CORE Comments
ON PLANNING AND INVESTING FOR THE TWENTY-FIRST CENTURY

November 10, 2025

Lowering Risk

I write on a day when our accounts have risen by one percent or more, continuing the handsome gains already earned this year. Well and good; accounts managed by Core have earned, in the aggregate, more than 17% so far this year. The fine returns have been generated by our substantial investments in gold and gold mining stocks and also in European stocks, notably its defense sector and banks. How are the prospects for these investments and why am I de-risking our portfolios? Two questions. As to the first, prospects are reasonably good; as for the second, because many investment assets now stand at levels only seen before meaningful declines in the past.

To elaborate: Gold and gold miners have appreciated enormously this year; gold by 66% and gold miners by 137%. But, as I have written before, central banks around the world—but not in America—are increasing their holdings in gold. Such holdings now amount to some 24% of central bank assets, whereas in 1980, the share was 70%. It might be remarked that these buyers have very deep pockets and are price insensitive. Accordingly, there is more buying by central banks still to come. Central bank demand for gold far outstrips the increases in supply. In very rough terms, gold miners increase the supply of bullion by about one percent per year; demand from investors and central banks is a lot higher.

As for our European stock holdings, I make two points: First, our president's ambivalence toward NATO seems to vacillate between indifference and outright hostility. Second, Russia not only invaded Ukraine in 2022 and continues its war there, but it also has been making increasingly provocative incursions into NATO territory, as if testing NATO's resolve. European governments, notably but not only Germany, have realized that they themselves must defend and protect Europe. Under the present American administration, the US defense of Europe cannot be assumed or assured. Our investment in the European defense security has increased by more than 37% since our purchase early in March.

By

Jack Mayberry

In the paragraphs above, I have put forth the reasons to continue to hold these investments. Why engage now in 'de-risking?' We Core clients have all held a lot of cash and bonds this year, which has given us only modest returns but has provided a hedge against the risk in the more active parts of our portfolios. At present, I think it wise to increase such holdings because of the extremes of overvaluation in American stocks.

Although we hold very little in American stocks, their influence over all asset classes is enormous. As has been said before, 'when the police raid the […..]house, they take all the girls.' As the enthusiasm over artificial intelligence has grown since the release of the first public version of ChatGPT, the price increases in all companies associated with AI have reached extremes.

As the larger part of our economy stagnates, the huge companies building data centers for AI have been and plan to continue their enormous capital spending. The spending by that handful of companies, Nvidia, Microsoft, Alphabet (Google's parent company), Amazon and others, has lifted general economic activity. Yet, even in the absence of US government statistics resulting from the shut down, it is clear from private reports that consumers—that's us—are restraining spending. Retail sales are down; Wendy's, Chiptole and other restaurant chains are closing restaurants because their customers are not dining out. The University of Michigan has published monthly reports on consumer sentiment since the early 1970s. This is a widely and deservedly respected set of reports. This month's shows the second lowest sentiment reading in its history, lower than in all recessions since it began publishing. For low-income households, sentiment is the worst ever. This presages further weakness in consumer spending and the general economy.

Against this backdrop of weakening consumers, US stock market valuations have reached or exceeded levels attained before the dot.com bear market at the beginning of this century and the bear market and depression that began in 1929. Not terribly good omens.

Without going into these matters further, I think that risk is high and I have begun reducing the risk in our portfolios. I sold a position in European stocks—not the defense stocks—and reduced our large positions in gold and the gold miners. The proceeds have gone to US Treasury bonds, both short-term and long-term. If and as the economy declines, long-term Treasuries will appreciate in price. The short-term Treasuries will continue to pay modest interest to us without any credit risk.

We are not necessarily at the inflection point. It cannot be known when is the inflection point, but it does lie ahead. When it comes, most stocks will fall, perhaps considerably. We wish to avoid that. Let us harvest some of our handsome gains.

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