January 2022

We are pleased to report that Zuma Wealth clients registered double-digit returns during 2021 and we highlight several key takeaways.

- It was an impressive third year in a row of **double-digit gains for U.S. stocks** with just one 5%+ pullback during 2021. An "average" year registers three 5% drops and one 10%+ drop.
- Bond investors were not so fortunate, suffering a negative year for only the 4th time since 1976. **Rising interest rates were too much to offset historically low interest rates.**
- Extraordinary **upward price pressures** afflicted gas, food, cars, TVs and more as Americans shift to buying goods over services. The transfer of manufacturing out of the U.S. means slower response times and a clogged supply chain.

<u>It's Not "Different This Time."</u> Sir John Templeton said: "The four most dangerous words in investing are: 'This time is different." His philosophy sought out overlooked gems. As we move into 2022, we see several high probability outcomes all of which contradict the view that inflation is "transitory."

Surprise #1: Unwinding the Central Bank Blitzkrieg of historic levels is practically irresolvable. Nearly 40% of all money created in the history of the United States happened over the past 18 months. At 37% of GDP, the Fed's math doesn't pencil.

Surprise #2: Gargantuan fiscal stimulus represents at least 10% of U.S. GDP in 2021. Both sides of the aisle are to blame and cutting back isn't on the table. This genie will not go back into her lamp. Ever.

Surprise #3: Constrained to their homes, Americans are buying goods over services. With a multi-decades-long trend that has sent manufacturing out of the U.S., shortages can't be reversed.

We reiterate that a set-it-and-forget-it "60/40" portfolio (60% global stocks and 40% global bonds) is dead. Instead, diversify strategies that marry fundamental logic with quantitative rules, emphasize certain stock sectors while also hedging, forget bonds and add in cryptocurrency exposure.

Economic growth drives earnings and, in turn, stocks. We recommend industries and stocks with pricing power, specifically technology, energy and REITs, while selling calls to hedge volatility. Inflation and a hawkish Fed mean interest rates are reversing their multi-decade decline. Your mattress is better than any bond. Government and high-grade corporate bonds are dead money and high yield corporate bonds deliver all the downside of the riskiest bonds with anemic annual upside. Finally, own a sleeve of cryptocurrency. The S&P 500 is up more than 40% over the past 2 year, a flat line on a chart that includes bitcoin. At the same market cap of any FANG name, crypto belongs in your portfolio now.

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