

Lumbar
& Kellner

INSIGHT

S&P 500 5,625 * Dow Jones Industrials 40,935 * 30 year U.S. Treasury Bond 4.82%



“Correction”. It sounds so innocuous, like “Mom, I only had one correction on my essay”, or “The tall ship corrected course. Its sails filled, and it crossed the finish line in triumph. “

A correction in the stock market feels more like a ... *Correctional Institution*.

This one was caused solely by Donald Trump; insulting allies, seizing Greenland and Canada, and threatening 50,000% tariffs on anything made outside our borders (weirdly including our 51st and largest state, Canada, which just beat us in hockey). And tariffs on snooty foreign films! All federal workers, especially the smart ones, have been fired with prejudice. Everything other than “entitlements” has been downsized or eliminated.

Sorry to snipe, but “entitlements” and “mandatory” spending are by far the biggest part of our

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government’s spending, and they’re growing like wildfire. The primary purpose of our government is to give money to Americans—many of whom will quickly point out that they’re just getting back money they put in over the years. Sadly, the funds taken from your paycheck in 2010, 2015, and 2020 were spent in 2010, 2015, and 2020. The “vault” you’ve heard about contains nothing but a dwindling stack of IOUs from the politicians who were praised for giving money to voters.

These programs push up our debt, and encourage Americans to *consume*. As do our tax policies and our regulations, most of which punish producers and punish employers; harming employment but otherwise leaving consumers and voters untouched. *Unlike Europe we don’t have a value-added tax*. And our constant borrowing pushes up the value of the dollar, favoring our consumers and imports but disfavoring employers who hope to export. We don’t produce, we consume. Consumption is 68% of our GDP. In China it’s less than half.

Every few years you hear complaints from Greece and

Portugal that Germany’s economy is structured to favor exports and production rather than consumption. Germany can’t consume all that it produces; it *needs* other nations to buy its output. Back in the old days the resulting lopsided trade was held in check by the frequent rise of the German mark against the Greek drachma and the Portuguese escudo; but since 2002 they’ve all been frozen in the euro.

We’re now in the position of Greece and Portugal. Our manufacturers long ago went bankrupt or shifted their production to the Far East. This has been very bad for the working class, because those industrial jobs were the “good paying” jobs, and they were still disappearing in the years after 2008. Inflation-adjusted wages declined, and the debt soared ever higher.

Our dollar is always high, so foreign goods are inexpensive. Free trade and “offshoring” brought wealth to the American consumers who still had good jobs. The disenfranchised? Every

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down-on-its-luck neighborhood got its own Dollar store.

This also has national defense implications. We no longer have the ability to crank out ships, airplanes, and tanks the way we did in World War II. Back then the war effort took over the entire economy; stateside workers ate potatoes and beans while churning out **96,000 aircraft in 1944 alone**. Today, it's China that's engaged in a massive military buildup.

We need to rebalance our economy, but nobody can touch entitlement spending. It's "the third rail of politics". We can raise taxes on the rich, but it's not a magic wand; the years in which the U.S. had its highest tax rates were *not* the years in which it collected the most revenue.

So ... tariffs?? They're a little like a value-added tax. A VAT that you don't have to pay on goods made in America (such as food, housing, fuel, and automobiles).

Will foreign countries, desperate to keep the privilege of selling to voracious American consumers, be willing to go along? And has the stock market already fallen enough?

MEANWHILE, the Other Big Thing is the incredible technological leap that is taking place, as artificial intelligence is applied to biotechnology, manufacturing, medicine, materials, and everything else. And robotics! **You**—yes **you**—will own a smart, helpful,

and empathetic robot in a few years. AI is already in nearly every industry, mostly in a tentative, exploratory form. This and many other technologies will lead to a big jump in productivity.

That's going to make everybody richer, healthier, and more popular.

No taxes on Social Security, tips or overtime? **Really?**

Employers will maneuver to give employees more overtime and more tip income, so that they won't have to pay any tax at all. And Social Security is going to run out of money in 2035. It was already the largest program in the budget when recipients got a 5.9% increase in 2022 and then an 8.7% increase 2023.

Another SPECTACULAR! Technological Achievement!

"I am the 3rd person in the world to receive the @Neuralink brain implant.
1st with ALS. 1st Nonverbal.

I am typing this with my brain. It is my primary communication. Ask me anything! I will answer at least all verified users.

— Bradford G. Smith (Brad), @ALScyborg, on X

BABY BUMP

A year ago we passed along a Barron's comment about Nvidia's chips. They had become so expensive that Nvidia's four biggest customers were all developing competing or complementary chips of their own. Then in November Amazon (AMZN - \$186) announced that its Trainium chips, *not* Nvidia chips, would be used to train and deploy the largest foundation models of Anthropic, hosted by Amazon Web Services.

Lately Anthropic has been saying that the export of Nvidia chips should be carefully monitored and controlled. Nvidia was *not* happy:

"Nvidia says Anthropic is claiming that chip smuggling into China can take the form of people using prosthetic baby bumps, and packaging GPUs alongside live lobsters... In a comment to CNBC, Nvidia said that's not what's happening. They said it's tall tales, and that the idea of moving sensitive chips inside containers with live lobsters doesn't really make sense."

— Dan Howley, tech editor at Yahoo!

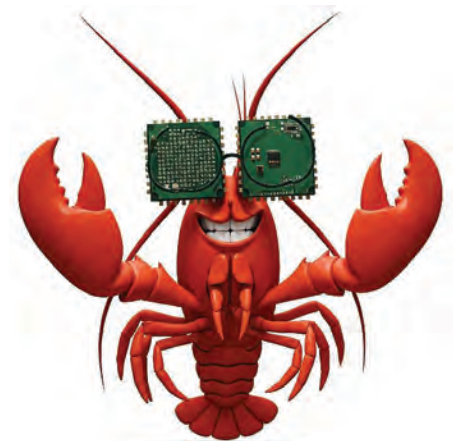




Photo: Thermofin Industries

Chat GPT, Gemini, Claude, Llama, Grok ... There are now *forty* American Large Language Models (“AIs”) competing for eyeballs; and more overseas. There’s too much competition to charge high prices, but there are *lots* of customers. **Cheap AI** means that there will be **more AI used**, by people sitting at desks and by machines that will do useful but unnoticed things, out of sight and out of mind.

“More AI used” means that we’ll still need to build lots of data centers, which need lots of electric power. Some manufacturers have already been told that they’ll have to wait 2-3 years to get electric power to factories they have under construction. And there are other demands; home furnaces are being replaced by heat pumps and mini-splits. Hot water heaters are being replaced by heat-pump water heaters. We need more high-voltage electric lines.

In a socialist economy, in which government owns the means of production, these shortages would continue, disastrously. ***In this country it’s an investment opportunity!*** A year ago we were already positioned in companies that would benefit from this increased

demand; heat pump, cloud, and networking companies, as well as a fuel cell company and one that makes high voltage wires.

After seeing a decline in Amazon (AMZN - \$186), a seemingly unstoppable juggernaut whose stock has always been expensive, we took a position in the shares. Then we purchased shares of Primoris, (PRIM - \$66), a firm that strings high-voltage lines and builds data centers; Enersys (ENS - \$90), a manufacturer that’s opening a big lithium-battery plant in South Carolina; and Jabil (JBL - \$150), which designs and manufactures electronic circuit boards and should derive significant benefit from re-shoring. ■

“Efficiency is not the enemy, but the ally, of compassion.”

— *Prime Minister Margaret Thatcher*

Politicians are usually eager to increase funding because it helps buy them votes. They’re *not* eager to streamline wasteful bureaucracies that are less compassionate and less effective than they should be.



Drew D. Kellner, CFA

COMING HOME

Dozens of companies have announced plans to invest in production in the United States, and the announcements are still coming in. Here are a few, claiming that they’ll spend almost ***\$1.5 trillion dollars*** on factories, data centers, or R&D facilities:

- Abbott \$500 million
- Apple \$500 billion
- Chobani \$1.2 billion
- Eli Lilly \$50 billion
- GE Aerospace \$1 billion
- Hyundai \$21 billion
- IBM \$150 billion
- J&J \$55 billion
- Nvidia \$500 billion
- Regeneron \$7 billion
- Roche \$50 billion
- TSMC \$165 billion
- Stargate (Oracle, Softbank, and Open AI) \$100 billion; \$500 billion teased as a future figure.



“Goodbye, Red 40, Yellow 5, Yellow 6, Blue 1, Blue 2, and Green 3. Goodbye, neon breakfast cereals and radiant Skittles. Hello, breakfast cereal that’s just one shade of dark brown (that’s the fiber!).”

“[FDA chief Dr. Marty] Makary encouraged companies to do like all of Europe already does and use “watermelon juice or beet juice” and “carrot juice” in place of artificial colors. Americans have never been exposed to “beets” or “carrots,” so as we eat our Fruit by the Foot and Gushers, we should expect initially to break out in hives ... M&M’s with coloring derived from blueberries will burn like acid on our tongues. But over time, we will grow accustomed to these exposures.”

— Nellie Bowles, *TGIF The Free Press*

“The art of taxation consists of so plucking the goose as to obtain the largest number of feathers with the smallest possible amount of hissing”

— *Jean-Baptiste Colbert, finance minister for Louis XIV.*

GENIUS LIFE HACK CLICKBAIT!



“We all know how hot it can get here in the summer. And one of the worst places to be is in your car. The temperature can easily soar to over 100 degrees, making it unbearable to be inside. So what can you do? One simple trick is to place a water bottle on your car tire. The water will help cool down the tire and keep your car cooler overall.”

— *LifeHackGuru.com*



“Unlock the hidden power of banana peels and watch your garden thrive! Instead of tossing those peels in the trash, put them to work in your soil.”

— *LifeHackGuru.com*

Bananas are good for your garden soil! They really are! The one caution is that the peels have been soaked in pesticides and herbicides. So buy 20 pounds of bananas, peel them, and stir them into your topsoil. You’ll be glad you did!

In 1964 free-speech activist Jack Weinberg coined the phrase “**Don’t trust anybody over 30!**” Six years later he turned 30, and he’s, umm, now **85 years old**, but this might have been the inspiration for the Forbes **30 under 30** list of entrepreneurs. The list has included:

Sam Bankman- Fried (“25 years in prison for fraud and related crimes”), Elizabeth Holmes (Theranos: 135 months in prison), Charlie Javice (“brazen fraud” in the sale of her student-finance company to JP Morgan, say the prosecutors), and Drug-price inflator Martin Shkreli (“seven years in prison”).

Here’s an idea that could save a few uh-ohs and boo-boos. How about an **85 over 85** list? We asked Google AI to search its vast database, and it could only find two people in that age group who were sent to jail.

This week’s puzzle:

Which anonymous and self-effacing citizen is depicted below? The winner gets a free copy of *Insight!*



FISHING WITH DYNAMITE

Stock prices remain high, but there's still a lot of uncertainty in the tariff negotiation process. Trump is pushing back on unfair trade practices that other countries foisted on us and we agreed to— for geopolitical brownie points that no longer address the needs of this country. He's got a point; and our deficits and spending need to be

addressed. The challenge investors face now is that Trump's style is akin to fishing with dynamite. We've all heard the boom, and now we're waiting to see what we hit! If we encounter more turbulence, it's likely to shake some excellent deals loose. Pouncing on those is a value investor's dream. ■



Jay Conway, CFA



The Justice department wants to split up the Alphabet (GOOG - \$166); perhaps separating GOOG into GO and OG. That's probably OK; Investors did **very** very well with the breakup of AT&T in 1984.

OG, the stock symbol for a new company we'll call **Ogle**, might contain Chrome and YouTube. Chrome is the clean fast browser that gives you a Gemini AI answer as well as all the supporting pages, ranked according to their importance—*determined by the number of times each site has been sighted and cited by other frequently-cited sites*. That's a shocking amount of search, analysis, and processing, and words that sound like "site".

While Chrome can give you answers to all your queries about the intellectual world, YouTube

offers answers about everything in the physical world. Want to know how to sharpen a mower blade? Fix an appliance? Build a house? Seriously, there are competent people offering fiercely competitive videos that will tell you how to build every aspect of home. And in your down time you can watch the Boston Dynamics robot breakdance (search for "Walk, Run, Crawl: RL Fun").

We'll toss everything else into GO, the stock symbol for the new company known as **Go Anywhere**. Within it Waymo is already - not kidding - delivering more than 250,000 PAID robotaxi rides per week. Paid, as in *people are actually paying money to have a car without a driver* take them out to bars and restaurants. Every week! Almost half of them summoned the cars with Google Android smartphones, and some used Google Pixels.

"Everything else" includes Deep Mind AI, biotech, life sciences, Nest cameras and Wi-Fi, drone delivery, quantum computing—which many people think is The Next Big Thing—and Maps. There are other maps programs, but if

you want to actually get to your destination and get there quickly, use Google maps!

Pardon our enthusiasm, but Maps gives you the world. If you're near a laptop, pull up maps and zoom in on Bishkek, Kyrgyzstan. Grab the little man in yellow at the bottom right of the screen, and you can drive along most of the streets and surrounding roads to see if they'd be good for walking or bicycling. Want a hotel? Not very many years ago they were rare in Kyrgyzstan, but Maps offers up a Sheraton, a Hyatt, and about 50 others—with prices.

Closer to home we recently verified, by driving the roads with Google Maps, that we'd be able to cut across some Italian mountains on a road wide enough for two cars - with a white line down the middle! We also traveled some roads that were emphatically NOT wide enough for two cars... Google doesn't get paid for your desk-chair globe trotting, but they make a few cents every time you pick a restaurant (rated and reviewed by dozens of diners) or choose a hotel. ■

RECESSION??

There is a quiet but pervasive and persistent fear that if consumer spending shrinks the result will be layoffs and even less spending, and more layoffs, and less spending. We'll spiral into a recession. That sounds clever, *but this isn't the way the world works.*

American consumer spending is one of the most powerful forces on earth.

The Bureau of Labor Statistics says that **1,739,000 Americans were laid off** or fired in November of 2024, and another 1,669,000 people lost their jobs in December. USA Facts says that the total was **20.2 million jobs lost in 2024**; and this does NOT include employees who quit! The proposed government layoffs are not going to affect GDP much at all.

Our economy is insanely dynamic. Vast numbers of entrepreneurs charge hopefully into business each week, and work 16-hour days until they finally give up all hope and go back, feeling defeated, to a mind-numbing 9-to-5 job. Those who run this gauntlet and survive should be celebrated, because they're the ones who create the mind-numbing 9-to-5 jobs that people need, and sometimes appreciate.

China can destroy Taiwan or they can leave it alone; and if they destroy it, then what? A celebration? Or a period of mourning, remorse, and reproachment? A loss of confidence in the leadership?

We have to confess that we grumbled a few times when removing our shoes for the TSA. Once a TSA employee confiscated a backpacking stove; not a propane cylinder, but the little metal piece that screws *onto* the propane cylinder. He said that it might "contain propane residue".

That was 23 years ago, when the agency was still trying to figure out how intrusive it needed to be. Now it's 2025, and it's time to congratulate them. ***NO AMERICAN AIRCRAFT HAS BEEN HIJACKED SINCE SEPTEMBER 11TH 2001.***



We've held two dinners with an artificial intelligence engineer. He and his team created a human-resources AI that can answer questions about benefits, vacation days, and insurance coverages better than any human. Employees will be able to go back and forth with this (empathetic!) AI, insisting that they deserve time off or benefit coverage. The result will be a reduced need for human resource professionals, so workers will be freed to help with the giant projects listed on page 3. ***This is exactly what we mean by higher productivity.***

— John Lumbard, CFA

Investing will never be easy. If it became easy stock prices would go up too much, and thus become risky and unstable.

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