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# Cadence *clips*

FOCUSED ON WHAT MATTERS MOST.

## What Happens When You Catch the Tiger by the Tail?

By Steve DeBoth

There's more to responsible investing than just diversification. Buying, holding, and rebalancing investments has certainly produced solid results over many investment periods, but by choosing a static allocation and never wavering from it, an investor is very beholden to the time period in which they are investing. Consider that for the 25-year period from 1956 through 1981, an investor who was half in stocks and half in bonds, rebalancing religiously, earned an average of 6.1% per year, which was only 1.1% higher than inflation. However, the investor who started investing in the exact same portfolio beginning right after that in 1982 earned 11.6% per year for the next 25 years, which was 8.5% above inflation.

Such different results for two identical portfolios, managed the exact same way. It's not as if the first investor was worse than the second investor; they just weren't as lucky with their time period. As much as we do believe in the virtues of choosing a sensibly diversified portfolio and rebalancing over time, we also know

that there is more to successful investing. That is why at Cadence we not only hold client assets in the more well-known stock and bond categories, but we also care about the relative values and growth potential of many investment categories not considered "traditional", because we do not want performance to suffer from investing in a time period that does not particularly favor a cookie cutter approach.

For years now we have believed that precious metals and the mining company stocks associated with them were undervalued relative to other sectors of the financial markets. We started including precious metals exposure in our client accounts nearly ten years ago. We continued increasing our exposure to these asset classes over time, believing they held better growth prospects than the US stock market. As such, our clients have much more exposure to these areas than the vast majority of investors. We weren't looking to hit a home run with these investments, but to provide growth for client portfolios from an area of

the financial markets that we believed had greater upside than the more common investment areas. Which brings me to the last 13 months.

Since the end of 2024, the worst performing investment of our five most utilized precious metal investments has returned nearly 100%. That's the worst one. The best one, silver, is coming close to tripling in value the past 13 months. Over that same timeframe, investments in the S&P 500 and NASDAQ are up 17% and 20%, respectively.



Like I mentioned earlier, we weren't intending to swing for the fences with our precious metals exposure; we just knew they had considerable upside potential, and then a variety of factors combined to drive prices up sharply higher in a relatively short period of time. This begs the question: what do you do with an investment that is now worth dramatically more than just 13 months ago? Do you keep it, hoping for further growth, or do you sell it, lock in those gains, and find the next potential undervalued investment?

The answer in this case, as it turns out, is a little bit of both.

It is very normal for fast-growing investments to give up some of their gains before continuing higher. That happened last year for a couple weeks in the fall when our precious metal investments were down between -7.6% and -19.5%, while the S&P 500 and NASDAQ were up between 2.5% and nearly 4%. We fully expect this to happen again, and maybe multiple times, before this precious metals cycle finally runs out of steam. Rapid investment growth, like tech stocks in the late 90's and what precious metals have been doing since the beginning of last year, can create strong emotions in investors. When assets grow that high, every penny feels earned, and any subsequent

loss can feel cruel. Just remember that if you would be happy with a 25% gain, that gain is the same whether the asset took a straight road to 25% higher, or if it first went to 50% and then lost 17%. Guard against getting overly emotional should these assets give some of their gains back.

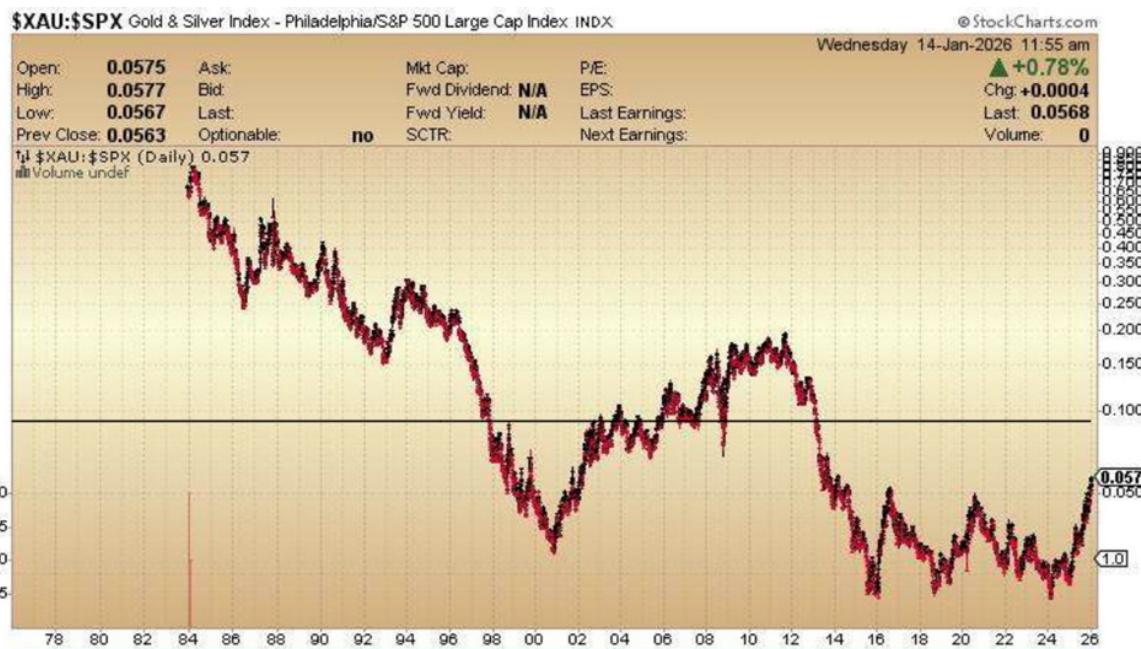
If you look at how precious metal prices behave relative to US stocks over time in the chart below, you can see there are long periods of time where one outperforms the other, and then it flips. The straight gold line segments show the average moves over time of precious metals, specifically gold and silver, while the straight red line segments show the average moves over time of the S&P 500:



As you can see, there are long periods of time, up to 20 years, where one trades sideways or even loses value while the other increases aggressively. Stocks did not appreciate much in the 70's, whereas gold and silver exploded. However, in the 80's through 2000, gold and silver gave up many of those gains, while it was stocks' turn to explode. Back and forth it went, until five years ago when the pattern was abandoned, with both stocks and precious metals enjoying solid growth. This also happened a couple times when stocks were recovering from the tech bubble burst and the Great Recession – both stocks and precious metals appreciated impressively at the same time. This most recent time, however, stocks were not recovering from anything nearly as significant as those two prior crashes, so how do you determine which one has more growth potential at this point in time? Are stocks headed toward a peak, only to fall relative to precious metals, or is it the other way around?

Among the factors we consider when evaluating these possibilities are the relative prices of precious metal and stock market indexes to each other over time. You can chart the indexes cycles, but that will not tell you if one is potentially a better value than another at any point in time. There are situations where even though one investment has fallen in price and another has risen, the one that is falling is still relatively expensive compared to the one that is rising.

Consider the price of the longest tracked gold and silver mining index, XAU, relative to the price of the S&P 500 Index over time.



As we saw in the last chart, gold and silver prices mostly declined between 1980 and 2000, while stock prices were rising. It's no surprise to see that the relative price line of gold and silver mining stocks versus the S&P was also falling over that period, as the dividend (top number – gold and silver prices) was getting smaller while the divisor (bottom number – S&P 500 price) was getting larger. Likewise, when stocks traded sideways from 2000 through 2012 and gold and silver prices were rising, the relative price line in the chart above was rising. Basically, when the red and black line in the chart above is above the horizontal black line, it means mining stocks are expensive relative to the S&P 500, and when the red and black line is below that horizontal line, it means mining stocks are cheap relative to the S&P 500.

We would, however, still invest in precious metals assets even if the relative price line were to rise above the estimated longer-term average depicted by the horizontal black line. There are more factors to buying and selling assets than just whether or not they appear expensive or cheap relative to something else, and we would still be interested in owning these assets after they are no longer "cheap" because there can be a lot of room for relative price growth above the long-term average. We simply use this chart as a way of measuring where in the cycle these prices are to each other.

Currently, mining stocks are still cheap compared to the S&P 500, even though precious metals and precious-metal mining stocks have dramatically outperformed the S&P 500 over the past 13 months. Gold and silver prices themselves may be close to reaching parity with stocks, but the mining stocks are still relatively cheap compared to the overall stock market.

So, if an investor were looking to lock in precious metals' and mining stocks' recent gains, now does not appear the time to buy into the S&P 500 with those gains, as they'd be selling an investment that is still relatively cheap, and they'd be buying an investment that is still relatively expensive. As a result, one of the answers to the early question of what do you do with an investment that is worth so much more than it was 13 months ago is NOT to sell it and buy an investment that is still EVEN MORE expensive.

Instead, what we have done with our precious metal assets is manage their risks now that they have risen so far, so fast. In our core portfolios, we do this by rebalancing, which sells the excess in gold, silver, and mining positions and allocates those gains among the portfolios' diversified investments, thereby systematically selling high and

buying low. In our active portfolios, we have continued to trim our exposure to metals as they have grown, and their allocation in the portfolios is nearly identical to where it was at the end of 2024. We have not completely sold out of any of our metals positions in any of our portfolios, so much as brought them back into balance. With some of the gains, we have increased our exposure to energy stocks, which we feel could be the next area to enjoy out-sized returns.

When you do catch the tiger by the tail, first keep yourself safe, and then enjoy the ride. There will be some bumps - you are riding a tiger, after all - and we do think double-digit pullbacks are likely at times. When these happen, it does not mean the strategy of owning these assets has stopped working. With the increased attention on precious metals everywhere from individual investors up to hedge funds and central banks, and with prices of precious metals and mining stocks still being cheap relative to stocks, we think this tiger has more room to run, despite the bumps that will occur.

## But, Seriously

By Casey Clarke

As Steve covers adeptly in his piece, the transition from financial assets into real assets is underway. The most precious of those assets, gold and silver, have risen with a ferocity witnessed only a handful of times in modern history – it's been truly epic to watch. The famous “weeks where decades happen” quote aptly describes the situation. As we wrote about last month, for those investors with the foresight to buy gold, silver, and other real assets when they were relative nobodies, far from making any weekly highlight reels, they have given their portfolios a dramatic boost that will help mightily in this inflationary world. This is a success - but in investing, success can create its own challenges. Greed and complacency are always tucked away discretely within our psyches waiting for an opportunity to assert themselves. These emotions and personal qualities are masters at derailing success and introducing unnecessary risks. With these saboteurs in mind, we'll take the win, stay humble, and continue making the best risk-managed investment decisions from here on out. We'll make those decisions dispassionately and objectively, seek information that is true, even when it's uncomfortable, avoid narratives, avoid tribal group think, and remain alert to conflicts of interest and incentives to deceive or misinform. Our clients pay us to apply this process to their investment portfolios and we wouldn't have it any other way. This will continue to be our focus in 2026.

With that in mind, it's important to understand the bigger picture of what's behind the surreal rise in precious metals prices we're all witnessing. Since the beginning of 2025, just over a year ago, gold is up 94%, and silver, 273%. This isn't the same situation as a penny or meme stock being up a few hundred percent in a short time. The gold and silver markets are very big and can't be driven to these levels by retail speculators alone. What's behind this move is likely a global scramble for limited resources. Governments can't print more gold, and large industries can't purchase silver that doesn't exist. After decades of money printing and borrowing by Western governments, and the resulting dampening of economic dynamism and currency devaluation (inflation) that results, it has become apparent to many that one of the only off-ramps for the end of the road ahead is gold. Those countries with the most of it will emerge strongest from a currency “reset”. From an industry perspective, silver is equally critical. It is used in almost everything with complex electrical circuitry, from microchips to defense equipment, and there is only so much of it. The downside to prices being so cheap for so long, for a host of metals, is that eventually the supply of those metals drops due to lack of profitability in digging them up. We currently sit at the intersection of that limited supply and a world that is increasingly antagonistic, desperate, and looking for more of it. The real story here is that the planet has entered a scramble for resources as a direct result of the unsustainability of the Western economic trajectory. We've talked about this over the years. In fact, it's been a driving factor behind our investment approach. It's not new - we've just reached the putative tipping point. Gradually, then all at once.

The importance of understanding this bigger picture isn't just that it helps us make better financial decisions in a chaotic world, but it also helps us gain important perspective that can protect us from the chaos itself. Consider these observations: Power and control only seek to expand, not contract. Money and wealth facilitate this expansion. This is true of all large institutions. They, without exception, become increasingly more self-interested as power and influence increase. Eventually, deals are done, conflicts arise, and expansion trumps the original mission. The politics we are all exposed to is no exception. If this were untrue, we would see more voting across party lines, more one-term politicians, and limited, if any, lobbying. This isn't necessarily bad - it just is. So, here's the takeaway. In a setting where Western governments have vastly grown in size relative to their respective economies, while borrowing to the brink to accomplish and sustain it, would it be reasonable for those who've benefited to think about how to keep the music from stopping – particularly as criticism from the masses is increasing? What about for large, dominant corporations and institutions that have drawn similar criticism for varying degrees of self-serving behavior? How are they thinking about their own survival as turbulence and outside pressures increase? We have to expect a play from the usual playbook: The choice will always be to increase control, while deflecting and distracting. If the common man and woman are mad at one another, they won't direct the pitchforks at us. Keep them jumping from one event to the other, keep things chaotic, keep things emotional. Politics is the perfect tool for this. The reason we know this is because the more we focus on it, the angrier we get. A genuine attempt to make things better doesn't leave one angry, but rather hopeful. Chaos is the play, and it's what we're witnessing all around us. This chaos, and the rapid rise in precious metals and other natural resource prices, are part of the same story. We can't fully understand one without understanding the other.

The question becomes, will there be more demand for resources and more chaos in 2026? Probably, yes. Our sense is that both will continue until problems get resolved, even if only partially. There has to be progress toward bringing asset prices down, inflation down, debt down, and tensions down. Until these are addressed, nothing changes. These are serious problems that will lead to serious outcomes, but from an investment standpoint, we are ready. Our expectation is that we'll see a continuation of the shift from financial assets to real assets. That could well translate into stocks and most bonds deflating in price and valuation, with a broadening of the real asset rally. The geopolitical realities we've covered will most likely result in persistent demand for natural resources across the board. There will be less sharing and more hoarding, which in turn will further support the momentum behind commodity prices while making it increasingly difficult for financial markets, including real estate, to remain inflated. Within the context of the bigger picture, financial market chaos could be a very useful distraction and pretext for major change. Anyone with an understanding of the Great Depression might appreciate how much license for change financial crises allow for. Interesting times, indeed.

Please don't step away from this letter feeling pessimistic. The goal is always to feel empowered by seeing things clearly. Understanding the world, its players, and their motivations is essential in building an investment strategy that's likely to succeed over time, especially at historic junctures. As it turns out, it's also pretty useful in shielding oneself from the onslaught of emotion-provoking noise that keeps us from being our best. Context matters. Onward.

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