thoughts

HANSON+DOREMUS INVESTMENTS AND PLANNING

FROM HANSON+DOREMUS JUNE 2025

"I haven't been everywhere, but it's on my list."... - Susan Sontag

Travel and tourism took a big hit during Covid. The industry worldwide has been struggling ever since. The political climate in Washington is not helping. Our president's choice words for other countries and their leaders has probably made tourists everywhere more wary of travelling to the U.S. So, what's the future hold? As with most things, it depends.

Foreign visits to the U.S. are still not back to pre-Covid levels (*see charts below*) but it's interesting to note, total dollars spent by tourists here is at a record level. Prices are up, which has had something to do with this. Another factor is the bounce back in many economies since Covid, which has given foreign tourists greater buying power.

Don't disregard the dark clouds on the horizon, however. The two largest senders of tourists to the U.S. – Canada and Mexico – are not in a good mood today. You don't win friends by calling the Prime Minister of our northern neighbor, 'Governor' and insisting Canada, a sovereign nation, would be better off as our 51st state. It's doubtful Canadian visits to the U.S. will increase anytime soon and the same can probably be said for Mexico.

Across the pond, things look different. By 2023, U.S. visitors to Europe exceeded pre-Covid levels and visits this year will be up another 10%. Many Americans have the money and are traveling.

For trivia fans, which is the most visited U.S. state? New York. And which state do foreign visitors find most unfriendly? As some of you might have guessed, this is a gotcha question: the least friendly State is New York!

Travel trends are always changing. Solo travel is becoming a much bigger part of world tourism. One reason may be that travelling with others is difficult. Don't they say, if you want to see if a marriage will work, travel with your partner first! A more Gestalt interpretation may be that for solo travelers, it's less about going to distant places than it is about discovering oneself.

The most surprising thing for me, however, is that, as *The Economist* reports, over 80% of solo travelers are women. Maybe solo women travelers feel safer today because the internet has made it much easier and faster to post reviews of the safe countries and warnings about the difficult ones.

The internet has changed so many things and one thing you can imagine it has killed off is the traditional guidebook market: Lonely Planet, Frommer's, Rick Steves, etc. Well don't jump to conclusions. In America and Britain, the two largest guidebook markets, sales are just about back to pre-Covid levels. Buyers are apparently looking for a trusted source not just for the most popular sites, but also for the less visited ones. Print guidebooks have cut back on food and lodging recommendations, where the internet is much more current and comprehensive, but they still have plenty of fans.

Regardless of how crazy the world is today, travel still makes you richer, it changes your view of people and places, builds appreciation, and recharges your batteries. "Once a year, go somewhere you have never been," as the Dalai Lama reminds us.

- Eric Hanson

FOREIGN TOURISTS TO THE U.S.

Year	Int'l Visitors ($ millions)	Int'l Visitor Spending ($ bn)
2024	72.4	253.9
2023	66.3	213.1
2022	50.8	165.5
2021	22.3	71.4
2020	19.2	72.5
2019	79.4	199.1
2018	79.8	200.7

Source: Road Genius

WHO VISITS THE U.S.?

Country	Visitors as % Total, 2024
Canada	28.0%
Mexico	23.5%
UK	5.6%
India	3.0%
Germany	2.7%
Brazil	2.6%
Japan	2.5%

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A TRIP TO OMAHA

By Julie Won

Turn the page...

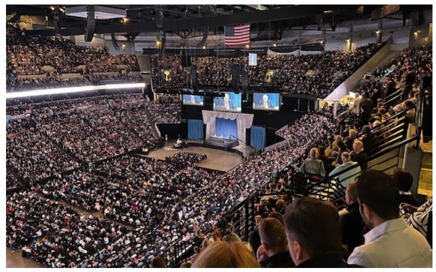
Many investors try to get to Omaha once a year, or at least once in a lifetime, to see Warren Buffett at the Berkshire Hathaway annual meeting. At 94, Buffett still is viewed as one of the greatest investors of all time, and still, he stays on stage for hours spouting truths so simple you wonder why you couldn't come up with what he just made so obvious.

Of course, you can also watch the big show on television. CNBC has been broadcasting the Berkshire meeting for four years, and at home you can see and hear better than in a cavernous convention center. Plus, you don't have to wake up before sunrise to queue up in the Omaha chill to compete for a seat – an estimated 40,000 people attended this year.

Still, being in Omaha in person – as I was this year – is different. For one thing, this year was special because it was not only Buffett's 60th meeting, but also his last as CEO: In a surprise announcement, he ceded his CEO role to Greg Abel, then received a resounding ovation.

For another, being in Omaha is a chance to meet investors from all around the world. I met people from every continent but Antarctica. Many weren't professional investors but just inspired students of the craft. Others were attorneys, physicists, or engineers hoping to abandon their careers to become professional investors – a testament not just to the attraction of Buffett's teaching, but also to how competitive investing is. Thousands of smart people are trying very hard to stand out from the crowd.

THE MAY 2025 BERKSHIRE MEETING



Source: Julie Won

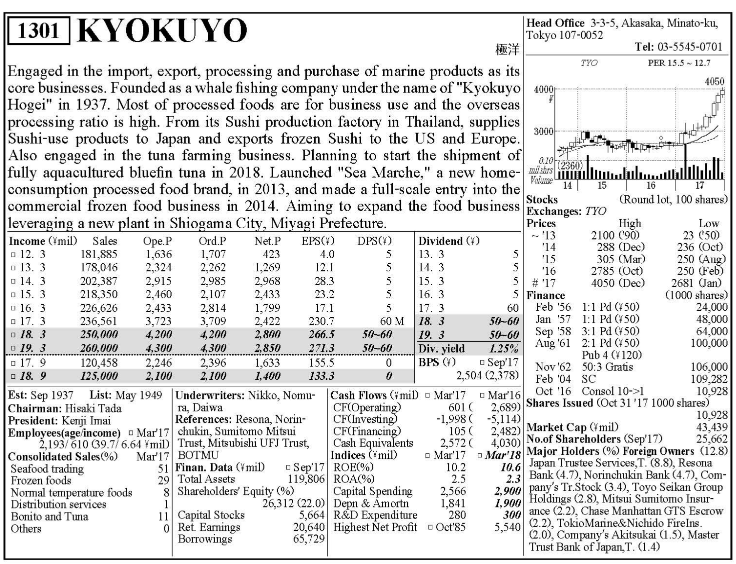
Buffett's conversation over the four and a half hours he was onstage spanned currency, tariffs, Japan, nuclear proliferation, the electric grid, and much more. But the theme that left the biggest impression on me was "turn the page," Buffett's phrase for digging deep into every corner in pursuit of ideas.

Those who have studied Buffett know his relentlessness – the way he pored through the *Moody's Manual* and annual reports, committing numbers to memory. Buffett could memorize whole passages and case studies from Benjamin Graham and David Dodd's *Security Analysis*, then recite them back to Dodd in class while a student at Columbia. One Saturday in 1951, after reading about GEICO, Buffett jumped on the train to Washington, D.C. and banged on the doors of company headquarters. A janitor eventually let him in, and he got to spend several hours with future GEICO CEO Lorimer Davidson, who happened to be working that Saturday. That is turning every page.

This year, Buffett said he bought into the Japanese trading companies in 2019 after going through a thick manual of two or three thousand Japanese companies and discovering "these five trading companies selling at ridiculously low prices." (He's referring to *Kaisha Shikiho*, which covers all of Japan's listed companies). *"It's amazing what you can find when you just turn the page,"* Buffett said – yet so few investors do. And those who do "aren't going to tell you what they're finding." You must do the work yourself.

I'd also be remiss not to mention Buffett's life advice. Both Buffett and his late partner Charlie Munger always had plenty to share on this front. Munger's three rules were to never sell anything you wouldn't buy, never work for anyone you don't respect, and never work with people you don't like. But Buffett always has been softer: Just try to associate "with people that are better than you are," he advised, so that you naturally float upwards. You may not find the right people right away, but that's okay. "When you find them," he said, "you treasure them, and when you don't find them, you still keep doing whatever enables you to eat. But you don't give up on looking around, and you will find people who do wonderful things for you." Help others along the way too, and "you get a compounding of good intentions and good behavior."

And perhaps that is the real takeaway for most of us – because the truth is that few will ever get anywhere close to what Buffett did as an investor. Nevertheless, we all can learn from the way he has lived. He knew what he wanted early on, he set up his life to do the work he loved, and he stuck to his principles – a life well lived indeed.



1301 KYOKUYO 極洋

Engaged in the import, export, processing and purchase of marine products as its core businesses. Founded as a whale fishing company under the name of "Kyokuyo Hogei" in 1937. Most of processed foods are for business use and the overseas processing ratio is high. From its Sushi production factory in Thailand, supplies Sushi-use products to Japan and exports frozen Sushi to the US and Europe. Also engaged in the tuna farming business. Planning to start the shipment of fully aquacultured bluefin tuna in 2018. Launched "Sea Marche," a new home-consumption processed food brand, in 2013, and made a full-scale entry into the commercial frozen food business in 2014. Aiming to expand the food business leveraging a new plant in Shiogama City, Miyagi Prefecture.

Income (¥mil)	Sales	Ope.P	Ord.P	Net.P	EPS(¥)	DPS(¥)
□ 12. 3	181,885	1,636	1,707	423	4.0	5
□ 13. 3	178,046	2,324	2,262	1,269	12.1	5
□ 14. 3	202,387	2,915	2,985	2,968	28.3	5
□ 15. 3	218,350	2,460	2,107	2,433	23.2	5
□ 16. 3	226,626	2,433	2,814	1,799	17.1	5
□ 17. 3	236,561	3,723	3,709	2,422	230.7	60 M
□ *18. 3*	*250,000*	*4,200*	*4,200*	*2,800*	*266.5*	*50~60*
□ *19. 3*	*260,000*	*4,300*	*4,300*	*2,850*	*271.3*	*50~60*
□ 17. 9	120,458	2,246	2,396	1,633	155.5	0
□ *18. 9*	*125,000*	*2,100*	*2,100*	*1,400*	*133.3*	*0*

Dividend (¥)	
13. 3	5
14. 3	5
15. 3	5
16. 3	5
17. 3	60
18. 3	*50~60*
19. 3	*50~60*
Div. yield	*1.25%*
BPS (¥)	□ Sep'17
	2,504 (2,378)

Est: Sep 1937 **List:** May 1949
Chairman: Hisaki Tada
President: Kenji Imai
Employees(age/income) □ Mar'17
2,193/ 610 (39.7/ 6.64 ¥mil)

Consolidated Sales(%)	Mar'17
Seafood trading	51
Frozen foods	29
Normal temperature foods	8
Distribution services	1
Bonito and Tuna	11
Others	0

Underwriters: Nikko, Nomura, Daiwa
References: Resona, Norinchukin, Sumitomo Mitsui Trust, Mitsubishi UFJ Trust, BOTMU

Finan. Data (¥mil)	□ Sep'17
Total Assets	119,806
Shareholders' Equity (%)	26,312 (22.0)
Capital Stocks	5,664
Ret. Earnings	20,640
Borrowings	65,729

Cash Flows (¥mil)	□ Mar'17	□ Mar'16
CF(Operating)	601	(2,689)
CF(Investing)	-1,998	(-5,114)
CF(Financing)	105	(2,482)
Cash Equivalents	2,572	(4,030)
Indices (¥mil)	□ Mar'17	□ *Mar'18*
ROE(%)	10.2	*10.6*
ROA(%)	2.5	*2.3*
Capital Spending	2,566	*2,900*
Depn & Amortn	1,841	*1,900*
R&D Expenditure	280	*300*
Highest Net Profit	□ Oct'85	5,540

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TYO PER 15.5 ~ 12.7

Stocks (Round lot, 100 shares)
Exchanges: *TYO*

Prices	High	Low
~ '13	2100 ('90)	23 ('50)
'14	288 (Dec)	236 (Oct)
'15	305 (Mar)	250 (Aug)
'16	2785 (Oct)	250 (Feb)
# '17	4050 (Dec)	2681 (Jan)

Finance		(1000 shares)
Feb '56	1:1 Pd (¥50)	24,000
Jan '57	1:1 Pd (¥50)	48,000
Sep '58	3:1 Pd (¥50)	64,000
Aug '61	2:1 Pd (¥50) Pub 4 (¥120)	100,000
Nov '62	50:3 Gratis	106,000
Feb '04	SC	109,282
Oct '16	Consol 10->1	10,928

Shares Issued (Oct 31 '17 1000 shares) 10,928
Market Cap (¥mil) 43,439
No.of Shareholders (Sep'17) 25,662
Major Holders (%) **Foreign Owners** (12.8)
Japan Trustee Services,T. (8.8), Resona Bank (4.7), Norinchukin Bank (4.7), Company's Tr.Stock (3.4), Toyo Seikan Group Holdings (2.8), Mitsui Sumitomo Insurance (2.2), Chase Manhattan GTS Escrow (2.2), TokioMarine&Nichido FireIns. (2.0), Company's Akitsukai (1.5), Master Trust Bank of Japan,T. (1.4)

A sample page from *Kaisha Shikiho,* covering all Japanese listed companies

Source: Toyo Keizai Data Services website

THE HOUSING MARKET

By Mark Andrews

When does an implicit guarantee become explicit?...

With tariff chaos and geopolitics dominating headlines, you would be forgiven for missing the news around Fannie Mae and Freddie Mac. In fact, you'd be forgiven for recognizing the names but not knowing what (who?) they are and what they actually do. We'll get to that, but the story is that the Trump Administration is pushing to release them from government conservatorship, which could be a big deal for housing finance.

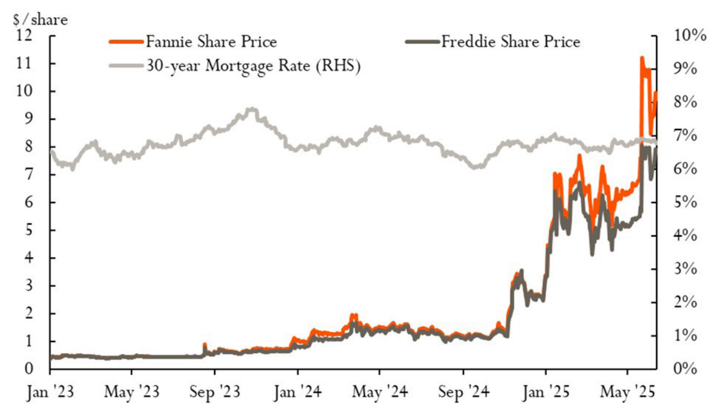
The Federal National Mortgage Association (Fannie) and the Federal Home Loan Mortgage Corporation (Freddie) guarantee mortgage credit risk, i.e. the chance that you and I don't pay our monthly principal and interest. That guarantee makes it much more attractive for investors to buy single-family mortgages, which makes mortgage credit cheaper and more available, thus supporting the housing market and home ownership.

While Fannie and Freddie are technically private corporations, they were established by Congress and are "Government Sponsored Enterprises" (GSEs). GSE status has meant the mortgage credit guarantee also comes with implicit backing by the U.S. government. That implicit backstop became overt during the financial crisis when the U.S. Treasury bailed them out by buying equity in each company and taking them into conservatorship. Now, Trump, building on his first term effort to reduce government involvement in housing finance, is keen to release them. How that happens matters, and the fear is that without the government involved, it could push mortgage rates higher.

Some context is warranted. When we get a mortgage from the local bank or a non-bank, such as Rocket Mortgage, most of the time that institution acts as the "originator" of the mortgage and continues to "service" the loan. Behind the scenes, however, these institutions typically sell mortgages on to Fannie or Freddie, who then group hundreds or thousands of those loans into pools that they wrap up in their guarantee (for a fee). They then sell those pools onto investors. This process is called "securitization", and the result is a "mortgage-backed security", or MBS.

So at the end of the day, it is the MBS investor who finances your home. The price at which they are willing to do that depends on many things, including the credit risk embedded in the pool of mortgages. Right now, investors view residential mortgage credit risk as Fannie and Freddie's credit risk, which is implicitly the U.S. government's credit risk, i.e. a very low risk of default. If Fannie and Freddie are released from conservatorship that could change. Investors may ask themselves, is this risk more like the U.S. Treasury, or more like just another corporation? For context, corporate bonds usually have higher yields to compensate investors for the additional risk.

FANNIE, FREDDIE AND MORTGAGE RATES



Source: Bloomberg, Optimal Blue

However, Trump sounds committed to minimizing the impact on mortgage rates and in May he posted, "I want to be clear, the U.S. Government will keep its implicit GUARANTEES". That's pretty explicit.

The other component is the fee the GSEs charge to guarantee the credit risk, called the "G-fee". Right now, that fee accounts for around 0.50% of the interest rate on a mortgage. But if released from conservatorship, the GSEs may decide to increase the fee to earn higher profits or for other reasons, like if their regulator requires them to buy catastrophe insurance, for example.

That said, all of this may be many years down the road. The GSEs have been in conservatorship for nearly two decades and plenty of people are just fine with that. If they are released, there are many thorny issues to confront, and for all its jawboning, the Administration has been light on details. For example, how will the Treasury's current funding be replaced? As financial institutions, the GSEs need to maintain certain leverage ratios—how much equity should they hold relative debt? Is the equity raised through public offering? Will the government retain some amount of ownership?

Headlines have centered around certain hedge funds that bought shares in Fannie and Freddie a decade ago and have a vested stake in how this plays out to maximize their return. And investor enthusiasm, at least as measured by the price of the common shares of equity still available to the public, has risen sharply since Trump was elected (*see chart above*). But for most of us, what really matters is the impact on mortgage rates. Thus far, there has been no discernible impact, and it is important to remember that Fannie and Freddie existed on their own for years, but we should not lose sight of how this unfolds.

The housing finance market has spent many years optimizing around Fannie and Freddie being in conservatorship. Tweaks to that, even benign-seeming ones, could gum up the works, cause investors to re-evaluate the suite of risks in single-family MBS, or allow the GSEs to pursue profit over more accessible housing credit. Any of these scenarios could result in higher mortgage rates—not something any of us looking to finance a home would be especially happy about.

THE WORLD OF CRYPTOCURRENCY

By Mark Andrews

Crypto is mainstream, but is it investable?...

From decentralized utopia to meme coins and manias, fraud and crashes, and political grift, crypto has come a long way from its genesis. And yet, it endures. In fact, it's back on top of the world, with Bitcoin near its all-time high versus the U.S. dollar. For our part, while the use cases of the technology and legitimacy have grown, we have yet to identify characteristics that give us comfort in crypto's inclusion in an investment portfolio.

In the foundational 2008 whitepaper on Bitcoin, the pseudonymous Satoshi Nakamoto wrote, "What is needed is an electronic payment system based on cryptographic proof instead of trust, allowing any two willing parties to transact directly with each other without the need for a trusted third party." Well, those pesky third parties—in this case, banks and governments—are now firmly in the mix, having recognized a profit opportunity and co-opted that original decentralized vision. Crypto is mainstream.

Major asset managers offer crypto exchange-traded funds, and big banks have brought some of the financial market plumbing on to the "blockchain" (the tech underlying crypto). Ironically, one uses the tagline "technology you can trust." The new Administration has endorsed the industry, and the Treasury is pushing for regulation to promote the use of "stablecoins" (more below). Even the president has a meme coin, minting his family billions as speculators sought to buy a piece of…we're not sure what…plus a dinner for the top buyers. Mr. Nakamoto seethes under his pseudonym.

Does mainstream mean crypto is investable? Our view is that while the use cases of blockchain technology have mushroomed, and some are indeed useful, we are still not comfortable putting other people's money to work in cryptocurrency markets.

More generally, we tend to view crypto in three ways: 1) the useful technologies, 2) the potentially harmful morass of speculative meme coins, and 3) the core "blue chips."

The useful stuff is the innovation enabled by the technology —the distributed ledger and blockchain. Without getting into specifics, they enable things like payments without the need for parties to be identified by (and pay) a bank. This was the original Bitcoin dream of cheaper, decentralized financial transactions. There is plenty of potential for criminal activity, but it's also easy to see the benefits of removing the middleman.

Stablecoins are a newer innovation that build on this technology, where a coin is pegged to something with more broadly recognized and supported value than a cryptocurrency, like U.S. Treasury securities. This basically enables dollars to be sent over crypto networks. That is useful because Bitcoin, for example, is just too volatile as a currency, and many of us still have a need to transact in dollars.

On the other end of the usefulness spectrum, is the speculative, grift-ridden world of meme coins. Examples include Dogecoin, Shiba Inu, OFFICIAL TRUMP, and Fartcoin—each with over $1 billion in market capitalization. This area feels like a pure casino. Our advice here: buyer be well-ware.

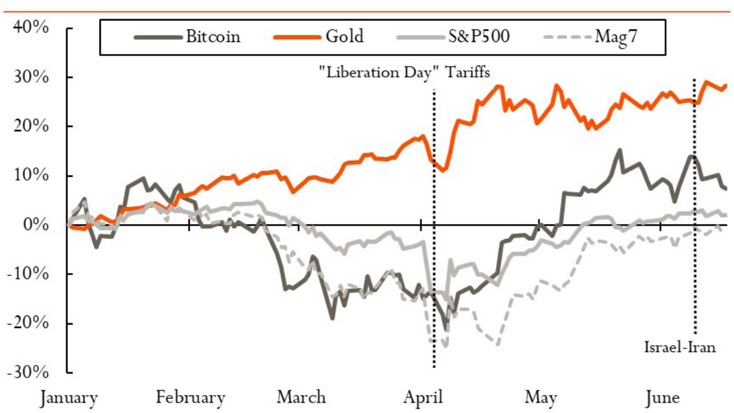
Then there are the "blue chips", the core cryptocurrencies like Bitcoin and Ethereum. Of the coins one might buy for investment purposes, these are more proven with longer histories, larger networks, and greater liquidity. They have grown in legitimacy and many promote them as financial asset holdings. We're not there yet. The problem for us is that we don't understand what effect Bitcoin will have on a portfolio.

We are, generally, bottom-up investors. We like to read financial statements and get to know businesses before we buy them. We like to understand the risk and return profile of what we buy. We are okay with gold, even though it does not generate cash flows, because gold is a well-proven store of value and safe-haven hedge against "policy error." It has a long history of outperformance when the world becomes less stable. Bitcoin has picked up a similar "digital gold" reputation for itself, but it just does not seem to behave like gold.

The chart below shows year-to-date returns for Bitcoin, gold, and risky assets like the S&P 500 and the "Magnificent 7" mega cap tech stocks. Bitcoin looks way more like stocks. And whereas gold functioned as a safe-haven during recent market turmoil, Bitcoin sold off along with equities.

At the end of the day, we're still left puzzling over what drives Bitcoin's value. That story is still evolving, and in the meantime, it is prone to speculative manias and crashes. It is clear crypto is not going away, but we probably need to see a longer track record of stability and clearer demonstration of its role in a portfolio before we feel comfortable investing.

BITCOIN DOES NOT GLITTER LIKE GOLD



Source: Yahoo Finance

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