July 2021

THE CAPSTONE QUARTERLY

The kids are out of school and summer vacations are in full swing. The market is also enjoying its fair share of swings with lots of volatility surrounding some uncertainty in the world. In this newsletter, Bryce discusses inflation worries and how it could affect investors, and Casey gives some perspective on the push towards green energy and electric vehicles.

BRYCE'S POINT OF VIEW

Bryce Pease, CFP®
Chief Investment Officer

Inflation

In our last quarterly newsletter in April, I talked quite a bit about inflation. Remember, inflation happens when demand for goods and services go up, producers cannot keep up with the demand and are forced to increase their prices. Your dollars then don't go as far and can't buy as many products as it once did. With inflation concerns looming and uncertainty surrounding these price increases, the markets have become increasingly volatile. Markets hate uncertainty and they show it with their volatility – up one day, down the next.

The fact that inflation is rising is not a surprise, nor is the reason for it hard to understand. Consumers are able to go out to eat, visit theme parks, travel on airplanes, etc. People are demanding more goods and services. This is all good for economic growth. But for the stock market, there are two issues. The first issue is that this economic growth was largely priced into the markets months ago. Remember, the stock market prices seem to reflect what investors anticipate will happen *tomorrow* more than what is happening *today*. Investors expected the economy to grow, so they plowed more money into stocks. Now, the growth is happening, but it may be simply a confirmation of what people already expected.

The second issue with economic growth is fear. Specifically, fear that the economy will grow too much, too fast (aka: inflation). When the general price levels rise, a dollar pays for less than what it used to. That makes it much harder for people to buy the things they need or to pay off their debts. It makes it harder for businesses to hire new workers or pay the workers they already have. The upshot? When inflation gets too high, consumer spending plummets, unemployment jumps, and economic booms turn into economic busts.

For investors, the question isn't about whether inflation will go up. It already is. The question is, will this inflation be temporary, or long-term? The answer will determine how big of a deal it really is.

There is certainly a good argument that it's temporary. The thinking is that this inflationary spike is driven by temporary problems related to reopening the economy. As soon as society settles down and regains equilibrium, prices will settle down too. But we don't know for sure. It is not hard to imagine a future where, by the end of the year, the world is still wrestling with the implications of the

Did you know?

Required Minimum Distributions (RMDs) are back in effect for 2021. RMDs are minimum amounts of money that an account owner must withdraw from a retirement plan annually at age 72 (it is still age 70 ½ if you were 70 ½ before January 1, 2020). Because of COVID, RMDs were suspended for the year 2020 but are back in action. Be sure to check with us regarding your RMD.

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pandemic. Supply could still be struggling to keep up with demand.

So, what do we do about it? The first thing we need to do is accept that these areas of uncertainty are likely to persist for some time. In other words, we need to be mentally prepared for a sustained period of volatility. If the reverse happens and the markets resume their upward climb? Fantastic! But if not, at least we will be prepared.

The second thing to do is to remember that we are prepared – for short-term volatility and long-term inflation. If interest rate fears worsen and inflation skyrockets above what the Federal Reserve can handle, it could possibly trigger a market downturn. However, we don't have to ride out another market crash like so many investors do. As always, we'll follow the rules of our strategy and try to follow the long-term trends. If our technical signals indicate major volatility on the horizon, we'll try to act accordingly.

The final thing you can do is to let us know if you have any questions or concerns. We are always glad to hear from you.

CASEY'S CORNER

Casey Morris, CFP®

Flex Alerts

Earlier in June some Texas residents had a rude awakening. Thousands of homeowners had enrolled in power-saving plans that gave them a chance to win money towards their electric bill, giving up control of their thermostat in their home. During a recent heat wave, the power companies adjusted their smart residential thermostat to try and reduce the chance of a brownout – where electricity is still flowing to your home but at a lower than usual voltage. These residents had to sweat it out until the power company decided the threat was over.

These programs exist in several states – the giveaways including cash, sweepstakes, or gift cards. Residents will install smart thermostats and agree to let the power companies decide when they need to conserve energy and adjust the temperature. In California, we call this voluntary conservation of energy a Flex Alert. Twice during the third week of June the controllers of the state's electrical grid asked consumers to conserve energy to avoid brownouts, including turning our thermostats to 78 degrees and using major appliances before 6pm or after 10pm.

As we transition to greater renewable energy and electric vehicles (EV), California's electric grid may not be able to keep up. To replenish the battery on an EV, it typically takes about 4 hours with a level 2 charger and 17-20 hours with a level 1 charger. There are also fast-charging devices that can charge in as quick as a half an hour, but fewer consumers have these. Some of these Flex Alerts are minor inconveniences like not being able to run your dishwasher until later at night, but not being able to charge your vehicle can be a major disruption for your life the next day. The alternative is to charge during the day, but that may not be possible for many EV owners.

It is true that California generates enough electricity to supply its customers, but that's only if the timing of electric demand is matched up with the timing of the supply. Hence, the Flex Alerts. For California to reach its goal of eliminating sales of new fossil fuel powered vehicles by 2035, we will need approximately 1.2 million charging stations installed. Currently we have less than 100,000.

Ford, General Motors, and other car companies have recently increased their investment in electric vehicles by billions of dollars, but it is possible that (especially in California) the adoption rate of EVs may not be up to par of the expectations. Consumers may push back on the green energy trends that encroach on their standard of living – such as not being able to drive their car in the morning.

FINALLY…

For those with TD Ameritrade accounts, you may begin to see the Schwab logo appear on your account statements and email correspondence. The merger with the two companies is still underway and will continue slowly over the next year. Nothing will change with your account structure or with the way that we are able to manage the accounts. As always, if you receive some communication that you do not understand please be sure to check with us.

Here at the office everyone is happy and healthy. Bryce recently took a trip in his motorhome to visit the Florida Keys amid the Colonial Pipeline shutdown. Luckily he didn't have too much trouble finding diesel fuel along the route and made it through 6,800 miles with only one flat tire. Casey held down the fort while he was gone and is looking forward to her own trip to Colorado later this month.

Sincerely,

The Team at Capstone Pacific

P.S. If you ever run across anyone who could use our services or is unhappy with their current adviser's performance, we always appreciate it when you pass on our name.