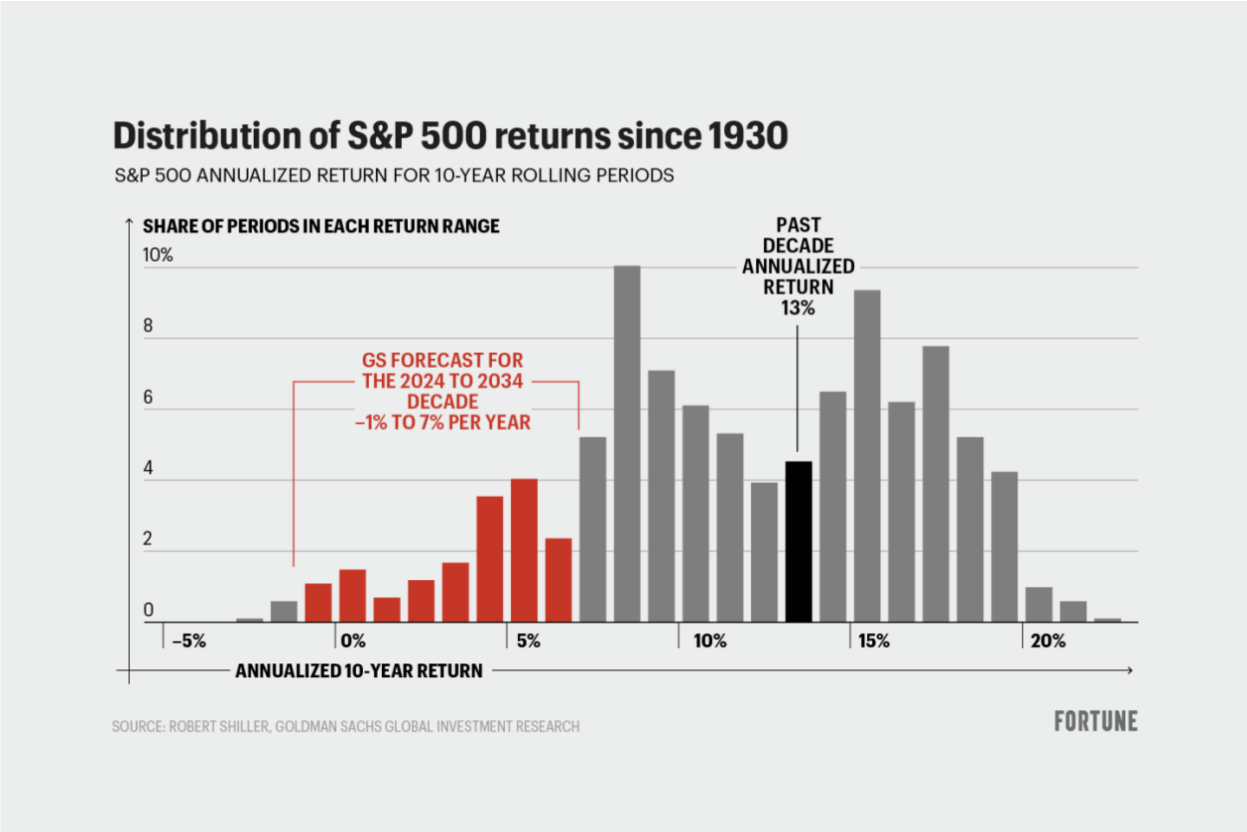
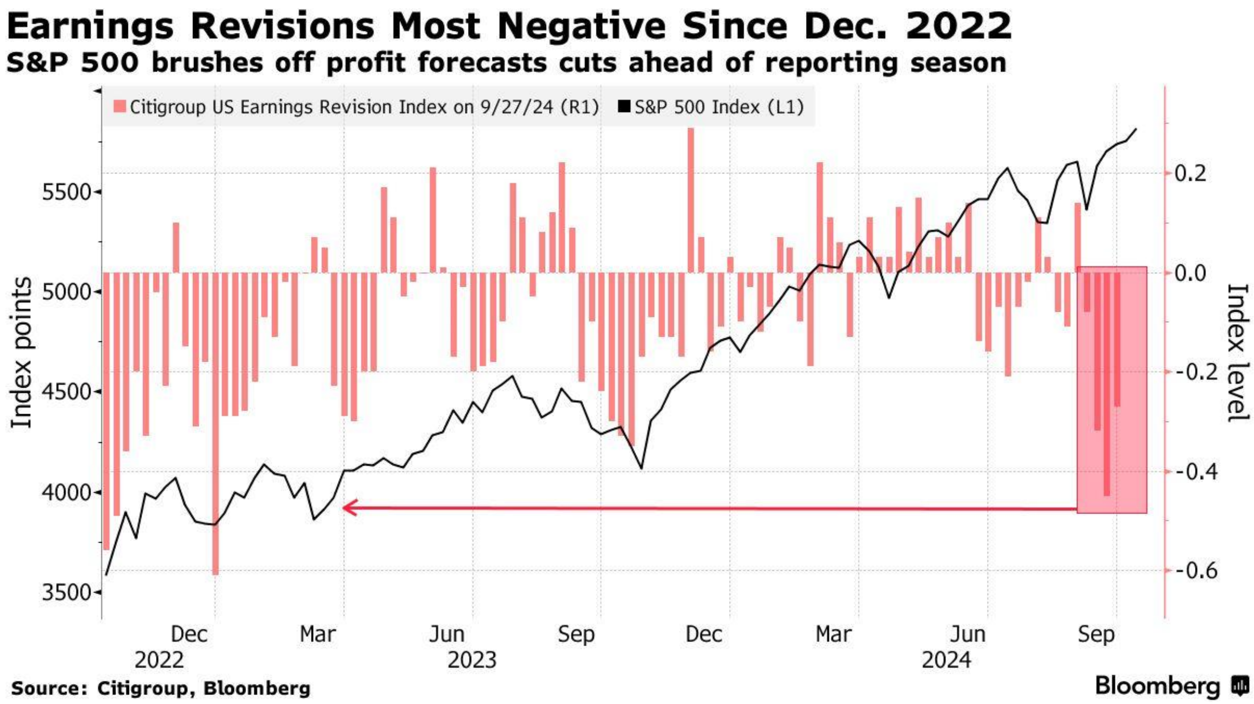
Back at it, with the December 31st finish line in sight. And boys and girls, we've seen a lot this year. Most importantly, for those long these markets, we've seen a lot of gains. A bunch of giant Sequoia sized redwoods growing to the sky kind of gains.

So, it came as quite a surprise, the kind of which requires you to read it over a couple of times, when the very well pedigreed strategists at the top of Goldman Sachs pool of strategists, have come out with their prediction that equity returns over the next decade will be fraction of what they have been for the past ten years. While I didn't ace stats back in college, I do know that 7% is a little more than half of 13%. And that 3% is an even smaller fraction of that.



You want to add a few more logs to that fire of intrigue? Goldman further said that there is a 33% chance that equity returns won't keep up with inflation for the next decade. Let me repeat that. There is a one in three chance that you won't make enough money owning stocks to keep up with what things cost. If all these things happen, Big Foot, the Easter Bunny and the Tooth Fairy are now back on the table.

Last month, I wrote about revisions to forward earnings coming in (being cut) much more than they had in the past. Bloomberg colored me up last week by running an article highlighting (lowlighting) as much. This is the Fed's case for cutting interest rates. Stocks are stocks, the market is the market, bottom-up earnings are just that, as are top-down macro forces. In this case, it's going to be earnings down, interest rates down, at least for now. Buckle up, buttercups.



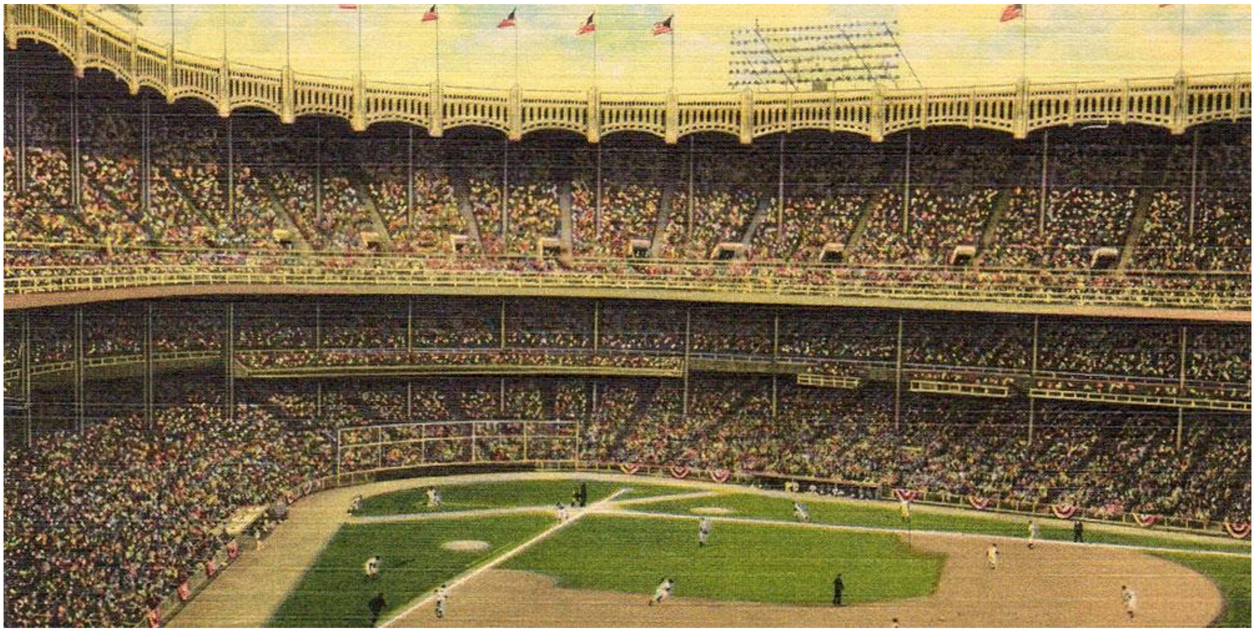
I keep going back to the fundamental underpinning of why markets of all asset class design and structure continue to have such incredibly strong returns. And the best reason I continually come up with is that there is no real risk-free rate anymore. It's all risk free. Treasuries were the cool kid, but now everybody gets to be backed by the full authority of the Federal Reserve.

Wall Street Prep

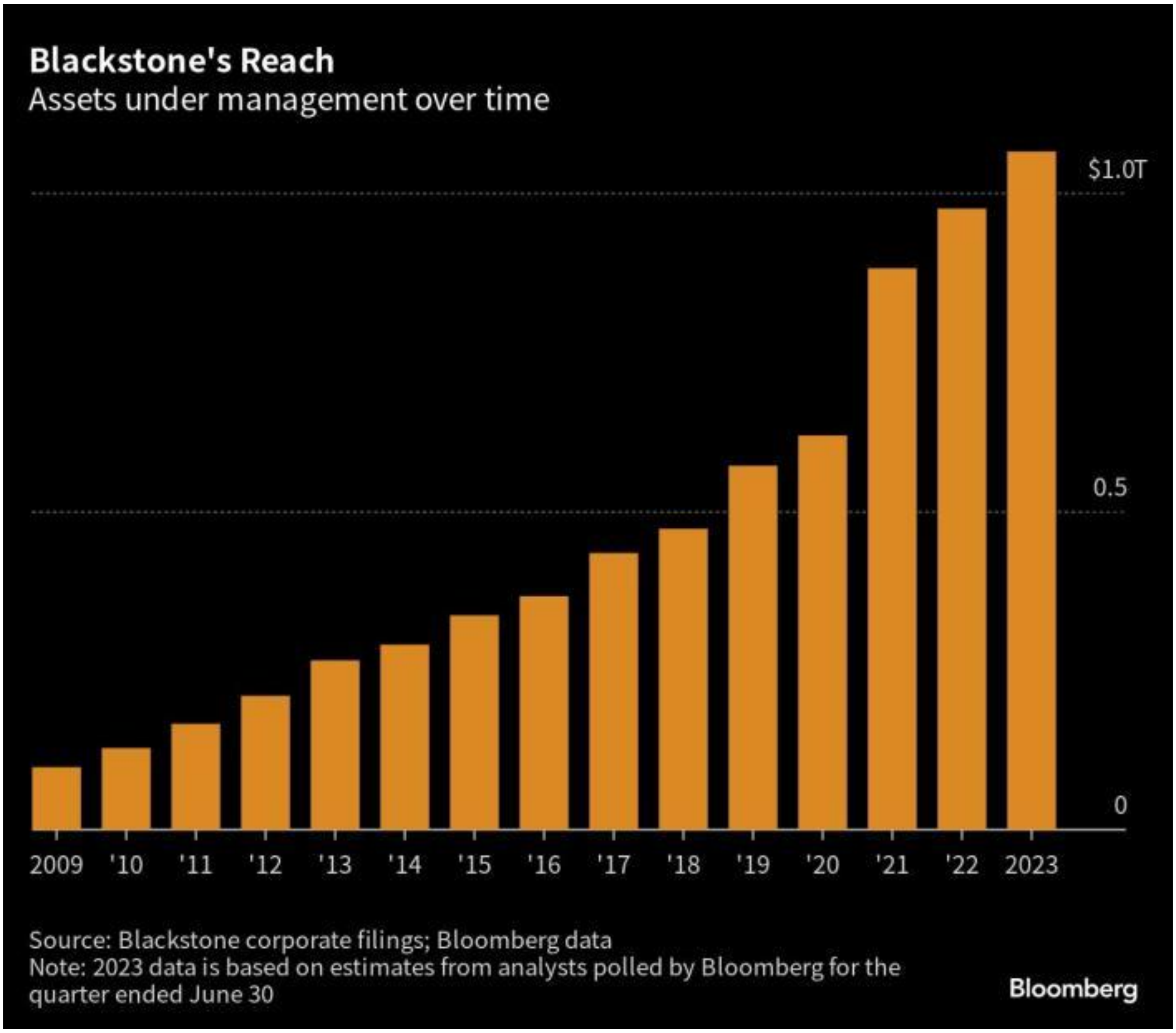
$$\text{Real Risk-Free Rate} = \frac{(1 + \text{Nominal } R_f \text{ Rate})}{(1 + \text{Inflation Rate})}$$

$$\text{Nominal Risk-Free Rate} = (1 + \text{Real } R_f \text{ Rate}) \times (1 + \text{Inflation Rate}) - 1$$

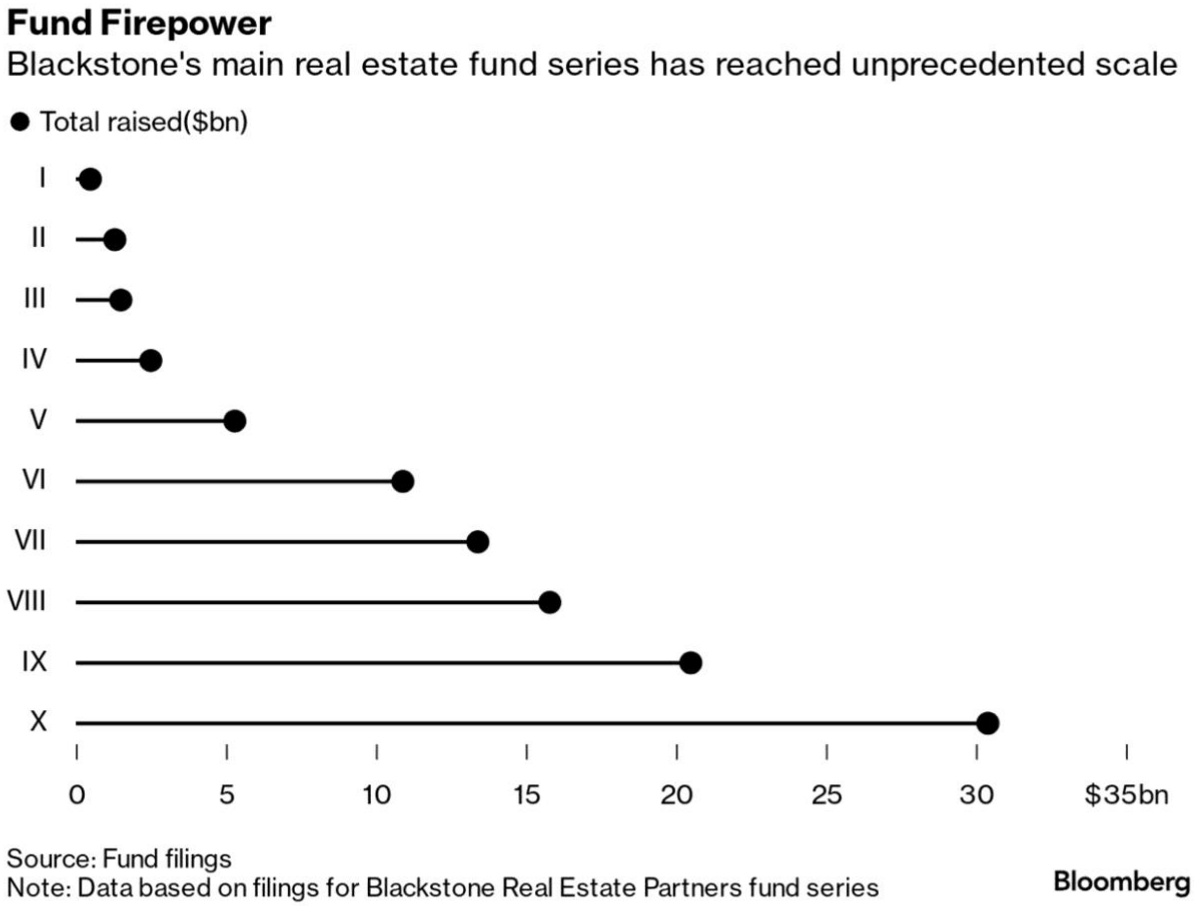
With a backstop like that, the Fed guaranteeing your trade, only the fool would not be long. And I don't care if it's old Yankee Stadium, or the new one. It's still a massive metaphorical green light to swing as hard as you can…at every pitch. There are unlimited pitches, and nobody strikes out.



Let me take that one step further and have you see with your very own eyes what that looks like when you put the world’s largest private equity firm, Blackstone, behind that same trade. For the love of God, they’ve almost double assets under management from $500 billion to $1 trillion over the last four years. Thanks, global pandemic, we owe you one.



Wonder why residential real estate is completely upside down and backwards? Because firms like theirs can raise baskets of billions of dollars of cheap money and go on a shopping spree like no other. And there is zero chance that this unwinds itself anytime soon. The Genie is out of the bottle, and he and Pandora are now living together in her box.



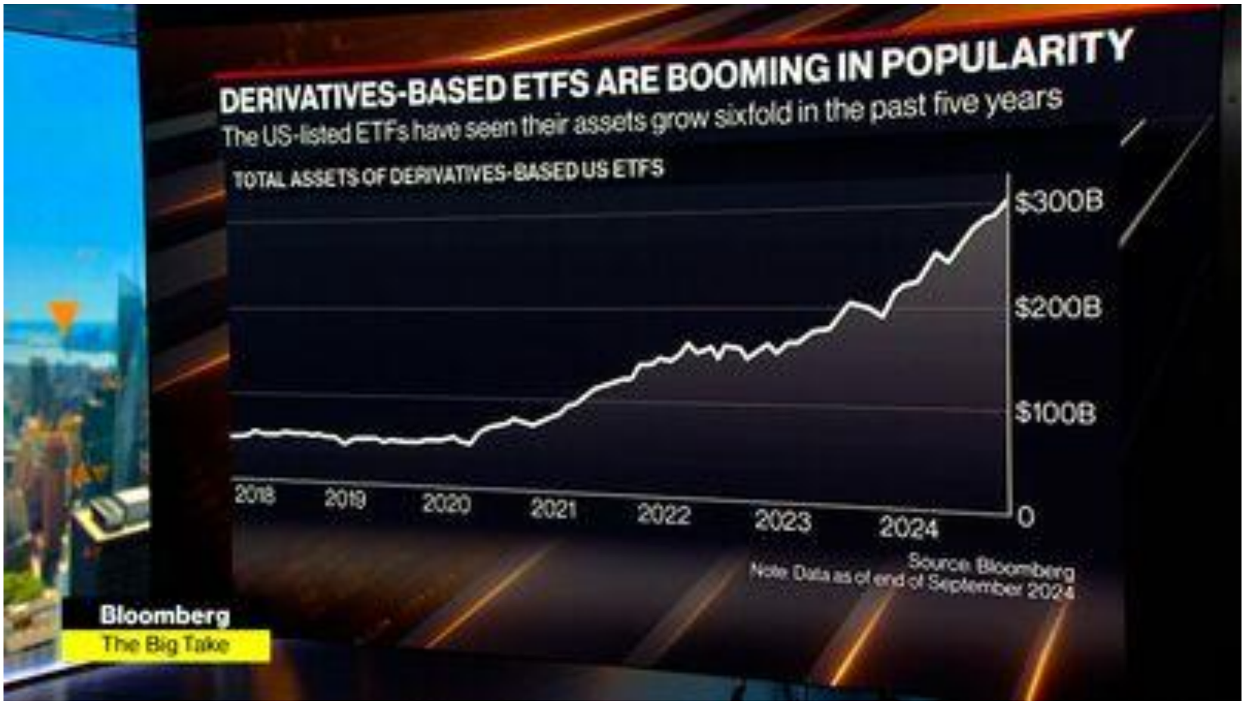
A story that ran in the SF Gate, a site affiliated with the San Francisco Chronicle, reported last week that the little bedroom community of San Jose, California was the most expensive place to live, and to do so comfortably, you would need an average income of $265,000. Flip side to that, it's in the absolute heart of old school Silicon Valley. Employers know all of this and aren't afraid to lace heavy amounts of stock options into the equation. But still, a quarter mil is a quarter mil.

Authors Note: Pictured above is Tower Hall on the campus of San Jose State University. In June of 1990, our graduating class from Homestead High School in nearby Cupertino, held its Baccalaureate event there. Prior to this, every class of Mustangs did the same at Stanford's Memorial Church. Below is what the inside of it looked like after the 1989 Loma Prieta earthquake. While we couldn't make this venue happen in time, I did catch many a Cardinal football game nearby with the 14,000 other brave souls who managed to get tickets. Fear the tree!

The whitest of ‘White Shoe’ firms on Wall Street, reported a big jump in earnings from the year prior last week. That of course assumes 45% is a big bump. Here are the highlights as Bloomberg wrote them up, along with my unvarnished comments. For those interested, this is a great way to look at how most bulge bracket banks, with global reach and multiple lines of business, operate.

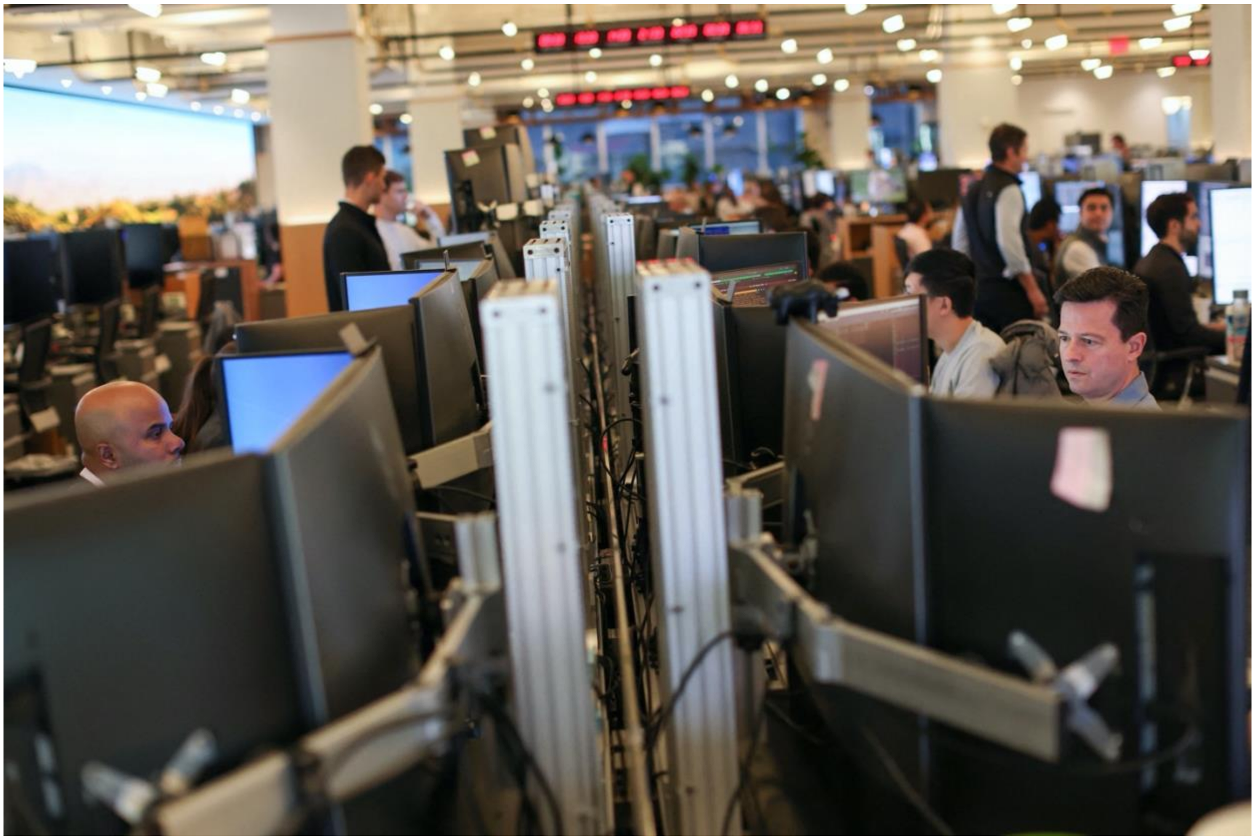
The stock-trading unit logged revenue of $3.5 billion, its best showing since the first quarter of 2021. The firm credited significantly higher intermediation revenue in derivative and cash products.

The term stock trading doesn’t really do this divisions business much justice. The act of buying and selling for client accounts has been reduced to razor thin margins. That said, derivative creation and sales is a much more lucrative business. And product structures like derivative based ETFs have been on an absolute tear. Look no further than the 6X growth of derivative based ETFs over the last five years.



Revenue from the fixed-income trading business slipped 12% to $2.96 billion, as it flagged lower revenue in rates and commodities. In August, the bank said the co-head of its commodities business, Qin Xiao, was leaving after just a few months in the role at a time when gains in that business have slowed.

The trading side of Goldman, like most any other, can be volatile if there are large shifts in the markets that aren't hedged. This division is what it sounds like, trading. Goldman Sachs uses its balance sheet and liquidity to provide its trading group capital to trade. There is a risk committee that monitors, daily, where and how the 'book' is positioned. This can be across assets and in this case includes commodity trading.



Interesting footnote. In 1981 Goldman Sachs bought J. Aron, a commodity trading firm that specialized in metals. The WASPy banking side of the business thought so little of these ‘pikers’ that they made them take separate elevators. Well, it would turn out that Goldman’s future leadership would come from the meager beginning. Gold specialist Lloyd Blankfein would become CEO. Utility player Gary Cohen would follow his lead and become President and CEO. And finally, fellow alum, Harvey Schwartz would become Chief Financial Officer.

Investment-banking revenue of $1.87 billion compared with analysts' average estimate of $1.68 billion. Merger-advisory fees were $875 million. Goldman jumped out in front of JPMorgan Chase & Co. on that metric after falling behind its rival in the second quarter.

This is the glamour business at Goldman Sachs. As an associate or director, you sit the in middle of all dealmaking. That is mergers, acquisitions, advisement, and anything else that would require a company come in for advice and execution of strategic actions. To give you an idea of how big they play, here are the rankings for big banks working on deals in Europe. For the first three quarters of 2024, Goldman worked on $65 billion worth of billable deals. Next up was Morgan Stanley with a paltry $45 billion.

Europe M&A Top 10 Financial Advisers by Total Deal Value US$ (mn) & Volume Q1-Q3 2024

Ranking by Value

	Q1-Q3 2024			Q1-Q3 2023			
Adviser Name	Rank	Value US$ (mn)	# Deals	Rank	Value US$ (mn)	# Deals	YoY Change
Goldman Sachs	1	67,371	42	2	40,567	17	66.1%
Morgan Stanley	2	45,643	33	4	31,410	23	45.3%
Lazard	3	40,356	64	7	25,822	60	56.3%
Barclays	4	38,144	35	3	34,376	20	11.0%
Deutsche Bank	5	31,750	28	27	4,505	10	604.8%
UBS	6	30,410	43	14	11,672	29	160.5%
Rothschild & Co	7	26,888	114	1	49,038	161	-45.2%
Evercore	8	23,380	26	13	12,387	29	88.7%
Citi	9	18,722	14	10	23,086	8	-18.9%
JP Morgan	10	18,262	16	8	24,661	27	-25.9%

Ranking by Volume

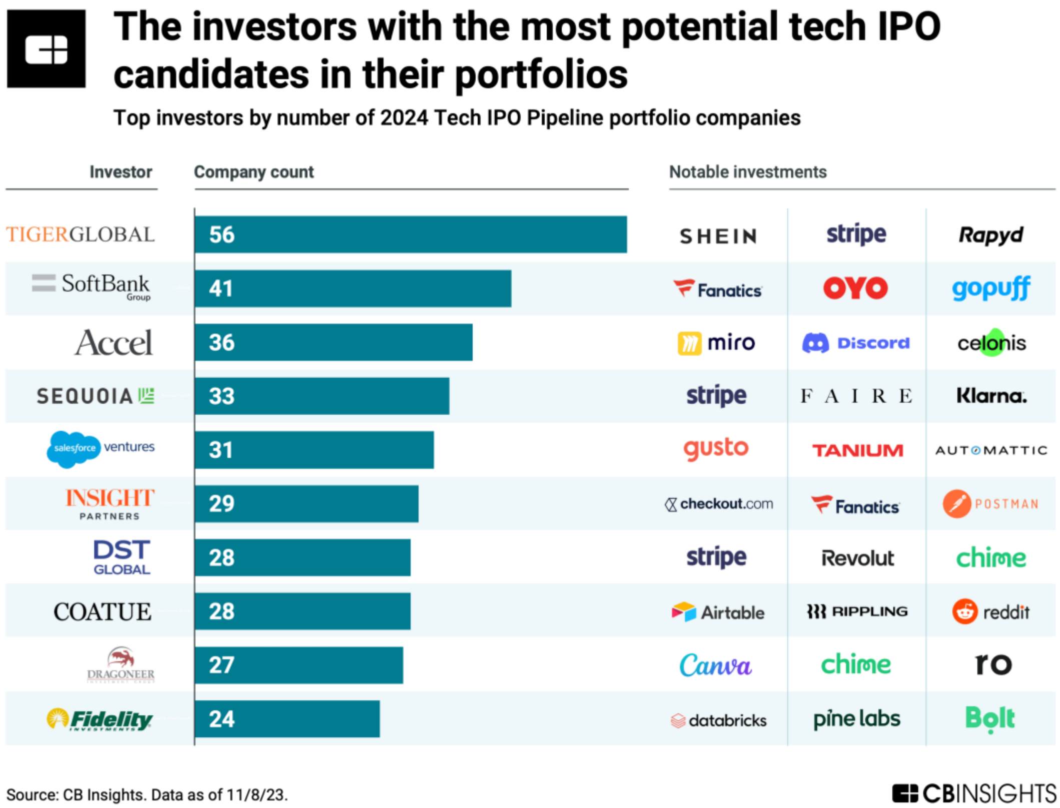
	Q1-Q3 2024			Q1-Q3 2023			
Adviser Name	Rank	# Deals	Value US$ (mn)	Rank	# Deals	Value US$ (mn)	YoY Change
Rothschild & Co	1	114	26,888	1	161	49,038	-29.2%
PwC	2	91	13,278	3	97	3,888	-6.2%
Clearwater International	3	78	399	5	69	222	13.0%
Ernst & Young	4	77	3,427	4	86	13,484	-10.5%
KPMG	5	73	246	2	113	4,030	-35.4%
Deloitte	6	65	7,731	8	60	7,692	8.3%
Lazard	7	64	40,356	7	60	25,822	6.7%
Houlihan Lokey	8	60	5,549	6	65	2,877	-7.7%
Clairfield International	9	50	56	9	45	105	11.1%
UBS	10	43	30,410	11	29	11,672	48.3%

Notes:
1. GlobalData's League table ranking is based on deal value. If value remains same for multiple advisers, the volume is given weightage, or vice versa
2. League table ranks are considered till 99, any rank above that has been mentioned as "-"
3. YoY % change are considered till 999%, any change above that has been mentioned as "-"

GlobalData. Source: GlobalData Financial Deals Database

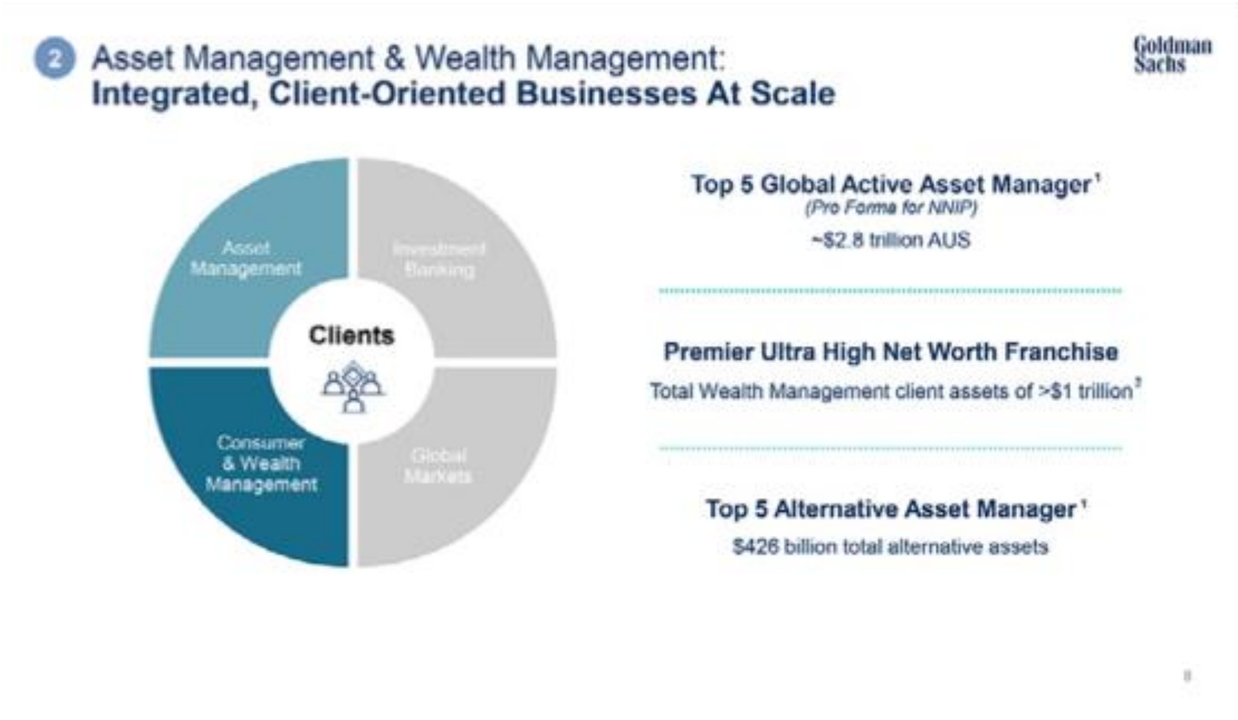
Its equity-underwriting business posted revenue of $385 million and debt-underwriting revenue was $605 million.

Pretty straight forward here. In the underwriting business a bank puts together a deal to sell convertible debt or equity and makes money for their effort. No bank capital at risk. Simply a group of dealmakers who structure ways for companies to raise some dough. Great chart showing what top tier venture capital are invested in what, and where the pipeline looks to be. Goldman, and others, put the underwriting together to create 'exits' from previous rounds of venture investing. This is the opportunity to monetize the effort by taking a company public.



Goldman's asset- and wealth-management business posted revenue of $3.75 billion, up 16% from a year earlier. Management fees climbed 9%. The bank reported $16 billion of fundraising in the alternatives business, mostly tied to credit-related strategies.

So, this is an interesting side of the story. Asset and wealth management twenty or thirty years ago might still have been referred to as 'stock brokerage'. Today's it's wealth advisement and it's all the rage. Why? Because there is a consistency in booking of revenue that you don't see in the other parts of the business. Second, if the market goes up, Goldman makes more money as there are more assets to attach a management fee to. This division also includes Goldman managed investment strategies.



The consumer-platforms business, dubbed the bad bank within Goldman, recorded a 32% drop in revenue to $391 million, driven by the GM card exit and resulting in a pretax loss of $559 million.

Not much more to say about this than it's been a dumpster fire, almost from the get-go. Hatched in 2016 amongst the highest brass of brass, Marcus was intended to go down market and make up for account size with volume. The bogey was to begin to make the division look like J.P. Morgan's Chase with office from Park Avenue to Park Village. It didn't work, and the firm was divided almost from the get-go.

I know bad ideas. And having Goldman Sachs be the bank behind the Apple Card, is a giant one of them. And from start this was setup as a one sided trade that Goldman was on the losing end of. Apple, on the other hand, was getting what it wanted.

- No fees on the front end, so GS couldn't make money.
- Statements sent on the same day stressing operations.
- Lending to a larger audience, with a certain cohort much less likely to stay current on balances.
- On demand text support that was on Goldman's dime.
- And one that is really tough to take down, daily cash back on certain purchases.

So, there you have it, a colossal failure cherry on the top of a bad idea sundae. It looks now like JP Morgan will be taking over, I'm sure with better economics for the bank. We wish them well in their endeavors.

A little news from the San Diego real estate scene, though this one is not so little. In fact, the listing price is twice that, and then some, of the last record sale of $40 million. I give you ‘The Sand Castle’, which can be yours for the low low price of $100 million, give or take.

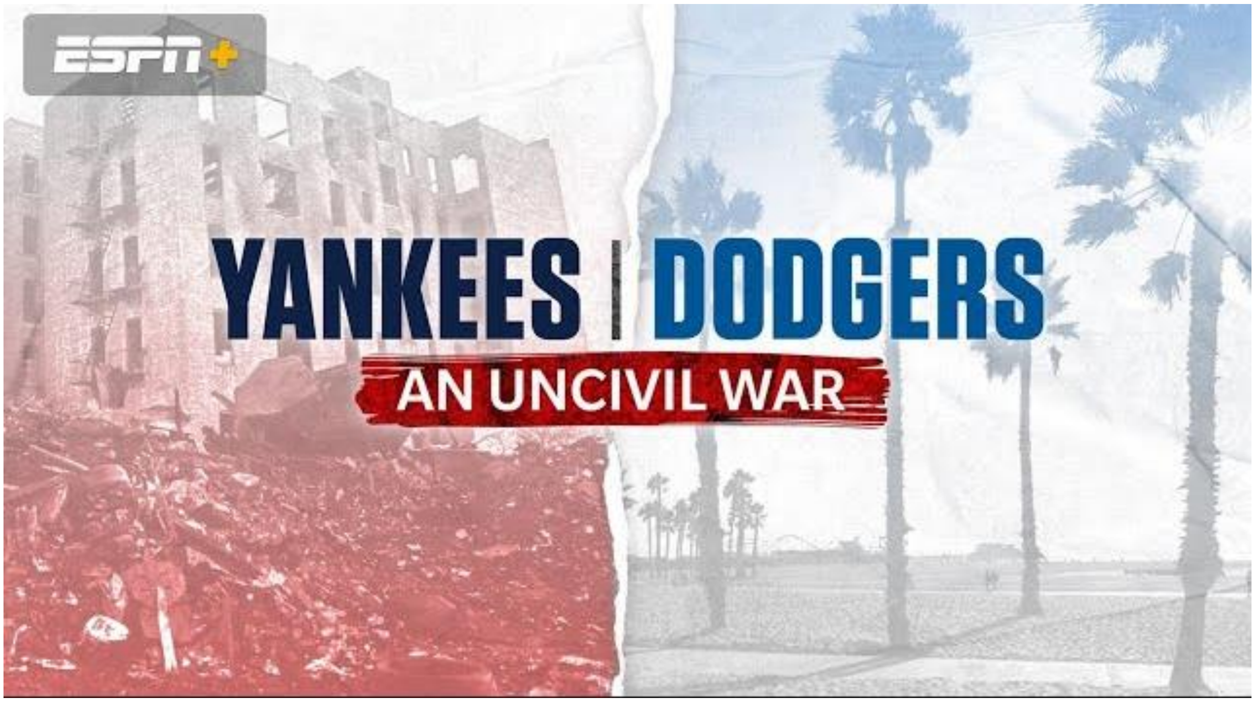
I’ve seen this cozy little beach house live a couple of times as it’s about 200 yards south of the La Jolla Beach and Tennis club. Not that I’m good at tennis, but it a great place to stay. The guy who built it sold his company to Xerox in 2009 for $8 billion. And call me old fashioned, but this just isn’t my jam, or my jelly. That said, I’ve learned to live with things like this. That is, homes of extreme value and location. It’s not that I want the house, I want the money that says I *could* own the house. The other reason is that I barely have six friends at this point, let alone sixteen.

As a Los Angeles ex-pat, I can speak to what it feels like when the leaves are all brown, and the sky is gray, as the *Momma and the Pappas* sang. And by speak to it I mean to shoot your straight. Those two things rarely exist in conjuncture when the months end in ‘er’. In fact, it’s the best time of year, and I’m way more partial to what Randy Newman got to sing it…

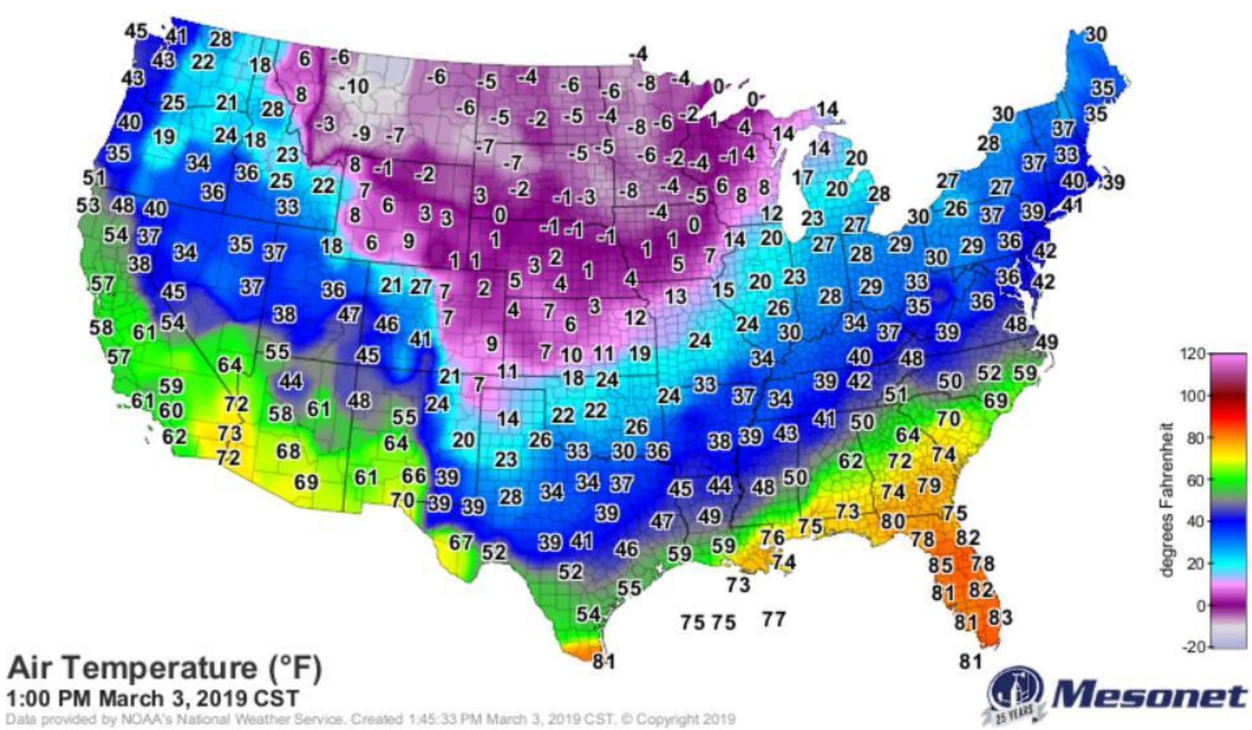
In the fall, the sycamores put on a show. But the skies are almost never grey. This is diablo wind time, the Santa Anas, blowing hot from the north. And it’s most often as clear as it is all year. I’m thankful for that, as ’It’s time for Dodger baseball’. Love you and miss you, Uncle Vin.

I lead off with this because, why not? The world is an upside down and sideways place right now. But for the next two weeks we get a ‘Fall Classic’ unlike any other. An outlet from the day job, and the scrolling, small talk at dinner with the neighbor, and the election

Think I’m wrong about the grandiose hyperbole of Yankees v. Dodger being unlike any other? Dial up ESPN’s 30/30 documentary *‘The Uncivil Rivalry’* and you will know exactly what I’m talking about. Wonderful high drama around the games, with a beautiful look into the human condition.



And finally, something that should make you laugh, if not but for a little while. Last week I packed up the property in Montana and got it ready for winter. There will be plenty time spent up there, the place just needs to get turned so it's all systems go when the temp gets into the negative for a few weeks at a time.



At this time of year, the animals can feel the change in the weather coming and they start to eat voraciously. Like anything in sight that will give them calories and put on pounds. Last year, one of our local moose decided to take the top off my fledging aspen tree. And it looked like the same one was coming back again this year. This was her, with calf, making the power move to let me know that ‘shit was about to get real’.

In a moment of clarity, I decided that my little two year old aspen might be going down, but today was not that day. Lacking any access to the chicken wire I needed I deployed my rapid response countermeasures.

While saying out loud, ‘come on, you aren’t really going to do this’ I gathered every piece of lawn furniture I could find, preparing it as my moose buster. And an eighteen foot aluminum ladder running point. If the tree was going down, it was going down. But I knew I had done my job, and I then released the situation to fate. Thankfully, fate was on my side that day. I look forward to the rubber match next October.

Scoreboard: Bryan 1, Moose 1.

It was a fall like no other. Indian summer until mid-October. Lots of friends, lots of fun. Until next fall, compadre. We shall see each other again.