Quarterly Brief

Exclusive updates and insights for discerning investors.

Q3 2024

General Commentary

We continue to stay focused on long-term success through capital preservation and a long-term investment mindset. Part of these efforts have always included tax strategies we believe to be effective for investment portfolios. To that end, in 2025, we will introduce several new strategies to manage the tax liabilities associated with investment portfolios. As a firm, we have deliberately constructed portfolios that hold individual stocks, direct real estate investments, and direct private equity investments. No funds. Adopting this approach allows for control around the timing of a sale and aims to reduce current and future tax liabilities.

Financial Markets

We delayed this letter a few weeks, pending the election outcome.

With the elections now behind us, we are faced with determining campaign rhetoric versus actual policy—no easy exercise. While we don't have an exact roadmap, we have a high-level expectation of what's ahead.

The most likely path forward includes:

1. Higher trade tariffs.
2. Larger budget deficits.
3. A smaller government.
4. Higher interest rates.
5. An external challenge to existing government establishment.

As more information becomes available, we expect guessing and pontificating to dominate the news. If some or all of the above-listed changes materialize, we expect more market volatility than we've seen in the past four years. As long-term investors, we favor volatility as it provides us with an opportunity to acquire attractive assets at reasonable prices.

To that end, I am often asked about "the market" or "the stock market." The question is usually asked to solicit a forecast from me. The reality is that we spend no time trying to predict the market's direction. However, more recently, I have been thinking more about the term "stock market." What does it mean today? Has the definition changed?

I ask because the composition of the U.S. stock market has changed materially in recent years. For example, the Mag 7 (the top seven stocks by market capitalization) make up 31% of the SP 500 index today. Said differently, the Mag 7 has a market cap of $16.6 Trillion versus a total U.S. market cap of $54 Trillion.

What is more interesting to me is that the Mag 7, with a market capitalization of $16.6 Trillion, is larger than the entire stock market of China, the United Kingdom, Japan, India, and Hong Kong.

Symbol	Name	Market Cap ($MM)
NVDA	NVIDIA Corporation	$3,482,769
APPL	Apple, Inc.	$3,401,060
MSFT	Microsoft Corporation	$3,085,476
AMZN	Amazon.com, Inc.	$2,130,446
META	Meta Platforms Inc. Class A	$1,398,499
GOOG	Alphabet Inc. Class C	$2,119,198
TSLA	Tesla, Inc.	$1,029,530
Total (Mag 7)		**$16,646,978**
U.S. Market		$54,000,000
China		$12,000,000
United Kingdom		$10,243,832
Japanese Stock Market		$6,633,000
India		$5,663,221
Hong Kong		$4,746,241

While ignoring these companies' prowess, success, dominance, and ingenuity is tough, it's hard to reconcile their size relative to the U.S. market and the exchanges in other countries. How long these companies can maintain their dominance is unclear. What is clear is that so go these companies, so goes the "stock market." The impact these seven stocks have on the market's overall valuation and direction has become more intense in recent years, making any question about the U.S. stock market harder to answer. With this dynamic at play, the SP-500 mostly reflects these seven companies' health, not the broader market or U.S. economy, which the index is supposed to do.

The markets' daily, weekly, and monthly gyrations do not occupy our thinking. We do, however, spend time on the larger secular trends that are at play. Today, these include AI, national debt, changing tariffs, and the geopolitical landscape. Our time is spent ensuring that we understand these trends, invest, and adjust accordingly.

Equity Update

We continue to hold a portfolio of what we believe to be high-quality, well-run, durable, market-leading companies. Irrespective of how the economy performs in the coming years, we expect the companies we hold to perform well in the long term.

From a portfolio perspective, we were quite active during Q3 2024. We reduced exposure to several holdings that had experienced material price increases. We also added and initiated new positions during market weakness in early August.

Overall, we are quite satisfied with the performance of our equity portfolio and believe we have an attractive mix of well-run, established companies and some new emerging companies that are executing at a high level, and we believe are performing well.

Fixed Income Update

We continue to see fixed income as an attractive investment destination. With higher interest rates, we're seeing attractive fixed income return opportunities. Our fixed income portfolio combines high-quality corporate bonds, treasuries, and floating-rate private credit holdings.

The changes we made to the fixed-income portfolio early in 2024 have delivered strong performance thus far for the year. Despite the Federal Reserve Banks' continued messaging about lowering interest rates, longer-term bonds (like the 10-year U.S. Treasury) behave like rates will be higher over the longer term, most likely due to higher inflation expectations.

If inflation does indeed reappear in the coming quarters, we'd expect fixed income returns to once again turn negative. We are watching carefully to see if this outcome is likely and will adjust the portfolio accordingly.

Real Estate Update

As mentioned in recent letters, the impact of higher interest rates is slowly working its way through the real estate sector. Higher rates, excess supply, and increasing operating expenses impact property owners across the U.S.

Our portfolio is not immune to these headwinds. We own a handful of real estate investments that have slowed or stopped distributions as they navigate this challenging period.

Delinquency rates on mortgages are increasing but still manageable. The real test will be in 2025 and 2026 when most low-interest loans originated in 2020 and 2021 begin to mature. Refinancing these loans will create opportunities for investors with cash to deploy capital at attractive rates of return. We are watching and preparing.

Private Equity Update

The private equity sector continues to lurch forward. Financing is still a challenge, and we continue to see attractive opportunities struggle to get financing. In contrast, the prospects of lower interest rates were expected to contribute to an improved lending environment that has yet to materialize. These are alternatives available. Non-bank private lenders are disintermediating traditional bank lenders, and while this capital is available, it comes with higher rates and more restrictive terms.

We have purposely slowed our private equity investment cadence and are preserving cash.

Summary & Firm Updates

Your team at Carmel Capital continues to perform and execute at a high level. I am proud of our ability to deliver what we believe to be excellent investment results and client service levels despite moving offices and the distractions of a national election.

As a firm, we continue to focus on the road ahead and have a constant eye towards long-term planning and preparation. We are grateful for your trust and relationship, and the team at Carmel Capital is working hard each day to deliver on its promise of Advice, Relationships, and Results.

We hope you found this brief valuable, and we encourage you to share it with your fellow investors. For further discussion or personalized advisory, please reach out to info@carmelcap.com, 858-457-7544, or visit our Contact Page.

About the Founder

Russell Silberstein

Prior to forming Carmel Capital Partners in 2002, Russell was a managing partner at Bedell Investment Counseling, LLC, a San Francisco Bay Area firm with $120 million in assets under management. He held the position of Director of Research & Portfolio Manager from 1996 to May 2001 at Bedell Investment Counseling, LLC. He was also the managing partner of the Harmony Fund, LP, a long/short investment fund. Russell graduated from San Diego State University.

About Carmel Capital Partners

Carmel Capital Partners was founded in 2002 by Russell Silberstein with the goal of delivering stable long-term returns to individuals, families, and entrepreneurs through opportunistic, value-oriented investments. The firm serves individuals, families, and entrepreneurs across California and manages approximately $333m in assets as of September 2024.