

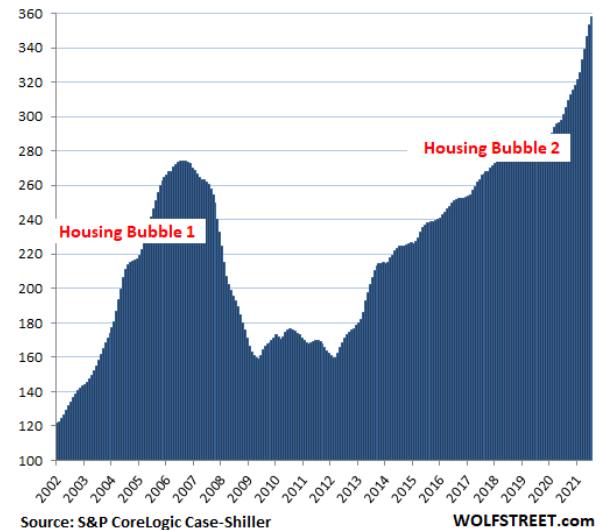
An ancient king sent for his wise men and told them to write down the wisdom of the ages. They researched for 5 months and returned with a large volume. The king said, "Too big." They shuffled out of the castle and conferred for 5 weeks, then returned with a chapter. "Too long" thundered the king! With a few disgruntled words, the wise men departed for 5 days and returned with a paragraph. The king shouted "Too much." The wise men headed to the castle bar and, after 5 hours, returned with a single 5 word sentence to which the king softly replied, "just right." And the words... "There is no free lunch."

This old story is apt considering what's going on in the world today. To me, the phrase means there are consequences to all actions, some known and many unknown. We are now experiencing the costs of recent government actions. You may agree or disagree with the actions, that's not the purpose of this note. My goal is to let you know how these outcomes may affect your investments, now and in the future.

Used Vehicle Value Index, Manheim



Los Angeles: Case-Shiller Home Price Index

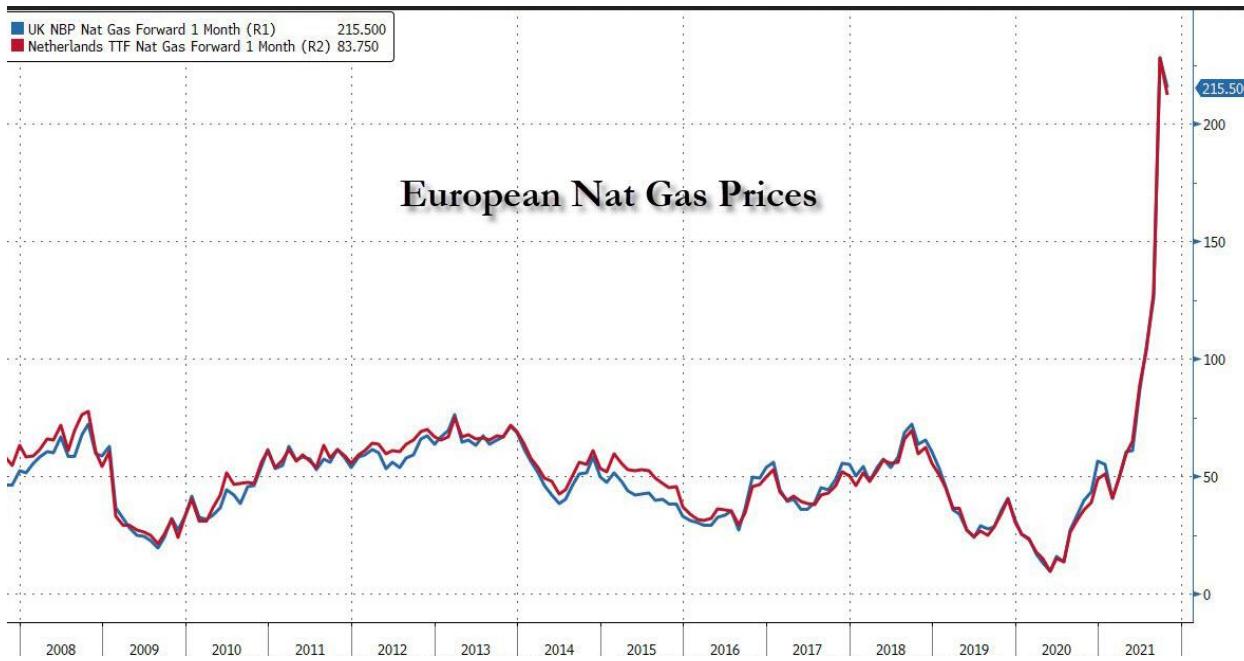


The most obvious of recent government actions is the trillions of borrowed dollars sent directly to people over the past 18 months by various 1st world governments. While intended to alleviate suffering of millions of people who lost their jobs, this has now had the unintended consequence of causing rapid price increases and shortages in multiple areas of the economy. Those borrowed dollars, euros, and yen have created an artificial demand for (mostly) goods and services that is not sustainable. Excess demand is stoking massive inflation in certain areas of the economy and creating "supply chain" issues affecting everyone. I have been writing for some months about the highest inflation numbers in decades. You and I are experiencing the largest price increases in food*, gas, housing, cars, etc. in 40 years. The rise in the cost of used cars is "off the charts" from last year. From pre-Covid, used car prices are up 40% - 50%^*. In some areas of the country, housing prices are up as much as 30% over last year^*. There's just no supply. Take a drive by your local car dealers and you'll be shocked at the empty lots.

*<https://www.zerohedge.com/commodities/kraft-heinz-says-customers-must-get-use-higher-food-prices>

^<https://wolfstreet.com/2021/10/07/used-vehicle-wholesale-prices-spike-to-new-crazy-record-update-on-a-market-gone-nuts/>

^*<https://wolfstreet.com/2021/09/28/the-most-splendid-housing-bubbles-in-america-holy-cow-september-update/>.



There are two other stories on my radar, both of which include China. One has to do with energy shortages plaguing Europe and China. You aren't hearing about them much because we've been insulated so far. That may change soon. In the past few months, prices of natural gas have doubled in the US and are up 5x in Europe (see graph)[^]. 60% of China's provinces have been told to reduce industrial energy use by 20%[^]. These power supply issues will further exacerbate shortages of goods, driving prices higher.

The other story has to do with the huge Chinese property developer, Evergrande, which has been unfolding for about 4 months. They have missed 3 large interest payments and stories are coming out as to whether this is to be China's "Lehman moment.*" There is some contagion and China's junk bond index has spiked to 17% interest rates[^], so investors are quite concerned about default. I will be watching these 2 issues closely and will write about it in a future note. See links below.

[^]<https://www.zerohedge.com/commmodities/china-coal-futures-hit-record-high-mines-flood-worsening-power-shortages-hit-rust-belt>

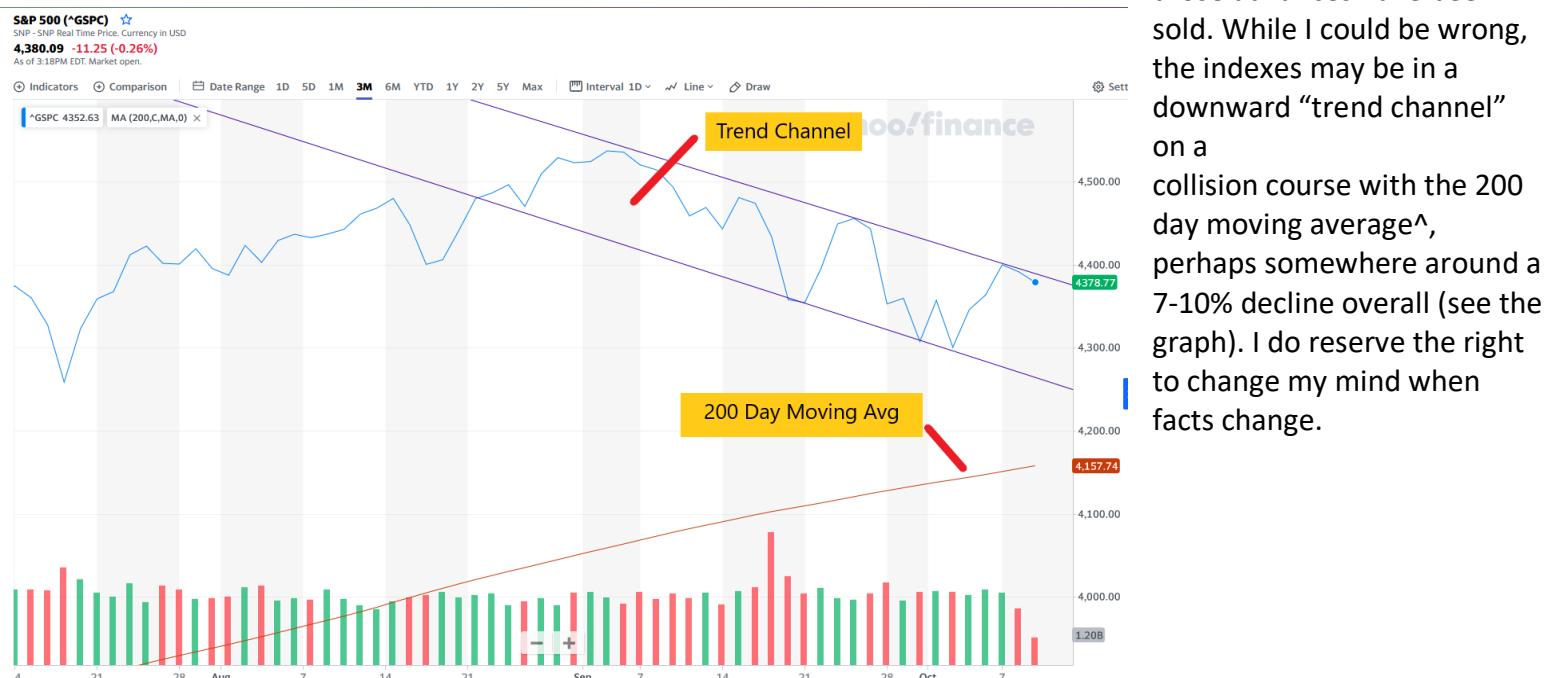
[^]<https://www.zerohedge.com/markets/how-big-impact-soaring-nat-gas-prices-cpi>

[^]<https://www.zerohedge.com/markets/well-done-greta-energy-crisis-send-carbon-emissions-all-time-high>

* <https://www.mauldineconomics.com/frontlinethoughts/chinas-gilded-age-is-over>

[^]<https://www.zerohedge.com/markets/its-disastrous-day-all-hell-breaks-loose-chinas-bond-markets>

The question is, how will inflation, rising energy prices, and a possible housing bust in China, affect the various investment markets? While the major indexes haven't weakened hugely (currently about 3% - 6% off their highs as of 10.11.2021*), they are not acting in the same manner as recent dips. Over the previous 12 months, all declines have been "V" shaped and the stock market has quickly raced to new highs. That hasn't happened this time as it has been about 5 weeks since the stock market peaked. While the indexes have tried to bounce off their lows a couple times, those advances have been sold. While I could be wrong, the indexes may be in a downward "trend channel" on a



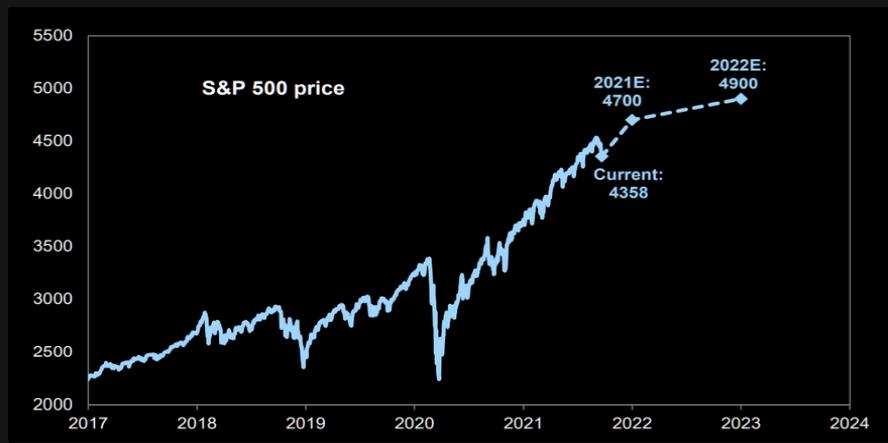
Now, I'm going to crow a bit (and will probably jinx myself in the process). At our Nationwide Advisory Services platform, as of today, we have sidestepped most of this decline due to our "rules" which pointed to relatively large allocations into the energy, commodity, and value sectors while substantially reducing holdings of intermediate and longer term bonds, which have declined in value as interest rates have risen. Please review your accounts for your specific situation.

*Source: Yahoo Finance and author's calculations

[^] A 200 day moving average calculates the previous 200 days of closing prices and divides it by 200 to get an "average" daily price which can be plotted over time.

David Kostin, Goldman, repeats: S&P 500 will end 2021 at 4700

And then rise a further 4% in 2022....



over the next couple years (see graph). That may sound crazy, but just remember what happened in 1999. With this in mind, most likely we will soon be returning to our normal or even above normal stock holdings. Of course, another famous person said, "if something can't go on forever, it won't." At some point, this ride will end. While no one can know the future, my goal is to be prepared for you when that happens.

*www.global-premium/econoday.com

Right now, we are fairly light in our stock positions (aside from the energy, commodity, value space). As to a longer term view, while I realize much of this note seems "doomy and gloomy," I have come to realize the stock market doesn't march to what "should" be happening. For example, on Friday, Oct 8th, the jobs report came out and it was a big miss, 200k jobs added vs 500k jobs expected.* The major indexes were about flat. Ho hum. As a famous person once said, "the stock markets can remain irrational longer than you can remain solvent." I remain of the belief we will soon move into the final wave of this bull market with one more big push upward, to as much as another 25% - 30% higher

Thank you for allowing us to be of service. Please let us know if you need anything.

Enjoy,

Thomas B. Paine

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