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Many Sound Ideas Can Humble Even the Best Investors

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Fear and confusion caused by inflation or any other problem that confronts the market are unnecessary because if you take time to think things through, you'll discover that "you can always find a bull market somewhere," like a business TV host likes to scream. His show is appropriately named *Mad Money*, a name that might be more of a reflection of his psychological state than a euphemism for his money management skills.

Finding a bull market somewhere or evading the bear market is the promise of all dyed in the wool active managers/investors who profess to have the agility of a cat and the ability to dive in and jump out of the markets to find opportunities that suckers can't find. They fantasize that they know the exact time to find these opportunities, because it doesn't pay to be too early or too late to the party. What good does it do an investor to be right two years early? A person can go insolvent long before an irrational market becomes rational, so timing in active management is equally important to the security selection that is made.

We are still dealing with the lag effects of the pandemic and most of us saw inflation coming even though Janet Yellen the former Federal Reserve chairlady and current U.S. Treasury Secretary didn't discover the full problem until now. This is rather surprising considering she holds and has held the two most important government financial jobs in the country. If her recent announcement is taken at face value, we must give some thought to the idea that if a person with her credentials got the inflation call wrong then what's that say about the rest of the investment managers in the country? How good can any active investment manager be if Janet Yellen was wrong on one of the most important calls in this century? With that said, let's take a look at some active management ideas that have merit and should be effective tactics that if they don't offer profit opportunity in this market, at least help to alleviate most of the pain felt by a conventional 60/40 stock and bond portfolio.

Idea #1 – Go short (*short = you make money when the underlying investment loses value*) the U.S dollar.
The question to this obvious strategy is why hasn't my investment advisor incorporated this basic idea into my portfolio? The Federal Reserve has printed $5.4 trillion, inflation is running at 8.5% and the country's money supply chart looks like a hockey stick going from lower left to upper right. How much money could you have made the past year when everyone knew (except for Janet Yellen) that inflation was going to be a problem from the USA being on a massive currency devaluation scheme? You would have earned a negative 13.13%. Ouch, how can this be? The fundamental idea is economically sound, and the US dollar really should go nowhere but down in the current environment. We need to remember that we live in a global environment and it is not simply our actions that affect economic outcomes but those of other nations too. Although it isn't the finest distinction, the USA for now remains the cleanest shirt in the dirty laundry. This idea could still pay off sometime, but therein lies the problem with being right too early.

Idea #2 - Real Estate
Everyone knows that real estate is a great inflation hedge and the housing market is on fire so why hasn't my investment advisor sold half of my stock and invested the proceeds 50% in real estate and 50% in homebuilders? Missing this easy call is nearly as infuriating as witnessing the consequences of devaluing the dollar being overlooked. While others were sleeping this year you could have made -14.99% on real estate and -26.44% in the Home Construction index. Ruh-roh, as Scooby Doo would say. Home prices have gone up as we all know but real estate as an asset class in publicly traded markets is a combination of all types of income producing properties and rising interest rates have taken a toll on their values as much as they have on all stocks and those rising rates are signaling trouble for homebuilders in months to come if they aren't already. Which begs the question, why not short the homebuilders? Please see idea #1 for the answer.

Idea #3 – Buy Gold, Silver (and some Bitcoin for good measure).
All your investment advisor had to do is watch some TV and he would see all the advertisements for gold and silver that would have informed him

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Avoid the Temptation to "Outsmart" the Market

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about what great investments they are, especially for inflationary periods. And if Bitcoin wasn't a better tailor made investment solution for inflation, what else could there be? The whole concept of cryptocurrency is that it offers some value that paper money doesn't, and it should hold its value when paper money is being devalued. Although the returns for Gold and Silver are not terrible, they aren't what you'd expect either in a time of high inflation. Bitcoin on the other hand has been the worst performing asset class. Hard to say why these investments haven't fared better, maybe because they are unique in that they generate no cash income like other investments do? It is best to look at these investments as good portfolio diversifiers and that their presence in a portfolio will pay off over time. For many investors the concept of crypto is a non-starter so for the time being, they can enjoy watching the roller coaster.

There are many more ideas that have strong fundamental justification for why they should be doing well under current circumstances and you can find some more in the inset chart. What is best to understand is that the most important decision that one can make is to follow an investment strategy and avoid the temptations to outsmart the market. It has a nasty way of humbling even the best investors as is revealed with knowing the outcomes of the three ideas discussed.

Investment	YTD - Return
Commodities	30.68%
Gold	-.10%
Silver	-8.01%
S&P 500 - Stocks	-21.06%
Cybersecurity	-23.21%
Real Estate	-24.07%
Long Maturity T-Bonds	-25.92%
Autonomous and Elec Vehicle	-29.21%
Biotechnology Index	-30.15%
U.S. Home Construction	-35.73%
Robotics and AI Index	-35.82%
BITCOIN	-52.04%

Market Snapshot:

Inflation, Federal Reserve and Corporate Profits Remain as Top Concerns for Market

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Is it possible that inflation has peaked and that some relief in price increases will begin to be seen by consumers in weeks to come? Bloomberg News recently reported that semiconductor, shipping and fertilizer prices are trending down and these three components for costs although might seem minor, they do have a ripple effect for the price of major electronic goods, automobiles and food. Shipping costs have factored into inflation more than they should because of their outsized gains caused by supply chain/labor problems. What would seem like an esoteric index and is in normal circumstances, the fertilizer index may have peaked in March, after the Russian invasion of Ukraine. Because of Russia's role in producing fertilizer, the chemical kind not the geopolitical kind, its invasion of Ukraine has contributed to concerns about food prices by hampering wheat production and exports of fertilizer to USA farmers.

The Federal Reserve remains a wild card and the mid-June and month end July meetings could offer some clarity about how much Federal Reserve action on interest rates will transpire. The combination of rate increases and shrinking the money supply has the bond market shaky because this is the same double dose of Fed action that happened in 2018 that didn't end well.

Many analysts are predicting that corporate profit forecasts will begin to fall, but inflation might help to prop things up. Even though profits might not grow much in real terms, inflation could help to keep non-adjusted profits from falling and put a floor under the market. Who needs *Top Gun* when the real summer blockbuster is watching the market!