John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday March 23, 2022

The brutal war in the Ukraine goes on and so does the Biden bizarre energy policy. The President is now trying to blame the war for high gas prices and high inflation. Gas prices are up about $0.75 since the invasion of the Ukraine. But they are also up $1.85 since Biden took office. If the war really is to blame for the recent $0.75 increase what about the other $1.10 that happened under Biden and before the war? Either the President is lying, or he is out of touch with reality. And it gets worse. Leading Democrats including Elizabeth Warren are continuing to try and shift the blame for rising energy prices on big American oil companies. In my mind that is anti-American. What she is saying is that it is better for Russian oil companies to get rich than for the oil profits to stay in America. In addition, Elizabeth Warren, the President, and all their fellow anti-American oil supporters simply have no grasp on how the oil market in the United States works.

There are 150,000 retail gas stations in the United States. Big oil companies own about 5% of them. The other 95% are small mom & pop businesses with low profit margins. They make only $0.10-$0.15 a gallon. Blaming them for high gas prices is ridiculous, if for no other reason than they face stiff competition. Consumers survey their area looking for the lowest gas prices. To stay in business each gas station has to offer competitive pricing.

"Markets are complicated, we know. But maybe Mr. Biden should try to understand how they work for a change." (The editors of *The Wall Street Journal*, 3/17)

Gasoline prices are part of a broader inflation problem. Inflation in the United States has reached a 40-year high and shows no sign of abating. In response Jerome Powell, Federal Reserve Chair, has announced a 0.25% hike in the fed funds rate. That was no surprise. The surprise was that he also forecasted seven interest rate hikes this year and four more in 2023. Markets expected four rate hikes this year. Powell also addressed the Fed's huge, $9 billion, balance sheet. He said the FMOC will begin to reduce the balance sheet "at a coming meeting." That sounds like the balance sheet reduction will start sooner rather than later.

The coming 11 quarter point interest rate hikes would raise the fed funds rate to 2.8% by the end of next year. Is that enough to rein in inflation? The Fed is forecasting an inflation rate of 4.3% this year. But the PCE (the fed's preferred measure of inflation) rate was 0.6% in January. Inflation will have to slow considerably to get down to the 4.3% rate. The problem is that history says that interest rates have to rise above the inflation rate to be fully effective. And there is no reason to expect that to be different this time.

At his press conference Mr. Powell said that the U.S. economy "is very strong." But the Fed board members downgraded their forecast for economic growth this year to 2.8% from 4% in December. It is good news that the Fed is taking steps to tighten monetary policy. What has been announced may not be enough to get inflation back down to 2%. But in my view, it is better that the Fed act cautiously rather than panicking as the Fed did in the 1980s. An abrupt interest rate hike back then was punished by the currency markets. The dollar soared and threatened the economy. Paul Volker, Fed Chair at that time, had to quickly reverse his aggressive inflation attack. Interest rates and the dollar came back down. That was confusing and disruptive to financial markets. We don't need that again.

Investors have accepted the news about coming interest rate hikes. Stocks have been volatile but resilient. To my surprise I received a chart of stock market behavior since March 2009 with a comment saying it showed 41 reasons to sell. What it shows is that there have been 41 stock market declines since then, with some being frightening. But stocks today are significantly higher than they were in March 2009. Selling during trying times only works if you are fortunate enough to sell at a short-term high and quickly buy back at the next low.

I remember black Monday, October 19, 1987. The Dow Jones Industrial Average fell 22% that day. Shortly there after I attended an investment conference called a "Money Show." There were several other newsletter editors bragging that they had correctly predicted that stock market plunge. I was not one of them. One well known growth stock investor proudly said he had sold before the crash and invested in Treasury bills. A year later he was still in Treasurys. On the other hand, I wrote about a coming recovery and predicted a Dow above 1,000 by year end. That was blasted as impossible. But, yes, that turned out to be the case. Which turned out to produce the best return, selling and staying in Treasurys or holding on and suffering the temporary crash? Yes, you know the answer. Holding on was the best strategy. The lesson to me is that if you get it right and sell before a major crash it becomes very difficult, if not psychologically impossible, to buy back after the crash. Your pre-crash pessimism lingers on.

I will have the next market review and update for you one week from today on

Wednesday March 30, 2022

All the best,

John Dessauer