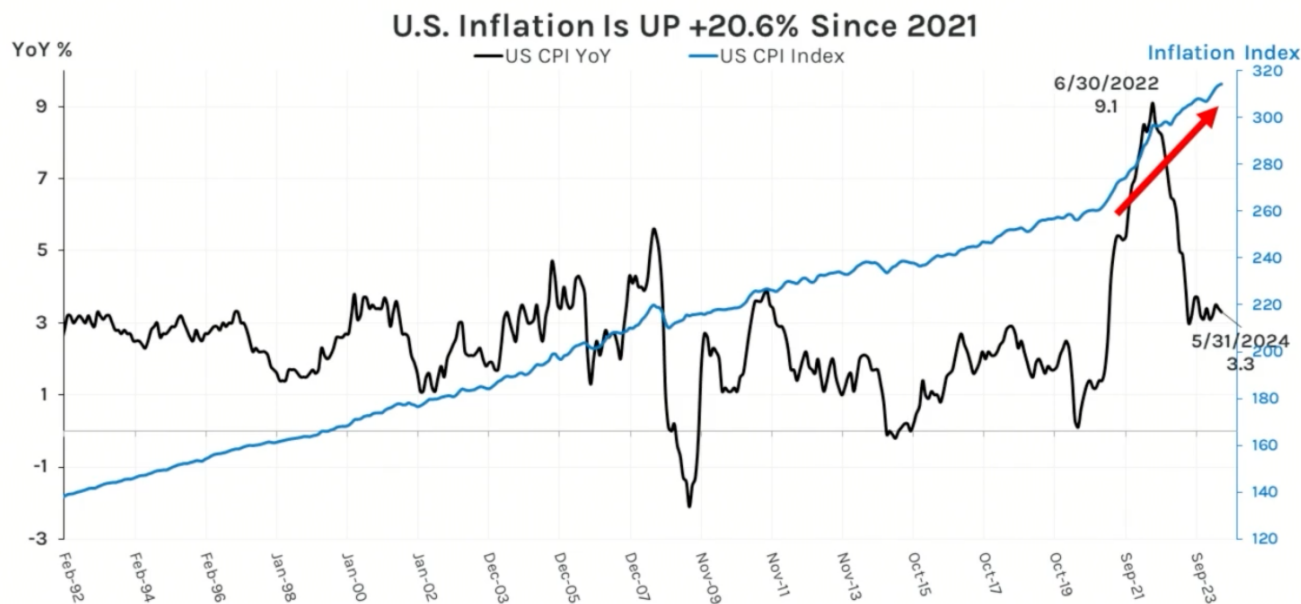
There is NOTHING honest about their lying... which brings us back to our opening biblical quote, "a fool's voice is known by his many words" Ecclesiastes 5:3 NKJV

Powell can bumble, stutter, fumble, attempt to stick to the same scripted story, while sweating and fidgeting, but his vague and unsubstantiated comments continue to be signs that he's lying through his teeth. From whom or why would be speculation, be it Wall Street or political handlers, though, with each passing day, regardless of the why or for whom, it's sure as hell NOT for the majority of Americans.

As we've been writing for longer than I care to audit, the bottom 60% of Americans are getting decimated by Powell's dishonestly, pandering and policies ... and as dopey as Liesman is, cutting rates a single basis point in the face of inflation re-accelerating will continue to produce even more inflation ... at a time when inflation has cumulatively increased by over 20% since 2021 ([below image also courtesy of June 12th edition of "Rooster Reacts"](#))

Quick Reminder He Is Talk RATE Of Inflation, Not Actual

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Data Source: Federal Reserve

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A [study out of Payroll.org](#) from earlier this year concluded that over 78% of Americans are living paycheck to paycheck ... while a CNBC poll suggests that number to be closer to 65% ... split the difference and call it 70%, either way, an overwhelming majority of Americans are barely making ends meet with everyday needs costing over 20% more than they did 3 years ago as wages are NOT keeping up with the pace of inflation!

[43% of small businesses can't afford their rent](#), which is up 11% since February of 2023 and [80+% of Americans consider a fast-food meal to be a luxury item](#)! People can't afford to put food on their tables, nor any savings in the bank, or pay their rent as inflation has been reaccelerating off already elevated cumulative levels, as Headline CPI bottomed in June of 2023 and has been trending higher ever since ... and Powell has the audacity to say:

"I don't think anyone knows—has a definitive answer why people are, are not as happy about the economy as they might be?!"

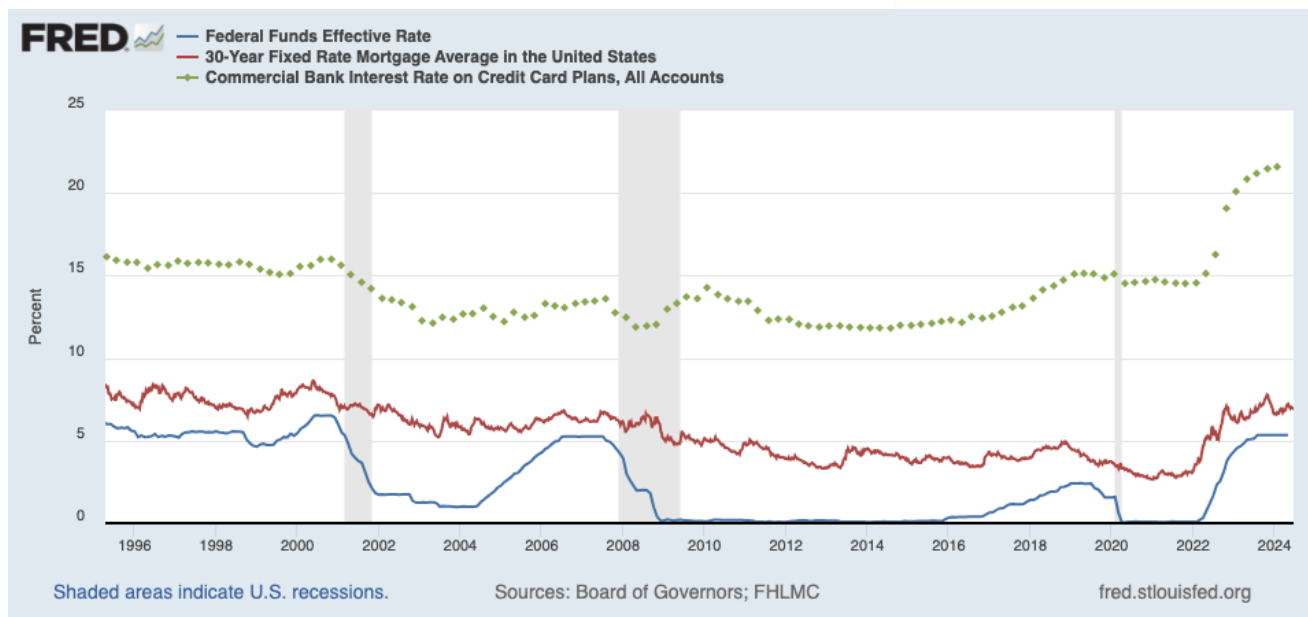
Seriously?! No one knows why people are upset?! Statements like these are beyond disingenuous, making it even more blatantly obvious that the elites have more interest in trying to control a narrative via deception and lies, then care about real people. Even when caught in a lie they just speak in vague gibberish because they know NO ONE in the media will hold their feet to the fire! (my guess would be that if anyone did, they wouldn't be invited back to any future press conferences)

To recap:

- Powell all but admits inflation is going higher via base effects, but attempts to downplay it because, well ... it's only the base effects?!
- He fails to address why Core PCE may come down, placing no math into the equation, while shifting the narrative away from Core Services Ex-Shelter (which is currently at 5.01% YoY)
- Then dismisses the concerns of the majority of Americans whose incomes have not kept pace with the + 20% increase in the price of good and services since 2021, basically calling them stupid.
- Without some crazy form of government manipulation, inflation is going higher for all the reasons we've been noting for months ... be it hard or soft commodities; agricultural goods, metals, oil/gas/fuel, shelter, shipping, et.al.; they're up (nod your head yes, Jerome)!
- And still, the jawboning about one to two rate cuts continues, which just shows the absurdity as to how little they care about the majority of Americans.

As the top Federal Reserve official continues to wonder why the majority of American's are upset, let's try to shed some light by contextualizing two relatively simple graphics which relates to what we've been describing for some time as the 'K' shaped recovery.

The below image illustrates the current EFR (Effective Federal Funds Rate) vs. both mortgage and credit card rates.



The blue line represents the EFFR. This rate is controlled by the Federal Reserve interest rate policy and is what the shorter end of the Treasury bond market is most influenced by/tethered to. As of June 26th, the Federal Funds rate stood at 5.33% within the Fed's 'target range' of 5.25 - 5.50%

Those who fall into the upper slope of the 'K' in this 'K' shaped recovery are generating a windfall of 'risk free' (if there is such a thing) INTEREST INCOME, on any excess savings they hold in CDs, treasury bonds, treasury money market funds or like investments ... their EXCESS SAVINGS are generating significant EXCESS INCOME!

The red line is representative of the average national 30-year fixed mortgage rate and while not intended to come across as callous, a 6.93% mortgage rate most likely doesn't affect those in the upper slant of the 'K' for a significant number of these individuals don't need a mortgage. Moreover, a credit card is nothing more than a convenience for the affluent ... an aggregated list of expenditures categorized for convenience and when paid in full monthly with a simple "autopay", in many cases no interest expense is ever incurred.

However, the lower slant of the 'K' is the complete OPPOSITE story. Again, with 78% of Americans living paycheck to paycheck, and 60% of having less than \$1,000 dollars in the bank to handle an emergency, the interest paid on these checking accounts is dwarfed by the amount of INTEREST EXPENSE these individuals are paying on their near maxed out credit cards, which, is denoted above by the green dotted line.

While the Fed's interest rate tracker on credit cards issued by larger commercial banks sat at 22% in February, Forbes weekly credit reports, which tracks everything from Airline and Hotel cards to cash back, small business, balance transfer and student cards, averaged around 27.70% over the last few weeks.

Maxed out credit cards with a 27.70% APR have the average American household paying more in non-mortgage debt interest than mortgage debt interest (read that sentence again, it's poignant)!

If you are wondering how this could be, below we provide another brilliantly illustrated chart presented by @HedgeyeAI from the [episode of Rooster Reacts](#) referenced above ... which simplistically drives home a point we've been making [since 2018 when we wrote:](#)

8-years of Zero Interest Rate Policy (ZIRP) has allowed just about everyone on the planet to max out their credit cards, continually consolidating their debt to that new card with a zero-interest teaser rate; and with every consecutive rollover, they have borrowed exponentially more and more.

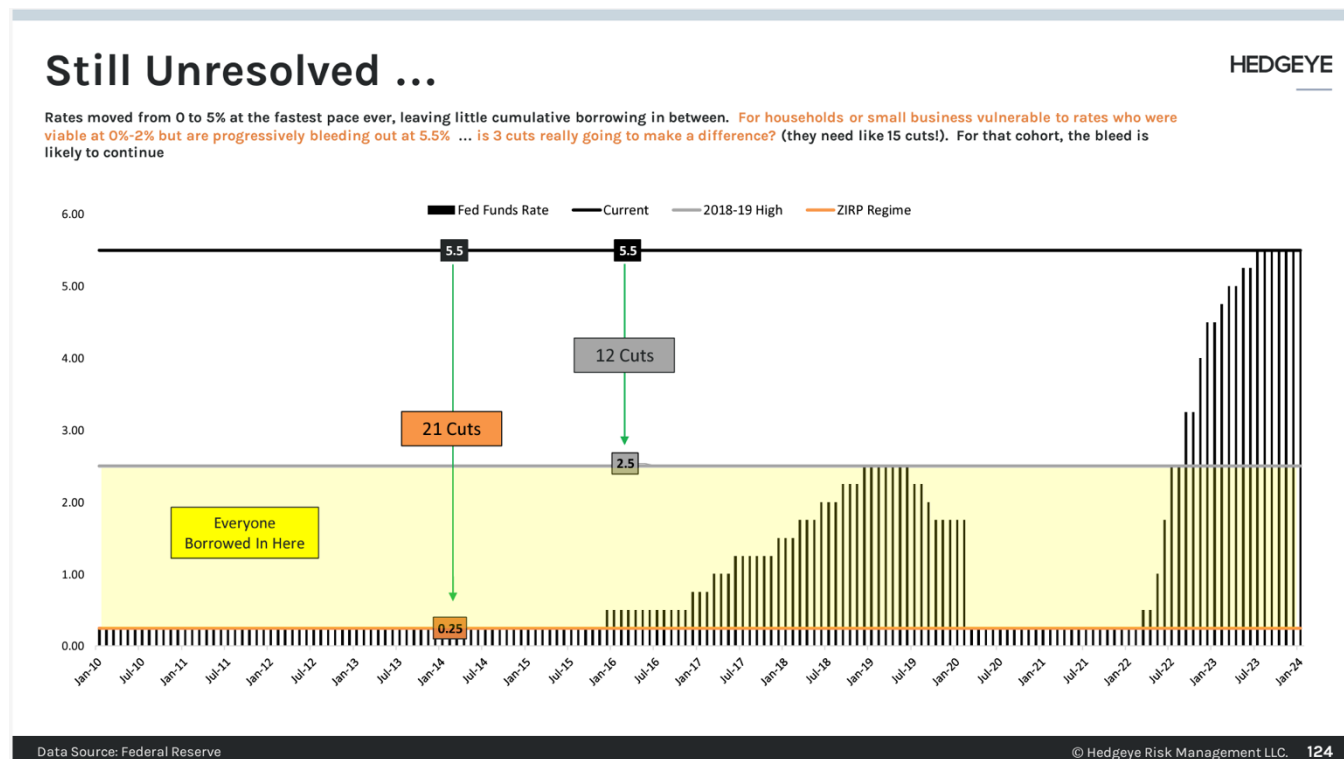
We continued:

The reason **time** (access to this debt for an abnormally long, prolonged period) is such an important factor is it has given everyone (every government, corporation, consumer, student, car buyer, etc.) with a pulse, the opportunity to lower his or her interest rate. After all, with interest rates this low you can afford “more house”, “more car”, “more expensive education”, “bigger boat”, “more cloths”, “name brands”, “flat screen”, “\$1k iPhone”, “larger acquisition”, “larger corporate repurchase plan”, you get the point (I hope). If only a small percentage of “borrowers” were accustomed to low rates, their refinancing of debt at higher levels wouldn’t be such a big deal, the world could handle incremental increases, but when it’s the masses, it’s just like yelling fire in a movie theater.

And finally for the purposes of this discussion:

This system (Fed manipulation of interest rates) has been in place for well more than 40 years but you’re not going to refinance your mortgage at a higher rate unless you have an adjustable-rate mortgage, and you think rates are going exponentially higher. Lower interest rates equals refinancing BOOM.

With this in mind, the first time the EFFR eclipsed the 2.4% level since March of 2008 (not shown) was September of 2022 ... that’s roughly 14 years of borrowing with the EFFR below 2.4% and near zero for nearly a decade.



This pushed mortgage rates (red line) below 5 for years and into the 4’s, 3’s and even 2’s for a period of time long enough for the majority of Americans to borrow money at obnoxiously low rates, though, more specifically, at anemic fixed rates

on their homes, which has created an environment where the majority of home owners are “[Rate locked](#)”, as we wrote in June of 2023:

The product of artificially low rates available for such an absurd amount of TIME ... 92% of all current mortgagees carrying a rate LOWER than 6%; last I checked, with current rates north of 6.7% (arguably higher for most borrowers based upon the tightening of credit standards we've been discussing and the approval process) most Americans won't be selling their houses any time soon (as they can't afford the higher monthly payments).

Now, you may be saying ... 6.7% isn't too far from 6.00 ... to which I'd say ... 82% of borrowers are sub-5%, 62% are sub-4%, and roughly 25% ... sub-3%!

Almost as if you could see what was going to transpire well in advance if you just took some time to think about it, as one of our primary concerns from 2018 has come to fruition in real time in the form of ‘unforeseen consequences’ courtesy of the Federal Reserve’s countless years of ZIRP years later (imagine that?! But who could have seen this coming?!)

Bringing it all together:

Very few people have the ability to sell their homes given the interest expense on their mortgages are so low (as we noted in 2018, why would you “refinance” unless you thought rates were going much higher?!) but in the case of today, it's not a question of refinancing, it's simply the decision to take on a mortgage payment over two times what you're currently paying or stay where you currently are?!

This has created an inventory shortage, which is one of the primary reasons why the most recent Case Shiller HPI (Home Price Index) just hit a new record high earlier this month up 6.3% YoY as did the FHFA home price index. Additionally, [per Redfin](#), the median U.S. home sale-price just hit another record, high, up 4.4% YoY!

Admittedly, current housing data is showing signs of slowing ... but:

- it's JUST NOW cooling and from all-time high levels ... as we've stated in the past, all-time is a long time!
- inventories are just recently replenished
- Home insurance premiums are up 9% YoY
- housing's contribution to CPI is on a near 18-month lead/lag, which, in addition to the base effect set up, it's not likely to be a mathematical drag on CPI for some time (sorry Jay)!

So, the Fed's inept policies have created more inflation than necessary on the fixed interest side of the equation, while ADJUSTABLE-RATE LOANS like credit cards (avg. APR 27.70%) are CHOKING the average American ... with many borrowers being maxed out! ([as we illustrated last month](#)) and other forms of consumer debt through the roof! An example of this would be Autos.

The inflation in Automobiles over the last few years has buried the average new car buyer from 2021 to current times in overly priced, poorly manufactured cars with loans at nearly double what they were in 2021/2022.

Per the Federal Reserve bank of St. Louis, Interest rates on:

[48-month loans](#) have risen from 4.58% to 8.57% from Nov 2021 to current

[60-month loans](#) have risen from 45.2% to 8.22% from Feb 2022 to current

[72-month loans](#) have risen from 4.54% to 8.41% from Feb 2022 to current

Again, housing prices, mortgage rates and credit cards are not really an issue for the upper slant of the 'K' but the lower slant is affected by all three, all the while seeing little to no benefit from interest income producing investments, like those in the upper slant of the 'K' benefit from.

This can be seen in the most recent 1Q2024 excess savings rate with the top 10% of earners seeing their excess savings increase as the bottom 60% continue to see any excess savings they may have fall further and further below pre-Covid 4Q2019 levels.

Additionally, credit card delinquency rates have been rising to alarming rates since having bottomed in March of 2021; as have consumer bankruptcies ... which continue to chase the elevated levels last seen coming out of the Great Financial Crisis.

This as the disconnect between the Non-Farm Payroll employment data and the Household survey has never seen a wider gap; a 4.1 million differential.

The lower slant of the 'K' is taking the brunt of small businesses (NFIB) plans to hire being down, ISM employment down, job openings (JOLTS) down, Full-time employment down ... as the negative revisions coming in are proving our questioning of the labor data we did the majority of last year to be valid, with [BLS Business employment dynamics](#) seeing a 3Q2023 revision of -686k jobs and the [BLS Quarterly Census of Employment revision estimate for 2023 through 4Q2023](#) showing a negative -735k revision.

Final thoughts

Does anyone really have to wonder why no one trusts our government, unelected bureaucrats or media anymore?!

70+ percent of Americans aren't stupid. When someone like Fed Chair Powell stands before the world and says something as disingenuous as he did highlighted in the above aforementioned quote, good, hard-working Americans know they can't go to the grocery store and pay the cashier with ... "but the Federal Reserve Chairman said inflation is coming down, so I don't have to pay this much"!

The majority of Americans are good, hardworking, thoughtful caring individuals ... most of whom just want to be left alone, they want to spend time with their families, go to a ballgame, raise their children with morals and values ... but top priority is putting food on their tables to feed their families, which is becoming a chore for the majority of our country.

People recognize something is wrong, but they can't figure out exactly what it is!? They see government debt sky rocketing (which we'll touch on next month) ... and ~1mm square foot downtown office buildings in Manhattan, being sold for pennies on the dollar, with opening bids around \$8.00 per square foot ([135 W 50th Street](#)) will sell for roughly \$7.5 million dollars (it once sold for nearly \$285 million) ... and they know SOMEONE IS TAKING THAT LOSS.

They also see their neighbors losing their jobs in droves as the Federal Reserve Chairmans says, "*We've got a very strong labor market with unemployment at 4 percent.*" And they think, how can that be?! Then they see things like: [Walgreens to close 2,150 stores nationwide](#), which will likely result in a headcount reduction of 57,000 ... that's 57,000 people getting FIRED! Just wait till they pull out of the major inner cities given the "shrinkage" (or the industry's term for theft) in those stores has skyrocketed over the last few years.

Then they see equity markets at "all-time highs" and have little understanding as to how they can be watching what's unfolding around them as rich people get more richer?!

There's definitely been a major disconnect between the data and market performance of broader indices; If you were perfect through both 2022 and 2023, well done ... but be fair ... how much did you lose in 2022?!

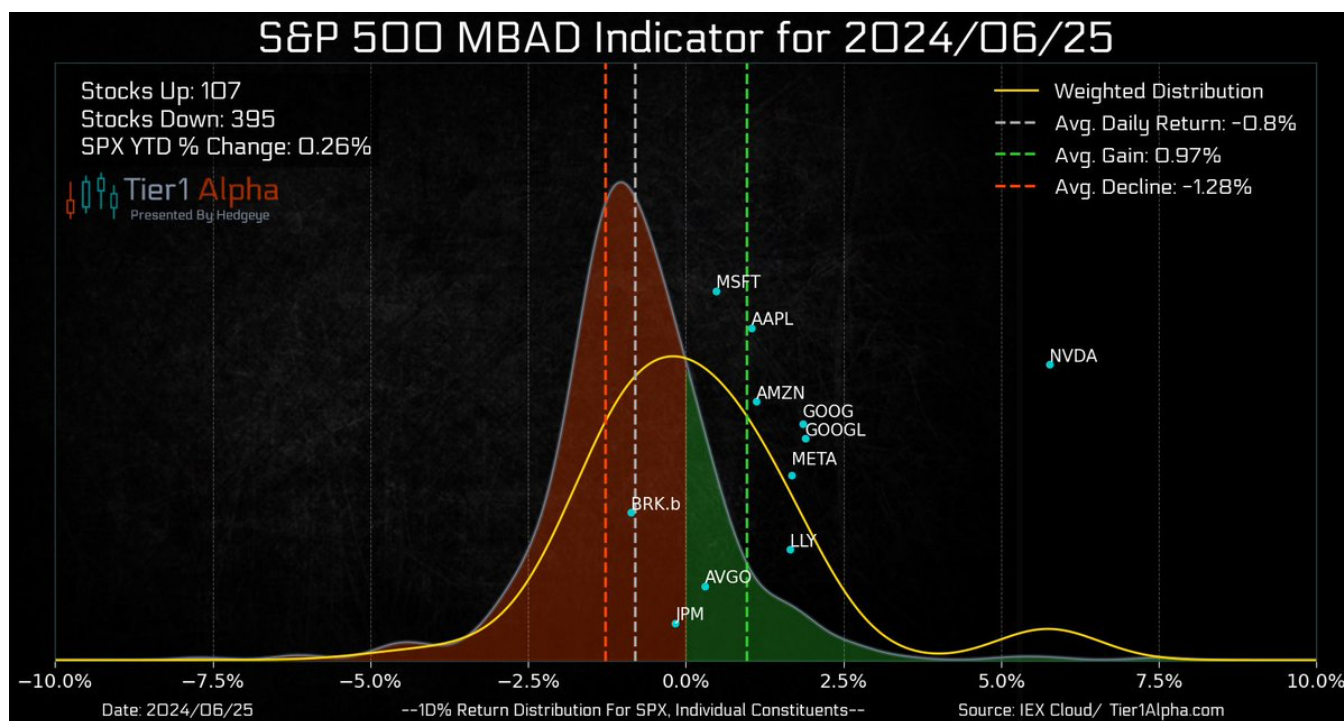
Traditionally, we have been tethered to the data ... which clearly showed global, industrial and manufacturing recessions, while inverted yield curves have historically produced larger selloffs than 2022 brought us, which we did largely avoid. Admittedly, we overstayed our welcome on the short side as 2022 came to an end into 2023, missing some growth opportunities.

So, we evolve or die ... while we remain engulfed in the data, we've adjusted our modeling for more stringent rules tied to the signals markets are providing; maintaining more rigid rules to get us back into markets after we've protected from the larger drawdowns.

This is NOT your grandfather's market, it's not even your father's anymore, it's one that's being driven by systematic flows more and more every day (which we've written about before).

Recently, Mike Green shared a chart on June 25th with one word attached ... "normal" ([his sarcasm was beaming](#)) ... his partners at Tier1 Alpha ([@t1alpha](#)) added the context for him!

"Nearly 80% of the \$SPX is in the red today for an average decline of -1.28%, while the index itself is in the green, Impressive stuff."



And by "impressive", we believe Craig at Tier1 was thinking, "not normal"!

While current data is improving for the top slope of the 'K' and globally, not so much for the bottom slope of the 'K'!

Market conditions have been choppy, inflation continues to move higher, with a mixed bag out of growth oscillating between stagflation and reflation ... with some data sets still screaming systemic risk is a possibility. We'll see how much markets care, if at all, about the massive negative job revisions?! At the same time no one should be surprised should another 2022 come our way?! Markets often crack as the Fed begins to cut rates, which may come as early as September, data be damned ... we'll follow the signals!

These are NOT things you're being told by the one man who should be open and honest with you as head of the Federal Reserve, who in my opinion has a duty to be forthright with the American public.

There are some in the industry who we respect that believe Powell is doing what he's doing in an effort to break the shadow banking system?! And as much as we sincerely try to view their thesis from different angles, we still can't wrap our arms around their argument ... assuming he is trying to accomplish something much bigger, the cost is decimating what's historically been known as the heartbeat of America while allowing larger firms to trample small to medium sized businesses!

As we close, I'd like to point you to [one last thing we wrote in 2018](#):

*We continue to acknowledge the importance of debt and its integral role in fostering an economy's growth, though, we have stressed the importance of how that debt is used, **as well as the length of time this debt has been available to access ... for our opinion is the time variable will ultimately prove to magnify future negative outcomes.***

That's genuine ... it's honesty ... which is a foundational cornerstone of the business we opened in 2018. Are we perfect, NO ... but as I promised from the onset, you will always get the Other Side of the story that you are more than likely not receiving from big Wall Street firms or un-elected bureaucratic officials ... you'll always get what I would want to hear if I were across the table in your shoes.

If we could see the unintended consequences of Fed policy at the time, dating back to 2018 ... I'm thinking the 700+ PhD economists could have as well?! If they did, I am unfamiliar with that paper and given the amount I read, I'm thinking they hid it fairly well.

For again: "a fool's voice is known by his many words" Ecclesiastes 5:3 NKJV

The more these individuals stutter, mumble and mislead through the use of many vague words ... the more they reveal themselves as fools to not be trusted ... proactively protect yourselves or find individuals who genuinely care!

As we said last month, never be afraid to be a minority voice amongst a crowd, show true resolve when the facts, truth and data are on your side!

Good Investing!



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