

Lumbar  
& Kellner

INSIGHT

S&amp;P 500 5,271 \* Dow Jones Industrials 38,445 \* 30 year U.S. Treasury Bond 4.7%

## MORE

“Northern Virginia needs the equivalent of several large nuclear power plants to serve all the new data centers planned and under construction. Texas, where electricity shortages are already routine on hot summer days, faces the same dilemma.”

“Already, soaring power consumption is delaying coal plant closures in Kansas, Nebraska, Wisconsin, and South Carolina.”

“A major factor behind the skyrocketing demand is ... artificial intelligence.” “In Texas, an analysis ... found that the energy needed by crypto operations [*Bitcoin!*] aiming to link to the grid would equal a quarter of the electricity used in the state.”

—*Washington Post*

“Citing a boom in new business customers, Georgia Power boosted its projected demand growth over the next seven years from less than 400 megawatts to 6,600 megawatts.”

—*The Wall Street Journal*

The last big electric infrastructure refresh in New Hampshire was in the 1980s. Wires and transformers are aging everywhere, and we’re going to need LOTS more of them if we’re going to ship power from distant wind farms to the big cities.

EVs need lots of power, and their charging stations gobble it up in destabilizing surges. By 2027 Artificial Intelligence will need as much electric power as Sweden. Cryptocurrency is

probably using that much right now.

*There’s also* the enormous demand for power that will result from a switch to heat pump hot water heaters, heat pump furnaces, and induction stoves; stimulated by massive subsidies to privileged people.

How much power? Well, a gallon of gasoline is about as powerful as 189 sticks of dynamite. For this we refer you to Uncle Rob, “Detonation vs. Combustion” on YouTube. Some say it’s 86 sticks of dynamite, but either way *we’re gonna need a lot of electric power.*

This is an investment opportunity, as is the frenzied pace of data center construction. Stocks that we feel address these themes include:

**Alphabet** (GOOG - \$177). AI, Search, Cloud, YouTube, YouTube TV, Maps.

**Oracle** (ORCL - \$123). AI-powered data mining; fast-growing cloud business.

**Bloom Energy** (BE - \$15.4). Uninterrupted fuel cell power for data centers.

**Mitsubishi Electric** (MIELY - \$34). Heat pumps, electric *everything*.

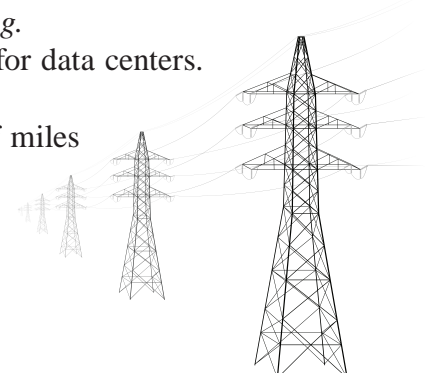
**Cisco Systems** (CSCO - \$46). Networking equipment and security for data centers.

**Ciena** (CIEN - \$49). Fiber-optics for data centers.

**Prysmian** (PRY.MI - \$59). Cables that can ship power thousands of miles with very modest line losses.

**Franklin Korea Fund** (FLKR - \$22). Electric infrastructure. World-class logic and memory chips.

**ePlus** (PLUS - \$74). Sells AI software, servers, and Cisco gear.



## TOO MUCH

If a *million* people each paid an extra million dollars in taxes next year, the federal deficit would be a *trillion* dollars smaller. In 2023 Congress collected \$4.4 trillion in tax and spent \$6.3 trillion, so even an *extra million millions* wouldn't have balanced the budget.

In 2022 Congress established subsidies for corporations that make computer chips, steel, cement, ethanol, biodiesel, electric vehicles, wind towers, heat pumps, appliances, and solar panels, along with subsidies for corporations and wealthy individuals who buy these things. These are tax credits, so they're not counted as spending. *They're counted as tax cuts.*

In 2021, *NOT a recession year*, we raised \$3.58 trillion in taxes and spent twice that. \$7.25 trillion!

“Federal spending on interest payments is forecast to hit \$870 billion this year — exceeding the \$822 billion that the nation will spend on defense in 2024, according to a recent [analysis](#) by the Congressional Budget Office.”

— CBS News

## SELL IN MAY?

*“Historically, the 6-month period from May to October is the weakest for S&P performance (1H May is the 2nd worst 2-week window for SPX over the last 20 years). However, in election years this 6-month period tends to do quite well – up 78% of the time..”*

— Morgan Stanley Research



“Declining Bee Populations Pose a Threat to Global Agriculture.”

— Yale School of the Environment, 2013

“There are now more honey bees on the planet than there have ever been in human history.”

— The New York Times, 2023

The 70% tax rate on top earnings that was applied in the 1960s and 70s actually collected less revenue, as a % of GDP, than the 28% tax rate of the late 1980s; and much less than the 39.6% top tax rate of the Internet-bubble years. ■

### Summer Worse Than Others

“Chicago’s combined city and state taxes would eat up more than 12% of a U.S. median family’s income... It carries the most pension debt of any American city and more than the vast majority of states.”

— The Wall Street Journal

“The International Monetary Fund says that America’s borrowing is so vast it is endangering global financial stability. S&P and Fitch, two credit-rating agencies, have already downgraded America’s debt; a third, Moody’s, is threatening to.”

— The Economist



“NYU professor of Psychology Jonathan Haidt suggests four reforms:

- No smartphones before high school, only basic phones with no internet capability.
- No social media before 16. Let their brains develop first.
- All schools from elementary through high school should be phone-free zones—students can store their devices in lockers.
- Bring back unsupervised play. Only in that way will kids naturally develop social skills and become self-governing.”

— Peggy Noonan, *The Wall Street Journal*



*Drew D. Kellner, CFA*



### Stocks only care about corporate earnings and interest rates.

The U.S. economy *wants* to grow. It will grow until something stops it. Yes, someday, somehow, our politicians will be forced to slash spending and raise taxes to painful levels on *everybody*, including baristas and adjunct college professors. Someday, but not now. *Mañana!*

The book *Dow 36,000* was published in 1999, near the tip-top peak of a gigantic stock-market bubble. A decade later it looked foolish, but the Dow reached 36,000 in 2021. Someday it will hit 100,000. We don't know when, but that level is already

fixed on a future calendar. The only way to stop it would be to stop the growth of *nominal* GDP, which has happened only once since 1949.

If stocks drop steeply, to levels that you find sickening, the Dow is **still** going to hit 100,000 on that far-future day. Falling stock prices don't mean that stock prices will fall in the future. They mean that stocks *will rise farther and faster* in the future, because they'll *have* to rise faster to reach that inevitable 100,000 level.

### Honey Badger Don't Care.

**Crushing debt.** Global anger and anxiety. War. The ugliest election ever. Natural disasters. Unnatural catastrophes. **Honey Badger don't care**, and neither does the stock market.

“In the 1980s the KGB had a well-worn method for pumping disinformation around the world. ‘We preferred to work on genuine documents,’ recalled Oleg Kalugin, a former KGB general, “with some additions and changes.” That method has not changed greatly, but technology has accelerated the process.”

— *The Economist*

Dozens of nations have lobbying and influencer efforts in the United States. Some of the news you read and hear has been altered and massaged by Russians, Chinese, Iranians, or North Koreans. What do they want? They want us to believe that democracy is a useless concept, and that ours is a sham. They are opposed to free enterprise and equality of opportunity, as

distinct from equality. They want to encourage anger at successful people, and at the idea that success in a free market is a good thing. They want us to see our history as shameful.

They don't want us to see that *their* histories, and the recent history of democratic socialist Venezuela and Nicaragua, have led to dictatorship.



## THE MAGIC OF COMPOUNDING

Buying a **pony** in your twenties is *several times* as expensive as buying a **Clydesdale** in your sixties. Why? Because even a miniature horse is going to need a lot of food and health care. Your savings will take a big hit, and you'll miss out on decades of compounding that would total to hundreds of thousands or millions of dollars.

Synchrony.com says that the average cost of owning a "recreational" horse is \$16,460 per year, and that the horse owners surveyed *think* they're spending just \$4,321 a year.

If—instead of spending \$16,460 per year from age 25 to 65—you save the money and invest it at, say, a return of 7% a year, you'll have **\$3,656,110**. You'll be able to buy an entire *team* of Clydesdales to drive around the neighborhood in your retirement.

Synchrony.com says "The lifetime cost of care of a dog ranges anywhere from \$20,000 to \$55,000." That's \$1,250 to \$7,857 per year. Cats cost \$750 to \$9,000 per year. Boats and sports cars can cost even more. The longer you postpone these expenditures the richer you'll be!

" In 2017, among working-age households, the bottom 20% earned only \$6,941 on average, and only 36% were employed. But after transfer payments and taxes, those households had an average income of **\$48,806**.

The average working-age household in the second quintile earned \$31,811 and 85% of them were employed. But after transfers and taxes, they had income of **\$50,492**, a mere 3.5% more than the bottom quintile."

— *Gramm and Early in The Wall Street Journal*

How are we going to persuade people receiving benefits that they should join the work force, if the reward is so small?

A person with student debt has a **HUGE** incentive to keep her *reported* income below the thresholds for debt repayment, Medicaid, and other benefits. And she has a cash incentive to have children. For those who do not receive benefits there is a powerful **disincentive** to having children, because the cost of education is so high. ■

## SWEDEN

In our Autumn 2019 issue we highlighted the financial crises of Sweden, Canada, and New Zealand, and the very different paths that these nations took to solvency.

New Zealand chose to slash spending so that tax rates could be low. Government is very efficient. If the federal, state, and local governments of the United States stopped all health care expenditures and used all the money to buy a "New Zealand" health care system, we wouldn't have to put in any other funds.

Sweden chose to maintain a high level of social services by imposing painful taxes on workers and the middle class. Sweden.se says "*Sweden's average local tax rate is 32.34 per cent. Earners above a certain income threshold set by the Tax Agency [about \$53,700] also pay 20 per cent state tax.*"

"The standard Value-Added Tax rate for goods and services in Sweden is 25 per cent ... Since 2005, there is no inheritance tax in Sweden, and since 2007, there is no wealth tax. Sweden currently levies a corporate income tax of 20.6 per cent."

The Swedes think this is a fair price to pay for their social safety net, and they've been thoughtful about the way they *tax consumption* instead of harming the investment that creates jobs.

**"If America wants to copy European spending, it must also copy European taxes."**

— *The Daily Beast*

## DRUGGED

A client called recently to tell us that he had visited a new primary care physician (PCP). The PCP studied his computer screen, and told our 6' 1", 170 lb, 70-year-old client that he is overweight. Hmm.

The doctor punched more keys, and announced that the client should go on statins—drugs that lower cholesterol. Why? “It just does.”

Our client persisted. The system was using just five inputs: cholesterol levels, body mass, age, blood pressure, and heart function. Only one of these factors was causing the recommendation for statins, and NO, of course it wasn't cholesterol levels. Don't be silly!

Weight? No. Blood Pressure? No. The key factor was ... *age*.

Five days after hearing this story we met a man who had experienced **the same thing**. The famous statin drugs have all gone off patent; they're almost free. But in their heyday they were insanely profitable. You can draw your own conclusions, but ... question everything! ■



We're still going to have to reduce the amount of sunlight hitting the earth. We *know* that this works because the eruption of Krakatoa cooled the earth measurably in 1883. The eruption of Mount Tambora in Indonesia caused freezing cold and widespread famine in the “Year Without Summer” of 1816. ■

## BLOWHARDS

Last summer we saw sections of the “Vineyard Wind” towers at a huge harborside facility in New Bedford. The N.Y. Times confirmed the outlandish claims: “62 turbines, each up to 850 feet high (taller than any building in Boston) with blades about 350 feet long”.

“New York regulators recently struck agreements with offshore developers at prices of around \$150 per megawatt hour ... For comparison, the wholesale price for natural gas power is around \$30 a megawatt hour. ”

“GE's renewable business had planned to produce the 18-megawatt turbines [for three NY offshore wind projects] but last year decided to limit turbines to a maximum of 16.5 megawatts, according to Bloomberg News. Bigger and more powerful turbines *have recently been toppling over*, requiring expensive repairs.”

— *The Wall Street Journal*

850 feet tall? In a hurricane? **Really?** How about a tornado, like the one that just crumpled five “short and stout” 311-foot towers in Iowa? ■



Jay Conway, CFA

“12 percent of the population will find themselves in the top 1 percent of the income distribution for at least one year. What's more, 39 percent of Americans will spend a year in the top 5 percent of the income distribution,

**56% will find themselves in the top 10%, and a whopping 73 percent will spend a year in the top 20 percent of the income distribution.”**

— *The New York Times*

“Alphabet's Sundar Pichai... grew up in India without a television, car, or even—at times—running water.” “He's benefited from a more than 400% surge in shares since he became Google CEO in 2015 ... His net worth now includes \$424 million in current share holdings as well as roughly \$600 million from share sales.”

— *Bloomberg*

“When you pay people not to get married, people don't get married.”

— *Dr. Thomas Sowell, On The Myths of Economic Inequality*

## HAPPINESS

“Three California psychologists found that compared with younger adults, older adults recalled fewer negative than positive images. The memory bias favoring the recall of positive images increased in successively older age groups.”

— American Psychological Association

No wonder older people are happier!

*If you have good health and you live in this country, you are one of the luckiest people in all of world history. The good old days? Houses used to be smaller. Cars broke down often, and they didn't have backup cameras. Smartphones were stupid, laps didn't have laptops, and mortgage rates were literally twice as high. Winter tomatoes tasted like cardboard. Today there are fewer poor people in the world, and fewer deaths from natural disasters. The air and water are getting cleaner, not dirtier, and wildlife are multiplying so fast—a bear keeps wrecking the suet feeder.*

“The oldest living person today is 116. She has said her longevity is a product of “order, tranquility, good connection with family

and friends” and “staying away from toxic people.” “Oldsters ... emphasize the value of staying active, maintaining friendships, and helping others.”

— A book review in *The Wall Street Journal*

### Gratitude Is The Key To Happiness.

#### STRANGE BUT TRUE

Scientists say that the antioxidants in coffee are very good for you, but that you *shouldn't* add milk ([nutritionfacts.org](http://nutritionfacts.org)).

Raw broccoli is *very* good for you. If you cook it you should butter it with mustard. Not kidding! <https://pubmed.ncbi.nlm.nih.gov/29806738/>

Everybody knows that red wine contains **resveratrol**, but hardly anybody knows that the same thing can be said about grapes, and grape juice. The NIH says “In addition to grapes, a large variety of fruits including mulberry ... partridgeberry, cranberry, blueberry, and ... Japanese knotweed also contain resveratrol.”

Japanese knotweed? *Eewww..* ■



## PROFITEERING

“One of the biggest threats to Nvidia’s dominance of the AI chip market will come from some of the company’s biggest customers. Amazon, Alphabet, Meta, and Microsoft are four of the largest players in AI cloud computing. They also happen to be among the biggest buyers of Nvidia’s graphics processing units ... The other thing the cloud giants have in common is they’re all building chips of their own to supplement their Nvidia (NVDA - \$1,149) supply.”

— Barron’s

Eastman Kodak died *because it was making too much money* in film. Wang Labs died *because it was making too much money* in word processors. Nvidia’s tiny chips cost **\$40,000.** ■

— John Lumbard, CFA

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