The Quarterly Report

A QUARTERLY PUBLICATION OF IRON CAPITAL ADVISORS | Summer Issue | July 2025

In Defense *of* Freedom

INSIDE STORY

IRON CAPITAL ADVISORS

AssuredPartners INVESTMENT ADVISORS

We are now proud representatives of AssuredPartners Investment Advisors, LLC, as a registered investment adviser.

3500 Piedmont Road
Suite 301, Atlanta, GA 30305
T 800.417.3804
www.ironcapitaladvisors.com

In Defense *of* Freedom

"Give me liberty or give me death!"

PATRICK HENRY

One of my aunts used to say we were related to Patrick Henry. I was never sure if she meant our family or my uncle's family, but as a kid I thought it was cool. Who wouldn't want to be related to that brave patriot? Liberty is America's defining virtue, not just Henry's. Our well-known inalienable rights are life – the essential freedom to live as we wish; liberty – freedom itself; and (in case you didn't see this coming) the pursuit of happiness – the freedom to pursue our dreams. America is not just a place, it is an idea, the home of the free and the land of the brave. In this way we are all related to Henry.

Freedom, however, is under attack from seemingly all directions today. Voters in New York just selected a socialist in the democratic primary. Vice president JD Vance recently admonished conservatives who he claims, "worship the capital M market." Milton Friedman famously observed that, "Underlying most arguments against the free market is a lack of belief in freedom itself." This still holds true, but today there is another element from those who lack understanding of what the term "free market" means.

The confusion is understandable as we are constantly surrounded by references to the stock market. Following the stock market is my job, but even if it were not, one cannot escape daily reminders of what happens in the stock market. Every time there is some scandal or a crisis, people are reminded of the unlikability of Wall Street and all that goes with it. I believe many confuse a "market economy" with the stock market, and they are not completely wrong. The free flow of capital, through a stock market, is certainly an attribute of a market economy, but that is not the complete story.

The term "market" in market economy is just the term that economists use to describe the aggregate of every individual economic decision every individual in a free society makes. When a child sets up a lemonade stand, that is the market. It is free because no one has to buy the lemonade, and no one forced the child to sell lemonade; everyone at the lemonade stand is acting of their own free will. The lemonade stand is the purest form of capitalism. There are no regulations, no taxes, just an innocent child setting up a simple business and thirsty neighbors willing to pay for what is usually some pretty bad lemonade. The neighbors get to quench their thirst and feel good about supporting a young entrepreneur, and the child gets a little financial boost and some great life lessons. This is a win-win situation; there are no losers at the lemonade stand. That is capitalism.

For most of my adult life we all understood this. Any time someone tried to attack capitalism, all one had to do was point to the collapse of the Soviet Union and the success of the Reagan / Thatcher reforms in the U.S. and U.K. One did not have to be an economic scholar to see the obvious contrast: Total collapse versus huge success, this wasn't nuance. Most people, especially in the investment world in which I live, thought this conversation – which had taken up so much oxygen in the 20th century – was over.

That changed with the financial crisis in 2008: Those bank failures magically resurrected the anti-capitalism crowd. The actual crisis was caused, as all true crises are, by a confluence of simultaneous factors, but the long-lost big government/anti-capitalism crowd had a very simple one-word explanation for the whole thing: greed. Capitalistic greed caused the crisis, they said. That explanation sold because it was simple, and it easily identified a culprit: greedy Wall Street bankers. Of course, the idea that greed explained the crisis was and remains absolutely absurd. We wrote about this at the time. There are so many holes in that argument that one could not possibly count them all, but primarily for this argument to work it would mean that greed was somehow new. People have always been greedy, yet we do not live in a constant state of financial crisis. Milton Friedman said it best when he said, "Of course it is always the other guy who is greedy, we are never greedy."

Wall Street helped the simpletons' cause by providing anecdotal stories of incredibly greedy, and frankly often stupid, bankers. I have been in this business a long time, and most people in it do not fit that description, but those who do are ever-present. They contribute to every crisis, but they do not explain a crisis. Let me be clear: this does not excuse the mortgage banking industry or the Wall Street bankers who financed the industry. They certainly deserve their portion of the blame.

However, the crime in that explanation was that it completely exonerated a group that deserves at least an equal portion of the blame: government politicians and regulators. The oft-used quote of the "blame capitalism" crowd was that the crisis was caused by the "unregulated banking industry." I suppose that I should have known then that the post-modernist idea of truth being whatever you feel it is had taken over our discourse. If there is an industry more regulated than the financial industry, I would like to see it. Yet, I had college-educated people who had purchased multiple homes over the course of their lives look at me in all seriousness and claim that the mortgage industry was unregulated. I would ask them, "Was there a lawyer at your closing? How many disclosures and documents did you have to sign?" That is regulation. The OCC, SEC, FDIC, Federal Reserve, and various state agencies all regulate financial firms and have since at least the 1930s.

Today we hear the line that "the free-market economy is not working for everyday people." We hear this from both the left and the right. However, every single example they give is, without fail, a place where regulation has replaced the free market. To say that the United States is a capitalistic country is mostly correct, but it is not absolutely correct. In reality, all countries exist on a spectrum. The extremes would be a truly free market with no rules on one end, and a complete command economy with government running every single decision on the other. No country can exist on either one of those extremes, but history has shown us that the closer we get to freedom, the better it is for everyone in a country.

So, what parts of our system are not working for people today? In New York one of the big issues is housing and the lack of affordable options. What caused the lack of housing in New York? Rent controls, for starters. When the there are limits on what can be charged, then there will be limits on how many units can be built. Add to that the high cost of construction. Zoning laws, environmental regulations, safety codes, and labor laws all add cost. This is not to say that some of these items, and maybe all, are not worth it, but there is no free lunch. Everything in life is a tradeoff. Every regulation that goes into the construction of an apartment building adds cost. When all these costs add up, but the price that can be charged is limited, then you will have a shortage. To the extent that property owners are willing, or forced, to rent apartments for less than their cost, then that difference has to be made up for elsewhere. One gets a poor mix of rent control and high-end luxury with nothing in between.

As Ronald Bailey points out in "The End of Doom," shortages do not occur naturally. Free people find a way to balance supply with demand; this is the essence of economics. Shortages exist only when some outside force, usually government, interferes. Rent controls cause a shortage of affordable apartments. The knee-jerk reaction is more rent control, which will lead to even worst situation, which will lead to even more control, and down the road we go. This is the road to serfdom that Friedrich Hayek mentioned in his book of the same name.

What else isn't working? Healthcare and education costs are often brought up as examples, especially for many young people who are riddled

›› Continues on next page...

REVIEW of ECONOMY

The 1st quarter 2025 GDP growth came in down 0.5 percent, thanks to a surge in imports. GDPNow shows the economy growing by 2.6 percent in the 2nd quarter, but this is due to a drop in imports. The accurate measure is probably in the middle. Which means the economy has slowed.

The official unemployment rate was 4.1 percent through June. The labor market remains steady. We have been in the 4 percent range for a while now. This will be a key indicator of any potential recession and we will be watching it closely.

Inflation is 2.4 percent based on the latest consumer price index report. There has been progress since the last quarter's reading. The producer price index, which tracks wholesale prices, is up 2.6 percent over the last 12 months, below last quarter but above retail levels. +

REVIEW of MARKETS

The market rebounded in the 2nd quarter. For the quarter the S&P 500 finished up 10.94 percent, while small company stocks represented by the Russell 2000 index were up 8.5 percent. Growth outperformed with the Russell 1000 Growth index up 17.84 percent while the value index was up 3.79 percent. For small companies the value index was up 4.97 percent, and the growth index was up 11.97 percent.

Bonds were up slightly. The Bloomberg US Aggregate Bond index ended up 1.21 percent. High yield bonds rose 3.57 percent. Bond yields fluctuated but ended the quarter right where they began.

International stocks outperformed once more. The EAFE index finished up 12.07 percent and the MSCI Emerging Markets index ended the quarter up 12.20 percent. +

MARKET forecast

The tariff situation has seemingly calmed down, although it could poke its head up again. This has led to some stabilization. The market was up nicely but it basically has gotten back to the highs of last year. We have made no new ground, so we remain optimistic going forward.

Ultimately stocks will be driven by fundamentals regardless of government policy. Growth in earnings has been solid and we suspect will continue to beat expectations. International will likely continue to do relatively well as a weak dollar will assist U.S. investors in foreign markets. Small companies remain a better value, but they have struggled to maintain any positive momentum.

Bonds have done their job and stabilized in this range just above 4 percent. The Fed is likely to lower rates in the second half, we suspect that will simply steepen the yield curve with short-term rates falling, but the longer-term rates remaining in their range.

›› Continued –

with college loans. These are, of course, two places in our system where we see the highest levels of government intervention. On that spectrum between freedom and command, the closer we get to command, the worse everything gets. Yet, the knee-jerk reaction is always that more control is needed.

Still not convinced? Well, what is working in our society? We have trouble getting healthcare, but even the least fortunate today walk around with an item we refer to as a phone, but in reality it holds more computing power than NASA possessed when they first sent an astronaut to the moon. Technology is probably the freest segment of our society, and the cost continually goes down while access is always improving. Sure, there are issues here as well – privacy concerns, unintended consequences of social media, etc. There is always a balance to strike, but the closer we get to freedom – people freely choosing to do what they will – the better systems work. This may be counterintuitive, but history is crystal clear on this point.

So why do we seem incapable of remembering this lesson? It is in our nature to want to control things. This is a major theme of all religions and every lasting philosophy. Free markets are the best economic path, but there it no perfect path. Sometimes people will fall on hard times.

A free world can be a cruel world, there is no doubt. I wish everyone who claims to support the ideas of economists like Friedman and Hayek actually read their work. Both Friedman and Hayek argue for the necessity of a social safety net provided by government. They also pointed out potential pitfalls and certainly criticized specific programs, but both believed that a safety net was absolutely needed in any civilized society.

> *"The closer we get to freedom, the better systems work."*
>
> – Chuck Osborne
>
> [*Alleged descendant of Patrick Henry*]

Freedom works. Why is this so hard for us to understand? Yet capitalism and its political partner, democracy, will always have their critics. I think Winston Churchill said it best when he said, "Many forms of government have been tried, and will be tried, in this world of sin and woe. No one pretends that democracy is perfect or all-wise. Indeed, it has been said that democracy is the worst form of government, except for all those other forms that have been tried from time to time…". The same can be said of capitalism. It's the worst form of economics, except for all those other forms that have been tried from time to time. Behind all the arguments against the free market is a lack of faith in freedom itself.

Patrick Henry was calling his fellow citizens to war. He was willing to fight and die, if necessary, to gain liberty. We have enjoyed that freedom for 249 years. It obviously runs through everything we do as investors, but it is so much larger than that. We need to counter those who argue against it. Freedom needs defending.

Warm regards,

Chuck Osborne

Chuck Osborne, CFA Managing Director