MADISON PARK
CAPITAL ADVISORS

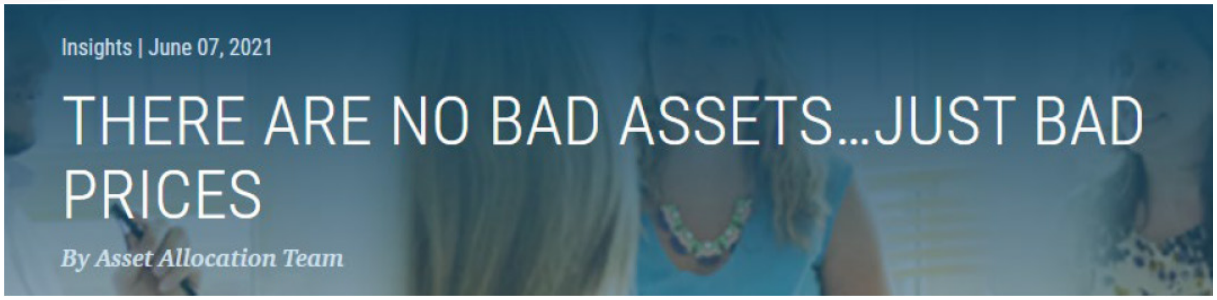
WEEKLY MARKET UPDATE

June 7, 2021

Are we in a bubble?

I ran across a couple things over the weekend and thought they would make a nice addition to our weekly piece. Many of you are accustomed to us discussing the "markets," but of course that usually just references the "stock market" (usually more narrowly defined as the S&P 500). As we have mentioned before, there are many other markets that are available to invest in, whether we're talking stocks more broadly, bonds, commodities, or more. In the "more" category, there is art, classic cars, and many others that are not very liquid or that enjoy broad participation. It's this road that I want to start down and we will get back to the liquid markets. As far as a bubble, I will let you decide for yourself.

Our good friends at GMO just sent a research piece this morning that I think dovetails nicely with our conversation. Here is the title of their piece.

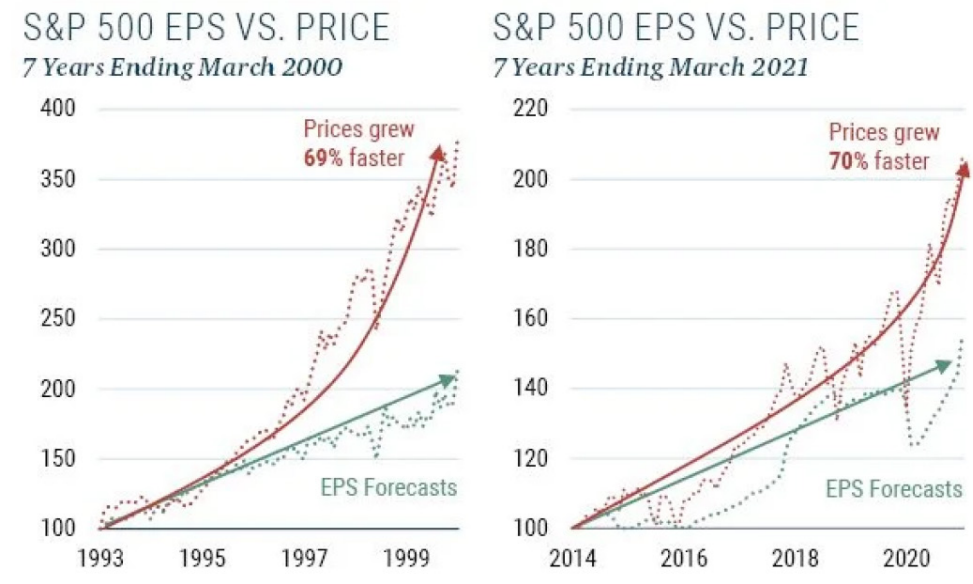


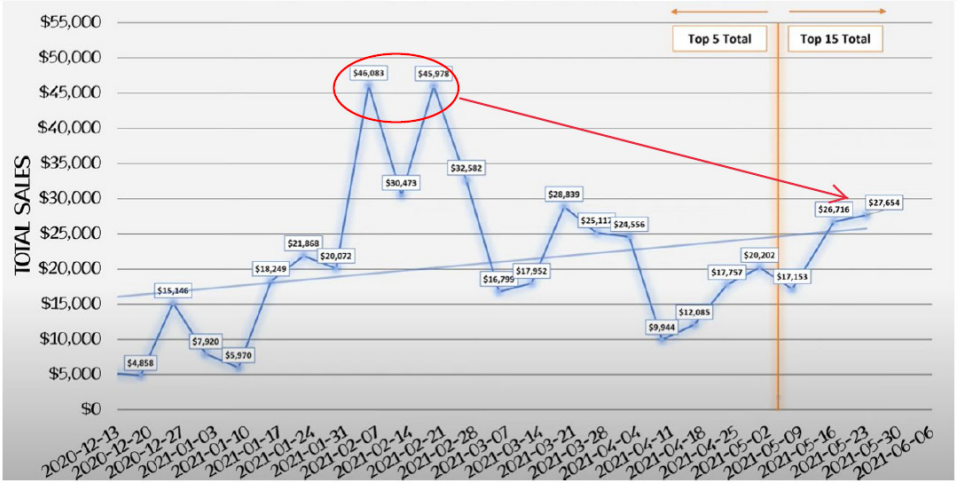
I'll save you some time reading it, but below (top of next page) are a couple charts that take a look at prices and earnings (theoretically those should roughly go together). You can see, just like March of 2000, the current prices have well exceeded the earnings for the market. Many of us vividly recall what happened after 2000, so the next question is, "Will it happen today?" Nobody really has the answer for that.

(continued on following pages)

As before, you can click on the charts to access larger versions!

Let's take a look at another example of "no bad assets, but bad prices." The following chart is a copy of the sports card market, more specifically the basketball card market. You can see that the market hit a top in February and has since seen an almost 50% correction in prices.





Below are two of the hobby's most valuable cards that sold for $738,000 a piece on January 30th. Today, those would be valued at $350,000 each (still a hefty sum!). Despite the drop, this remains a considerable increase from December 2019 when you could buy one for around $32,000.

Atop the next page, let's take a look at a different market, one that we have discussed many times and one that is very controversial on many different levels. That would be cryptocurrency, and Bitcoin specifically. You can see on the chart below that Bitcoin peaked in April and is now down around 50% from that highwater mark.

Let's now look at one of our favorite long-term holdings, and one that we believe will be a long-term winner is the ARK Innovation fund (ARKK). You can see from the chart below that it also peaked in

February after a 150% return in 2020. It has given back about 30% since that February high. Next up, let's review our old favorite, the S&P 500. You know we like the equal-weight index (ticker: RSP) versus the market-cap weight (ticker: SPY). You can see that it is still doing fine and is near its all-time highs.

Finally, we can't talk about inflated asset prices without talking about housing. Housing has yet to peak, but many inputs have started to roll over. We showed the lumber futures chart a couple weeks ago, and those have continued to go down in price since then. A more thorough look at housing is perhaps a good topic for another week.

We have also said that the "market" will continue to stay in reasonable health as long as the Federal Reserve provides significant liquidity (we've shown that chart many times, see the same link above).

So let's get back to our good friends at GMO. We would agree – there are no bad assets, just bad prices. Owning assets over the long-term usually wins (which is why we'll always have some "risk" in the portfolio), but what you pay for them matters (which is why we remain cautious in certain environments). The problem is everyone's definition of "bad price" is different. Some people in these "other markets" are now sitting on assets that are half of what they paid for them just a few months before. In a broader sense, we won't know when prices have peaked until after the fact and our model will catch those falling prices (assuming it doesn't happen in a very short period of time), helping us to de-risk and wait for "good prices" where appropriate. As we look ahead, we can't say for sure whether we're in a bubble. We can say, though, that corrections and continued volatility are likely, and disciplined, patient investors will be rewarded. They always are.

As always, please reach out with any questions. Have a great week.

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