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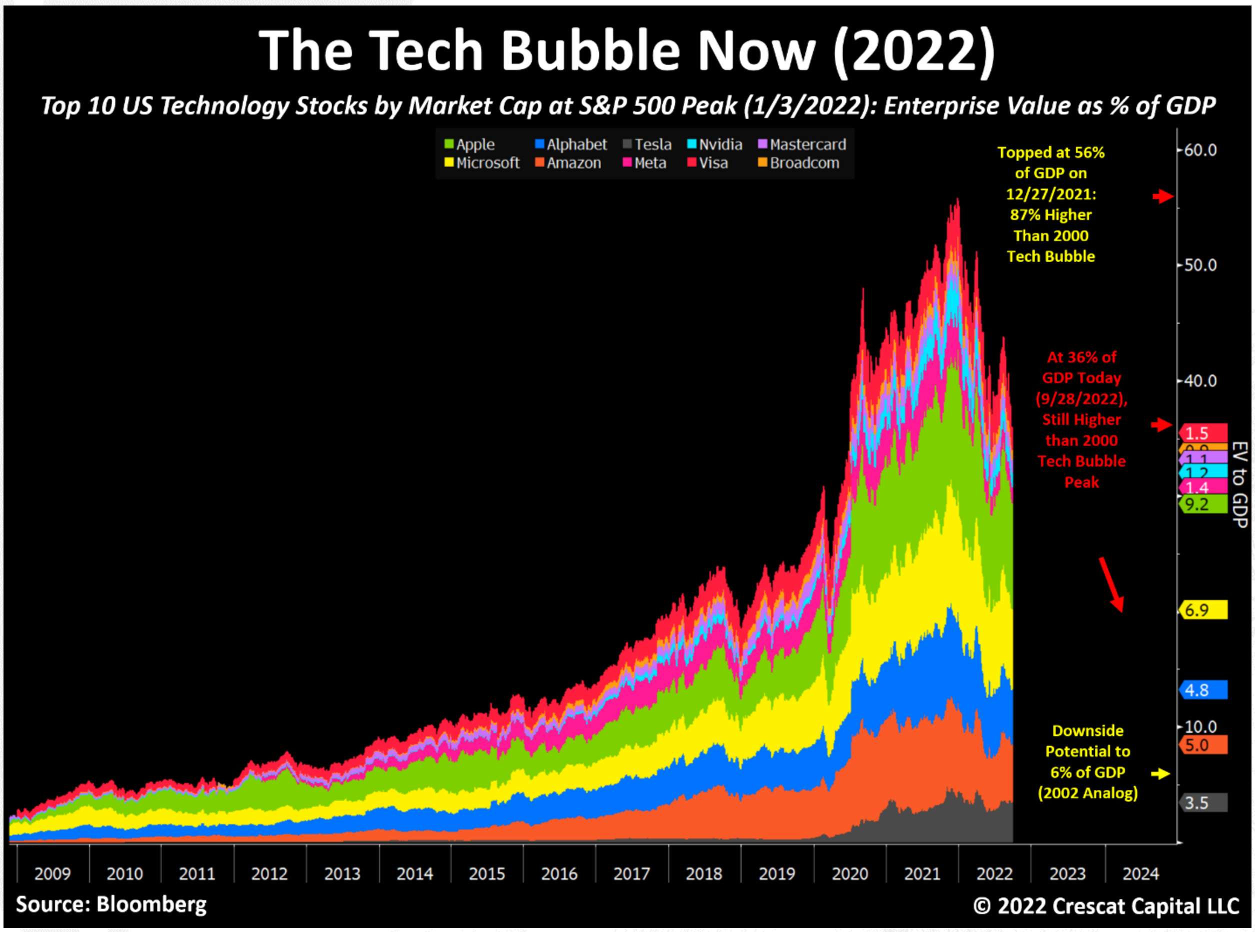
September 28, 2022

Seeking Value, Avoiding Bull Traps

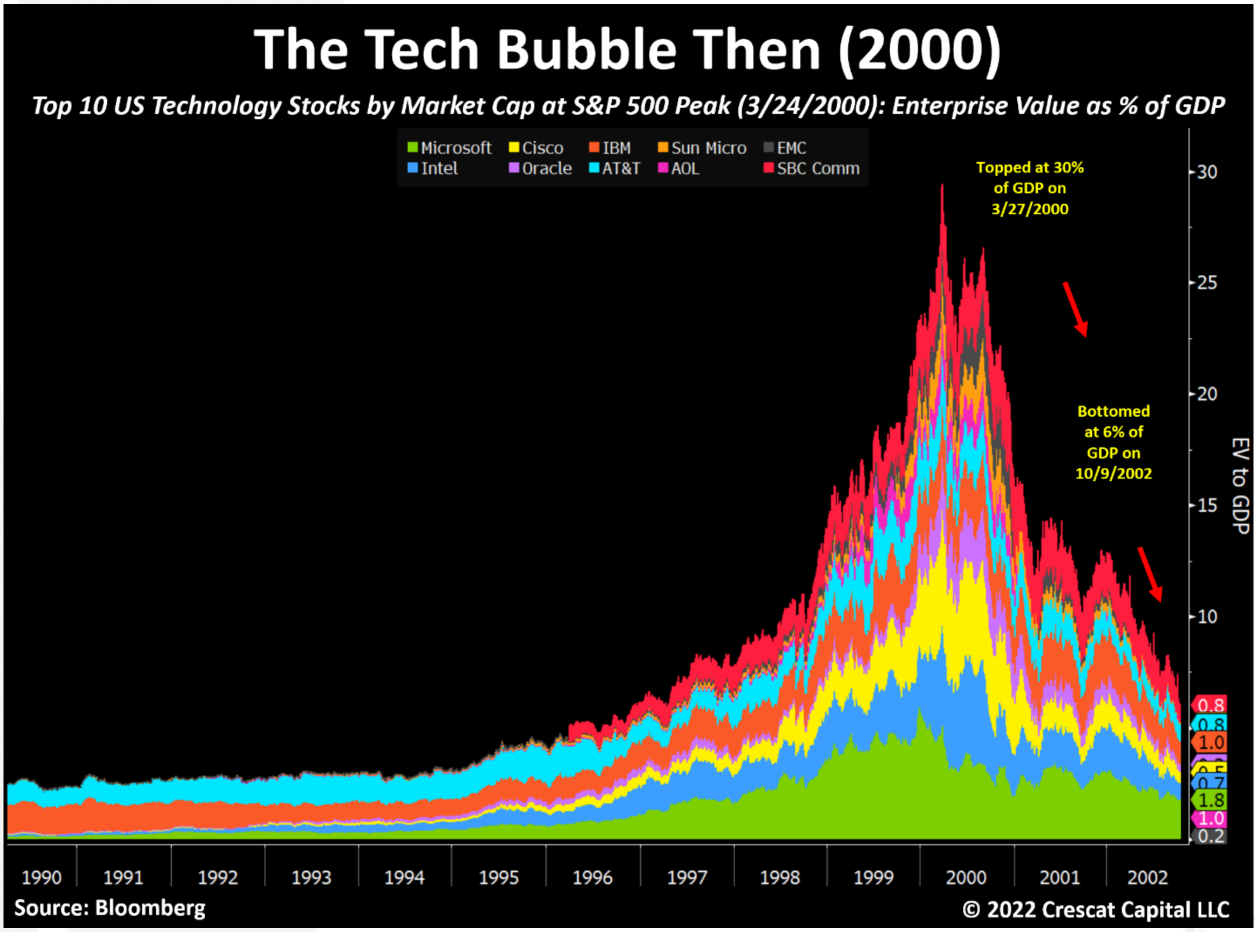
Dear Investors:

In Crescat's analysis, it is still way too risky to buy the dip in mega-cap tech stocks. Valuations are still higher than the PEAK of the dotcom bubble as we show in the two charts below. There is substantial downside ahead based on the comparison to the early 2000's tech bust at its washout point. Our first chart shows the top-10 market cap tech stocks at the beginning of this year in terms of enterprise value relative to GDP.

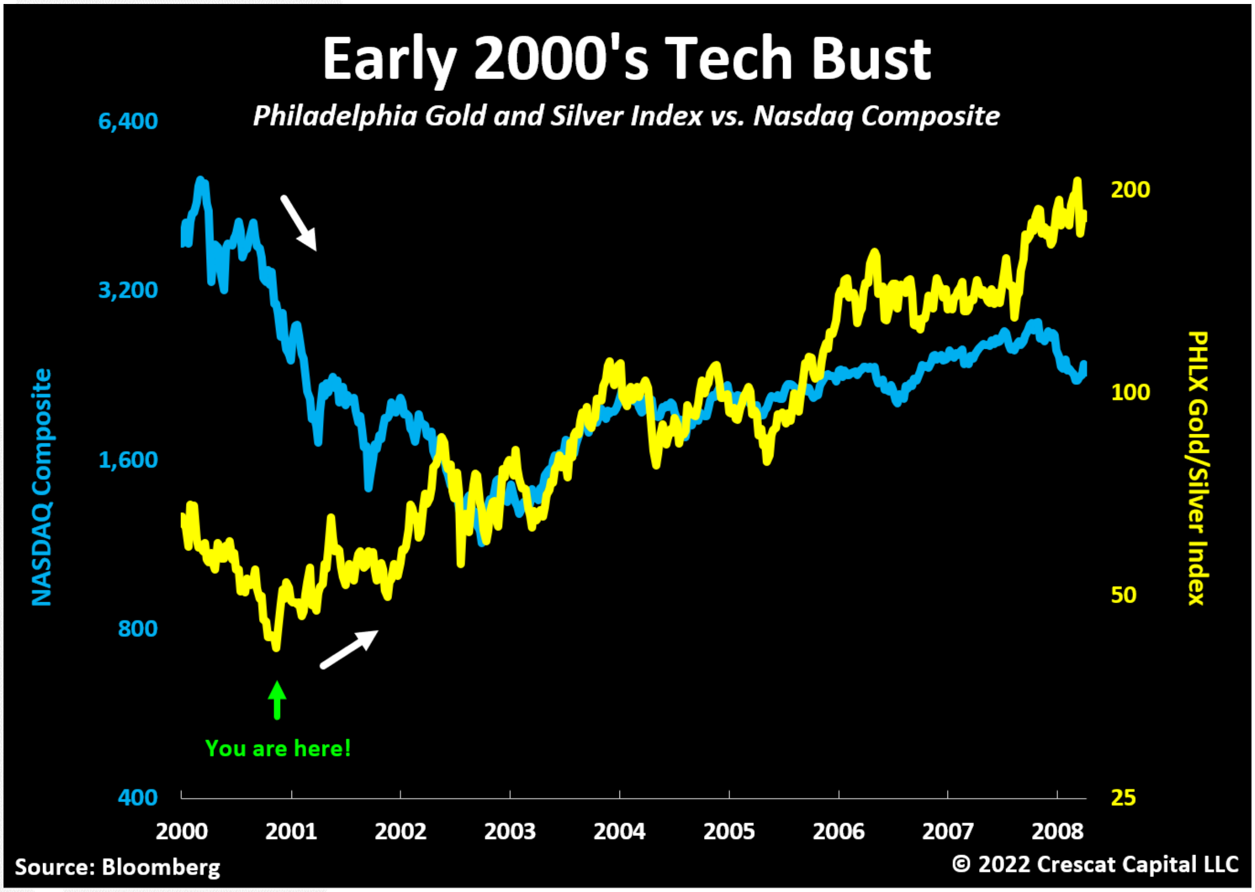
Collectively, these companies ARE the economy. Therefore, they cannot grow any faster than GDP. But even after the recent correction, they are still priced to grow many multiples faster than the economy. It is no surprise that the fundamentals for these firms have already been decelerating dramatically in terms of sales, earnings, and free cash-flow growth trends as the economy itself is headed into a deep recession.



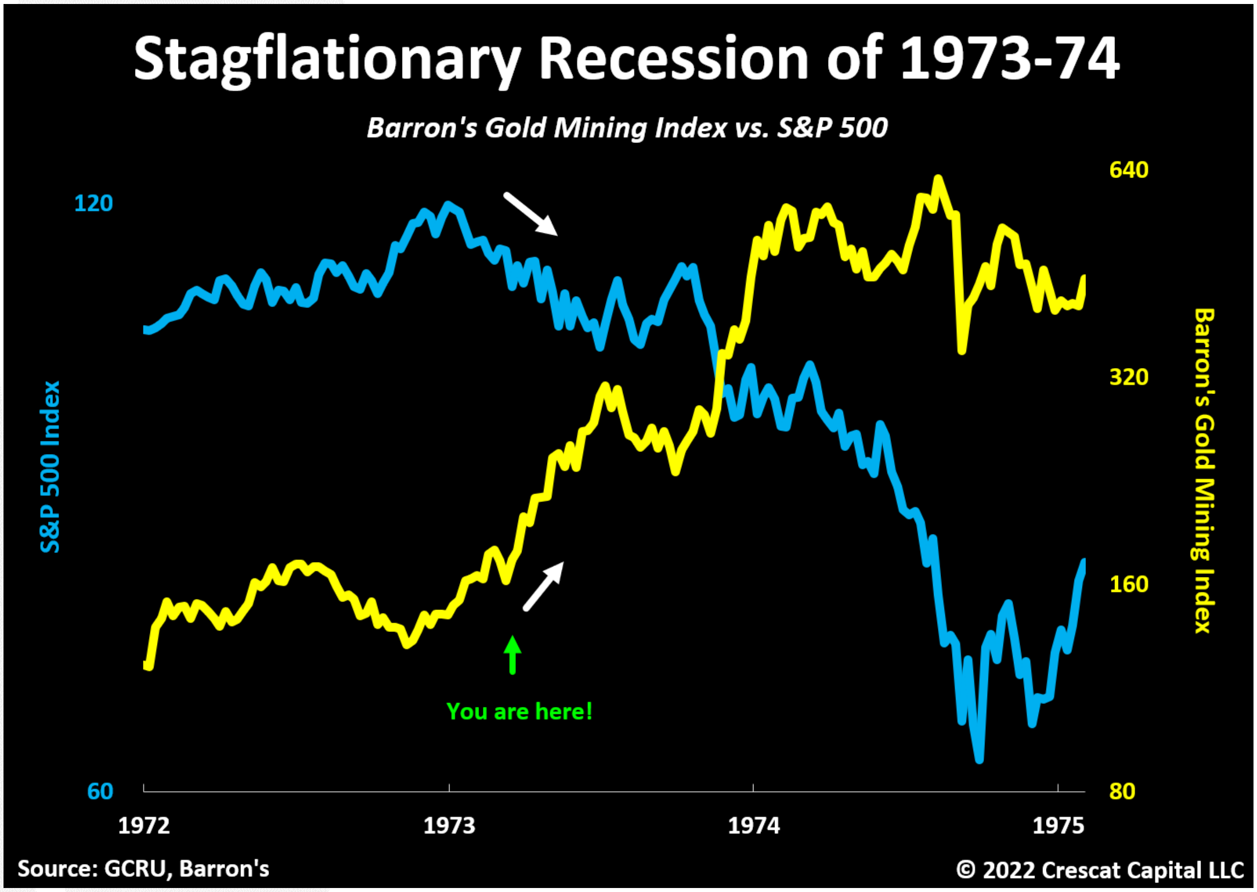
It is important to recall that in the early 2000's tech bust, investors kept buying the dip from 2000 all the way to late 2002 when they finally capitulated at the real bottom. At that point, the top-ten tech stocks had fallen to just 6% EV-to-GDP from a high of 30% as we show below.



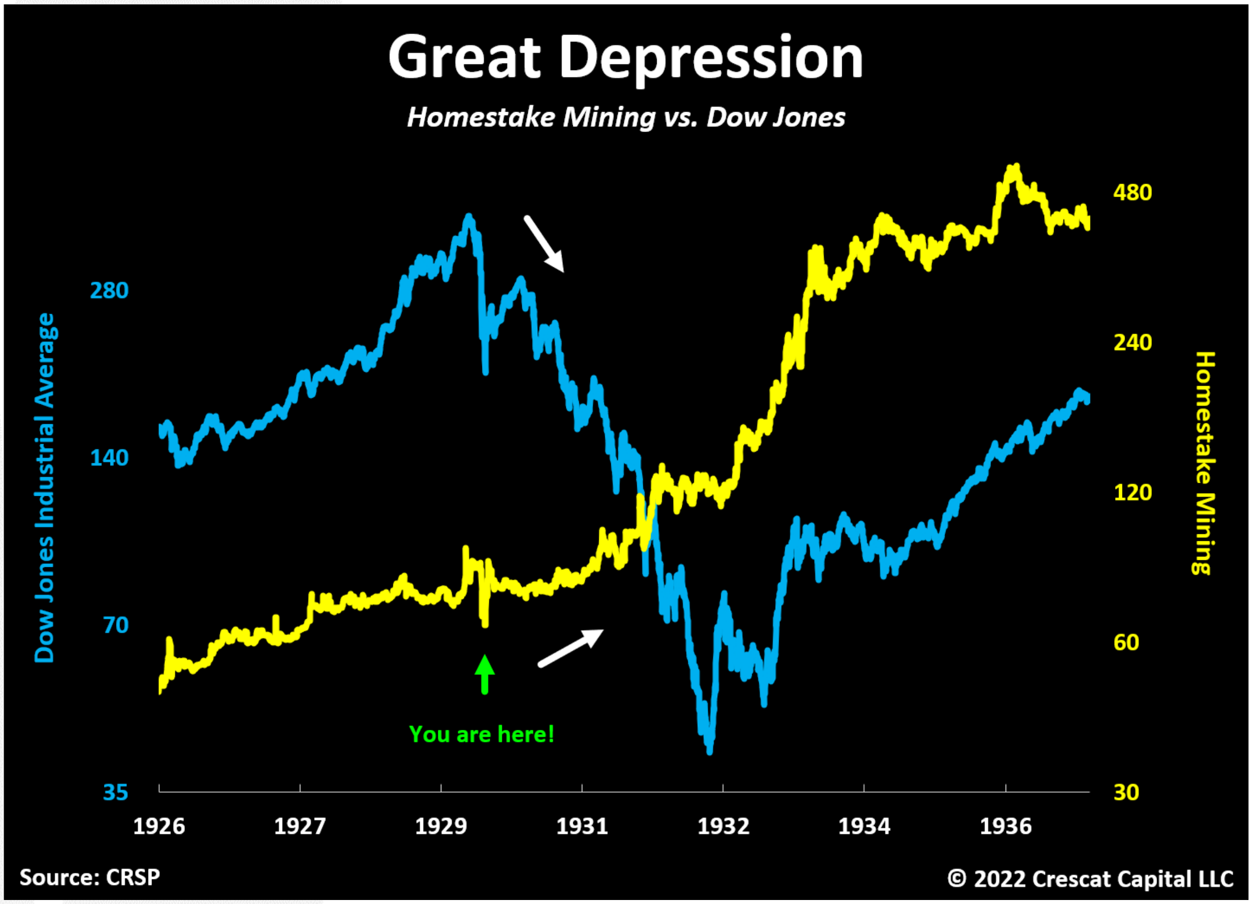
To do well in the stock market investors should strive to overcome their recency bias by searching across multiple business cycles for the macro analogs that apply best today. While there are no perfect comparisons, there are many useful guides. The early 2000's tech bust is a period with many parallels to the current market environment. Tech stocks continued to fall all the way into October of 2002, but the great buying opportunity for precious metals mining stocks started at the end of 2000. That was the major deep-value secular bottom and beginning of a 10-year bull market for gold and silver stocks as well as the beginning of a commodity super-cycle.



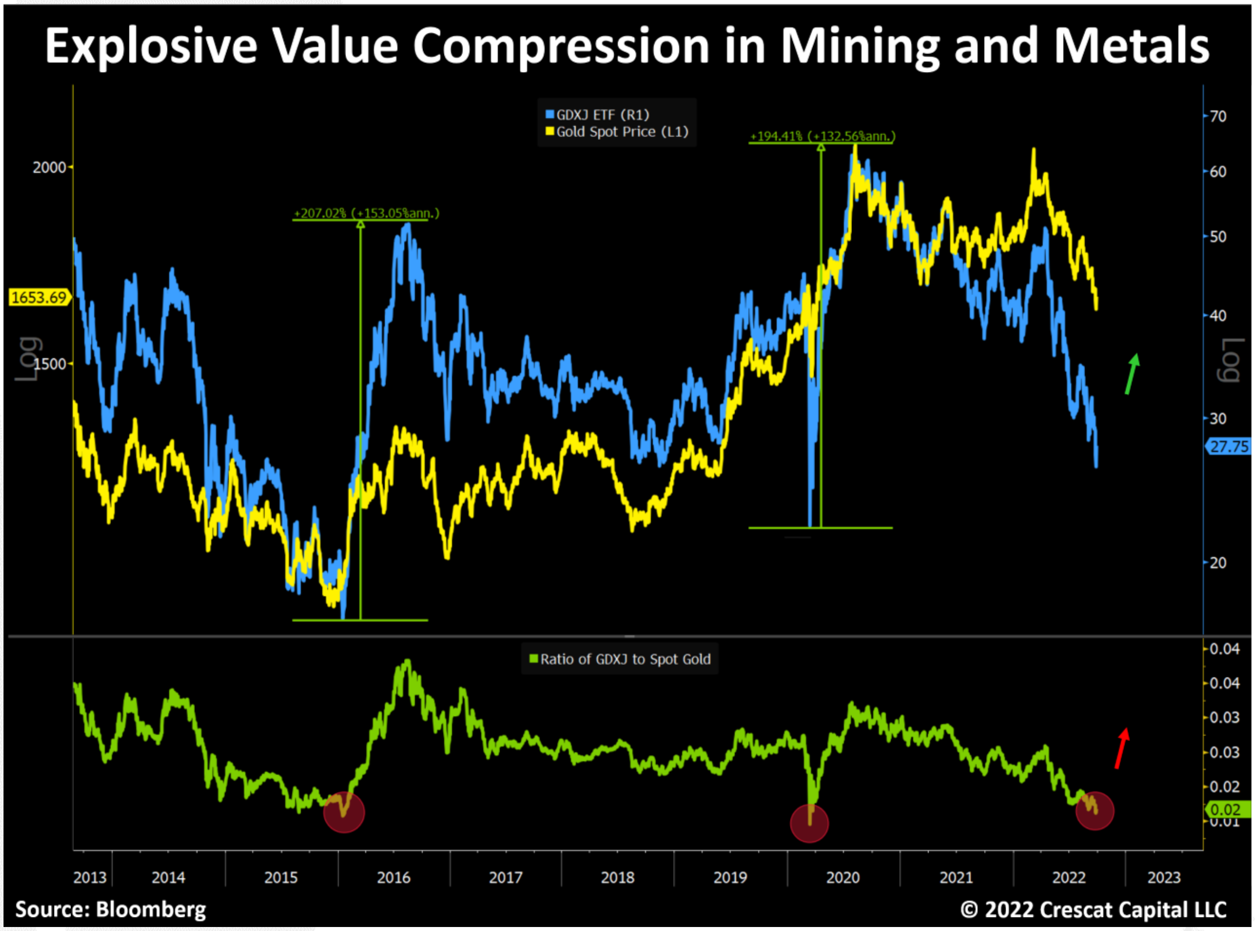
The stagflationary bear market and recession of 1973 to 1974 is another very important period to study. Mining stocks went up 5-fold in just two years while the S&P 500 declined 50%. Large-cap growth stocks known as the Nifty Fifty at the time, the mega-caps of their day, went down substantially more.



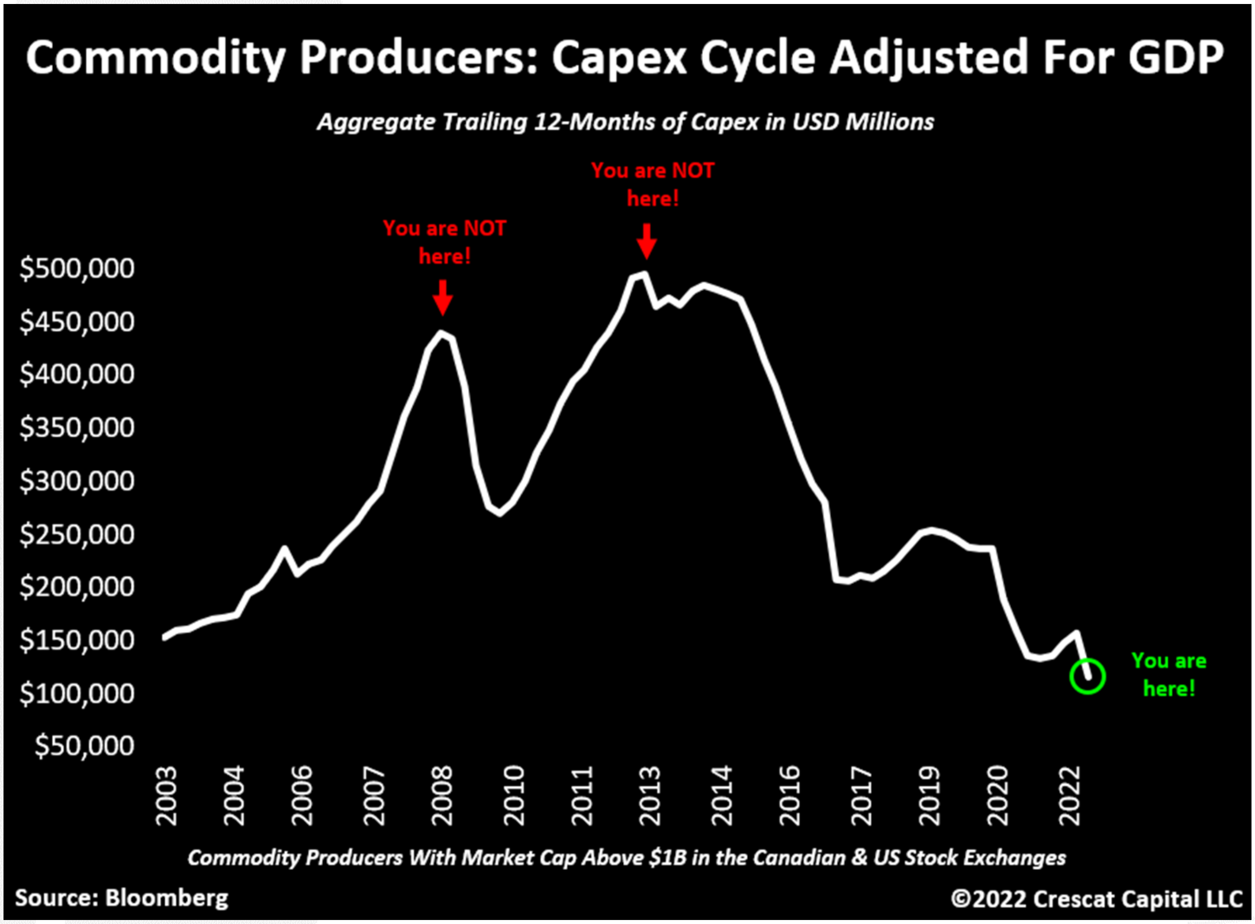
The Great Depression began from the pricking of a valuation bubble like that of 2021. The current one was bigger across multiple valuation metrics as we have shown in prior letters. Even in that deflationary era, the largest gold mining stock appreciated a whopping 7-fold in five years after the 1929 crash while the Dow Jones finished the same period lower.



Shrewd investors who want to take advantage of the recent market selloff, need to look where there has been true, unwarranted carnage. Today, that is the precious and base metals mining stocks.



The Fed is determined to cause a recession to control the demand side of inflationary pressures. By its own admission, the central bank can do nothing to solve the supply-side of the inflationary problem today. As economic Nobel Prize winner Joseph Stiglitz recently advised, the Fed's recent actions are only likely to make supply-side inflationary pressures worse. At Crescat, we have been highlighting the truly unprecedented structural shortages for natural resources which is best illustrated by looking at aggregate CAPEX spending trends for commodity producers. While many investors are selling commodity stocks because they fear it will be another 2008-style deflationary global financial crisis or 2015-style commodity bust, we show below that it is exactly the opposite setup now.



Metals of all varieties are critical to inflation protection, economic growth, and energy transition in the real world today. These are the factors that matter in the current macro environment. The companies that control the best new metals' deposits offer deep value, strong growth, and ultra-high appreciation potential in the stock market now. To really do well, investors should strive to differentiate the best mining companies with the most prospective new discoveries. The good news is that the babies have been thrown out with the bathwater. What a huge opportunity for Crescat's activist precious metals strategy.

Crescat Strategies Net Returns through August 31, 2022

CRESCAT STRATEGIES VS. BENCHMARK (Inception Date)	August	YTD	1-YEAR	3-YEAR	5-YEAR	SINCE INCEPTION	CUMULATIVE SINCE INCEPTION	YEARS SINCE INCEPTION
			Annualized Trailing					
Global Macro Hedge Fund (Jan.1, 2006)	**2.9%**	**38.8%**	**31.9%**	**20.8%**	**13.9%**	**12.9%**	**658.1%**	**16.7**
Benchmark: HFRX Global Hedge Fund Index	0.9%	-3.6%	-3.9%	3.2%	2.0%	1.0%	18.1%	
Long/Short Hedge Fund (May 1, 2000)	**1.4%**	**17.9%**	**15.8%**	**18.6%**	**11.7%**	**8.2%**	**480.5%**	**22.3**
Benchmark: HFRX Equity Hedge Index	0.8%	-2.8%	-0.8%	5.7%	3.6%	2.6%	76.3%	
Precious Metals Hedge Fund (August 1, 2020)	**1.8%**	**-8.5%**	**-6.8%**	**-**	**-**	**63.0%**	**176.4%**	**2.1**
Benchmark: Philadelphia Gold and Silver Index	-9.5%	-25.0%	-25.5%	-	-	-18.3%	-34.4%	
Large Cap SMA (Jan. 1, 1999)	**-3.3%**	**-5.9%**	**9.2%**	**3.7%**	**4.8%**	**9.6%**	**774.1%**	**23.7**
Benchmark: S&P 500 Index	-4.1%	-16.2%	-11.2%	12.4%	11.8%	7.0%	400.7%	
Precious Metals SMA (June 1, 2019)	**-3.6%**	**-15.6%**	**-17.9%**	**17.2%**	**-**	**31.0%**	**140.5%**	**3.3**
Benchmark: Philadelphia Gold and Silver Index	-9.5%	-25.0%	-25.5%	1.0%	-	12.3%	46.0%	

Please contact Marek, Cassie, or Linda if you are interested in taking advantage of the value opportunities we see in the market right now.

Sincerely,

Kevin C. Smith, CFA
Member & Chief Investment Officer

Tavi Costa
Member & Portfolio Manager

For more information including how to invest, please contact:

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Separately Managed Account (SMA) disclosures: The Crescat Large Cap Composite and Crescat Precious Metals Composite include all accounts that are managed according to those respective strategies over which the manager has full discretion. SMA composite performance results are time weighted net of all investment management fees and trading costs including commissions and non-recoverable withholding taxes. Investment management fees are described in Crescat's Form ADV 2A. The manager for the **Crescat Large Cap** strategy invests predominantly in equities of the top 1,000 U.S. listed stocks weighted by market capitalization. The manager for the **Crescat Precious Metals** strategy invests predominantly in a global all-cap universe of precious metals mining stocks.

Hedge Fund disclosures: Only accredited investors and qualified clients will be admitted as limited partners to a Crescat hedge fund. For natural persons, investors must meet SEC requirements including minimum annual income or net worth thresholds. Crescat's hedge funds are being offered in reliance on an exemption from the registration requirements of the Securities Act of 1933 and are not required to comply with specific disclosure requirements that apply to registration under the Securities Act. The SEC has not passed upon the merits of or given its approval to Crescat's hedge funds, the terms of the offering, or the accuracy or completeness of any offering materials. A registration statement has not been filed for any Crescat hedge fund with the SEC. Limited partner interests in the Crescat hedge funds are subject to legal restrictions on transfer and resale. Investors should not assume they will be able to resell their securities. Investing in securities involves risk. Investors should be able to bear the loss of their investment. Investments in Crescat's hedge funds are not subject to the protections of the Investment Company Act of 1940. Performance data is subject to revision following each monthly reconciliation and annual audit. Current performance may be lower or higher than the performance data presented. The performance of Crescat's hedge funds may not be directly comparable to the performance of other private or registered funds. Hedge funds may involve complex tax strategies and there may be delays in distribution tax information to investors.

Investors may obtain the most current performance data, private offering memoranda for a Crescat's hedge funds, and information on Crescat's SMA strategies, including Form ADV Part II, by contacting Linda Smith at (303) 271-9997 or by sending a request via email to lsmith@crescat.net. See the private offering memorandum for each Crescat hedge fund for complete information and risk factors.