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Facing the Future with Optimism and Courage
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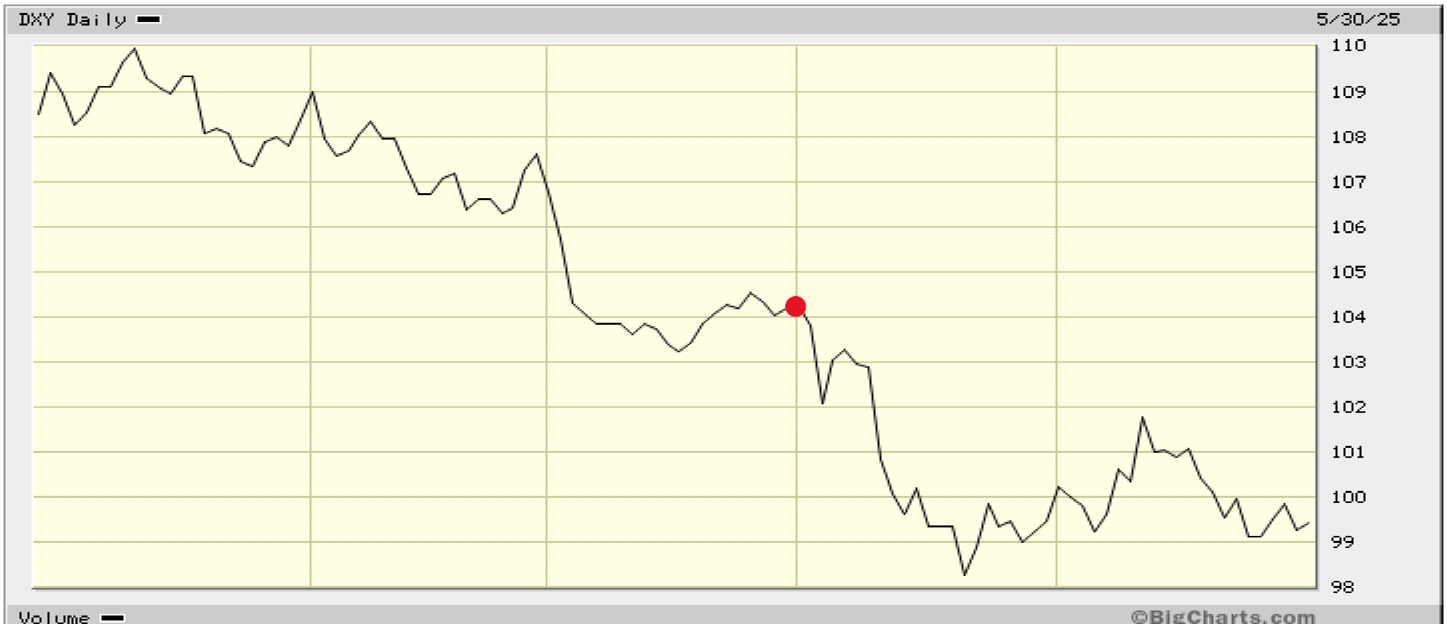
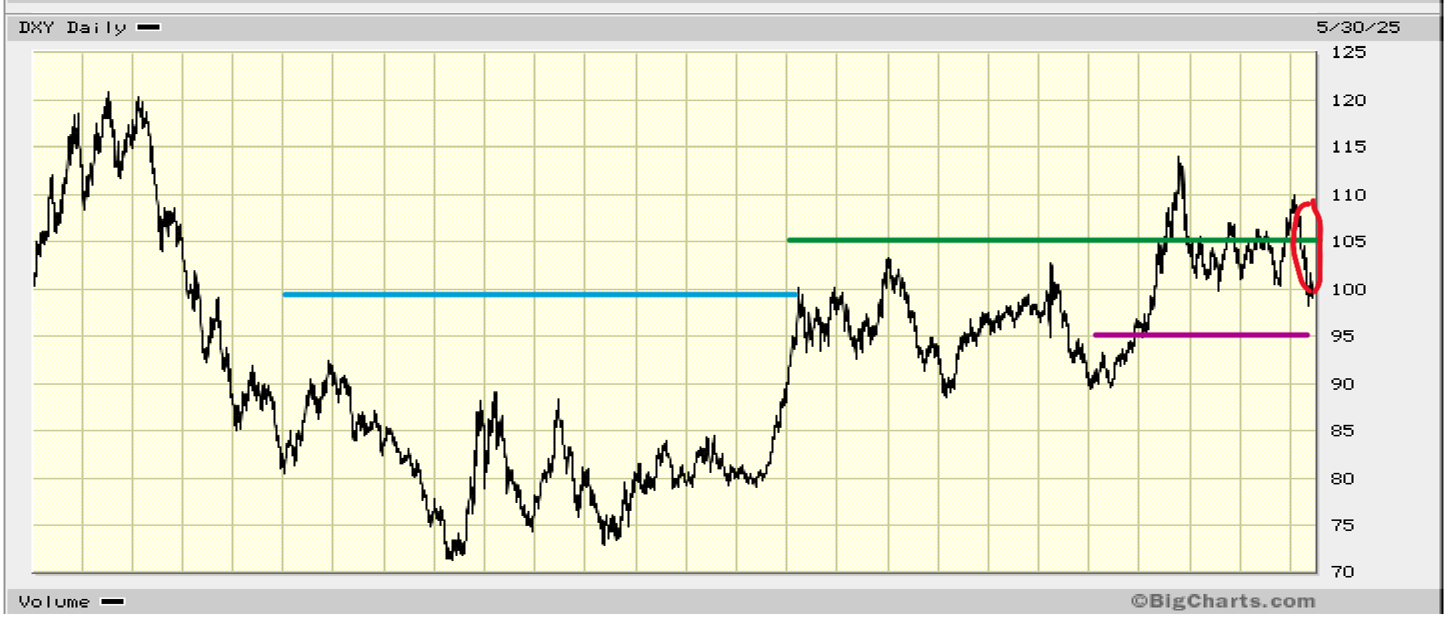
Charts Don't Lie But….

But liars draw charts. The US Dollar Index (DXY) measures the dollar against a basket of other currencies. Perhaps you saw a chart similar to this one detailing the scary decline in the Dollar Index since the beginning of this year, and especially after the April 2 "Liberation Day" tariff announcement (red dot). Much handwringing and end-of-the-dollar rhetoric followed. Gold bugs and Crypto loonies were jubilant. But keen observers may have noticed that the bottom of the vertical scale isn't zero. It's 98.

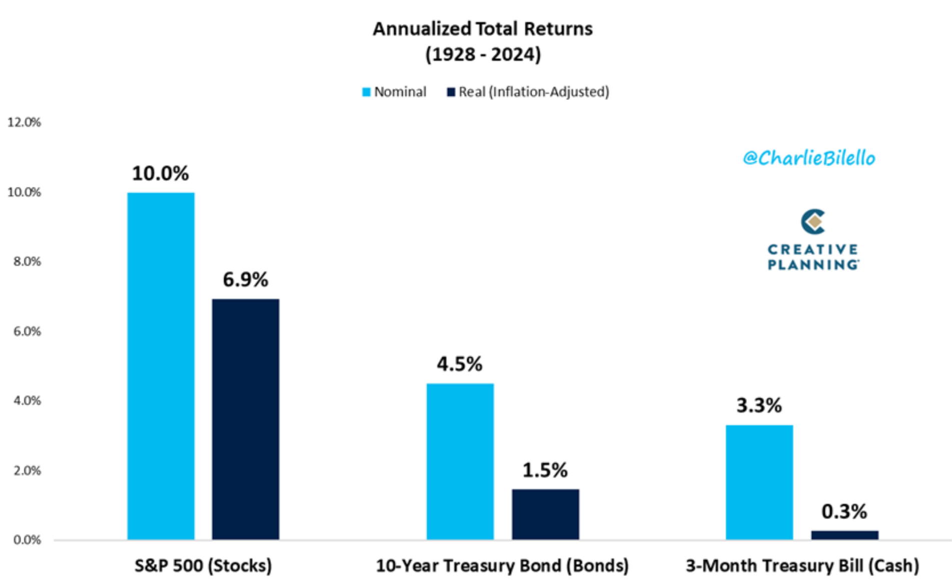




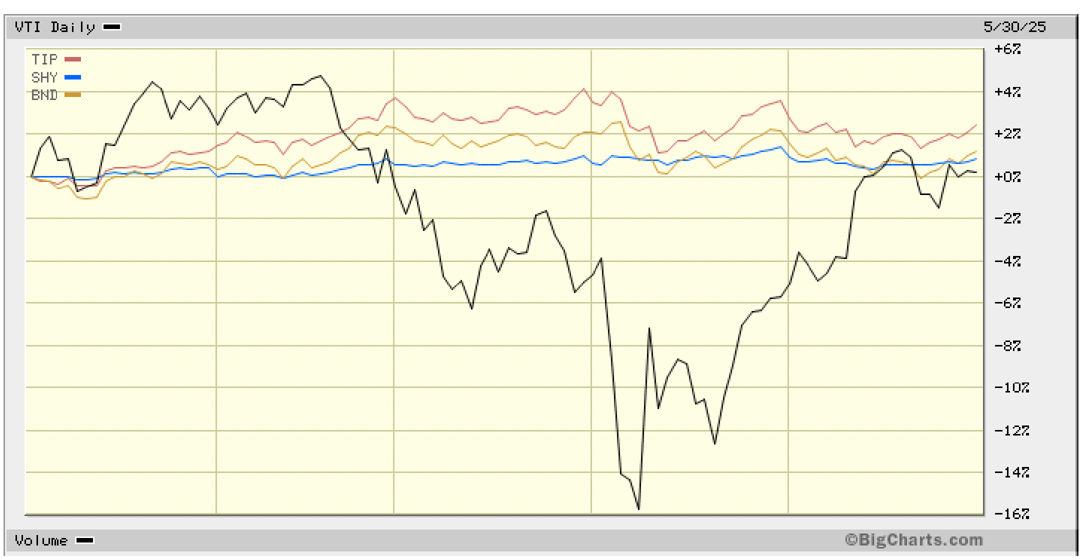
This is a chart of DXY since 2000. Contrary to widespread belief, the U.S. dollar has been strengthening— not weakening— over the past five years (purple line). This year's return is circled in red. The dollar is about 5% -10% higher than its levels of the last decade (green line), and at a much higher level than in the decade before that (blue line). You would think that people predicting a dollar crash would look at a complete chart before bloviating. But then again, a more complete chart nullifies their argument. Sharp changes in DXY, such as we have seen this year, are common. Although the index has retreated from its recent high of 110 in January, its June 1 value of 99.4 is higher than what it has been for most of the past two decades. Economist Brian Wesbury of First Trust Advisors notes –

"There is a common belief that China's yuan could potentially replace the U.S. dollar as a new reserve currency, or that the BRICS nations (Brazil, Russia, India, China, South Africa) might create a common currency for trade that could challenge the dollar's dominance. However, you cannot replace a stronger currency with a weaker one. It just doesn't work. Looking at the countries who are seeing the largest outflows of high net-worth individuals in 2024, China led the list, with a projected net outflow of 15,200 people, followed by the UK, then India. Interestingly, among the top ten countries experiencing the largest outflows of wealthy individuals, half are the BRICS nations. In contrast, the United States has seen the second largest projected increase (+3,800) in high net-worth individuals. Can a country that can't keep its most productive citizens gain the confidence of other nations to adopt its currency? We think not. The current economic and geopolitical realities suggest that the U.S. dollar's dominance remains robust."

Why You Should Own Stocks and Bonds



Risk and expected return are inseparable. You must accept more uncertainty and potential loss if you want higher returns. Newsflash - there is no low-risk investment that yields high returns. Since 1928, after accounting for inflation, large-cap domestic stocks have provided an annualized 5.4% return premium over 10-Year Treasuries and a 6.6% return premium over cash. This is known as the "equity premium" and it was accompanied by higher volatility and greater drawdowns. U.S. Treasury securities are considered risk free investments, hence their low inflation adjusted yield. The function of bonds in a portfolio is to preserve capital, not to create capital gain -- to mitigate the volatility generated by the portfolio's stock allocation. High quality bonds, which I define as Treasury securities and investment grade corporate and municipal bonds, can be thought of as "panic insurance" -- they moderate a portfolio's losses when the stock market spumoni hits the fan. Hopefully, by limiting portfolio declines, investors will be less likely to make emotional, stock selling decisions that will be detrimental in the long run. To summarize, you own stocks for inflation beating capital gains and bonds for portfolio stability. Here's a chart with the most recent example.



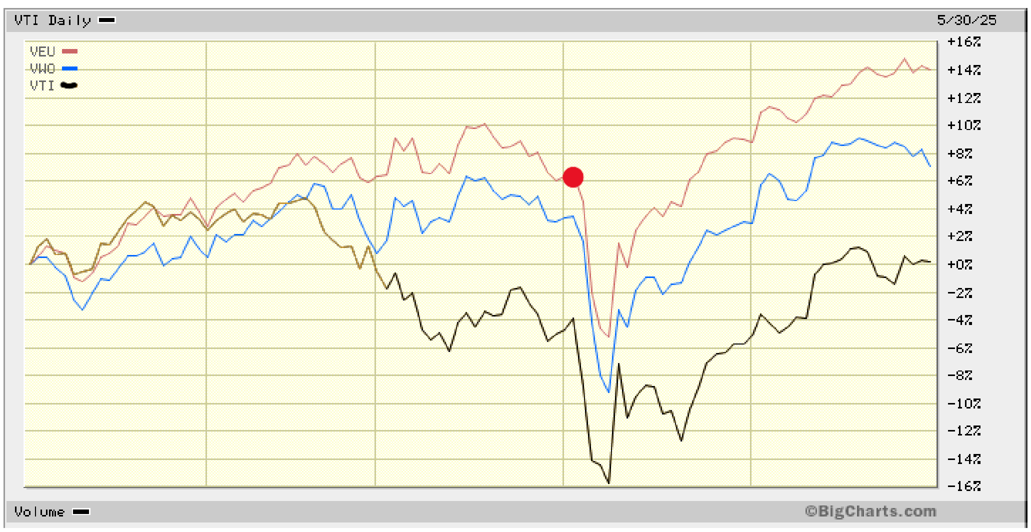
The black line in this chart shows the year-to-date performance of VTI - the Vanguard Total Stock Market Index ETF compared to three popular bond index ETFs. TIP – the iShares Treasury Inflation Protected Bond ETF, SHY – the iShares 1-3 Year Treasury Bond ETF and BND - the Vanguard Total Bond Market ETF. Although VTI experienced a 16% drawdown, the bond funds performed as hoped, moderating portfolio value when stocks declined.

In The News

I have often said that 80% of the people who give financial advice for a living are giving the rest of us a bad name. Just when I think I'm being too critical, evidence crosses my desk that I'm being too kind. The Securities and Exchange Commission alleges that three Texas men ran a Ponzi scheme that raised at least $91 million from more than 200 investors. The accused carried out the scheme from May 2021 to February 2024. According to the SEC, potential ~~marks~~ investors were promised 12 guaranteed monthly payments of between 3% and 6%, and their principal would be returned after 14 months. Investors were told that the gains came from VHG, a highly profitable international bond trading business with billions in assets that generated returns from bond trading and related activities. In reality, VHG had no source of revenue, and the monthly "returns" were actually Ponzi payments. The accused diverted millions of investor funds for personal use, including the purchase of a $5 million home. Hey, a guaranteed return of between 3% and 6% per month. High return and no risk! What could go wrong?

Then we have the story of Terrence Chalk aka "Dr. Cash" who was sentenced to three years in prison for orchestrating an affinity fraud. Targeting elderly investors, he held wealth seminars at churches where he proclaimed to be a "man of faith" looking to help fellow Christians. He touted himself as "the nation's number one business, money and wealth coach," offering money management and coaching sessions where he would share "the hidden secrets of the wealthy." Note – there are no "hidden secrets of the wealthy". Anyone claiming to have insight into these "secrets" is a liar, and likely a crook. He convinced his ~~marks~~ investors to invest in the Chairman's Fund, which promised quarterly cash payments and high returns. Chalk used an alias to conceal the fact that he had been convicted of fraud in 2006 and served six years in prison. At first, investors in the Chairman's Fund received quarterly payments as scheduled and, not surprisingly, some recommended the fund to family and friends. However, by the end of 2019 most had stopped getting payments. It was later discovered that none of the $4.8 million that Chalk raised from about 26 investors was invested. Instead, he used the funds to pay other entities that he controlled and pay off earlier investors. He also spent about $1.7 million on personal credit card bills, $17,000 on NBA season tickets and $74,000 on a BMW. Every man of God needs a nice ride.

Finally, there is the story of Matthew Piercey, a self-proclaimed financial advisor (he was not registered with the SEC or any state regulatory body) who used an underwater scooter to submerge himself in Lake Shasta for 25 minutes while attempting to flee FBI agents and California Highway Patrol officers after he pled guilty to running a $35 million Ponzi scheme. After resurfacing, he was arrested. Fortunately for him, he was given dry clothes to change into by FBI agents.



This chart compares the year-to-date return of the Vanguard Total Stock Market Index Fund (VTI) to the Vanguard FTSE All-World ex-US ETF (VEU) and the Vanguard FTSE Emerging Markets ETF (VWO). For most of the past two decades, international stocks trailed US indexes as the dollar strengthened, and the large-cap domestic tech stocks made huge gains. That was then, this is now. In 2025, VEU has outperformed VTI by 13.8% and VWO has outperformed VTI by 7.6% as of June 1, according to Morningstar.

It is worth noting that the rapid collapse in stock prices after the "Liberation Day" (red dot) announcement was fully erased in domestic stocks in about six weeks while international stocks recovered in about four weeks. Once again, relentless negative commentary from the financial media harmed countless investors who panicked, sold stocks and missed the recovery. Current events are the third rail of long-term investing - if you touch them you die.

As a firm proponent of international equity diversification, my favorite part of this year's stock market activity has been the performance of international stocks. For some investors, the outperformance might seem unusual but from 1971 through 1990, developed international markets outperformed the S&P 500 by an average of 4.2% annually, according to T. Rowe Price. International equity diversification is one way to manage the risks associated with a falling dollar.

International funds that hold stocks denominated in foreign currencies will experience fund share price increases when the dollar falls, helping to preserve purchasing power and protect long-term capital. For the past few years, many investors have questioned the necessity of owning anything other than the Nasdaq and large growth stocks. The current market situation provides the perfect example of why we diversify.

I just came across a report that noted that in 2000 there were 7 million American families with a net worth in excess of $1 million and that the number of American millionaire families increased to 22 million last year. Well, that sounds pretty impressive until you realize that, due to inflation, it takes more than $1.86 million today to buy what $1 million bought in 2000. Why didn't the authors of the report make this simple inflation adjustment and note the number of families in America in 2024 with a net worth in excess of $1.8 million? Without this adjustment the report is meaningless, it tells us nothing.

How to respond to the latest "end of the world" crisis courtesy of David Bahnsen of The Bahnsen Group -

(1) We can't predict the end of the world.

(2) We wouldn't know what to do even if we knew the world was ending.

(3) Anything one could do to prepare for the end of the world would be disastrous if the world didn't end up ending.

(4) And you may have noticed, the world usually doesn't end.

He concludes -

"In 25 years of professionally investing…I have yet to come across a perma-bear investing strategy that didn't annihilate those who were afraid of being annihilated. Now I know, I know, "this time is different" (or "the next time might be") – but the four points above, understood in order and holistically, ought to serve as a guiding light in those moments of vulnerability."