

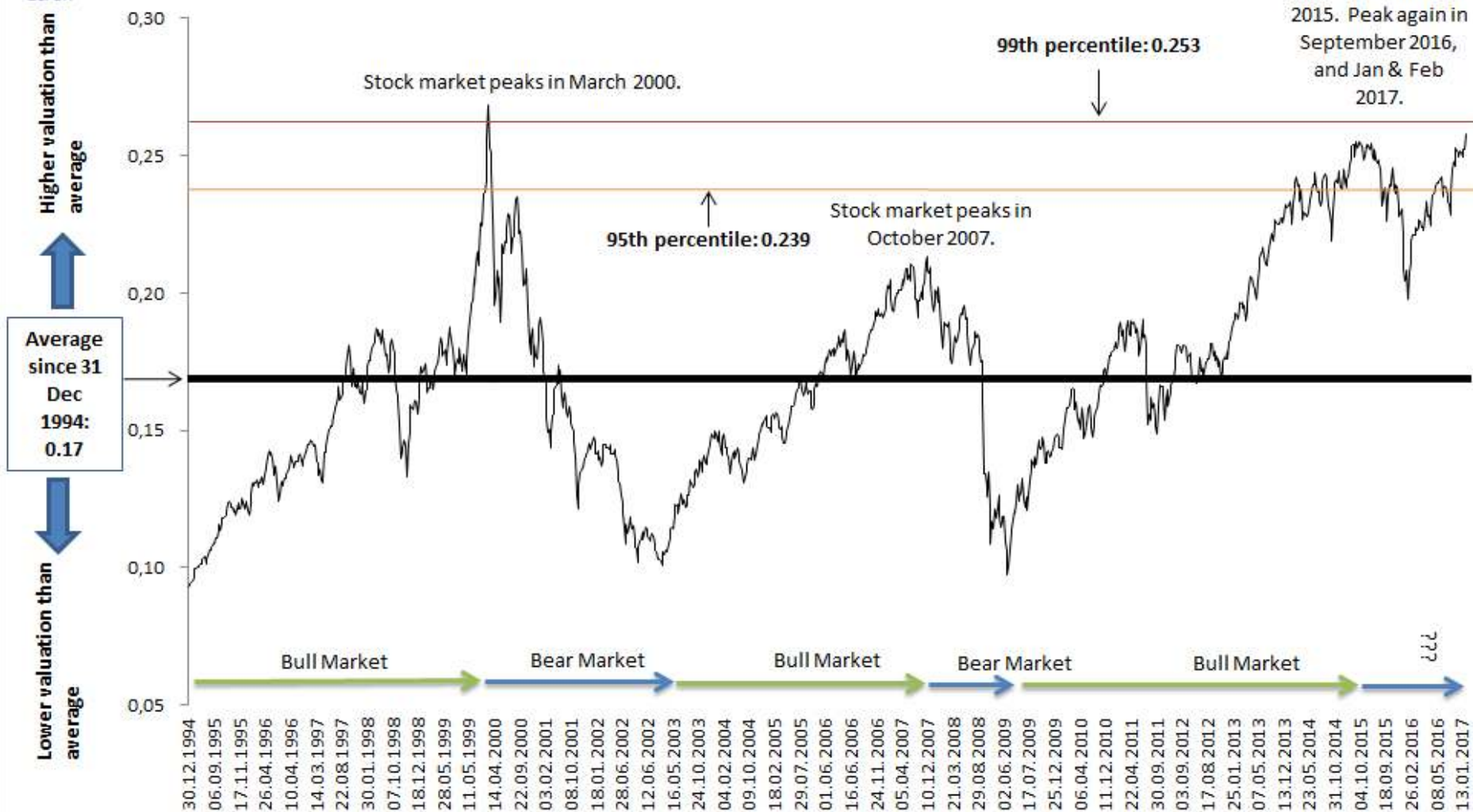
A Paradox of Riches

Economic Dynamism in an Age of Decline and Instability





U.S. Weekly Stock Market Valuation Indicator



The indicator is the ratio of the Wilshire 4500 Total Market Index to money supply and the ECRI leading economic indicator.

Source: EcPoFi, ECRI, Federal Reserve

- What goes up must come down
- But the American Stock Exchanges are 5x that of any other exchange in the world
- Growth and innovation in many sectors (not all) are exceptional
- The business environment is exceptional

Political and Social Instability





- Most corporations and even leading members of the Republican party—including President George W. Bush—have expressed concern about the direction of the country and its social fabric

- How to invest in a time of exuberance and folly?

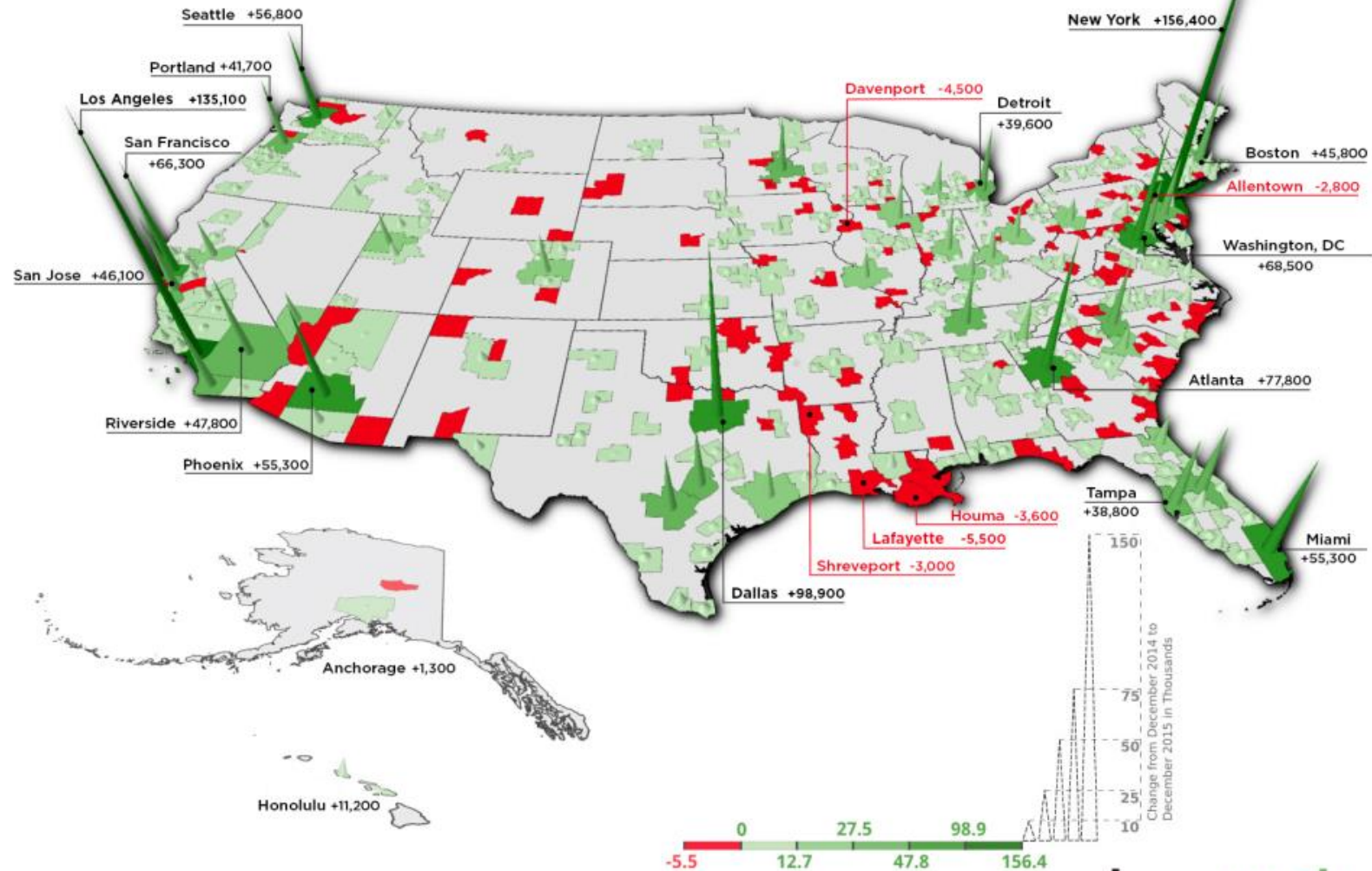
- CAREFULLY

- And like an accountant

- Things to consider:
- Tax cuts
- Corporate tax cuts
 - We have had growth without them and it is not sure they can be attained.
 - How does America work and not work? Where are the pitfalls?

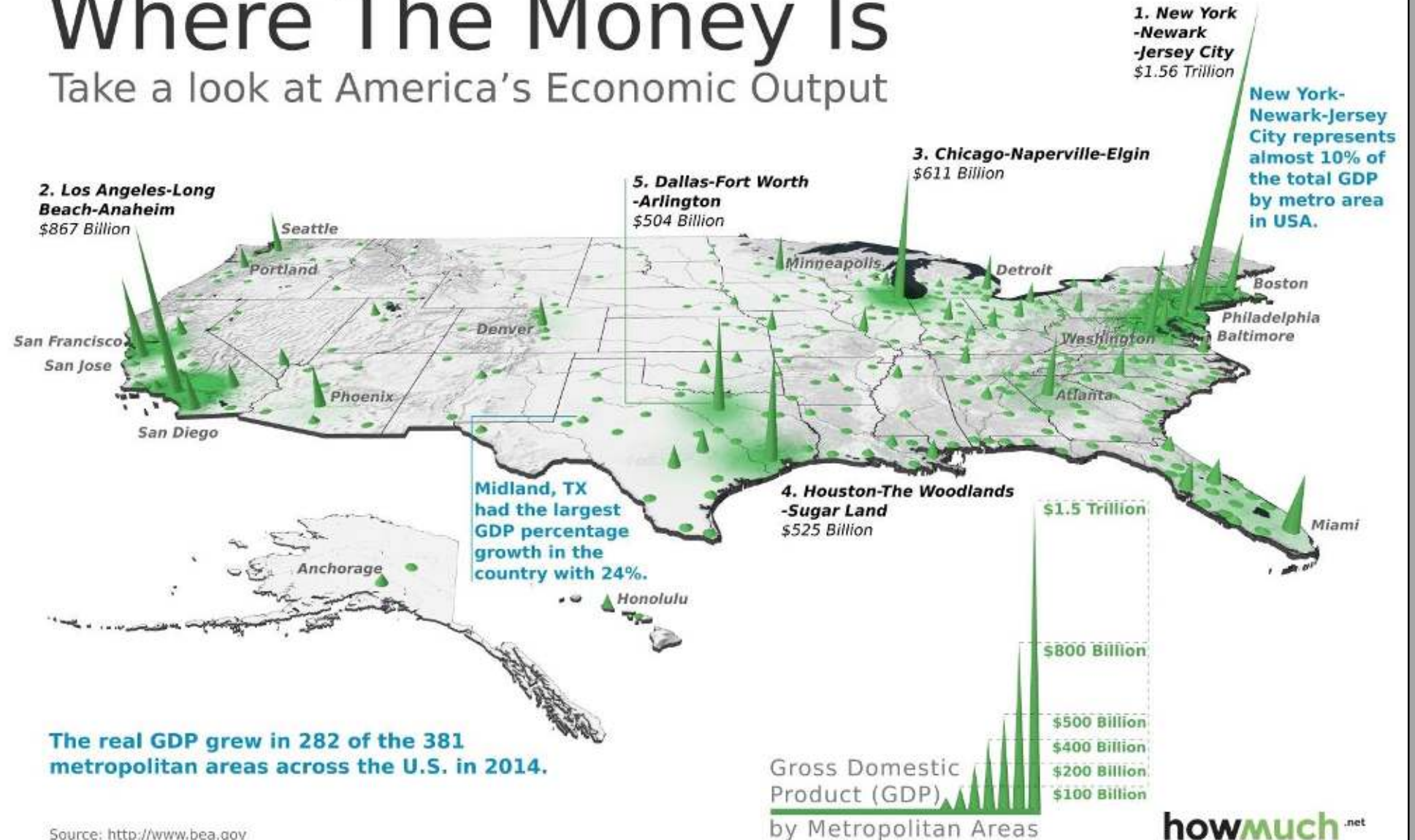
Job Growth in the U.S. (2015)

Take a Look Where the Jobs Were Created

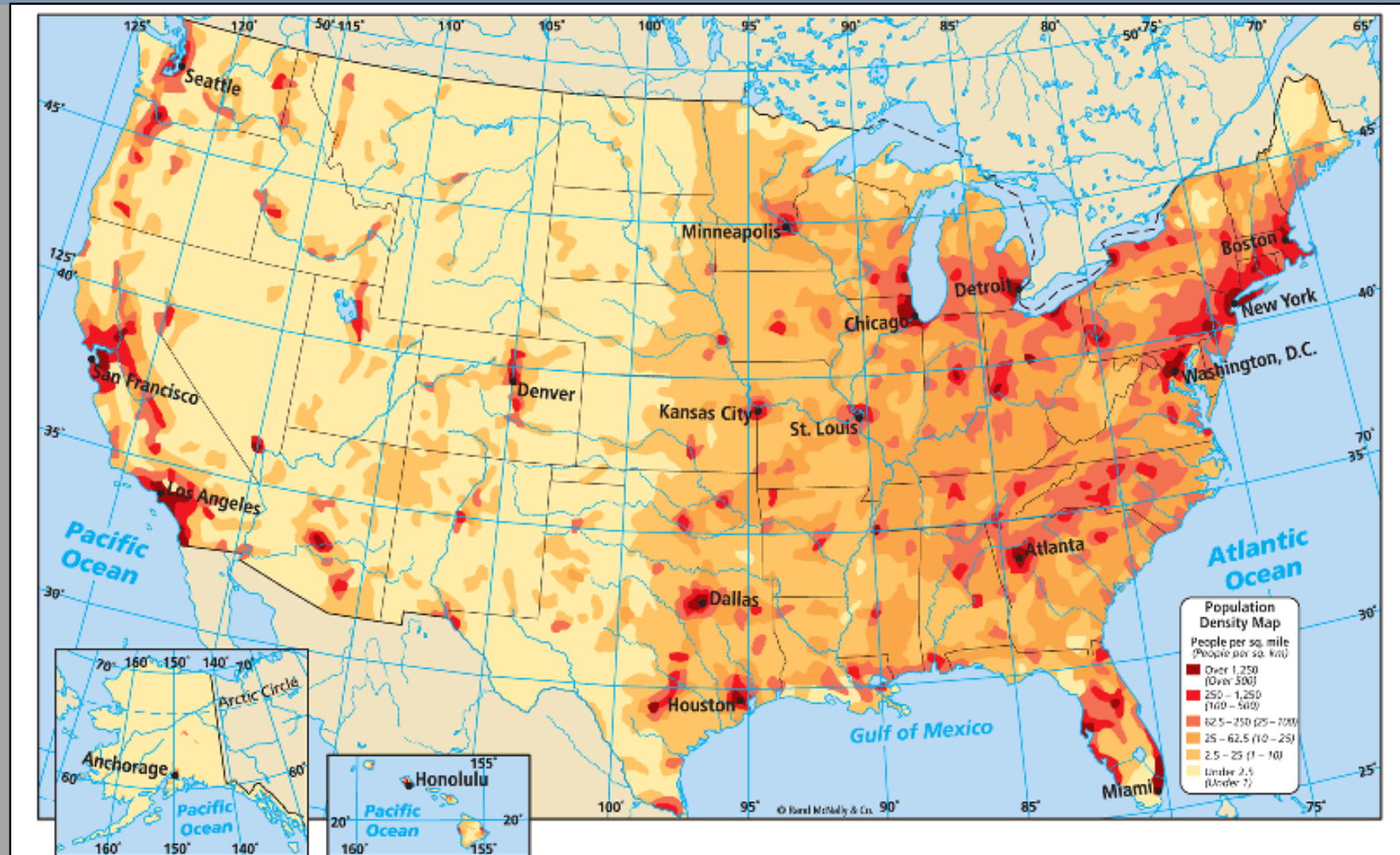


Where The Money Is

Take a look at America's Economic Output

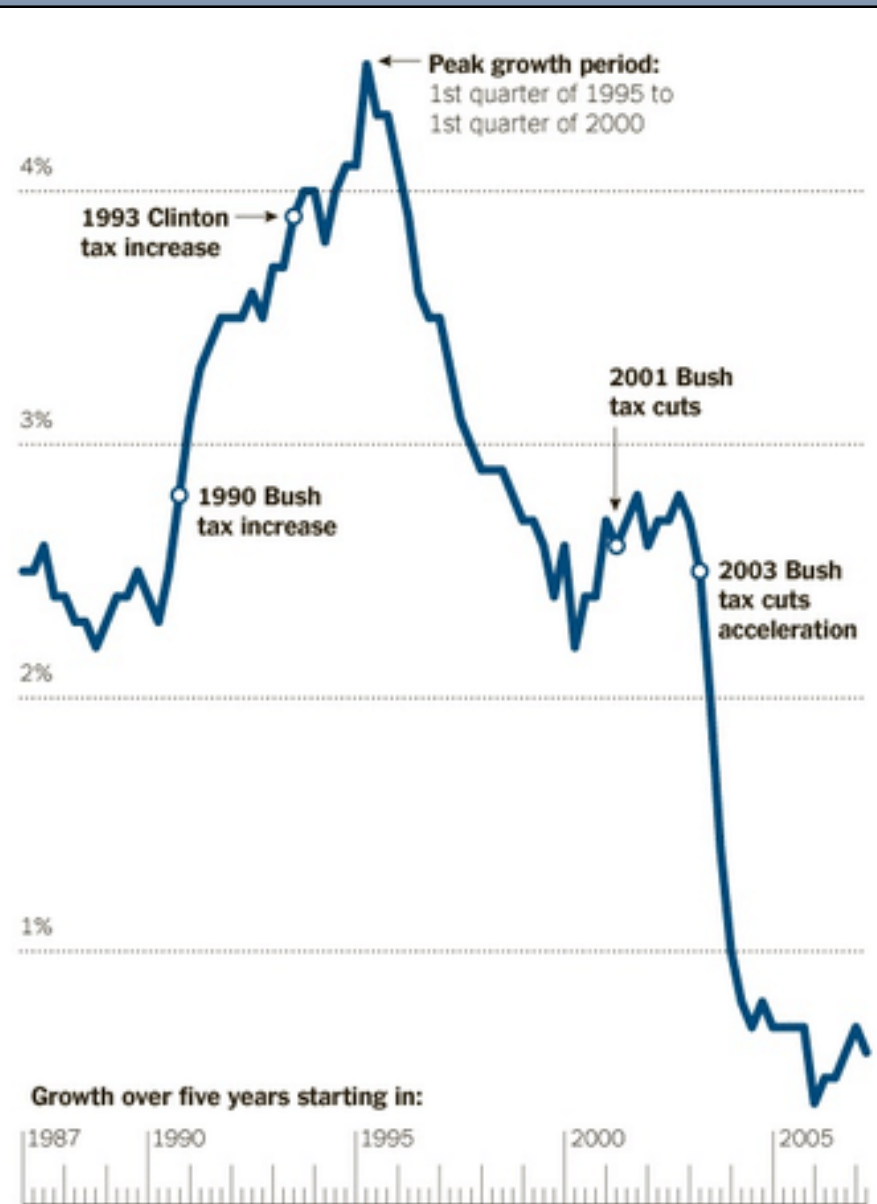


US Population Growth Trends... look familiar?



- How does one invest?
- With expertise and hundreds of analysts in each sector
 - Of course!!!

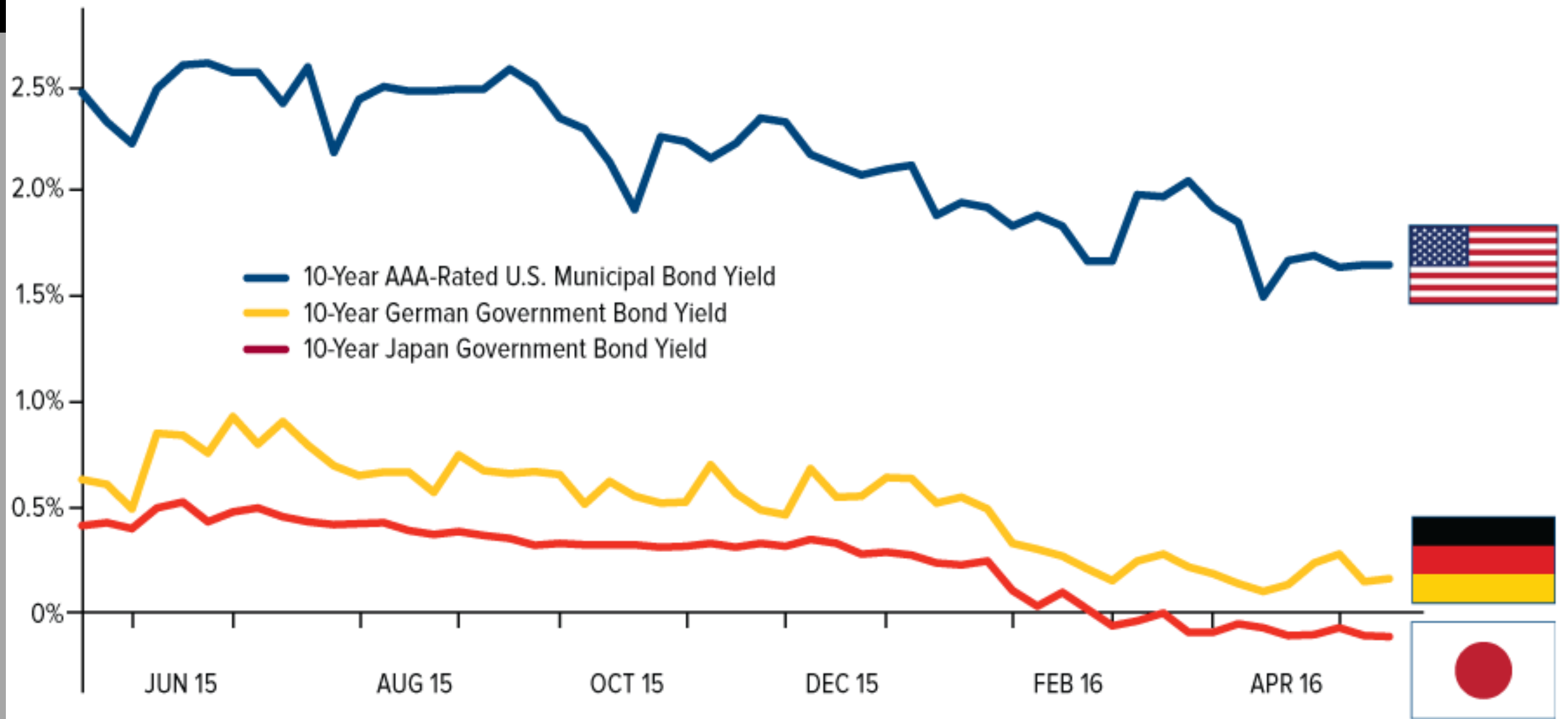
- What is not always obvious?



- This is where accounting and auditing come in
- We can see bubbles, investment, income and leverage disparities on top of other data

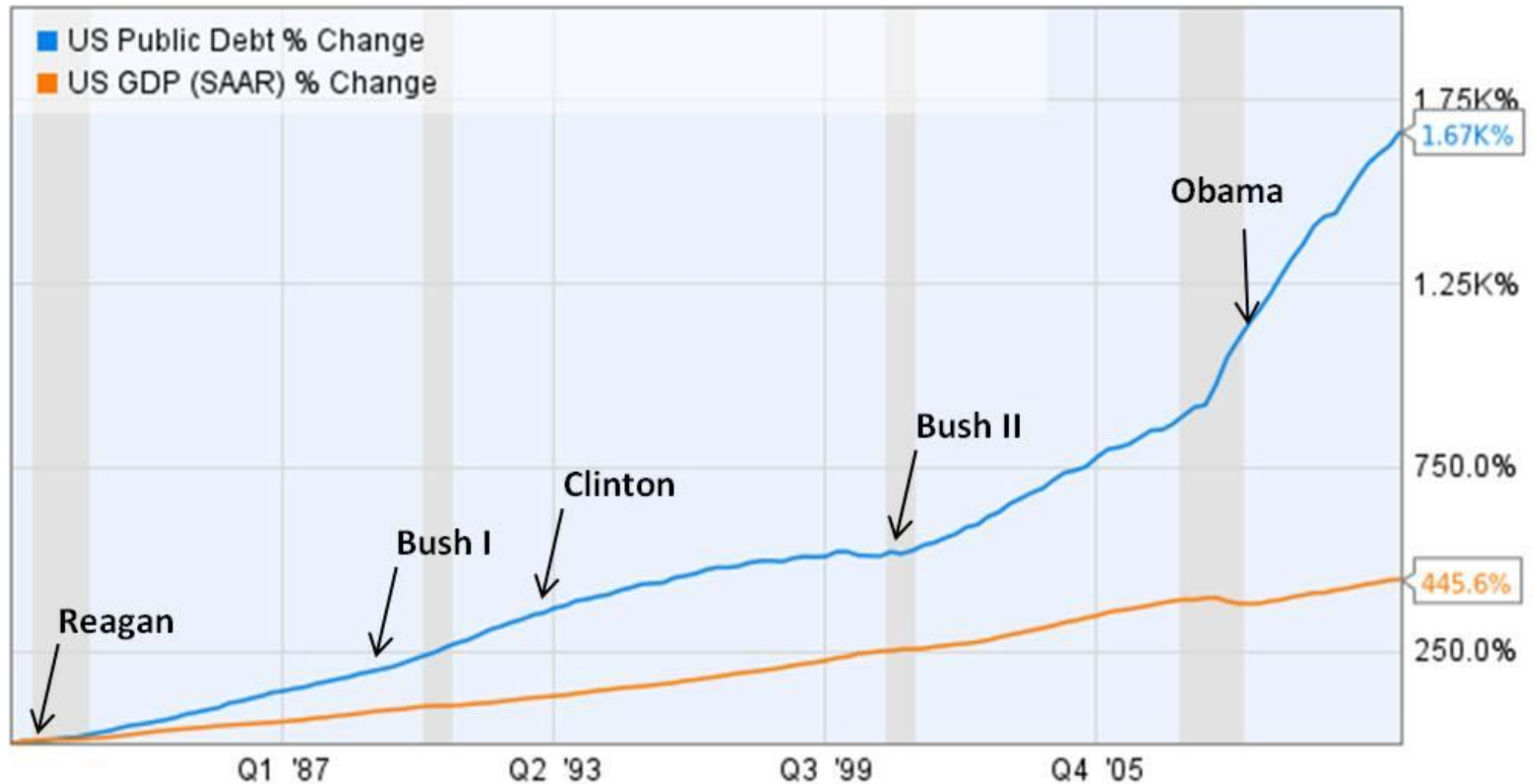
- Real investors do not do the obvious
 - So look for pitfalls

Low-Yielding Government Debt Pushing Foreign Investors into U.S. Muni Bonds



Source: Bloomberg, U.S. Global Investors

US DEBT TO GDP



Sources: Financial Management Service, BEA

Period: Oct 1, 1980 to Dec 31, 2012

Feb 25 2015, 4:49PM EST. Powered by **YCHARTS**

- Instability
- Inequality (geography)
- Debt
- Over-leveraging

Over leveraged? Look very closely

KKR

The Blackstone Group*

THE CARLYLE GROUP

Texas Pacific Group

BainCapital

CVC
Capital Partners

WARBURG
PINCUS

Apax
PARTNERS

TerraFIRMA
CAPITAL PARTNERS

Advent International
GLOBAL PRIVATE EQUITY

Permira

KP
CB
Kleiner
Perkins
Caufield
& Byers

candover

MACQUARIE

intel

Goldman
Sachs

3i
The world is yours

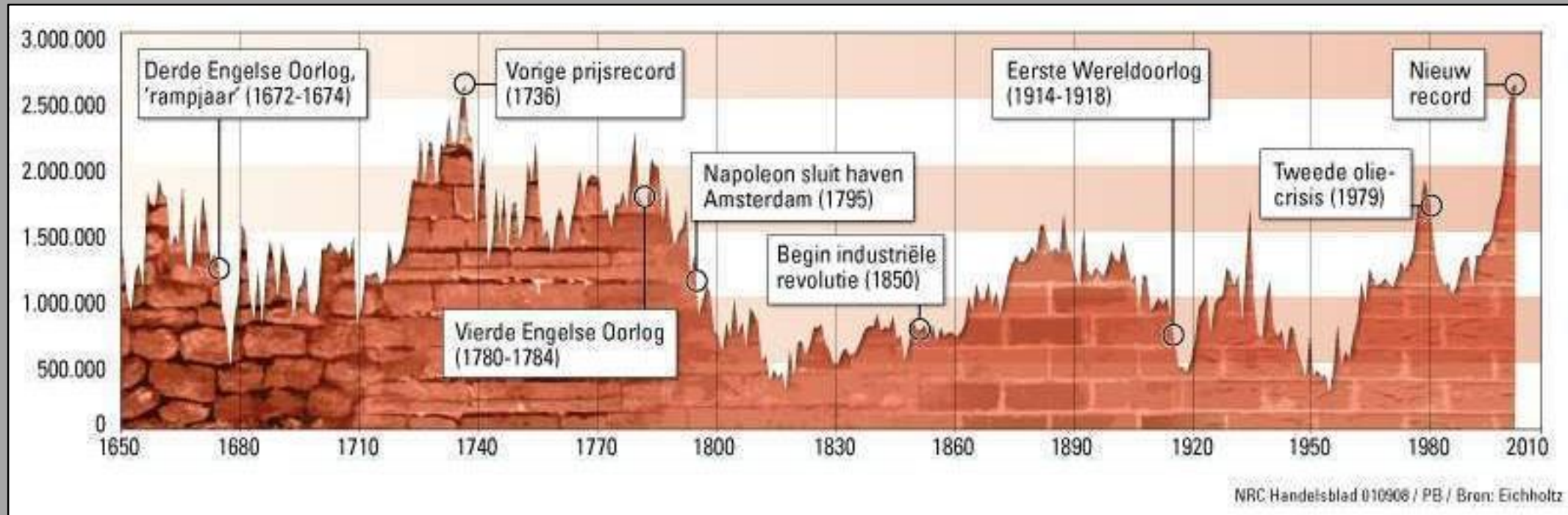
JPMorgan

TEACHERS' PENSION PLAN

CERBERUS
CAPITAL MANAGEMENT, L.P.



Real Estate: Dutch History Helps again



Amsterdam: Herengracht

The long view

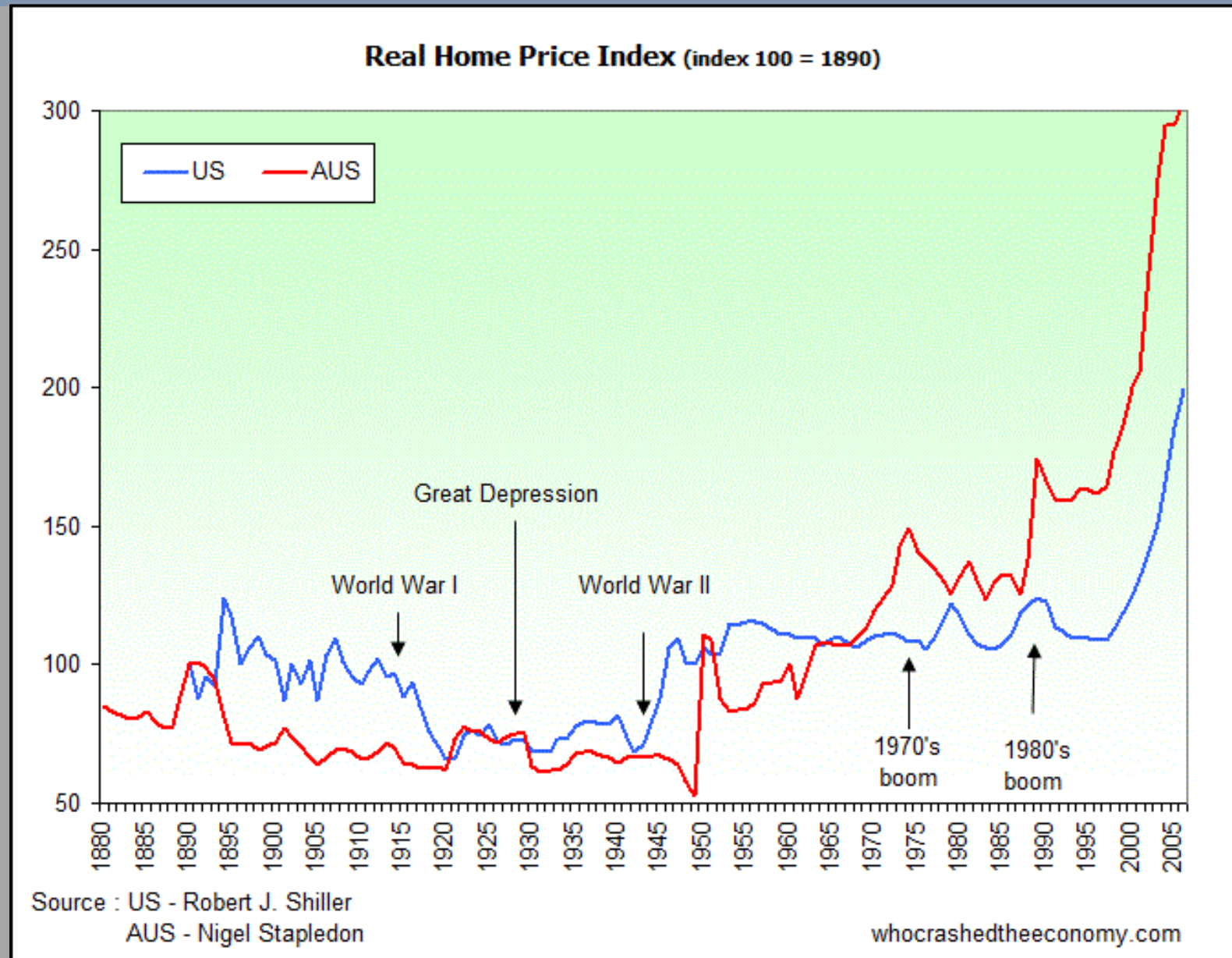
Between 1628 and 2008 house prices in the Herengracht neighborhood rose and fell, but on average the real price doubled.

(1628 = 100)

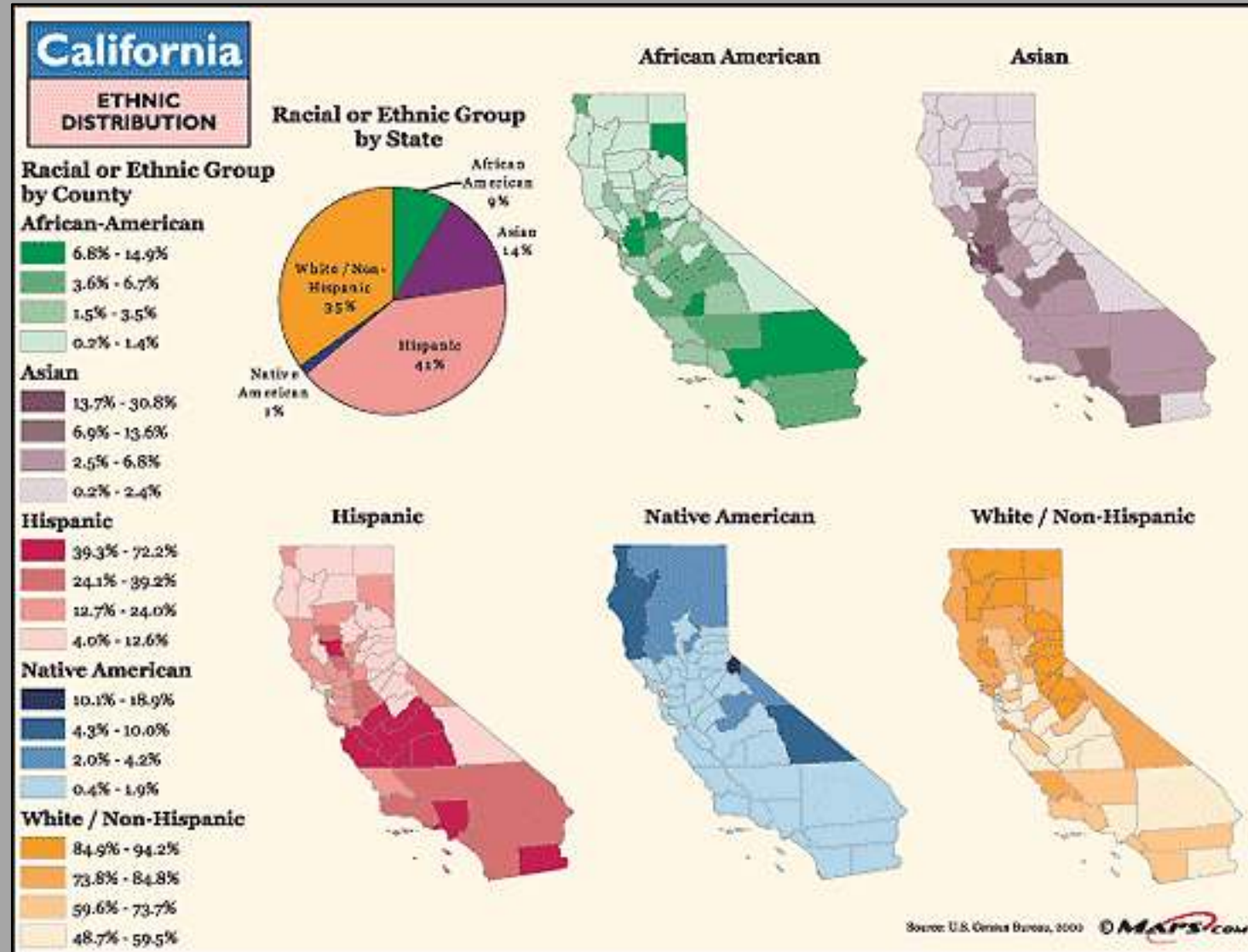


Source: Eicholtz, Piet M.A., 1997, "The Long Run House Price Index: The Herengracht Index, 1628-1973," *Real Estate Economics*, updated to 2008 by Eicholtz.

The US: A short history

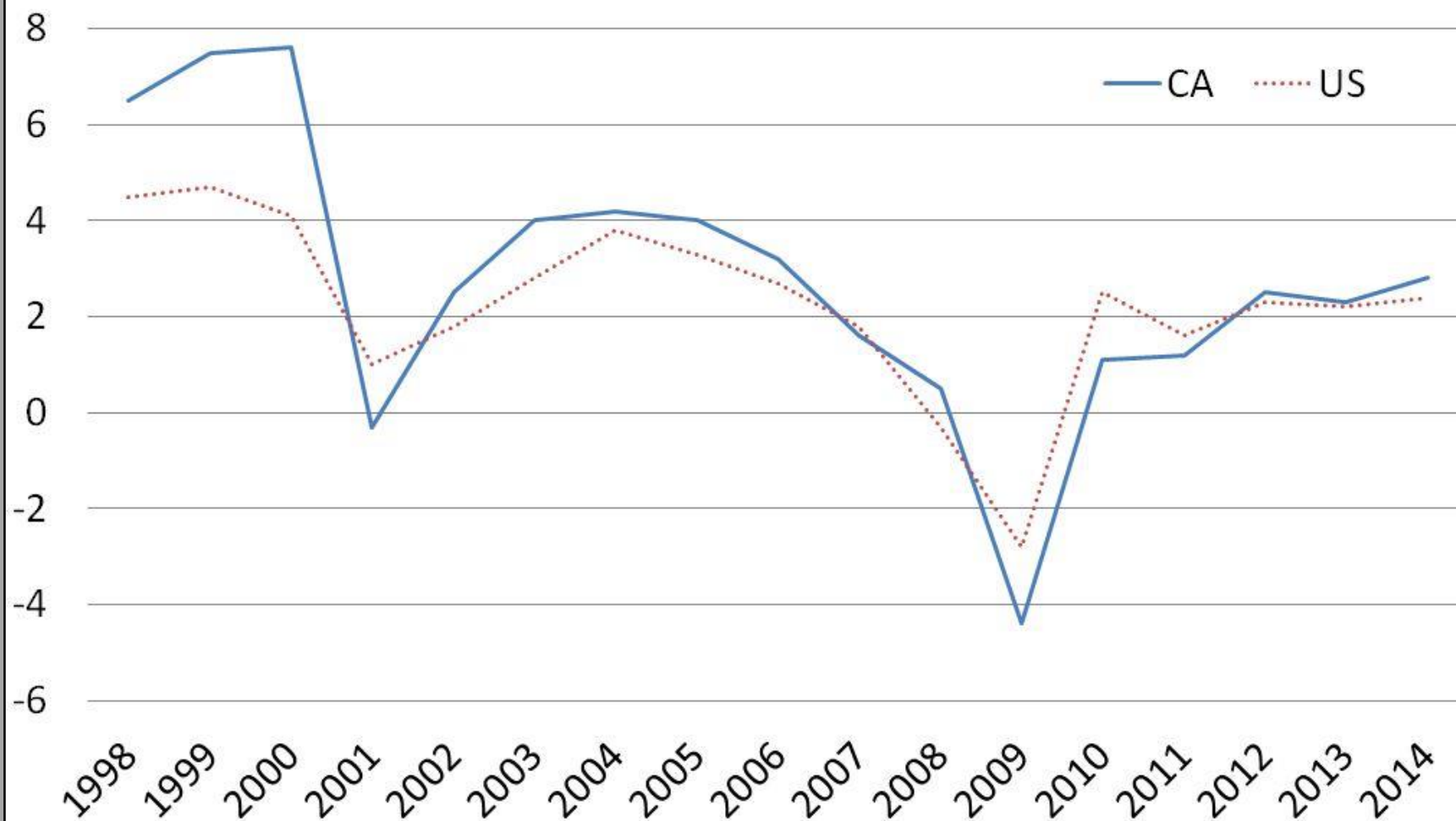


Look to the Future



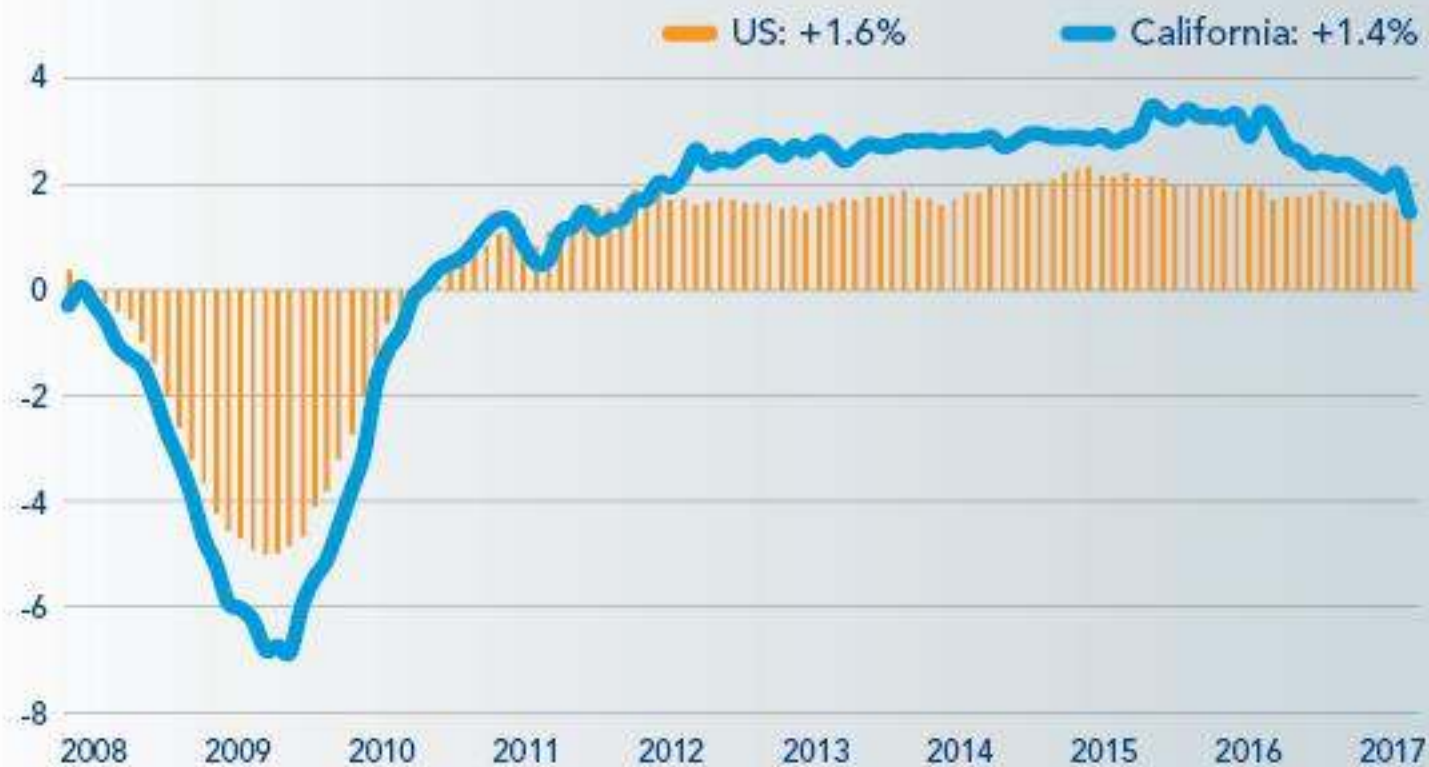
Real GDP Growth by Year: California vs. the U.S

(Percentage growth by year)



California Adding Jobs Faster than United States

Year-to-year percent change in nonfarm jobs, seasonally adjusted



Source: Beacon Economics

BLOOMBERG

- **U.S. ECONOMY**
- **California Leads U.S. Economy, Away From Trump**
- Whatever the president says, this state does the opposite. It's working.

- How to invest in the US right now?
 - Balance sheet analysis
 - And FAR BEYOND
- CARE, EXPERTISE, ON THE GROUND CULTURAL KNOWLEDGE
- And hire 200 top analysts and still go over the numbers yourself

- Do political and social stability matter?
- Does management culture (and leveraging) matter?
 - Do accounting standards matter?
 - Tread carefully

Basic Books,
April, 2014

THE RECKONING

FINANCIAL ACCOUNTABILITY
and the RISE and FALL of NATIONS



JACOB SOLL