Which Timeless Asset Just Outperformed Buffett?

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GUALFIN, ARGENTINA – We're taking the doctor's orders; 9,000 feet above sea level just doesn't seem to work for us

So we moved down to the tiny *casita* we built near the vineyard, 1,000 feet lower.

We spend the night there and commute back to the main house in the morning.

New Adventure

The *casita* is an adventure in itself.

It was meant to test the limits of minimalism in domestic architecture. Handmade with local materials by your editor and there is no wood used except in doors and windows.

Bill's casita *near the vineyard*

And the only power comes from a car battery. It powers two lights… and pumps water up to a reservoir. From there, the flows into a small, black tank, the simplest water heater ever built.

We have cold water in the morning and warm water in the evening. We cook over an open fire.

It's a delightful little holiday… in its own quirky way.

—

Dead Before Arrival

But work goes on! Our job is to keep an eye on the world of money and try to make sense of it.

Two big stories dominated the financial news yesterday – both meaningless.

First, the S%26P 500 hit an all-time high… after the Fed made its usual muffled noises about reducing its balance shee (unwinding quantitative easing [QE]).

It will "soon be appropriate" to tighten up a bit, said the Fed.

Or maybe not. GDP growth fell in the first quarter. And inflation fell last month, suggesting that it may not be appropriate

Second, President Trump's budget proposal got some attention.

"Dead before arrival," says our friend David Stockman, who served as President Reagan's budget chief. David:

> There's no way Trump will be able to ram any meaningful cuts through the congressional meat grinder, no matter h fiscally sound. The Dems and their media accomplices are already denouncing the Trump budget for shredding the net and attacking the poor.
>
> Congress, including most Republicans, will not go along with cuts in Social Security disability or over $600 billion in Medicaid cuts over the next 10 years, just to name some of the proposed reductions.

But what did you expect?

The Donald's budget has some good ideas… some bad ideas… and some ideas that make you wonder. But it doesn't The Deep State, not the White House, controls the budget process.

Since the election of George W. Bush, insiders make sure that all major constituents of the Imperial Establishment get money.

No crony left behind!

So let's move on…

—

Two and Twenty

Yesterday, we looked at how expensive mutual fund management fees can be.

Two percent doesn't seem like much. But if you're making only 4% a year, you're giving up half your gains to the mana

Hedge funds – which are free to use various strategies such as betting stocks will fall – are even worse. They charge 2 principle plus 20% of the profits.

Imagine you begin with $100,000 and the fund loses 50% one year and makes 50% the next. You're even, right?

Very wrong.

The manager took $2,000 for his fee. Plus, you lost $50,000. So you end the first year with $48,000.

The following year, you see a gain of $24,000. But you give 20% of that to the manager… plus the 2% management fe

You end up down more than $40,000… after paying nearly $8,000 to the manager.

Stick with that deal long enough and the manager will have 100% of your money.

Superinvestor Warren Buffett says most people would be better off avoiding these costs… and the risk that the fund ma
dud… by buying a low-cost ETF that tracks the performance of the S%26P 500.

You could also avoid the management fees by simply buying shares in Buffett's investment firm, Berkshire Hathaway. Y
invest alongside the world's greatest investor… at zero cost.

Gold Shines

But that doesn't mean you'll make money with Buffett. Over the past 20 years, Berkshire Hathaway failed to beat the re
30-year U.S. Treasurys.

What? How could that be?

Following the 2008 crisis, the Fed bought long-term Treasurys as part of its QE program, driving up prices. Even Buffet
keep up.

But wait, there's more.

Guess what beat BOTH long-term Treasurys and Buffett… with zero management fees… and near-zero risk.

And before we open the envelope, consider that this was a period in which every major central bank was pushing up bo
directly with $12 trillion in newly created money.

…a period in which the Dow tripled…

What beat stocks and bonds? Can you guess?

Gold, with an annual return of 7.6%. Go figure.

Autopilot

Our guess is that however well stocks have done in the last 20 years, they won't do anywhere near as well in the next 20 years.

ETFs account for about $2.15 trillion worth of U.S. stocks. And 27% of stock market trades are now done by "quant" hedge funds – that is, funds run by computer algorithms.

Both are more or less on "autopilot"… and both are subject to violent downdrafts. In other words, neither of these are patient, long-term, value-oriented investors.

ETF buyers are gambling on "the stock market," not investing in the businesses that happen to be traded in a market.

Similarly, quant funds are indifferent to the underlying companies and the values they represent. And typically, they work on formulae that call for rapid sales when stock prices fall below certain thresholds.

Rapid selling could be a problem, too, for index-tracking ETFs. Because everyone is investing in the same index funds at the same time.

When those indexes fall hard enough, everyone is going to be panicking at the same time. This will increase selling pressure… and cause even steeper declines.

So the difference between an ETF and a hedge fund may only be time. With the latter, you lose money little by little; with the former, you could lose it all at once.

Regards,