

# DIVIDENDCAFE | PODCAST TRANSCRIPTION

FRIDAY, AUGUST 29, 2025

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Hello and welcome to this week's Dividend Cafe where I go into it already knowing I'm gonna get in trouble and I don't much care, but I am far more afraid of getting in trouble. By not doing it then by doing it. What I'm referring to is that there's going to be a little bit of political heat around it, and I think there's a few categories of where that could come from.

But what I do know is that if I didn't talk about this week's subject, it would be unfairly political because I think the vast majority of people that are reading or listening to the Dividend Cafe. Would very much expect me to do this week's edition if the president was Barack Obama, or the president was Joe Biden.

This is not coming as a result of a, a partisan critique. And avoiding it would, I think, be implicitly partisan for this particular lifetime. Conservative. So I have to get into this subject and let the, the chips fall where they may. But I'm certainly convinced that very the vast majority of people that may be critical of what I'm about to say are people that would wholeheartedly support what I'm about to say if it were a different president.

So I don't think that says a lot about me. What I do think is that this is not being done as a political op-ed today. It touches politics because we, everything seems to these days, but at this one it is a bit more direct. I'm touching this topic today because of its relevance to investors, it's relevance to markets.

It's relative to macroeconomic conditions, and if it weren't relevant in that sense, then I would have opinions about it and maybe go op-ed them somewhere else. But no, this belongs in the Dividend Cafe because there is an investment takeaway that I'm going to get to. But along the way, we ought to say a few other things to set the table.

I hope after hearing our message today, those in the Dividend Cafe will become better investors. But the topic at hand that invites this is indeed the government's

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announcement of taking position equity ownership position and intel. Now, it doesn't stop there. The intel announcement, first of all, is done.

It is a 9.9%, let's call it 10% equity stake, 433.3 million shares that now sit on the balance sheet, a highly levered balance sheet as we're gonna talk about in a moment of the United States Federal government. The government also though, owns a 5% a warrant to purchase another 5% of the company that warrant strike price being at \$20 and the current stock price being at \$25.

So there is that particular event that is now done. Which also is adjacent to number two, commerce Secretary Howard Lutnick, announcing this week that the government's looking at many other deals like this as not a one and done with Intel, and specifically called out certain defense and aerospace companies saying that some companies have the government as a large customer, so the government may as well be an owner.

And his, in a, in his exact words already, is an owner by nature. Sure. Being a customer, which I guess I'm gonna tell you now, it was a bit of a surprise to hear from someone who was a one point smart enough to become a self-made billionaire, and then later on said something like that con confusing. Being a customer or being an owner.

I'm gonna move on to number three, which is National Economic Council Director Kevin Hassett. Also announcing this week the government's looking at more deals like this in other industries to further diversify, stating that this deal is a down payment on a sovereign wealth fund that the administration wants to see the federal government develop.

So I don't have to get into the fact that if a left wing president or left wing administration had said any of this or done any of it, that there is a certain response that would be overwhelming because everybody knows that's true and anyone denies it is just in, in fantasy land. And I'm not gonna, I'm not gonna entertain that.

It doesn't really matter to us as investors that some people are inconsistent in their viewpoints. That is what it is. I don't, I'm not here to dunk on anyone about it. But I

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haven't moved an inch. If someone were to say, oh, I was an impression. That public-private partnerships like this or government ownership in private sector or injection of taxpayer money into favored companies, that that was anathema to people on the right and you would've been right if that was your impression.

And as far as this particular member of the center, right, it, it still is. But again, that disappointment I might have in some people's inconsistency is somewhat immaterial to my life as an investor and my life as an investment manager. What is in DI material are the points I wanna make for you here today?

Let's start with the funding questions 'cause I think that part's easy for a lot of people. There is a sympathy in the Dividend Cafe, readership and viewership that I've detected over the years. A sympathy for fiscal prudence, partially 'cause the writer and creator at Dividend Cafe, which is me.

Is in that camp, but also because there is a kind of common sense and an ideological alignment and, and this, this notion of fiscal prudence fits within, I think the way that most sensible investors might intuitively operate. And that could be applied in different ways and interpreted different ways, but that the general guardrails are there.

So I can understand why initial question might be, Hey, wait a second, how are we gonna pay for all of this? I make the joke in the written Dividend Cafe dot com commentary today that if an investor came to us and said, I have just taken a huge cash advance on my credit card, and I'd like to place the money in a portfolio with you, that I would immediately say to them.

Okay, well, how much is it? No, I'm kidding. I would say to them, are you crazy? And we would decline the business. And yet the government with \$37 trillion in national debt, adding 1 trillion in a really good year, 3 trillion in a bad year, 2 trillion pro forma to that national debt. Then going and buying with these borrowed monies stock in public companies is significantly more reckless than the analogy I just used about a credit card borrower trying to invest.

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Now what we call this in the real world is, is investing with leverage and hedge funds buy off leverage as well. However, I would like to make a point. The total borrowings of every hedge fund in the world put together soaking wet is about \$5 trillion. United States federal government has more than seven times that amount of money borrowed, not meaning more, seven times more than another hedge fund, seven times more than every hedge fund put together.

And. All hedge fund borrowings are by definition collateralized. Now, they can be excessively levered where the collateral drops in price quicker than they can get out. They can take losses and they can take losses on their leverage. But my point being the United States government's borrowing is unsecured except for the greatest security known to mankind.

Which is their taxing authority. But then what I just said is, okay. It's not collateralized by assets. It is collateralized by you. You are the collateral of federal government borrowings your income generating capacity. Intel's new largest shareholder is the most levered financial actor in the world and in world history for that matter.

Now some could say, wait a second, David. Plenty of other countries have a sovereign wealth fund. Why are you, why are you worried about this? And I think it's important that we look at countries like China, Singapore, Saudi Arabia, Norway that do have sovereign wealth funds. And I, first of all would wonder since when we started saying, Hey, let's do that.

We're talking about China or Saudi Arabia, but maybe the standard is moved, the goalpost have moved. That seems to be happening a lot these days. So maybe we wanna be more like China, more like Saudi Arabia. Okay. I think a lot of things that those countries do are not exactly the American way, but I, we can pretend here.

But in, as a matter of fact, this isn't anything like what these countries do in every sense. It is categorically different. Now, let's talk about Singapore for a second, which I wanna make very sure. For those of you not up to speed in geography, we're not talking about Malaysia, where Malaysia's Sovereign Wealth Fund did

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such incredibly crucial things for their national security and wellbeing of their citizens, like invest in Leonardo DiCaprio's movie.

Wolf of Wall Street have four and a half billion dollars stolen from it that was used at Vegas parties and, and all sorts of yacht excursions and things. Various criminals right now rolling the world unfounded. So we're not talking about those types of wonderful activities. No. In Singapore.

They fully fund their sovereign wealth fund with budget surpluses, and you'll have to forgive me for using a term you may have never heard before. For those of you listening who are from America, a budget surplus is this thing where a government spends less than it brings in. Singapore Sovereign Wealth Fund is entirely funded by the reserves that come in from frequent budget surpluses.

China, on the other hand, also a, a big fan of Sovereign Wealth Fund funds theirs entirely from the massive foreign exchange reserves that they have because they run huge trade surpluses, trade surpluses that are evened out. The current account deficit is reconciled. With cash payments in the currency of the other country.

So these foreign exchange reserves are then deployed and invested. Again, they are exchange surpluses that are invested in other investments. And Saudi Arabia funds its sovereign wealth fund with oil and gas revenues there. Oil and gas industry is entirely state run. Norway's is the exact same. We have traditionally in America, not been a big fan.

The government controlling the means of production of an entire sector of nationalizing entire sector. Norway and Saudi Arabia have done it and then created a sovereign wealth fund out of that nationalization. We're doing no such thing, or at least at this time we're not. And I would also point out that Norway can only use the real return of their sovereign wealth fund.

For national budget purposes, it is entirely designed to be anti deficit spending. United States government's talking about using deficit financed policies to become an equity owner in American businesses, and then attached these things to other policy interests. The financing to me is a very, very damning element.

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Of this idea, funding it with deficits, with this type of leverage is just utterly bizarre. Not to mention reckless, but I would point out that if you believed it was paid for in a fiscally, pre prudent manner, is the United States government's core competency to be an investment manager? Uh uh Do you, do you anticipate our political ruling class to be, i, I guess, qualified to do investment selection. If you are wondering if it's a rhetorical question, that's pretty fair because it's certainly not a question that is reasonable enough to deserve an answer. Why am I so cynical about governmental prowess in investing allocation? Why am I so sure that the top tier stock pickers of the world do not end up at the government?

Well, I still believe in incentives, but I believe that what drives good investment results and the pursuit of return on investment is when return on investment is the pursuit and not extrinsic policy objectives. When you get distracted by side projects, it takes your eye off the ball and you make less contact with the ball.

You could say some of these other policy aims are good or not. It's totally immaterial to me. They're not primarily return on capital policy aims. And when you separate yourself from normal return objectives, you get an abnormal result. So you have a funding problem, a competency problem, an incentive alignment problem, but then you get to the real heart of the matter from a macroeconomic standpoint.

Which is the absolute misallocation of capital that this represents, that when the United States federal government is your largest shareholder, that you cannot possibly be driven solely by commercial interest. That there is a political elephant in the room that is going to alter whether it's marginally or substantially, it's going to alter decision making.

That in addition to trying to please your commercially minded shareholders, people like you and me, you now have to please a non commercially minded shareholder with non commercially driven decisions. And this alters the optimal allocation of resources, period, point blank. And I cannot say enough how obvious and unavoidable this is, but also how destructive it is.

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We're not just talking about Intel or other governmentally owned companies that are subject to this misallocation risk, but other companies now that become incentivized. They're not part of the government's portfolio, but they are incentivized to go do business with governmental companies because they're trying to curry favor because they're trying to avoid retribution.

Where perhaps their optimal selection in a normal process would go a different way. They end up being satisfied with slightly suboptimal results outside of market forces and considerations because of the fact that some of these companies are governmentally owned. I wanna point out, again, this can be marginal, it could be slight.

But it compounds over time into significant misallocation of capital. You know, not only do you perhaps see vendor decisions, customer decisions, transactions take place that represent this misallocation or refer to, but I would ask you, who do you think now in the private sector has a leg up in attracting investment capital?

Companies that are really innovative and top tier and normally would, but they're known to not be in the governmental favorite list, or companies that are somewhat suboptimal. They're functional, but they are at a little bit of a competitive disadvantage, however. They have that governmental good housekeeping seal of approval, so it now is going to alter even their ability to attract capital over time.

These things are horrifying, and I love this quote from my friend Scott Linscomb. All this undermines the risk taking and innovation that has made American technology companies global leaders, replacing free flowing market-based allocation of capital with second guessing and brute politics. A lot of this we know to be cronyism that effectively there are either gonna be people that I guess there's kind of a negative sense here where you, you know, you're gonna have people that don't do something that they otherwise would've or that they do something.

That they wouldn't have for the wrong reasons, but the, you know, we, we live in a world that connectivity to government is unavoidable, but that connectivity, trying to limit the tentacles between the private and public sector to limit corruption,



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cronyism, and politically based decision making versus commercially minded decision making that freely and optimally allocates resources.

What we want to do is limit that connectivity. And these, we limit it with limiting principles, recognizing that there, wherever the connection exists, it comes at a cost. Well, right now, we're not acknowledging a cost. We're codifying this connectivity to an extreme. And, and I would say that this is not merely government putting his finger on the scale.

It's now government sitting its entire self right down on the scale, entrenching it, and that misallocation of resources becomes a cost at a time that our economy needs growth above all else. This puts downward pressure on our capacity for growth. It reprioritizes things in American commercial life away from growth and into.

Some component of a political power, prestige, access, et cetera. The reality is that even at a bottom up investment level, things that matter to us as investment allocators in the dividend growth space, there is no possible way that a dividend paying, dividend growing company with Uncle Sam is one of its largest shareholders, does not become a worse risk in terms of dividends.

After something like this takes place because at the end of the day, the high, the, the, the slightest hint of, of distress, of downward pressure on wages of layoffs of, of something going astray with unions. There is massive when in any kind of world event situation, there's massive risk of political events where a capital return to shareholders would become toxic.

With Uncle Sam as your partner, it's understandable. But it is not acceptable for us as dividend growth investors. Government ownership is an impediment to future dividend growth to optimal dividend policies any way you slice it. I guess in conclusion, I would say that state owned enterprises was a term that Brian Sitel and Kenny Molina and I always used in meetings we'd have.

With various portfolio managers that were not connected to US equity space. 'cause we didn't really have such a thing here. But in particularly emerging



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markets, we viewed it as a risk factor. We had to consider, you know, how, what is your exposure to risk to state owned enterprises? 'cause we saw those things as representing a distortion of risk, a distortion or misallocation types of things I've been talking about here in the Dividend Cafe.

State ownership can hide over. You know, you can end up having a good market share 'cause you're state owned, but it, it, it hides or disguises your inferiorities and competitive problems as a business. You guys heard of Fannie and Freddie. The fact of the matter is state ownership may seem like an advantage, monopolistically.

But it disguises disadvantages and, and I, we, we don't have to go deep into the history books of America's Limited flirtation with these silly ideas to realize whether it's American mortgage companies, Lin American automakers, that, that we, we know how this has played out, but most investment allocators have known this in other countries forever.

So for us to now want to replicate it in our country I, I would argue it is a implicit case for divestiture from companies that go down this path for all the reasons we've talked about. The dividend issue alone for us as dividend growth investors is a non-starter and so beyond, not only where we look at it as a concern with individual companies, but just the macro concern to growth.

Is a reason for us to hope this Sovereign Wealth Fund idea fails. There it is a very complex economy we live in. It's very big, it's very diverse. There's a lot of moving parts. The more forces that are impeding growth and efficiency, the worse that diverse, complex economy becomes. There are more good things going for our economy than bad, but that is no reason to pile on the bad.

And it would be my hope and, and certainly my intention as an asset allocator, that we avoid these unforced errors and move to a place of optimal resource allocation that drives economic growth, creates more prosperity for all, and does it in the way that history has been extremely kind to not in a way that history has been nothing but cruel too.

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Thank you for listening. Thank you for watching, and thank you for reading the Dividend Cafe. Enjoy some college football this weekend and your Labor Day. We'll be back with you next week in the Dividend Cafe.