



▶ STEERING THROUGH RISING OIL PRICES.....1-4



▶ MARKET REALITIES – AN UPDATE.....4-7

Cadence *clips*

FOCUSED ON WHAT MATTERS MOST.

Steering Through Rising Oil Prices

By Steve DeBoth

We are all aware the United States has begun a military campaign against Iran, and that many countries in that region are also embroiled in the conflict. It is not our role to discuss the rationale for this conflict, nor to discuss the historical and political significance of what is occurring. However, considering just how important the affected region of the world is for the production of crude oil, petroleum gas, and petrochemicals, to name a few, any conflict there is going to cause economic ripples all over the world. It certainly is our role to advise clients on how to navigate the potential effects this conflict may have on their personal finances.

We know crude oil prices have already risen and are due to continue rising. How much it costs to fill our tanks is one way we'll feel these increased prices, but additionally transportation is a component of the cost of most of the things we buy. The price of heavy fuel — used to power container ships and other large vessels — has already nearly doubled at the world's top 20 refueling hubs since late February. This increased cost has begun to influence the price of many consumer goods. North America is more insulated from price

shocks than Europe, the Middle East, and Asia, but the disruption still spells bad news for consumers and shipping companies alike.

The Persian Gulf is also a critical source of global fertilizer. That means farmers are seeing their costs soar in real time as diesel and fertilizer prices leap. Nearly one-third of urea, a widely-used nitrogen fertilizer, passes through the Strait of Hormuz. Many farmers have already bought fertilizers for the spring planting season, but there are concerns about purchases later in the year.

So, we know price increases beyond what we have already experienced are coming, we just do not know by how much, on what, and for how long. Global oil supply has been disrupted before, but where does the current disruption stand relative to the past?

[A Historical Comparison of the Current Oil Supply Disruption](#)

The current conflict in the Middle East, according to the International Energy Agency (IEA) and energy

analysts, has created the largest disruption to global oil supply in history, primarily due to the near-total shutdown of shipping through the Strait of Hormuz.

Here is a quick breakdown of the situation:

- **Scale of Disruption:** Roughly **20% of the world's total oil supply** has been disrupted (around 11 to 20 million barrels per day), which is more than double the previous record of 10% during the 1956 Suez Crisis.
- **Strait of Hormuz Closure:** The standoff in the Strait of Hormuz has halted oil shipments from major producers, including Saudi Arabia and the UAE, whose exports have been severely impacted.
- **No Spare Capacity:** Unlike past crises, experts indicate there is virtually no spare production capacity available to act as a buffer.

How high or low gasoline prices move going forward depends on just how much of the world's total oil supply is disrupted, as well as on how long the current conflict lasts. For a more detailed look at the factors affecting the price of crude oil and its derivatives, refer back to the November 2021 Cadence Clips article, [“Home Heating Fuel Price Outlook: Winter 2021-2022”](#). Even though we do not know how bad it will get nor how long it will last, is there anything we can do today to insulate ourselves from some of these increased costs?

What We Can Do in an Environment of Higher Gasoline and Other Prices

This is not the first time we have addressed increasing inflation, so I will paint with a broad brush. For a more detailed look, refer back to the August 2022 Cadence Clips article, [“Managing Cashflow During Inflationary and Recessionary Times”](#). With many prices increasing already, now is a good time to review some of the spending strategies that help trim fat from your expenses, which though helpful all the time, are certainly helpful when your expenses, from the every-day items to the large, infrequent ones, have increased.

- Bunch errands together so you're using less gas.
- Walk and bike where you can.
- Don't leave your car running when you are parked.
- Cancel unused or little used monthly subscriptions.
- Be smarter at the grocery store (consider items on sale, plan meals ahead, stick to a shopping list).
- Create and follow a budget if you aren't already, and if you can't bring yourself to do that, at the very least track your spending.
- Can you accelerate any purchases that you believe will increase in the future – consider buying tickets today for summer air travel, for example?

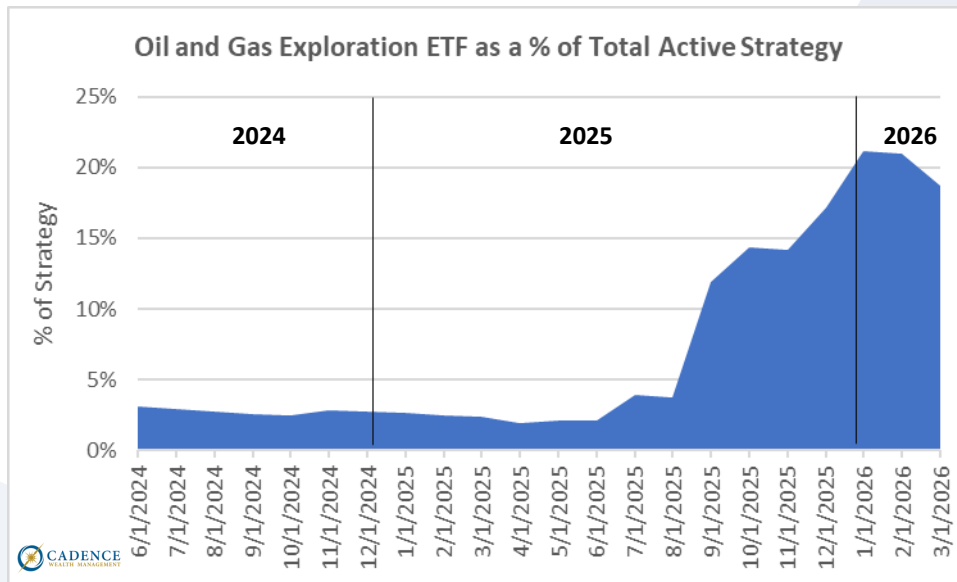
These are just a few of many, many things you can do to reduce the impact elevated fuel and other prices will have on your monthly cashflow. Most of us have fat in our budgets, and now would be a good time to trim that. To do that while continuing to enjoy life as much as possible, consider writing down all the things you spend discretionary money on. Rank them based on how much you enjoy them, and then cut out those at the bottom. You will decrease your spending while preserving those things that bring you the most enjoyment.

Protecting ourselves from these increased expenses is one thing we can do, but is there something we can do to protect our portfolio values from the financial uncertainty?

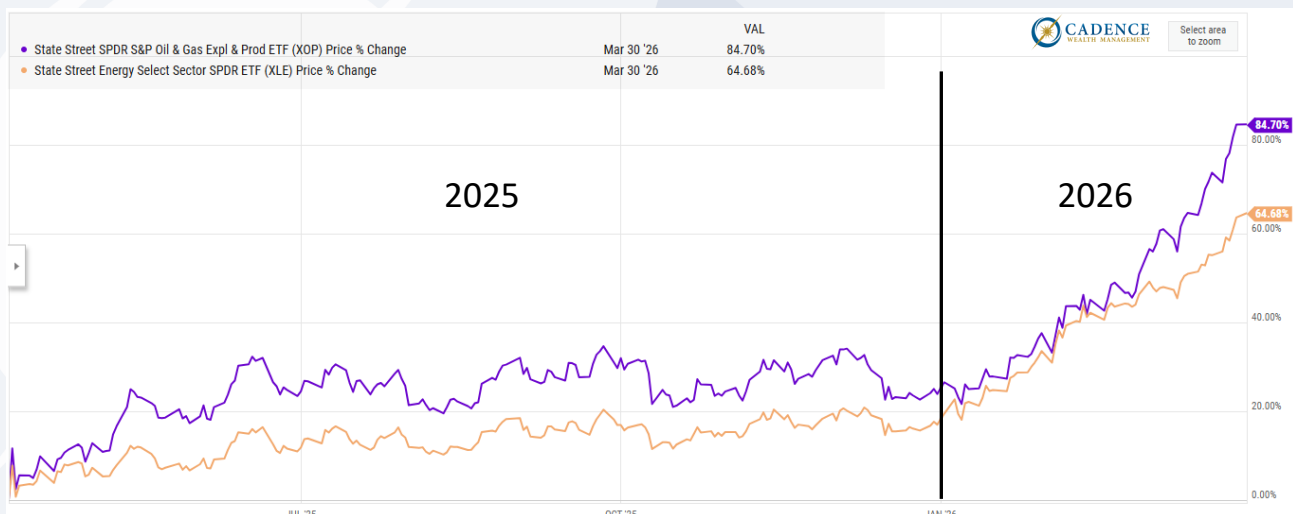
Energy-Focused Investments in Your Cadence Portfolios

There are a number of ways to invest in oil, and Cadence has both allocated portions of client portfolios to these investments for years, as well as increased exposure before the current oil supply disruption.

For six years, Cadence has allocated a portion of most client accounts in a diversified energy exchange traded fund which, though diversified, has more than half its assets invested in petroleum companies. Additionally, Cadence has allocated portions of its Active Portfolios in a diversified oil and gas exploration exchange traded fund for nearly two years, increasing the exposure multiple times before the end of February this year:



Both the diversified energy ETF (XLE), and the diversified oil and gas exploration ETF (XOP), are up so far in 2026: 41% and 49%, respectively. However, their recent price increases started nearly a year ago in early April, 2025:



Though most global stocks, bonds, and commodities have lost value since the end of February, these energy-oriented investments have increased in price, and have demonstrated the reason we included these investments in our clients' portfolios. These investments have helped our portfolios outperform their targets so far this calendar year.

This current conflict is far away, and were you not watching or reading the news, you would possibly be unaware it was even occurring. That's a benefit of our geographic location in the world. However, there will probably be nowhere to hide from the economic impact of this conflict. The more destruction there is to oil and other natural resource production capacity, and the longer the near standstill shipping these resources through the Strait of Hormuz continues, the more we are going to feel the effects. It would be wise to begin pivoting your spending today, if you haven't already, toward an environment where you are forced to spend more on the essentials. Reducing your expenses to build your cash reserves today may help offset some of the price increases in the months ahead. Additionally, Cadence will continue to monitor the asset values that comprise our portfolios, adjusting to whatever changes occur along the way. We at Cadence are here to help you navigate through to the far side of the economic consequences of the conflict, regardless of how long that takes.

Market Realities – An Update

By Casey Clarke

Anyone with small children knows well the consequences of naiveite. It's refreshing to see against the backdrop of an unkind world and heartwarming in its gentle simplicity, but the developing mind doesn't know what it doesn't know. Not all berries are for eating, not every hole is for poking, and not every person is nice like mom and dad. The unfortunate reality is that the world isn't set up to serve or care for us, but rather is here for us to learn about and navigate to the best of our abilities. The financial markets are one aspect of that world, albeit a very important one in today's day and age. To survive them requires that we trade our ideal world naiveite for real world truths.

So, let's sift through a few berries seen in the financial wild and sort out the edibles from the toxics. With that knowledge in hand, we'll wrap by discussing which ones we've tossed aside and which we've decided to drop in our basket.

Markets Always Go Up Over Time

Not really. The key here is how we define time; months, years, decades. Despite the fact that most people in a euphoric bull market tend to forget that prices can go down, most would concede that they do. The real misnomer is what happens to prices over many years. The common understanding is that the stock market always goes up when looked at over 5-10 years, but this simply isn't true. There have been a number of periods in the last 100 years where nominal stock prices have been underwater for longer – 1929 through 1954, 1968 through 1982, and 2000 through 2012 in the U.S., for example. As the chart on the next page shows, the Japanese stock market began contracting in the final days of 1989 and didn't durably surpass those levels until the middle of last year. That's 35 years of Japanese stocks going nowhere. What's worse, is that if we adjust these prices for inflation, the "real" underwater periods get even longer. Here's the reality: the industry that profits from stock market participation has an interest in all of us believing we can ride out downturns with intestinal fortitude and patience. Some cannot, and at certain points in market cycles and history, most cannot. There is a giant conflict of interest at work here. Thinking that the simple act of choosing more risk entitles one to higher returns is a very dangerous marketing

trick. There are very clearly periods in history when more risk wipped people out financially, which is kind of the whole point of risk. It's not just an obligatory word that fulfills legal obligations. Sometimes it actually plays out.



Markets Are Free

No, unfortunately they are not, and for a handful of reasons. First, and as mentioned above, Wall Street has an interest in markets going up. Simply put, when prices rise, profits rise. We can look to penny stock pump and dump schemes (Wolf of Wall Street movie), mortgage securities fraud that precipitated the financial crisis in 2007 and 2008 (The Big Short movie), and precious metals price manipulation by J.P. Morgan in the years following the Global Financial Crisis for which a trader “patsy” took the fall and swallowed a 2-year jail sentence in recent years. Although, technically, the precious metals manipulation scheme involved keeping prices artificially low as the benefits seemed to favor lower rather than higher prices. Markets that can be manipulated for profit often are, and therefore, are not free. What becomes fairly obvious to those thinking this through is that it's almost part of the culture within the upper strata of society to either manipulate markets for gain or to profit from privileged knowledge. Financial markets can be a very effective tool for siphoning wealth from the unsuspecting, and the longer they stay attractive to the masses, the more successful the venture.

Additionally, we're all familiar with the interventionist policy of the Federal Reserve in recent years with all their raising and lowering and lip-service around interest rates. There has been much written about the Cantillon Effect, which is the tendency for those larger, more privileged institutions closest to the financial spigot to reap the majority of the benefits from the Fed's easy money policies. This phenomenon, and investors' clear obsession with Fed policy, makes the markets much less free under an overactive Federal Reserve than they'd otherwise be. The George Carlin line, “It's a big club, and you're not in it,” comes to mind here.

With this knowledge, here's the takeaway: The “system” has no interest in being truly free, ringing a bell at the market top, sounding the alarm for the people when risks become elevated, or providing alternatives that would serve you better going forward. All of these things are counter to the interests of the “system”.

Watch What They Do, Not What They Say

Those with very large positions in assets they no longer like cannot broadcast that they no longer like them. To exit at favorable prices, they're more inclined to hide their true feelings and intentions, otherwise they run the risk of

setting off a panic that makes unloading large positions impossible. The takeaway: Anyone with a large investment in something cannot be truthful about that investment, and yes, this is most guest “experts” on big financial media. We aren’t judging; just calling balls and strikes. It is what it is. Takeaway number two: We must think for ourselves and watch what they do, not what they say. Below is a chart showing the last 1.5 years of price returns for the S&P 500 (red), corporate bonds (blue), gold (yellow), and silver (cyan). What’s fairly clear from the image is that the investment flow has favored gold and silver over stocks and bonds; real over financial. Gold up 70% and silver 124% is an entirely different outcome than the 12% and 2% for stocks and bonds. It seems a shift is underway and it’s not likely to be the average retail investor driving it. There is massive wealth tied up in the stock market, and thus, one couldn’t be blamed for thinking that the band has been instructed to play that stock market music until interested parties have sold all they want to sell. Cynical, yes. Reality, also yes. Messaging is a very easy thing to control these days, and where there’s a will, there’s a way. Eventually however, the band will tire. Expect to hear “the stock market will be fine, and be very careful about gold, silver, and other commodities,” until the band walks off the stage. A properly informed public leaves fewer resources and worse pricing for the big boys. Again, the picture below suggests what they, the big money, are doing.



And, So...

There is no better industry in the world to see so clearly the drivers of human behavior than the financial services industry – money is quite literally and directly at the center. This isn’t bad, and many Wall Street products serve a very useful purpose. Capitalism and its endless creations and innovations likely wouldn’t exist without the motivations, mechanisms, and marketplaces that are the direct result of Wall Street. However, at the end of it all, the capitalistic system and stock market has no direct interest in the little guy’s financial future or 401(k) balance. They are tools to be used responsibly, but unfortunately, they often are not. Further, like the big scary world every naïve child is born into, it doesn’t exist to serve us. Rather, it is part of the ecosystem that we must make an effort to understand, navigate, and use to our advantage if we want to survive financially. In time, it’s likely that one of the most damaging product innovations to investors will prove to be index funds and passive investing in general. The very nature of it quite literally requires investors to turn off their brains and indiscriminately throw money into markets. This in large part has helped create the massive bubble we contemplate today, and will play an equally large roll in its bursting. Almost every 401(k) in existence today heavily incorporates passive investing, which we would argue, puts employees at far greater risk than they understand. To mix metaphors, it would serve one well

to never accept financial securities or sweet advice from a sharply dressed man in a windowless company van. It's a wild world out there and these are wild times. Thinking required.

Additional Market Thoughts

Our position continues to be that the economy is far weaker than most think and is weakening further. Jobs numbers continue to be revised down as has been the trend over the last year at least, and cracks are beginning to show up in private credit, an industry that has been allowed to operate relatively free of scrutiny due to off-balance sheet lending and a lack of mark-to-market accounting on its portfolios. As it turns out, some of the underlying investments are worthless, and worse, the funding for much of this activity came from the banking system. Not great. Add the conflict in Iran to the equation and we have the real possibility that all of these underlying, preexisting trends get exacerbated and accelerated. It truly is amazing to us that the stock market has held up as well as it has. The momentum behind it, from a combination of Fed policy, government deficit spending, passive investment flows, foreign capital flows, and other factors, has been historic. This same momentum in reverse will be problematic. Meanwhile, flows into natural resources and commodity-related investments have accelerated considerably. This will likely continue in fits and starts, both until and after the stock market bubble bursts. Investment flows have already started looking for a new home, and odds are that will only accelerate in the coming months.

These recent geopolitical events don't change our views on portfolio positioning. What made sense before the Middle East conflict will continue to make sense, for the simple reason that it was grounded in longer-term price and valuation cycles. In fact, I would argue that the conflicts we're currently seeing flare up around the world are very much based on the same assessment. The world is currently in a transition as the realization sets in that financial assets are nearing the end of their useful cycles, and the real assets that have been kicked to the curb, are actually much more critical to life as we know it. Ultimately, when the market music stops, you can't eat tech stocks or heat your home with AI. Our belief is that the only way for investors to avoid a long period of horrible market returns, at this stage in multiple important cycles, is to avoid asset price bubbles and own attractively priced assets, regardless of how unpopular or hated they are. When you believe after careful assessment that the herd is running directly toward the cliff, you should find a way to get comfortable not being a part of it.

As we warned about in our last couple of letters, it could get bumpy in the short term. There's no way of knowing how events will play out and the effect they'll have on certain asset prices. Sometimes the headlines seem to serve only those who act on them moments in advance of them becoming public. This type of noise has always existed and will continue to. Again, big club, but time will iron out these confusing wrinkles. The longer-term drivers of asset prices are ones that should play out independently of upcoming noisy headlines, and having a good understanding of the market realities we've discussed makes it easier for investors to sort fact from fiction, trust their assessments, and keep their own interests front and center. Don't let the upcoming market turbulence distract you from your plan, and remember this—nothing of value moves in a straight line, easy breeds complacency, and bumps build character.

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