BARRACK YARD ADVISORS

Compounding Money by Design

A Path to Financial Success—Understanding New Realities in a Changed World

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Barrack Yard Advisors, LLC

About Us:

- ➔ ***We are an independent registered investment advisor (RIA) accountable solely to clients and best practices***
- ➔ ***We serve individuals and families who don't have the bandwidth or expertise to invest on their own***
- ➔ ***Success for us is when we know we have improved our client's life; and they are directionally on the track to a successful financial life. We seek alignment of interests in everything we do.***

Barrack Yard Advisors, LLC

We offer two broad services to individuals:

➔ ***Restored Order*—we provide oversight and guidance on any issue that can affect a client financially in any way**

AND

➔ ***Investment Management*—we create customized portfolios of mostly individual companies and debt instruments, relentlessly focusing on "yield"**

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Today's Speaker: Marty Leclerc

Marty is Portfolio Manager and Principal. He is a 40-year veteran of the investment advisory and wealth management business with an extensive Global experience, including assignments in key financial centers such as New York, London and Dubai. Spent half his career managing financial advisors.

A Forbes.com contributor, Marty has been widely quoted in National publications and is based in Washington, DC.

A graduate of the College of William and Mary in Virginia and a practicing CEPA, Certified Exit Planning Advisor. FINRA-approved arbitrator.

Restored Order
Oversight & Guidance

Good Financial Hygiene:

➔ **Living Within Your Means:** ***Managing both your lifestyle and assets in a realistic, balanced way. Richest Man in Babylon, "A part of all you earn is yours to keep." As the Beatles said, "I, me, me, mine…"***

➔ **Taxes:** ***Being mindful of tax considerations as part of a total financial package. Defer, defer, defer! Ideal holding period? Losses are an asset? Can Uncle Sam help?***

➔ **Wealth/Estate preservation:** ***Long-range strategy so you can do something significant with your money. Large loss principle? The 3 Wills?***

Investment positioning:

Crash Course on Value Investing

→ *The Power of Compounding*

→ *What is an Investment?*

→ *What is Value Investing?*

→ *Basic Truths About Investing*

Investment positioning: Power of Compounding

Time-out! Math class in session…Sorry!

The power of compounding & how it can cover errors/build wealth

First, the rule-of-72

Simply, it's the number of years it will take to double your money at a certain compounded rate-of-return (and vice-versa)

Investment positioning: Power of Compounding

Second, compounding goes exponential…

"The greatest shortcoming of the human race is our inability to understand the exponential function"

--**Albert Bartlett (1923-2013)**

A tale of the farrier and the fool

Investment positioning:
Power of Compounding

The Mathematics of Investment Mistakes

"*The first rule of compounding: never interrupt it unnecessarily*."

-- **Charlie Munger**

A tale of the "genius" and the "loser"

Question: what are the annual returns for each investor?

Investment positioning: What is an Investment?

Does the asset pay me, or do I have to pay it?

- ***Investment v. Speculation***
- ***Costs inherent in speculation?***
- ***Is investing akin to gambling?***

Investment positioning:
What is Value Investing?

Seeking an adequate return by owning an asset when its intrinsic yield is attractive…and selling when its yield is "silly-low"

Implications:

- ***Business pickers; not stock pickers***
- ***Cash is king; source of investment returns is paramount***
- ***Intrinsic yield is both seen and unseen***
- ***Patience is a competitive advantage (only way to harness the power of compounding)***
- ***A curators' mindset***

Investment positioning:
The Truth About Successful Investing

"Investing is simple, but not easy."

--Warren Buffett

What successful investing is NOT:

It is NOT a hard science—it's a liberal art & even machines have biases…

It is NOT about being brilliant and highly successful, possessing rarefied financial knowledge, or hiring the best money manager…

Investment positioning:
The Truth About Successful Investing

"You cannot over-estimate the unimportance of practically everything."
--John Maxwell

Successful investing is about possessing the right temperament, but possessing the right temperament is very difficult

- ***it runs counter to human hard-wiring***
- ***we live in an ADD-addled, no attention span culture***
- ***'rent seekers,' from big-media to Wall Street & their "High Priests" distract us***

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Investment positioning:
Developing the Right Temperament

➔ *Understand the source of investment returns*

➔ *The Paradox of Investing*

➔ *'Predictive' Behaviors and Factors*

➔ *Accept Reality by knowing history*

Developing the Right Temperament: Source of investment returns

- ➔ ***Value creation has one source: cash generation & what managers do with that cash***

- ➔ ***Reality: The rentier class wants you to believe security prices have meaning; that the source of returns is the stock market***

- ➔ ***Problem: This focus on price—and not value—creates frustration and anxiety and bad investor behavior***

Developing the Right Temperament: The Paradox of Investing

Investing requires second level thinking because

Paradox and investing go hand-in-glove, e.g.

- ➔ ***Some of the highest returns can be achieved from low risk investing***
- ➔ ***Worrying about investments only makes sense when things look great***
- ➔ ***High quality businesses can produce inferior returns and vice-versa***

"Controllable" paradoxes is related to one's own behavior

- ➔ ***Unless you plan on outliving your money, you are, by definition…***
- ➔ ***Movements in stock prices can only affect your financial life if…***
- ➔ ***Managing to short-term concerns is a self-imposed…***

Developing the Right Temperament:
Accept Reality by knowing history

➔ ***The "Rule-of-20"***

➔ ***5%***

➔ ***Formula for stock appreciation:***

Intrinsic value (+/-) Sentiment

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Developing the Right Temperament:
Accept Reality by knowing history

Volatility is the price one pays for liquidity

➔ ***In any given year, a 10% drop in the stock market is 'normal'***

➔ ***Every three or four years, a plunge of >20% is also 'normal'***

The stock market can produce zero real returns for an extended period

➔ ***September 2000 – May 2013***	***(12.8 years)***
➔ ***February 1973 – December 1984***	***(11.9 years)***
➔ ***January 1966 – August 1982***	***(16.7 years)***

Developing the Right Temperament: Accept Reality by knowing history

DATE:	CAPE YIELD:	ACTUAL REALIZED 10-YEAR REAL-RETURN:
1900:	5.4%	7.8%
1920:	16.2%	14.4%
1940:	6.1%	4.0%
1950:	9.8%	15.7%
1960:	5.3%	5.6%
1970:	5.7%	-0.7%
1980:	11.4%	11.0%
1990:	5.6%	11.4%
2000:	2.5%	0.73%
02/2023:	3.3%	

Source: All data is taken from the Yale University website and the book, "Triumph of the Optimists: 101 Years of Global Investment Returns."

Developing the Right Temperament: 'Predictive' Behaviors and Factors

'Predictive' Behaviors and Factors are time-tested actions and attributes…

➔ We accept them in all walks of life

➔ No assurance of success, but they increase the probabilities of reaching our objectives

➔ The more you add, the higher your odds go

Developing the Right Temperament: 'Predictive' Behaviors and Factors'

They can be applied 3 ways:

First, in the way you respond to events

Examples include: not liquidating your stocks after a severe market decline; being mindful of our built-in biases such as recency-bias; thinking of your holdings as anything other than pieces of operating businesses, etc.

Second, in implementing strategies

Examples, include paying attention to the Capital Cycle, positioning for mean reversion opportunities, being on the right side of the credit cycle, being mindful of the CAPE ratio, or incorporating generational conceit, etc.

Developing the Right Temperament: 'Predictive' Behaviors and Factors'

Finally, in developing a checklist for owning suitable businesses, such as:

- ➔ ***Fair price (a great business not necessarily a good investment)?***
- ➔ ***Consistent profitability?***
- ➔ ***A great business: money-making reinvestment opportunities (ROIC v. WACC)?***
- ➔ ***Skin-in-the-game management?***
- ➔ ***Modest debt profile?***
- ➔ ***Capital allocator CEO?***

Understanding New Realities in a Changed World—The Thesis

➔ ***A Paradigm Shift is taking place in the Global Economy because our current form of Capitalism, neo-liberalism, is not only unsustainable it is failing too many***

➔ ***Trends that investors believe are set-in-stone, and which have propped-up asset prices for a generation, have run their course. Tailwinds are becoming headwinds, including the invisible hand of the Long-term credit cycle.***

➔ ***Investors who understand the changed realities, and position themselves intelligently have a fighting chance of not losing wealth, in real terms***

Understanding New Realities: Characteristics of Neo-liberalism

➔ ***It was a reaction to political Keynesian economics whereby regulation was too intrusive, balance sheets too conservative, monetary policy too liberal, taxes too high and businesses too parochial…***

➔ ***Neo-liberalism was a reversal of these trends & it led to a Golden Age-of-Globalism, Pax Americana, lifting billions of people out of poverty***

   ➔ ***Low inflation = low interest rates = high asset values = high debt loads***

➔ ***But like all systems, there were winners and losers***

Understanding New Realities: Tailwinds Becoming Headwinds

Inflation—labor and manufacturing costs—was exported through the opening of previously closed developing economies, some 3 billion people

Commodity costs relentlessly declined (Soviets implodes)

Knowledge-worker productivity due to the adoption of the PC and the Internet

Historic corporate profit margins thanks to global labor, cheap commodities and low corporate tax rates (headline tax rates fell 25 percentage points)

Interest rates declined from 14% to 1% leading to…ever increasing debt levels—juicing financial asset returns—with total US debt rising from ~1X GDP in 1980 to ~4X GDP currently

Understanding New Realities: Like Pax Romana—the End of Pax Americana?

The level of prosperity in Europe peaked during "Pax Romana" and was unmatched until the US was a republic (thanks to innovations in energy capture) some 17 centuries later

Pax Romana ended with the death of Marcus Aurelius, the last of the "5 good emperors," in 180 AD

In the 75 years which followed, the Roman Denarius depreciated by about 93%, according to the Cambridge Ancient History, "Age of Augustus"

Will our new Age-of-De-Globalism result in the end of Pax Americana? Is the dollar similarly doomed?

Understanding New Realities: Is the Dollar Doomed?

Will our new Age-of-De-Globalism result in the end of Pax Americana? Is the dollar similarly doomed? Answer: wake-up!

In the 75 years ending last year, the US Dollar has depreciated by >91%, according to the St. Louis Fed

So, many baby boomers have lived through a money devaluation as severe as Romans did during the first 75 years of their 'dark' age

Answer to the question is therefore irrelevant

Understanding New Realities

How to Protect Yourself?

"Sooner or later every generation is shocked by the behavior of interest rates." --Sidney Homer in 1961

New Realities Key Concepts

- ***Paradigm shifts create enhanced volatility***
- ***We are in a 50-year-old monetary experiment***
- ***Inflation prints will be irregular***
- ***Nothing is certain but death & taxes & <u>money illusion</u>***

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Understanding New Realities
How to Protect Yourself?

Assumptions that may provide the best margin-of-safety

- ➔ ***A financial winter is probably upon us (once past the Prez Cycle)***
- ➔ ***Continued, if not accelerating dollar debasement (inflation)***
- ➔ ***The biggest beneficiaries of neo-liberalism will face the greatest headwinds, such as multinational corporations (the S&P 500), China, indebted entities, etc.***
- ➔ ***Economic growth has 2 variables <u>only</u>: population + productivity. The first 'p' is a major headwind***
- ➔ ***The Energy Transition, de-globalization and Geopolitical instability is a zeitgeist. It will be inflationary, and commodities will no longer be cheap***

Understanding New Realities
How to Protect Yourself?

Specific Strategies

***CASH**: It is a limited resource for you. Think twice before you convert it to an asset.*

***BONDS**: There is now income in fixed-income. Based on the circa 1945-1982 credit cycle, the best "passive" bond strategy is to own 5-year maturities and keep 'em rolling*

***STOCKS**: Own businesses that can grow with minimal fixed costs, or even benefit from inflation. Favor smaller US-centric companies, defense contractors, factory automation and "nimbyism." Avoid multinational companies until they become cheap*

Understanding New Realities
How to Protect Yourself?

Specific Strategies

***REAL ASSETS**: The ‘cap-rate” dynamic is not your friend. Own industrial & precious metals streaming/royalty trusts. Agriculture*

***COVERED CALLS**: Thanks to recent increases in volatility and higher interest rates, a deep-in-the-money “buy-write” strategy can make sense (best in retirement plans)*

Write calls only on businesses you’d be happy to own = a happy binary outcome

Understanding New Realities
How to Protect Yourself?

Specific Strategies--STOCKS

Examples of businesses that can grow with minimal fixed costs, have extraordinary pricing power, or even benefit from inflation

Examples of smaller US-centric companies

Examples of defense contractors, factory automation companies and “nimbyism”

Q&A

THANK YOU!

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