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July 31, 2024

Dear Atherean Wealth Management client:

Enclosed is your portfolio summary report for the quarter ending June 30, 2024, a summary of your investment objectives and target asset allocation as per our records, and an investment advisory fee statement for the third quarter of 2024. It is important that you review your investment objectives and target asset allocation and let us know if any of it is incorrect or if there are any changes to your financial profile or liquidity needs. For a full report of the holdings in your accounts we encourage you to refer to your statements generated by the custodian.

Market and Economic Environment

The U.S. economy grew at a 2.8% annualized rate in the second quarter of 2024[1] with the sequential boost primarily attributable to an increase in government spending and inventory restocking. While these numbers on their face look solid, we believe that they involve two economies under the surface, with one of the two economies related to larger businesses and the other related to smaller businesses. Our opinion is that the large-company economy is robust while the small-company economy has been in a recession for quite some time. As an illustration of this, consider that over 43 percent of companies in the Russell 2000 small-cap index lost money in Q2 of 2024[2]. Furthermore, while U.S. GDP has shown steady growth throughout this year, both the aggregate revenues and earnings of the Russell 2000 index contracted in the first quarter of 2024[3]. Conversely, the year-over-year earnings per share growth for the largest five components of the S&P 500 index exceeded sixty percent in the first quarter of 2024[4].

Equity and Fixed Income Markets – Recent Performance and Valuation

The equity market bubble continued to inflate in the second quarter and the performance of the S&P 500 has continued to be dominated by the largest mega-cap stocks, with the six largest components of the index now accounting for almost 30% of its market capitalization. To illustrate just how lopsided and top-heavy U.S. equity markets have become, the S&P 1500 growth index has outperformed the S&P 1500 value index by over

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[1] Estimated real (inflation-adjusted) annualized GDP rate as of 7/26/2024. Source: U.S. Bureau of Economic Analysis
[2] Source: *Q2 2024 Small Cap Recap*, Francis Gannon, Royce and Associates, July 1, 2024
[3] Source: *Russell 2000 Earnings Scorecard*, Tajinder Dhillon, CFA, London Stock Exchange Group, May 9, 2024
[4] Source: *Are the "Magnificent 7" the Top Contributors to Earnings Growth for the S&P 500 for Q1?*, John Butters, FactSet, April 22, 2024

17 percentage points year to date and the S&P 500 large-cap index has outperformed the Russell 2000 small-cap index by 14 percentage points year to date[5]. The Shiller CAPE ratio, defined as the price to prior-ten-year average of earnings ratio of the S&P 500, currently sits at a level over 35, close to an all-time high.

We believe, as we have stated in previous quarterly updates, that the megacap stocks are not nearly as overvalued as the internet stocks were in the late 1990s, as these companies[6] are for the most part robust, durable businesses with substantial cash flows. Nevertheless we have significant concerns related to the hype surrounding the current "AI revolution" and the resulting exhuberant enthusiasm toward everything and anything artificial intelligence-related. John Templeton has said that bull markets are born in pessimism, grow in optimism, and die in euphoria. What we have observed over multiple market cycles is that, the later into a bull market we are, the shorter investors' attention spans get and the more short-sighted, complacent, confident and, in some cases, arrogant they get. During the internet bubble of the late 1990s and early 2000s, the majority of investors first stopped reading company SEC filings and only looked at earnings, then they stopped looking at earnings and only looked at mouseclicks and eyeballs, then they stopped looking at mouseclicks and eyeballs and only looked at how engaging and interesting the management's sales pitch sounded. This allowed companies with neglible earnings and revenues to reach astronomical valuations until the S&P 500 began a multi-year decline beginning in the summer of 2000.

Portfolio Management and Investment Philosophy

As we are concerned by what we consider to be excessive valuations in global equity markets, particularly the megacaps in the United States discussed previously, we continue to adhere to our discipline of focusing on equity securities which we believe to be reasonably-priced and and companies and industries which we believe will create significant wealth in the years and decades to come. With this we turn to the U.S. oil and gas sector, which we believe will play a critical role as geo-political dynamics will likely force the U.S. toward becoming less dependent on foreign countries for natural resources.

In most countries throughout the world, the government owns the mineral royalty rights on natural resource producing properties and in some cases the taxes collected related to these rights can be quite onerous. The United States is unique in that it is one of the only countries in which mineral rights can be privately-owned. In the U.S., oil, gas and iron ore royalty rights are in some cases placed into trusts which are subsequently listed and publicly traded. We find that royalty trusts can be attractive investments because they have negligible expenses - only a nominal fee paid to the trustee for administering the trust - and involve no capital expenditures, thus making them effectively toll collectors on oil and gas production. The mechanism by which royalty trusts generate revenue is that an exploration and production company invests the capital and executes the drilling and extraction of the oil or natural gas on the land owned by the trust and pays royalties to the trust based upon the market value of the oil or natural gas which it extracts. As royalty trusts in the United States are prohibited from acquiring additional assets, effectively all of the royalty revenue earned by the trust is paid out to unitholders, typically on a monthly basis.

As an asset class, royalty trusts should generally be approached with a great degree of skepticism and caution. In the majority of cases, the natural resource-producing properties are in a state of decline as the oil, gas or iron ore are steadily depleted over time as they are extracted from the land. The amount of reserves and correponding future revenue of the properties are typically estimated by a geological engineering firm on an annual basis and disclosed in the trust's SEC filings on form 10-K.

[5] Year-to-date performance refers to the period between January 1, 2024 and June 30, 2024
[6] What are frequently referred to as the "magnificent seven" include the six largest capitalization stocks in the U.S.: Amazon, Apple, Microsoft, Alphabet, Nvidia, Meta, plus Tesla.

In many cases, royalty trusts come into existence by being spun out of a royalty-owning oil or gas-producing company as a means of raising capital. In some of these cases the producer retains a portion of its holding in the trust at initial public offering or spinoff and gradually disposes of its interest in the trust over a long time period. In situations such as these the future revenue and cash flow of the trust is frequently related to a relatively concentrated production area.

In other cases, the royalty trust owns a vast amount of acreage spanning multiple oil and gas fields. We believe that such trusts are attractive as their ownership interests are diversified and dispersed enough that in many cases additional proved reserves continue to be discovered as time goes on.

In the second quarter we took a position in Sabine Royalty Trust (NYSE: SBR)[7]. Sabine owns royalty interests in over five thousand tracts of land containing over 2 million gross acres (over 200 thousand net acres) of producing and proved undeveloped oil and natural gas properties in Florida, Louisiana, Mississippi, New Mexico, Oklahoma, and Texas which include the Permian, Anadarko, Gulf Coast, East Texas, and Arkoma basins[8].

Over many years and decades, we expect the oil and gas-producing properties owned by the Sabine Royalty Trust to deplete, however we believe that there is a good chance that this investment will earn a reasonable rate of return from the future distributions which are collected from this asset. As such, we emphasize the importance of not reinvesting the trust dividends back into the royalty trust as we expect the trust corpus itself to decline in value over a long time period.

Royalty trusts have certain tax-advantages as the IRS permits unit-holders to deduct depletion expenses against the royalty income received. However, as tax filing and compliance costs can be onerous, we made these purchases solely in client accounts which are tax-advantaged (IRA, 401K, and other tax-deferred and tax-free accounts). If you have a taxable account with us we did not buy SBR there in order to prevent a potential headache at tax time[9]. If you have a taxable account with us and you want to own SBR and are willing the bear the administrative burden of filing multiple state tax returns please let us know.

Thank you for entrusting us to manage a significant portion of your wealth. As always, we are available to discuss your investment portfolio, discuss your financial plan, or address any other questions or concerns which you may have. Please feel free to reach out via phone or email if you would like to speak with us.

Sincerely,

Atherean Wealth Management

Atherean Wealth Management, LLC

[7] The securities which we discuss in this letter are not necessarily allocated to all of our client accounts. Whether or not we choose to allocate a particular security to your account will depend on your risk tolerance, investment objectives, tax situation and objectives, and liquidity needs. Nothing printed in this letter should be construed as a solicitation or an attempt to effect transactions in securities.

[8] Source: company 2023 Annual Report

[9] Some of the states in which Sabine Royalty Trust owns mineral rights tax royalty income at its source which could result in additional state tax filing requirements. Specifically, owning SBR in a taxable account could result in you having to file individual tax returns for the states of NM, OK, MS, and LA even if you do not reside in any of these states.