

FRIDAY, JANUARY 3, 2025

Hello and welcome to the first Dividend Cafe of 2025. We're going to get right into it today, talking about the Speaker of the House, talking about a bipartisan criticism that will not earn me any friends. And I want to talk a little bit more elaborately about the challenge of calls in the market that center around particular macro themes.

So, there's a few different things I'm going to do this week, and I am excited to welcome you into The Dividend Cafe. I'm David Bahnsen, Managing Partner here at The Bahnsen Group, and I will first start off by confessing that I deeply regret doing A Dividend Cafe today. And the reason is not because I do not enjoy doing The Dividend Cafe, I enjoy it more than most people enjoy anything they get to do professionally. It's one of my favorite parts of this job and, this career, and this life I have had professionally for many, many years. But this particular week, I just literally last night I'm sitting here recording on Friday morning, January 3rd, and last night on Thursday, January 2nd, I finished what had been more or less three to four days of marathon reading, writing, researching, outlining, structuring and literally drafting next week's Dividend Cafe. Next Friday, you're going to get what has become a tradition, and I think a valuable one here at The Bahnsen Group, of our annual Year Behind, Year Ahead White Paper, where we do a great deal of analysis of the Year that just was, as well as report card the different themes that we had for that year themes we set a year ago, and then look at our thoughts and forecast and themes that we believe are relevant for the Year ahead. And in so doing this week, I basically wrote four dividend cafes because the length of it ended up being about 10 000 words, and each dividend cafe is usually around 2 500 words.

And so, 26 pages and 20 charts later, it wasn't something that at 4 o'clock this morning I was totally in the mood to do. But not really, just because you would think, oh, he must be a little brain-fogged or fatigued from it. It wasn't really that, to be honest. It was that I want so badly right now to start talking about the things that are in next week's Dividend Cafe.

I put so much time and effort into pretty sizable and, I think, substantive observations about the Year that just was and the Year that will be, and I'm anxious to get into it, but because we now need me just having finished the writing last night, it doesn't make it publish ready the next day, there's still editing, and there's still design, and there's still layout and preparation, and all that kind of stuff and there's always that each week, but it's usually hours of work, not days, but with this annual white paper, it's a lot more, so, we're just, We're not rushing it out today.

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We're going to put that out next week, which is our tradition. And in the meantime, I have a Dividend Cafe to do today without getting into all the things that we talked about last week. So when I woke up this morning a few things came to mind and I just decided to run with it and they're not really related to one another.

So, I'm just going to jump around a bit and podcast that way. And then. Get on with your weekend. The first thing, I guess it's probably the biggest political story, but it's gonna take me a second to explain why I do believe there's a market tie-in here. Even if there wasn't a rather apparent market tie-in, I do spend a lot of time in Dividend Cafe and in my own research, writing and brain.

space, thinking about public policy and the nexus between policy and markets. And I think that this issue of the house speaker is in a way relevant to markets for a reason I'm going to get to at the end. The quick news update: if you aren't reading Politico or watching cable news or other forms of social and streaming and whatnot that are bringing this, I think it's aside from these horrific terror attacks this week, the Speaker of the House issue is probably the biggest news story right now and it is more or less a question of whether or not a Republican majority in the House is going to be able to get their current Republican Speaker of the House, Michael Johnson of the great state of Louisiana reappointed into the new Congressional session as the Speaker of the House.

And why is this even a question? Well, because the Republican majority is one vote, basically. Now, it will be a few bigger. There were three Republican Congressmen and women that President Trump picked for other appointments. Which means they have to be replaced, and they're obviously going to be replaced by the Republicans, but that hasn't played out yet.

So, even at full strength, it's going to be a four-person majority, and right now, it's less than that. And there are some that don't want Mike Johnson to be Speaker. But President Trump has done a pretty full-throttle endorsement this week, and it's very hard for me to believe that he's going to eat crow and take that back.

At this point, he's in deep, and I believe that they're going to end up working it out. If I were a betting man, I'd say he will not get approved on the first ballot, then that'll lead to some tweets and some noise and some headlines and some feigned, volatility and shock and awe, and whether it's second or third ballot, they'll end up working that out.

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It's possible he cuts a deal before first ballot and makes this a really boring story. That's not my most likely scenario. Most likely is that he [00:06:00] doesn't get through first ballot and does get through. But I'd say the outlier possibilities are that he gets through first ballot or that he doesn't get through at all.

President Trump pulls the cord and then they're back to just some real chaos of having to go find a nominee and they don't have one. For one thing, I don't know any sane person that would want this job. And for another, there isn't a consensus around who that would be. that would gather enough votes, and obviously it's not going to happen on a bipartisan basis.

So, they have to do this entirely with Republican votes. So this is going to be tricky. Why is this a market story? Just to the extent that the more clownish this gets the more shenanigans that go on and the more indications of chaos. The more that markets may detect, okay, this is the deck of cards we're playing with going into the new Congress in 2025.

They know there's a budget reconciliation process ahead. They know there's possibly two budget reconciliation processes ahead. They know there's significant legislative agenda for President elect Trump. They know on the Senate side that there is, a lot of confirmations ahead for various cabinet members.

Whatever the case may be, anything that is adding to questions about are we looking at an organized, agendized strategized leadership coming into 2025? Whether those things they want to do, by the way, are things you think are good or bad. Or are we looking at chaos, pandemonium, and so forth? You saw what the conditional resolution to fund government looked like a couple weeks ago before the holiday.

I think that the speaker process has a possibility of indicating to markets, okay, there, there's still, some amateurism going on and that's what the messaging may be. So, we'll see how it plays out, But I stand by my base case the Speaker Johnson ends up getting through possibly on a second or third ballot with outlier Possibilities that it gets pulled and that it happens first ballot.

Okay, in my daily morning research, I, all of a sudden, was triggered on I think it was the fourth paper. Some were, like, really all in on this, some it was anecdotal comments, but I got a little barrage of a theme that was unrelated in the things that brought it up but all kind of harmonized around this thing I'm about to say.

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People Talking about, well, these are market portfolio managers, market commentators, pundits, what have you, analyst, strategist the whole thing. Most folks actually that I'm referring to here, ran money, real money. Saying something to the effect of, we were right last Year that gold was in for a big year, gold was up X, but our gold mining stocks that we, used to play that theme really didn't do well.

Or we were right last Year that such and such was going to happen, but then the way in which we invested in it did not play out. And the gold mining stocks happens to be a real example, but there's a bunch of others out there. [00:09:00] Sometimes, by the way, it could happen in reverse. Someone could have had a pro-energy, pro-oil theme and oil ended up. WTI was barely up, and Brent crude was down 3%, but then midstream energy was up over 40%.

Now that's the kind of disconnect between a theme and an application that you like, but a lot of times this will happen. And I don't bring this up to be critical of the managers mentioning it, but when somebody says we're investing money around intermittent themes, we see something in the market. We think solar is about to get big or we think Congress is about to do this.

Or we think that gold's about to do that and there's some either economic or geopolitical or sector thematic thing that somebody believes. It's very hard to get those calls right. It's very hard to time them. But then, what say you do, attaching that to an investment execution or application is very, very hard.

One of the reasons is that it takes skill to match a call with an application. Number two is that a lot of times the application is not a match to the theme when one believes it is. I will tell you right now that I would never say I'm going in on midstream energy because I believe oil is going up because I don't think those two things are connected.

But my, one of my favorite examples, and I won't say this manager's name, but I remember a very high profile perma bear type in 2008, talking about, oh, we're in a bubble, and things are gonna crash, and this and that and this person ran real money at his firm. And of course, we know 2008 saw a huge horrific market crash and the credit bubble burst and housing burst and the US stock market dropped. And in early 2009, I remember reading this gentleman bragging about having got that call right. But then looking at what they did in the call, they said, oh, this whole

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thing's going to happen, and we're going to go short the dollar, and long Europe, European stocks, and so forth, and they were down 55%.

That wasn't a matter of, well, the timing was off, or the disconnect, it was just an absolutely horrific, way to play what was a right macro thematic call. My own view is investing money around seasonal themes, intermittent market calls. This quarter, we think this is about to happen. So, we want to do this or this Year we see it being big for this.

So, we want to do this. I think that's generally an ill advised way to manage money. There are too many opportunities for things that can go wrong. But that essentially. It is unnecessary if one has an evergreen investment philosophy that allows for intermittent things [00:12:00] that are going to go wrong. We run a portfolio of dividend growth stocks and it never in a billion years have I said every Year do I believe every company is going to execute flawlessly.

Companies are going to make mistakes some years. That's what diversification is for. They're going to continue growing the dividend one when it's a difficult year. That's what the investment philosophy is based on. But it removes the ample opportunity for fallibility from the call itself, the timing of the call, and the execution of the call.

And I think that it allows for a sort of permanent, evergreen, economic reality that, to, to be the driver of risk and reward, as opposed to these other things that I think just end up getting silly. Food for thought. Okay. I believe that people who listen to Dividend Cafe, read Dividend Cafe Frequently, or for some period of time, or those who know me do understand that I really do want to be transparent about who I am, what I believe, where I'm coming from.

I don't feign neutrality on very many things. I am when it comes to the way I talk about public policy, or the way I talk about a civic or political worldview, I am a movement conservative. I am a tremendous advocate of the kind of vision for the American founding that our founding fathers had.

I am a National Review reader and a Reaganite conservative. And all at once, that's true, while over the last eight, nine years have been oftentimes very critical of the individual Donald Trump has been the standard bearer for the Republican Party.

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And very often been quite complimentary of him, where there's policy issues I agree with.

And so, I write about different things a lot, whether, obviously, now we've had a period where Trump was President, we've had a period where Biden was President, we've had a period of a couple of different campaigns, and there's all these policy things that go around, and even in the economy, I'm in the position of, being largely quite critical of a lot of the things that President Biden believes in ideologically, and at the same time saying, I don't think that has anything to do with what I'm talking about the economy when the economy is good. I don't feel the need to politicize economic commentary. It just drives me crazy when people do. There's a sense I don't call it bipartisanship, and I don't even want to call it nonpartisanship.

I just think it's objectivity and truth telling and I don't say this to be self righteous, but I just want to set the table for what I try to do, and then you're welcome to call me out if you ever see me not doing it, okay? But, this is like a very, very bipartisan thing I'm about to say. President Biden announced overnight that he was indeed gonna block the Nippon Steel, the big Japanese steel makers, bid to acquire the Pittsburgh based steelmaker U. S. Steel. President elect Trump has also been opposed to the deal. This is a bipartisan comment, that this opposition to the deal is just preposterous.

It, and yet I don't say it for purposes of using Dividend Cafe for my own political commentary. This is a market comment, this is an economic comment, I do believe government has a role, in, in opposing deals that represent national security threats or there's hair on certain deals. This one is an ally nation with a private company in a country, it's not a state owned enterprise, looking to inject equity capital into a company, U. S. based, that desperately needs it. honoring all the labor union deals, giving all kinds of bells and whistles that, frankly, I wouldn't have even supported, but they're doing it for the politically necessary reasons to appease different special interests.

And the deal is being opposed purely because of the political optics it represents. Both sides playing to a particular base. A bunch of people are going to lose jobs. U. S. jobs, U. S. workers. And a company that's in desperate need of growth capital is not going to get it. And I don't bring it up to comment on that particular deal.

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We're not stakeholders, shareholders, or proposed shareholders in either company. It's a side of this transaction. I bring it up to make the point that if this is a message we're sending, that we do not want foreign capital, that we are going to put walls up for political reasons around what has been a huge selling point of American capital markets and American enterprise, which is free flow of capital, which goes two ways, that involves capital in and it involves capital out, but this messaging that we would be blocking this deal on this nationalistic basis with no even remotely credible claim of a national security risk.

This is problematic. Forget what it means, although I don't want to forget because there's human beings at stake, but my point is not merely what it means to this deal, this company, this community, this transaction. But at a higher level, this is a very interesting time we're living in where people now would say we oppose foreign ownership of a US company that is injecting primary capital where others have been unwilling or unable to do so.

There's a bipartisan criticism because to the best of my knowledge, Biden and Trump are aligned on this one. And I think we need to be paying attention to what this messaging looks like as it pertains to the overall direction of American capital markets. Okay, I'm going to leave it there because there's going to be plenty for you to chew on next week.

We will be. Back in The Dividend Cafe. I'm recording here in our Newport Beach studio today, but on Monday, I'll be back in New York with our regular scheduled programming. I'm glad the holidays are behind us. I hope everyone had a wonderful holiday, but I hate the rhythm being disrupted and I'm ready to be back to normal.

All of our offices are back fully open Monday, launching 2025. The Monday Around the Horn Dividend Cafe will take place, and then next Friday, as I mentioned, the special Year Behind, Year Ahead Dividend Cafe coming to you next Friday. Thank you, as always, for listening, watching, and reading The Dividend Cafe.

Have a wonderful weekend.