



Family Matters!!!

Family Matters...

If you're a product of the 1990's, reading those two words might spawn flashbacks of Policeman Karl Winslow, his family and the "nerd" who lived next door, Steve Urkel and his well-known ... "did I do that?!" in his patented squeaky tone.

Long time readers know that these monthly notes are an expression of who I am. We do our best to fill them with copious amounts of data and add value via providing perspective, contextualizing it in plain English for all investors to understand.

Today, we offer our sincere apologies, for "Family matters" has a much more personal meaning to us this month.

While we gather data throughout the month, the vast majority of our writing comes in the last week and a half in an effort to get a full month of economic reality in the notes...

That being said, it comes with a heavy heart that late last week we learned that the man whom I grew up idolizing, the man who worked multiple jobs, tirelessly to provide for my mother and siblings, has been diagnosed with an advanced form of Leukemia and kidney failure (among other things) and has been placed on Hospice with very little time left to live ... in my later years, writing has always been an outlet ... a release if you will. Though in a monthly

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note which prides itself on removing “feelings” from the data, I “feel” quite empty and deflated.

At the same time, on a much smaller scale, this past Monday, my 12-year-old, who as many of you know is a fairly good gymnast hit the back of her head while coming off a double back on the high bar, which sits more than 9 feet off the ground ... when they throw themselves in the air you can add another few feet! The force at which her head hit the bar was significant enough to stop a bustling gym with a few hundred people in it to silence.

The good news here is that we’ve now been through multiple concussion protocols, including Duke Meds concussion protocol and she is miraculously OK, even returning to full practice at the end of the week with zero apprehension on the bar.

Needless to say, the amount of time I’ve had to write has been limited, so this note will be much shorter than most. Rather than detail the vast array of macro data out there, we’re going to focus our attention to the labor markets and how much of the misinformation we’ve been detailing for nearly 2 years has proven true ... and does it/will it matter?!

We considered pausing our writing for this month, but we’ve committed to providing our valued clients and readers with a high-quality product. Adversity is part of life, we’ve done our best here given the circumstances ... it’s the way my parents raised me ... it’s what my father would want me to do.

I do make all efforts to attack life with passion ... as painful as certain aspects of life may be, challenging situations like these do act as stark reminders as to how precious and fragile life is ... we are never promised tomorrow, so I beg you consider setting the small minutia aside and let those close to you in your life know how special they are more frequently than you do.

Having lost my brother three years ago and my father-in-law 2 years ago (as many of you know) ... now my father any day now ... trust me, very few of us do it enough!

Today, when I write Family matters ... I mean it ... literally!

With all the noise out there today, the political BS, perceived division, visceral reactions vs cordial discord, I ask that you try to step back and let those close to you; family and those friends who have such know how you feel ... trust me on this, the feeling of regret and wishing you’d done it more is a powerful beast.

Rest assured

Risk managing models and clients’ accounts will always be done with the highest of professional standards. After 29 years, I understand the division of church and state. I take on the responsibility of what I do VERY seriously ... at the same time ... trading takes what amounts to minutes while accumulating, compiling and organizing the vast amounts of data can’t be done while behind a steering wheel.

I cordially and respectfully ask for some grace with this note ... again, it will be an abridged version. Though, with dad on my mind, it leads to a perfect segue into two of the most important traits he hammered home when growing up.

Honesty & Integrity

Growing up, there were very few things worse than telling a lie. As I sit and ponder, I can't think of a thing that was worse than lying. Even if you were joking, if my father looked at you and said, "Krause promise", that meant whatever came out of your mouth next better be 100% TRUTH ... for I can promise you; you did NOT want to be caught in any form of a lie after giving your word with our last name attached to it.

Arguably it may have scarred me for life as some of the hardest discussions I have with my wife today are the "white lies" that allow kids to be kids. Lying about things like Santa Claus and the tooth fairy, literally pains me at my core.

Which is arguably why much of my time writing these notes is spent calling out the lies that comes out of the mouths of both elected and unelected officials who blatantly mislead the public, pulling the very marionette strings the people, whom these experts are tasked to care for, are being crushed by.

There are few better ways to illustrate this than by picking apart this month's Jobs data and their recent revisions.

Labor

August's release of July's Jobs data came in at +114k ... well below consensus expectations of +175k and yet another downwardly revised June print of +206k, a revision of -27k jobs; this was also well below the average monthly gain of +215k.

As we've been detailing for some time now, the government miraculously added another 17k jobs! Imagine that?!

The unemployment rate has now jumped higher for the 2nd sequential month; initially from 3.9% to 4.1%; now from 4.1% to its highest level in 3 years at 4.3% ([Source: BLS](#)) as both the labor participation rate and employment population rate remain below pre-pandemic levels coming in at 62.7% and 60%, respectively.

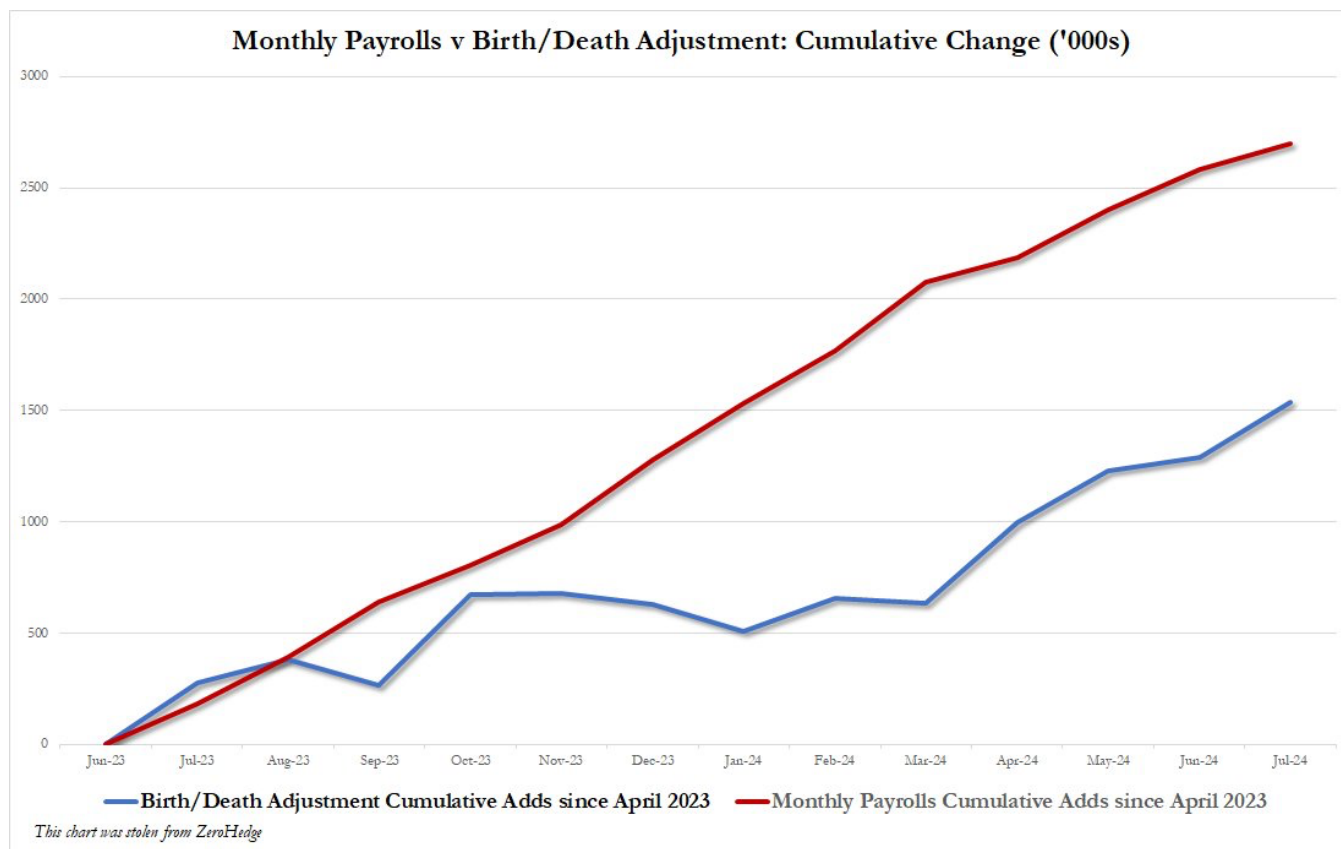
Consider this ... payrolls were up +114k while multiple job holders rose by +133k and the BLS's absurdly ridiculous Birth/Death modeling contributed +246k jobs! So, without people taking on additional jobs to put food on their tables due to higher prices, and a fabricated guesstimate courtesy of statistical revisions, how deeply negative would this most recent print have been?!

Again, as noted in [August of 2023](#):

"What is the Birth/Death model one might ask?! Statistics!!!"

Per the BLS: “(The) Birth-death adjustment is an adjustment made to **survey-based estimates** to account for the net effect of businesses opening and going out of business ... **“They are model-based estimates.”** They are based on the history of business births and deaths as observed in the Quarterly Census of Employment and Wages (QCEW).”

Just as [@zerohedge recently noted](#) on August 2nd, “57% of all YTD jobs are statistical fakes, thanks only to the Birth/Death adjustment!”



We’ve literally been talking about this specific topic for well over a year.

Garbage in, garbage out!

It’s no secret that the expense of “higher education” has skyrocket over the past decade. Parents believe the best way to set their children up for future success is to send their children to schools with the most “prestigious” names. In doing so, we know that student loans have expanded at a blistering pace, setting off legal battles with the current administration as they’ve attempted to wipe away \$475 billion dollars in student loans with the stroke of a pen.

As we’ve noted for years, the Constitution would win ... which has proven to be true [as the Supreme Court, AGAIN struck down](#) the Biden administrations attempts just a few days ago.

And yet, we've been of the opinion for decades that when you fill students' heads with academic theory and garbage not practical in real life application, garbage results are likely what your product will be.

Recently, Author, University of Michigan economics professor and Senior Fellow at the Brookings Institute (etc. etc. etc. ... just ask him), Justin Wolfer took to "X" (formerly known as Twitter), posting the below chart ... with no additional context!

People are starting new businesses at extraordinary rates

Number of new business applications each month

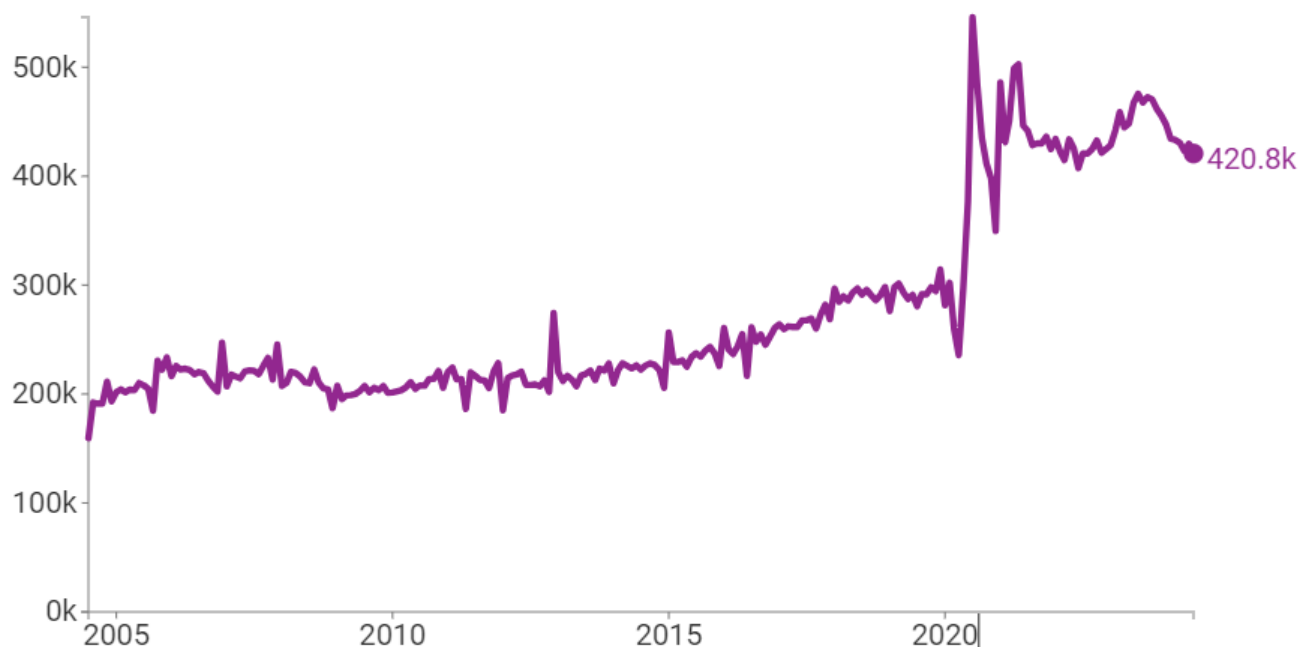


Chart: [@justinwolfer](#) • Source: U.S. Census Bureau • Release: Business Formation Statistics • Series: [BABATOTALSAUS](#)

Again ... he's a SENIOR FELLOW at the BROOKINGS INSTITUTE ... Faculty at the University of Michigan Ford School of Policy while also on the faculty as an economics professor and paid extremely handsomely for both ... he's a policy influencer ... and he posts a remedial chart, which is either an attempt to willfully mislead followers into believing new business growth is strong (failing to mention the flawed BLS's Birth/Death adjustments (as we've written about for over a year) ... OR ... he honestly doesn't understand it?!

In a public back and forth with Simplify Asset Management's Mike Green (@profplum99), Mike took Wolfer's to school! I'm going to quote the entirety of the text, but I highly recommend you [CLICK THIS LINK](#) for the actual exchange with referenced graphs and charts included. This exchange is the economic equivalent to watching Mike Tyson knock out Marvin Frazier in 30 seconds.

GREEN: Remarkable that this nonsense is still being posted. No, there has not been a surge in “entrepreneurship”; there has been a surge in Employee Identification Numbers due to regulatory shifts. Door Dashers of the World Unite! (Green is referencing the above chart Wolfers posted)

WOLFERS: Now let's see if you're onto something important, or if you're just offering a meaningless distraction... As he posts a FRED chart stating ... *The blue line is the one I graphed. The red line is the one you suggest undermines everything. The green line is business applications ex accommodation & food service.*

GREEN: We already know the answer to that. Food services was simply included to highlight the idiocy. Why you don't know this is beyond me.

WOLFERS: You know that I was showing a graph about business applications, right?! you're now graphing something else as if that's responsive.

GREEN (with the jaw breaking, knockout punch): Yes. An application for an EIN is not a business formation in the traditional sense. **It's an administrative step that became eligible for insane benefits during Covid and was increasingly requires once the IRS cut the threshold for reportable funds on 1099 from \$20,000 to \$600.**

The data you are citing is the source of the Birth/Death adjustment for the BLS, which is why I referred back to the QCEW adjustments.

Maybe retail “businesses” soared during Covid due to a surge in entrepreneurship... OR maybe the incentives and requirements for doing so changed?!

Green refers to regulatory shifts and the IRS cutting their threshold for reportable funds on 1099s from \$20,000 to \$600 ... which we also detailed last August 2023 in a section titled, “[Connecting the dots](#)” just after detailing the absurdity of the birth/death adjustments in that same note; we wrote:

“A quick side note on the Birth/Death adjustments. Let's assume for the moment there is nothing nefarious going on (I place this probability as EXTREMELY LOW to ZERO) but, for a moment, let's just assume.

As a direct result of the American Rescue Plan Act of 2021, the IRS created a new rule which states anyone who now receives over \$600 of income for services needs to register (birth) as a “new business”.

Prior to this Act, (for reporting purposes to the IRS) third-party transactions for business owners and those attempting to earn a little extra income on the side followed different thresholds: individuals only needed to report gross payments exceeding \$20,000 and report earnings if they had more than 200 such transactions ([according to the IRS](#)).”

You'll note, Mike also specifically calls out the why he referred back to the “QCEW adjustments” (*Quarterly Census of Employment*) in his response ... Wolfers cited the very source of the Birth/Death adjustments without mentioning/considering them.

How do we know this?! You just have to read the BLS's own words, which we also quoted verbatim last August when we wrote:

Per the BLS: “(The) Birth-death adjustment is an adjustment made to survey-based estimates to account for the net effect of businesses opening and going out of business ... **“They are model-based estimates. They are based on the history of business births and deaths as observed in the Quarterly Census of Employment and Wages (QCEW).”**”

Green’s macroeconomic intelligence is literally in a different hemisphere than majority in the industry; we freely admit, we are NOT Mike Green ... At the same time, for Wolfers not to know, fail to consider, or willfully omit it is flat out unacceptable and irresponsible, especially for someone teaching at a university that’s charging out-of-state students over \$72,000 per year, while it’s estimated that he makes in excess of \$600k for his two positions at the University.

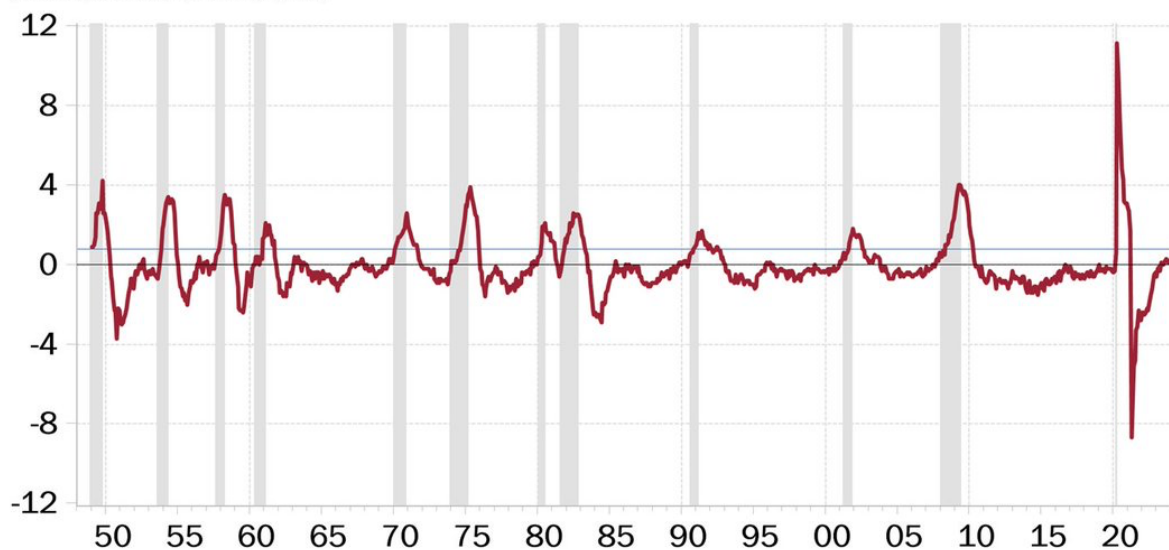
Our over-priced education system is failing our children! And yet ... the idiocy doesn’t stop there!

Sahm experts

This most recent Jobs report has brought with it quite a bit of chatter around something referred to as the Sahm rule; named after economist Claudia Sahm in 2019, when she noted this specific metric might act as a helpful guide for policy makers acting as an “early diagnosis” of a possible recession given, to date, it has a 100% track record in providing an early warning signal that a recession is close or already underway as noted by the graphic below

Unemployment Rate

United States
(year-over-year change; percentage points)



Shading indicates recession

Source: Haver Analytics, BLS, Rosenberg Research

At its core, the Sahm rule is relatively simple ... it triggers when the three-month average U.S. unemployment rate rises by 0.50% or more from its 12-month low!

The above referenced image shared by [Economist David Rosenberg](#) illustrates this as the unemployment rate (as denoted by the red line) is shooting through the horizontal channel (the percentage change over time). At the moment, we've now risen 80 basis points from the 12-month low (80 bps > 50 bps), thus triggering the Sahm rule ... the vertical grey bars denote past recession! As Rosie stated:

"The chart here shows that the +80 bp jump in the jobless rate over the past year is a 100% iron clad indicator that the downturn has either arrived or is about to. The Fed is as behind the economic curve now as it was behind the inflation curve back in 2021-2022. Most of this tightening phase and cyclical bear market in bonds is set to unwind in dramatic fashion." [@EconGuyRosie ... 8/2/2024](#)

Flare for the dramatic?! Perhaps...

In an email correspondence earlier this month, Sahm, herself was firm in stating that we are currently NOT in recession:

"We are not in a recession now – contrary the historical signal from the Sahm rule – but the momentum is in that direction!"

Her reasoning for "this time being different":

"A recession is not inevitable and there is substantial scope to reduce interest rates."

My initial rebuttal to this would be found in our 4Q2018 note titled: [The Fed: 650... 525\(+400\)... 250\(+?\)...](#) which referred to the Fed's "substantial scope" to lower rates during times of economic duress!

A reduction of 650 basis points throughout the tech crash from 2001 to 2003, or the 525 basis points the Fed had leading into the GFC (where Bernanke has publicly stated that they needed an additional 400 bps after exhausting the 525 bps of interest rate policy; hence QE) and finally our prognosticating the future, with a meager 250 basis points the Fed had heading in to the next boom/bust recession the Fed created, which we know was blamed on Covid ... where the only 250 basis points they had were cut, but was followed up with multiple trillions in aid through numerous levers...

The points we raised over 6 years ago in that note renders Sahm's point moot ... with every bursting bubble, the SAVE requires exponentially more stimulus, because of the unending amounts of debt and leverage which created the façade of expansion to begin with.

For Sahm to suggest the Fed has "interest rate" levers to pull is a gross simplification of an overly complicated global system; and is disingenuous and irresponsibly pedestrian.

With this in mind ... it's also important to note that Rosenberg has been on Wall Street long enough to know that very few things ever remain "perfect" over time! With nearly 3 decades in this game, the more time passes, the more we embrace uncertainty, doing our best to remove the labels, resulting, personal bias or painting ourselves into a definitive box that X is sure to occur because it always has.

If the last two paragraphs have you thinking we are talking out of both sides of our mouths, we get it ... we're taking Sahm to task while also suggesting Rosenberg's oversimplification of: it always has, so it always will be, can also be wrong as well.

We frequently note the economy $\neq$ the stock market, noting equity markets have been taken over by passive bids, while short, dated options and the liquidity they provide have an increasingly larger impact on price action with every passing day!

Through-out the most recent drawdown from July 24th through early August, broader indices like the Nasdaq and S&P 500 were down over 11% and 7.5% respectively, while we saw a drawdown of roughly 2.7%; remaining largely invested (65% equity/35% cash) at our most defensive positioning.

We sought shelter where markets were telling us to hide ... Utilities, REITs and Healthcare! As markets began to rebound, we then redeployed the cash in our portfolios to the sectors which took the baton.

In recently explaining our methodology to a new prospect, she noted that we follow the names with the greatest signal strength, yet the portfolio I showed her didn't have any \$NVDA, \$MSFT or \$AAPL (at the time). Which allowed me to prove the metal of the current models we're utilizing.

These names were risk managed and sold (either partially or in their entirety) BEFORE the July 24th sell off for the internal signals breached our risk management parameters; having us rotate to the strength which allowed us to strategically manage the drawdown.

For example, since July 10th the MAGS, which tracks the "Mag 7" (\$AAPL, \$MSFT, \$AMZN, \$GOOGL, \$META, \$NVDA & \$TSLA) is down 12%, while the equal weight is flat. We track signal strength on each name individually, but you get the point.

We risk managed the shift selling the names whose signals weakened, while remaining as long as we have, in the sectors with the most strength, given the bearish vs. bullish signals we follow.

We're of the opinion that the economic data may suggest that we are in fact, in a recession, while at the same time, markets have the potential to remain irrationally strong... FOR NOW! This can change in a heartbeat; and should it, we'll risk manage those drawdowns accordingly.

Many have heard us discuss the significant importance of jobs as they translate to 401k inflows which has the potential to play a significant role in a market correction/collapse thesis (as does the liquidity ODTE options provide).

This is why we pay particular attention to labor and the massive amount of misinformation out of the government via the BLS ... from the massive overstatements, regular revisions, revisions of revisions, part-time vs. full-time employment skew, the household survey divergence as well as the absurdness that is the BLS's birth/death adjustments ... it's been one fabrication after another, though in spite of it all ... markets have churned higher.

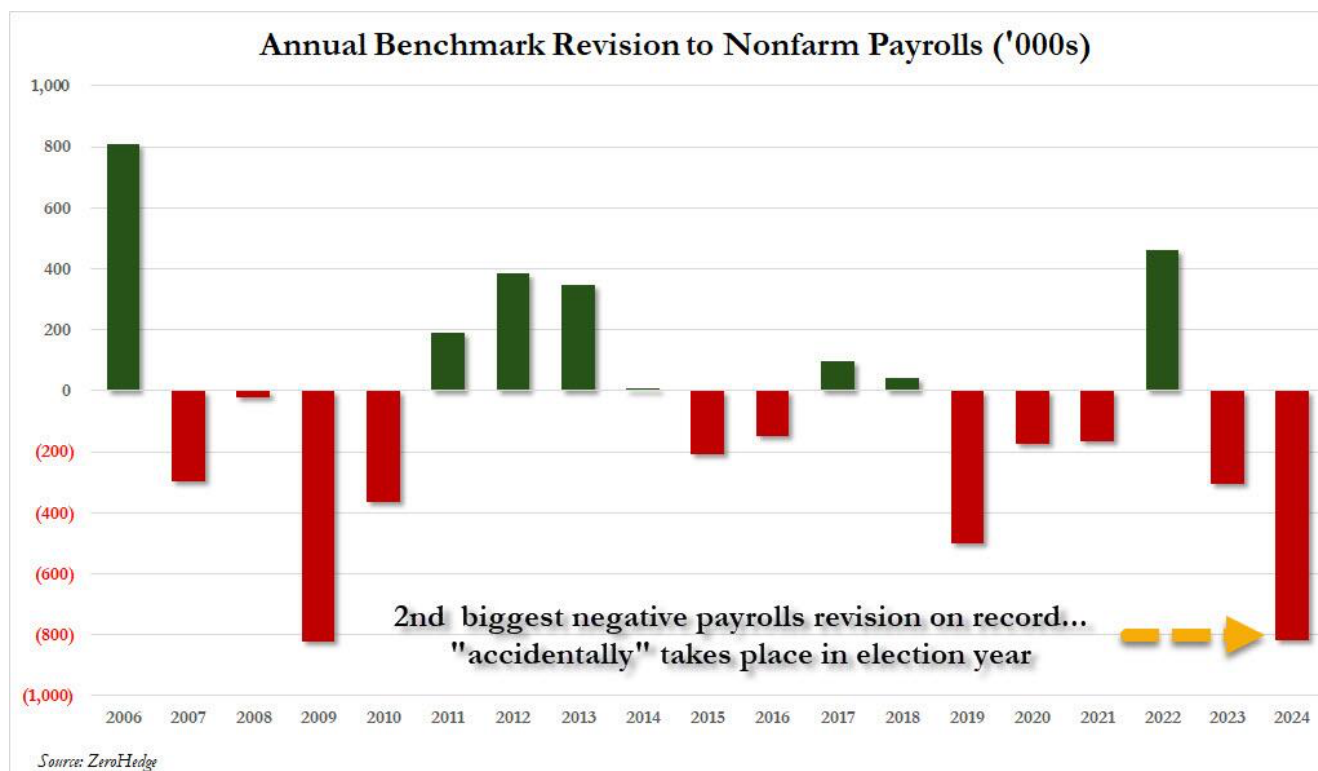
While the rise of passive bids and ODTE options have forced the evolution of our risk management process to be more signal driven allowing us to capture more upside as markets run while still protecting/mitigating downside risk ... the data in labor markets is ugly, and just because markets have yet to crack, it doesn't mean we turn a blind eye to them.

How bad you may ask?!

Just last week (August 24th, 2024), [the BLS published their annual nonfarm payroll benchmark revisions where:](#)

"the preliminary estimate of the benchmark revision indicates an adjustment to March 2024 total nonfarm employment of -818,000 (-0.5 percent)"

Yeah, you read that correctly ... virtually everything we've been writing about for more than a year in regard to the fictitious labor market reports was correct, which has led to the second largest revision in the data series history outside of the Great Financial Crisis ... as [illustrated by @ZeroHedge](#)



With the largest revisions coming from where?! Say it with me folks ... the higher-paying sectors like, professional services -358k, leisure -150k and manufacturing -115k, as we've been discussing ... but don't you worry folks, government jobs were revised UP by +1k (you seriously can't make this sh*t up folks)

Talk about cooking the books!

Higher wage employees losing their jobs, prices paid moving higher, inflation likely to re-accelerate into the back half of the year ... what could possibly go wrong?! The reality is neither Sahm, Rosenberg or us definitively knows which way markets will move next, but given our signal-based system, we don't particularly care. We have a plan to protect on the downside, limiting/mitigating loss and a signal to get us back in as strength returns to the new leader of the pack!

Final thoughts

There is really no good segway into these next thoughts, and they may rub some people the wrong way, but they do tie into the overall theme of this note and at this point, given all we've written over the past year and a half I would hope readers will look at what I'm about to say objectively at face value.

In this note we've shown you the lies surrounding labor markets come crumbling down before our eyes, the insanity of highly paid educators tasked with guiding our youth either misleading or willfully omitting extremely important information, as well as noting two proclaimed experts telling you why their biases will prove right.

We've also shown you that our writing over the past 2 years has been more accurate than all these overpaid blowhards while having the humility to tell you that we don't know if, when or exactly how the economy will push equity markets in one way or another, while providing a solid hypothesis that a slowdown in 401k contributions, will create a tightening of liquidity, thus may adversely affect equity markets which has the potential to cascade into a liquidity event (market crash) ... all the while being prepared for whatever the market throws our way.

As we close, we're going to escalate the level of insanity to what we believe to be an outright danger to our country's very existence as a world power ... no, we do not believe we're being over dramatic in this circumstance.

Following the BLS's release of their massive negative revisions, Commerce Secretary Gina Raimondo, was interviewed at the DNC (Democratic National Convention) by ABC news correspondent Kayna Whitworth who asked:

"I am curious as to your thoughts on today; the [Bureau of Labor](#) saying that more than 800,000 fewer jobs were actually created than initially reported?!" (818k if we're being specific)

Whitworth followed up asking whether or not she (Raimondo) believed the massive revisions out of the BLS to "be a liability" for the Harris/Walz campaign?!

Republican or Democrat, the response out of the Secretary of the Department of Commerce should make everyone pause and say, what in the name of all that's holy is happening in our country?! And I quote:

"No, when I hear that, first of all, I don't believe it, because I have never heard Donald Trump say anything truthful"

To which Whitworth interjected:

"It is from the Bureau of Labor"

To which Raimondo said:

"I, I don't (stutter) ... I'm not familiar with that?!"

Now, follow me here ... The Bureau of Economic Analysis (BEA) is an agency WITHIN the Department of Commerce (which she very department that Raimondo heads) ... that produces, *"official macroeconomic and industry statistics, most notably reports about the gross domestic product (GDP) of the United States."*

The BEA's estimates of total employment and total wage and salary disbursements are DERIVED FROM THE BLS DATA! The departments have worked so closely in past years that [at one point, BLS data accounted for 95% of the wage and salary component of the BEA's personal income estimates](#).

Now the Secretary of the Department of Commerce, who works hand in hand with the BLS and their data is publicly stating that she is either NOT familiar with the BLS, the BLS's data or the BLS's 2nd worst revision EVER ... which directly impacts her agencies information?!

None of which are acceptable answers!

The takeaway should be the staggering level of incompetence that head of some of our countries most important agencies ... which produce the data our economy relies on!

Garbage in ... garbage out!!!

This is WORSE than Justin Wolfers posting charts conveniently dismissing the Birth/Death adjustments while speaking to the strength of new businesses and entrepreneurship. This is the current administration's Secretary of Commerce, who has proven herself unfit and unqualified for the position she holds.

Are we always correct, NO ... we openly admit our mistakes! What's going on here isn't a simple mistake, it shows a complete ignorance and lack of understanding as to how the Department she heads, functions; and rather than admit her ignorance, she attempts to make it a political attack against a presidential candidate who had nothing to do with the massive negative revision.

My father may soon reach the great reward, but the core values he instilled in me will live on! I will exercise my Constitutional right and speak my mind freely, I will teach these values to my children and strive to be a

good person to those around me regardless of race, color, religion or creed ... judging people on the core of their character and values! I will not mislead while attempting to push an agenda one way or another.

As a firm, we will also always do our best to educate readers on what we believe to be noise and ignore vs. what's imperative to be mindful of, always doing our best to call balls and strikes as fairly as possible, being as objective as we can, removing as much personal bias as possible.

These values are the core of who I am and what I want my firm to be! We will always do our best to evolve our risk management process, keeping our finger on the pulse of shifts in market forces, regulatory changes and the ever growing, and now dominant passive investing regime, how it affects market structure and ultimately directionality.

As we said in May, *"Never be afraid to be a minority voice amongst a crowd, show true resolve when the facts, truth and data are on your side!"*

I will forever be grateful to my parents for providing me with the tools necessary to survive and thrive in this beautiful, yet often, ruthless world ... I love you dad!

Good Investing,



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