

CROWELL WEEDON ASSET MANAGEMENT
MONTECITO INVESTMENT PORTFOLIOS

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Dear Fellow Investors,

With election day just a few weeks away we thought it would be nice to take a look at how US equities have done under different political regimes. Fortunately, DA Davidson's Wealth Management research team has done an excellent job of assembling this [data](#) for us. The takeaway is that US equities have performed well regardless of which political party is in charge. We believe this significant value creation is a testament to the framework laid out by the founders of our country that foresaw the need for checks and balances in a governing system, allowing individuals to be empowered and create their own path forward in life.

While the uncertainty of elections may cause near-term fear and angst, we believe there is a much more challenging long-term concern the US and much of the Western World faces - complacency. We see it all the time in business and sports. Dominance can turn into irrelevance rather quickly. Unlike business or sports which can see teams or companies lose their competitive edge in a relatively short amount of time, when observing the rise or fall of a country's competitiveness, it typically plays out over several generations. We believe there are a few examples that serve as cautionary tales for what happens when a country allows complacency to replace ambition.

EUROPEAN UNION

Europe just released a [scathing report](#) about how a wide gap has opened between the EU and US primarily driven by a slowdown in productivity growth in Europe. European households have paid the price in foregone living standards as disposable income on a per capita basis has grown nearly twice as much in the US since 2000. Technological change has accelerated rapidly but Europe has largely missed out on the digital revolution as only four of the world's top fifty tech companies are European. The report notes that if Europe cannot become more productive they will be forced to choose. They will not be able to become all at once a leader in new technologies, a beacon of climate responsibility, and an independent player on the world stage. They will not be able to finance their social model and will have to scale back some, if not all, of their ambitions. They view this as an existential challenge that will require radical change.

ARGENTINA

In the 1900's, Argentina was once one of the wealthiest nations in the world on a per capita basis. Buenos Aires was deemed the Paris of South America. In merely five generations Argentina now sees approximately half of their citizens live in [poverty](#) and their citizens suffer from triple-digit [inflation](#). At one point, [public-sector](#) spending represented nearly half of their entire GDP with 350 state-owned enterprises accounting for just under 20%. Their government subsidized items like healthcare, energy, universities, and public transportation by merely printing more pesos. Their state-owned enterprises were involved in virtually all sectors of their economy ranging from energy, utilities, chemicals, steel, airlines, television, radio, hotels, and banks. With so much government intervention, it's probably not much of a surprise that their oil company was one of the few in the world to consistently lose money along with their railroad that lost millions of dollars

each day as revenues only covered about 2/3 of personnel costs. It has taken a radically new approach by recently elected Milei to get the country back to its first budget surplus since 2012, see inflation drop below double digits, and receive [high marks](#) from the International Monetary Fund on their recent performance.

Given the above examples of how things look when competitiveness starts to slip away (Europe) and how it looks when it's almost completely lost (Argentina), we do not believe the US is set up for imminent doom. Please recall from our [Mid-Year Update](#), over the past decade the amount of wealth generated and investments being made by some of the country's top corporations dwarfs the amount of government borrowing. The US continues to foster some of the best and brightest businesses and entrepreneurs from all over the world. With that said, we do think it is important to be aware of and call out signs of complacency to ensure we do not disrupt this incredible competitive advantage our country enjoys. We note a few examples we find concerning:

- California residents voted to build [high-speed rail](#) in 2008. Currently, there is no clear path to ever completing the proposed Los Angeles to San Francisco vision. We now have a scaled-down Bakersfield to Merced route that will cost in excess of \$35 billion and is most likely still over a decade away from completion.
- [SpaceX](#) has revolutionized rocket technology by being able to reuse a great deal of the booster which has led to launch costs plummeting. They're trying to test [Starship](#) which would be the first fully reusable and rapidly refillable rocket ever built. The vehicle will be strong enough to carry a significant payload allowing humans to build structures outside of Earth. SpaceX is finding that it takes less time to build the rocket than it does to receive [regulatory approval](#) to fly it.

Falling behind in the short-term might mean your living standards fail to keep pace with citizens of another country. Falling behind in the long-term might mean your national security and independence are at risk. Technological might implies military might. The US has enjoyed being on top of the tech mountain for quite some time but technological supremacy is not our inherited right. We face enlightened competitors rapidly building in fields such as massive public infrastructure projects, nuclear power, AI, robotics, drones, consumer electronics, rockets, and automobiles. Given the numerous global conflicts and geopolitical risks, we believe now is not the time to embrace a comfortable, slow-growth agenda but rather one that encourages competition, independence, rewards the entrepreneurial spirit, and is capable of building and innovating rapidly.

As always, we welcome your feedback and would love to talk about these and other topics that may be important to you. We thank you for your continued confidence and the opportunity to manage your investments. We take very seriously our responsibility. ***Montecito Investment Portfolio's Mission: To provide diversified, disciplined long-term investment solutions, service and guidance to help our clients achieve, and maintain, their "Financial Independence".***

Sincerely,

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