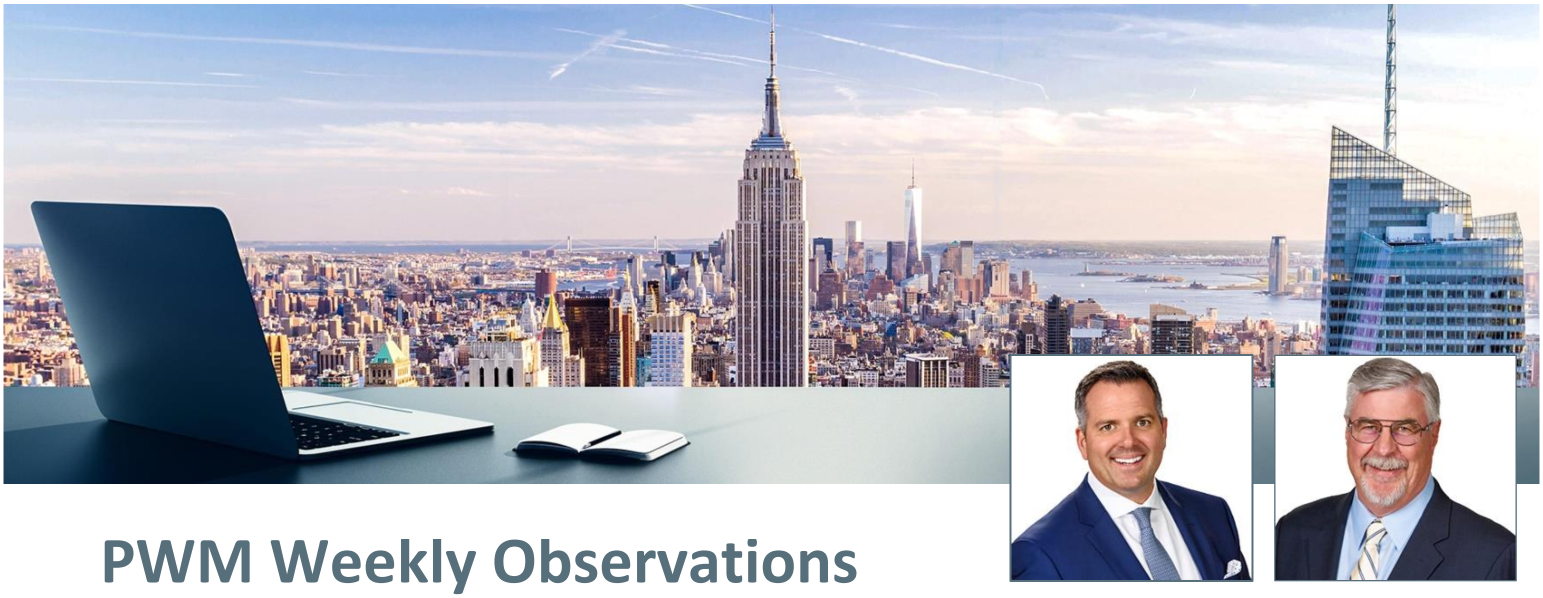

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PWM Weekly Observations

May 22, 2021

Commitment

- **In a bacon and egg sandwich, the difference between the chicken and the pig is that the chicken was involved, but the pig was committed.**
- **Successful long-term investing requires commitment, not involvement.**
- **Market corrections, both minor and serious, occur with regularity.**
- **Following time-tested investment principles allows reason to rule over emotion.**

During difficult weeks like this, the ability to plow through the noise and the chaotic trading is tied to your commitment to time tested investment principles. If you are merely involved with no rhyme or reason, markets can be treacherous. Students of financial history will understand that these lessons have been taught to us over and over again for hundreds of years, but over and over again, we tend to forget.

Coming out of the housing crisis in 2009, the Fed began to utilize extraordinary measures to bring us back from the brink of financial collapse. What many do not understand is that since then, those extraordinary measures essentially remained in place, which has been the primary driver for the mostly one-way markets since 2008. That means that we must work doubly hard to remember the lessons of past markets and stick with those time-tested investment principles, even though it often seems easier to put those principles aside and push all the chips onto the table.

The minor market chaos this week is a reminder that even with the extraordinary support of central banks, corrections of 5%, 10%, even 20%, continue to occur with great frequency, and those nasty declines of 30%, 40% or more, while less frequent, have not disappeared from the investment world. Being committed to time tested investment principles allows one the luxury of shrugging your shoulders in the face of a tough week, rather than become alarmed. These events are expected, rather than feared, and that allows reason to maintain control and emotion to be pushed to the background. These events arrive with some regularity and we are prepared for them.

We constantly advocate having a financial plan and this is just one of the reasons why. Having the plan; knowing how and why it was constructed as it was, is what allows us to remain calm during the intermittent market chaos and go on with our lives.

Expectations Matter

- **Supply chain issues continue to plague the world and, in many cases, they are getting worse not better.**
- **A 'shortage mentality' pulls demand forward, making the situation a self-fulfilling prophesy, meaning that inflation expectations matter!**
- **The cure for high prices is…. high prices.**

The great inflation debate (persistent or transitory) continues with no apparent end in sight. But one thing that is clear is that the shortage mentality that we quickly developed a year ago as the economy shut down is carrying over into the recovery. We are creatures of habit. Maybe that mentality of hoarding in the midst of the shutdown shortage remains ingrained so much that even in recovery, we are concerned about being left out. After all, this is the FOMO generation, is it not? If that is the case, then the incredible demand we are seeing today could merely be a pulling forward of demand based on an irrational fear of never being able to obtain the items what we desire.

Economist talk about inflation as if it were a scientific experiment, something that can be carefully measured and analyzed. In our view, inflation is an emotional thing as much as it is scientific. In many respects, inflation is a lot like Tinker Bell. We can create inflation even in a world where there is none, just by believing. In a world where supplies may be a bit tight by conventional standards, we have the power to make it much worse by reacting to it with an irrational demand for more 'just in case', which only exacerbates the shortage and makes it a self-fulfilling prophesy. Consumer expectations matter and for a wide range of goods there is clearly FOMO in the air and shortages are getting worse not better. This can be a significant additional driver for inflation.

We noted last week that one of the key sources of inflation was used cars, where prices are up over 20% from last year. We had a client this week talk to us about an offer from a dealer to take their leased car back a year early because there is so much demand for used cars and to apply the 'equity' in the lease toward a new car. Think about that… You lease a car for three years, you give it back after two years, not only with no penalty, but with a payment to you for the 'equity' in the car! That might be true now, but it is clearly NOT sustainable. Shortages drive up prices as they are doing now, and eventually high prices drive down demand, meaning that the cure for high prices is high prices. The real wild card in the inflation debate may be how ingrained inflation becomes in our collective psyches, and how long it will take to root it out.

The Fed Minutes Upset Markets

- **The April meeting minutes of the Federal Reserve Open Market Committee (FOMC) were released and caused a bit of a stir.**
- **Some on the FOMC, stated that it might be time to start thinking about the timing for the tapering the Federal Reserve's market accommodation (i.e., bond buying).**
- **What happens to markets when the taper begins is up for debate, but during the 'taper tantrum' of 2013, the first time the Fed spoke about tapering bond purchases, markets were ugly and expectations lean in that direction.**

Back in 2013, then Fed Chair Bernanke stated in a Congressional hearing that the Fed intended to taper their bond purchases during the year and end those purchases around year end, but they fairly quickly relented to the violent market reaction to the statement. The turmoil mid-week was derived largely from a statement made in the April FOMC minutes which said:

> "Their discussion of the Federal Reserve's asset purchases, various participants noted that it would likely be some time until the economy had made substantial further progress toward the Committee's maximum-employment and price-stability goals…"
>
> "A number of participants suggested if the economy continued to make rapid progress toward the Committee's goals, **it might be appropriate at some point in upcoming meetings to begin discussing a plan for adjusting the pace of asset purchases**."

It was that last comment that got the markets riled up. Simply stating that it might be appropriate to begin to discuss a plan to reduce asset purchases was enough to send market briefly into a tizzy.

We note the following:

1) **The statement is modified by 'if the economy continues to make rapid progress'**
2) **This comment was made at the April meeting, before the much weaker than expected unemployment number was announced.**

Weaker unemployment will clearly push the Fed timeline back, but at some point, in the not-too-distant future, we can expect the Fed to begin to taper bond purchases. If and when that begins, we also begin to regain some real price discovery in markets, something that is need, but is also a bit frightful for markets to consider.

What We're Reading

JPMorgan Reopens Offices Across U.S. as Pressure Grows on Rivals

There's a Better Way to Pay for Infrastructure

The Fed could reconsider easy policies if economy continues rapid improvement

How Is Your Retirement Money Invested? No Clue, Say Americans

How these investors view the tech trade, short-term and long-term ***(4 min. video)***

Visualizing the Copper Intensity of Renewable Energy

The U.S. Is Not Ready for An All-Electric Future

The Strongest Sign Yet That Inflation Is Transitory

Apple Issues New Blow to Facebook With Stunning iPhone Privacy Move

Behind the looming global sand crisis ***(10 min. video)***

Ukraine 'gravely alarmed' at Nord Stream 2 sanctions waiver

2022 Ford F-150 Lightning electric pickup is a huge deal for EVs

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Markets This Week

Looking at the table below, one might conclude it was a quiet week. It wasn't. Mid-week, the broad indexes were down 2% to 2.5%. A late rally brought these back close to breakeven for the week. Interest rates also waffled higher, then settled back into the old trend. The one really clear winner was gold, up almost 2%. We find it interesting that a few weeks ago bitcoin was the 'new gold', now gold is the 'new bitcoin', as bitcoin took a header this week. Among the various sectors, REITs and Healthcare were the winners for the week and Homebuilders gave back some of what has been a very strong year thus far, presumably driven by the recent weakness in housing starts. Energy, another big winner in 2021, was also weaker as there appeared to be some progress on dealing with the Iran nuclear issue, which would free up some excess global oil production.

US Equities	1 week	YTD	Fixed Income	1 week	YTD	Sector Breakdown	1 week	YTD
S&P 500 (SPY)	-0.39%	11.35%	20+ Yr. Treasuries (TLT)	0.43%	-12.39%	Consumer Disc. (XLY)	-1.28%	5.00%
Dow (DIA)	-0.64%	12.34%	Barclays US Aggregate (AGG)	0.03%	-2.79%	Info. Technology (XLK)	0.15%	4.96%
NASDAQ (QQQ)	0.19%	4.36%	Intermediate Municipal (MUB)	0.02%	0.04%	Financials (XLF)	-0.79%	28.04%
Russell 1000 Growth (IWF)	0.17%	4.61%	US Corporate Bonds (LQD)	0.13%	-4.44%	Health Care (XLV)	0.74%	10.00%
Russell 1000 Value (IWD)	-0.70%	17.21%	Barclays US High Yield (HYG)	-0.11%	0.85%	Utilities (XLU)	0.38%	6.30%
Vanguard Mid-Cap (VO)	0.12%	11.59%				Industrials (XLI)	-1.61%	16.72%
Vanguard Small-Cap (VB)	-0.84%	12.21%				Energy (XLE)	-2.49%	39.09%
						Materials (XLB)	-1.49%	20.13%
International Equities	1 week	YTD	Commodities	1 week	YTD	Consumer Staples (XLP)	0.16%	5.86%
MSCI EAFE (EFA)	0.59%	9.69%	Commodities (PDBC)	-1.51%	23.92%	Comm. Services (XLC)	-0.30%	14.10%
MSCI Emerging (EEM)	0.36%	2.84%	Gold (GLD)	1.94%	-1.30%	REITS (VNQ)	0.82%	15.92%
						Homebuilders (XHB)	-4.46%	26.16%

The table above is an analysis of the weekly and year to date returns of various markets/sectors that we follow (More RED = worse performing markets/sectors; More GREEN = best performing markets/sectors). Source: IEX Trading & PWM Research.

Retirement Planning:

[*The Odds Say Long-Term Care May Be in Your Future: Are You Prepared?*]

There are options other than long-term care insurance, so it's a good idea to examine your options sooner rather than later.

Tax Planning:

Unemployment tax refunds may be seized for unpaid debt and taxes

The IRS is sending unemployment tax refunds starting this week. But the federal government may use those funds to offset one's past-due debts and back taxes.

Health:

The Different Stages of Losing Weight: Fat Loss vs. Weight Loss

If you're like most people, you want to know whether the weight you're losing is coming from fat rather than muscle or water.

Entrepreneur:

Financial Concepts Every Small-Business Owner Must Understand

While small-business owners may opt to outsource their financial functions, they need to "speak the language" if they're going to fully understand their experts' recommendations.