Cautious optimism about a new free-market ETF

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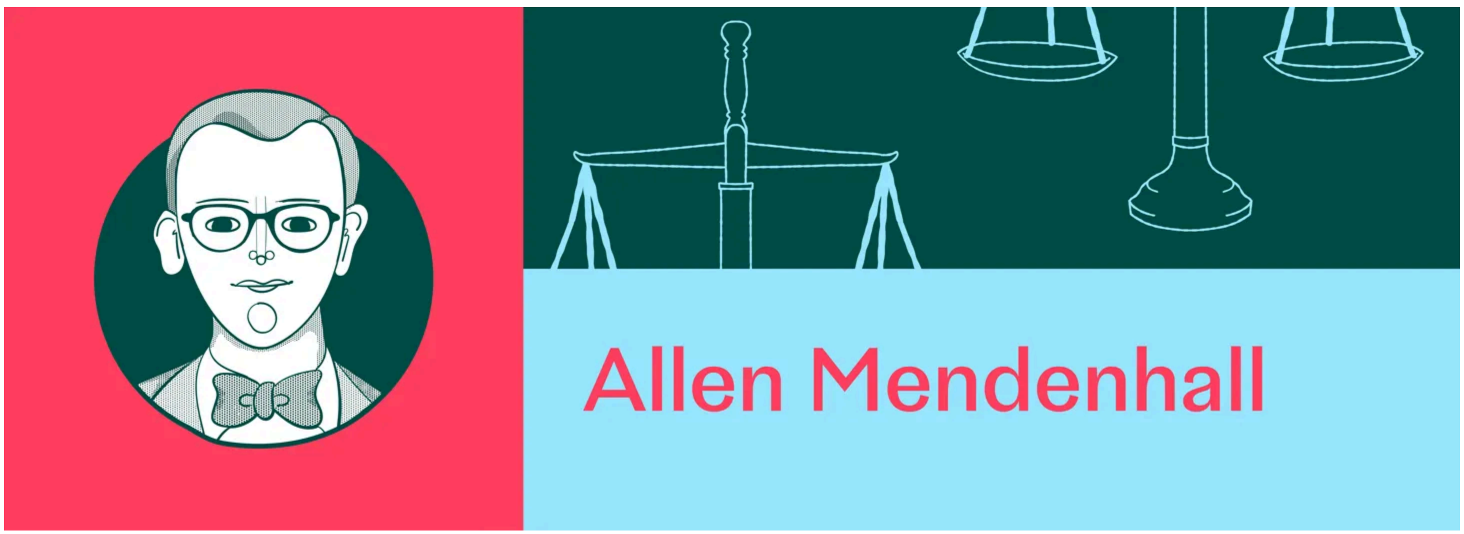

Conservative and libertarian investors may eagerly pounce on the announcement of The Free Markets ETF (ticker: FMKT). Their enthusiasm, however, should be tempered by the stock market's irritating tendency to upend even the most adept analysts.

For those unacquainted with the mechanics of exchange-traded funds—a species of investment vehicle that has proliferated with the efficiency of kudzu—permit me a brief tutorial.

An ETF is, in essence, a basket of securities that trades like a single stock on an exchange. Unlike mutual funds, which are priced daily after market close, ETFs trade throughout market hours, combining stock liquidity with fund diversification.

Think of an ETF as capitalism's answer to the cafeteria line: you get a pre-selected meal (the fund's holdings) but can enter and exit the dining hall (buy and sell) whenever you please during business hours.

The Free Markets ETF represents something of a novelty in this crowded marketplace: a fund explicitly designed to profit from the blessed relief that comes when government loosens its regulatory stranglehold on American enterprise.

The fund's managers, employing what they describe as "proprietary AI-driven screening," seek to identify companies poised to benefit from deregulation across multiple sectors. One might observe that artificial intelligence has now been enlisted in the service of identifying opportunities created by artificial governmental constraints.

The numbers cited by the fund's proponents are sobering: federal regulation costs an estimated $2.1 trillion annually, or roughly $15,000 per household, while manufacturing firms face regulatory compliance costs averaging over $50,000 per employee annually.

What makes FMKT potentially significant is its explicit acknowledgment of a truth that conservatives and libertarians have long understood: regulation is not cost-free. Every compliance officer represents, say, a foregone engineer; every regulatory filing represents capital that might otherwise fund research and development.

The fund's thesis—that companies currently burdened by excessive regulation will experience margin expansion and operational improvements as these burdens lift—possesses an elegant logic that appeals to both economic theory and practical experience.

Let's pause a moment to reflect that our investment choices, however intellectually satisfying, must ultimately serve the essential function of generating returns. The Free Markets ETF, for all its theoretical appeal, represents an actively managed fund with a limited operating history. Its strategy of maintaining approximately 30 high-conviction positions across various market capitalizations suggests a concentrated approach that could prove either brilliantly prescient or disappointingly volatile.

Moreover, its flexibility to allocate up to 5% to Bitcoin and Ethereum exposure through other ETFs adds another layer of complexity—and risk—to an already speculative endeavor. While this allocation acknowledges the growing importance of digital assets in a free-market framework, it also introduces the considerable volatility that characterizes cryptocurrency markets.

One must also consider the inherently unpredictable nature of regulatory policy. Political winds shift with the reliability of a weathervane in a hurricane. What appears to be a promising deregulatory environment can transform overnight into its opposite. The fund's success depends not only on identifying the right companies but also on accurately anticipating the direction and timing of policy changes.

Which brings us to a fundamental principle that should guide any investor: while it is entirely proper to hope that our investments align with our philosophical convictions, it would be imprudent to allow those convictions to override the elementary requirement that investments generate positive returns.

The Free Markets ETF may indeed represent a vehicle for profiting from the eventual triumph of free-market principles, but it must be judged, ultimately, by the same merciless standard of other investments: Does it make money?

The prudent investor should therefore approach FMKT with what might be called cautious optimism: hopeful that this fund represents a blessed instance wherein principles and performance converge, but mindful that capital markets remain refreshingly indifferent to our philosophical preferences or their intellectual merit.

Ultimately, The Free Markets ETF represents a fascinating experiment in thematic investing that deserves serious consideration from investors who share its fundamental beliefs about the advantages of deregulation. Whether it will turn out to be a profitable venture remains, as with all investments, a question that only time will resolve.

Disclaimer: This piece is not professional investment advice. The author does not receive compensation from Tidal Investments LLC or its affiliates, holds no shares in The Free Markets ETF (FMKT), and has no financial interest in the fund. Before investing, individuals should carefully evaluate a fund's objectives, risks, fees, and expenses, and seek guidance from a qualified financial advisor tailored to their specific situation.

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