June 11, 2022

THE ANSWER TO INFLATION'S EROSIVE EFFECT

Yesterday the United States Bureau of Labor Statistics released the Consumer Price Index data. The index rose 8.6% year over year and a full percentage point for the month of May.

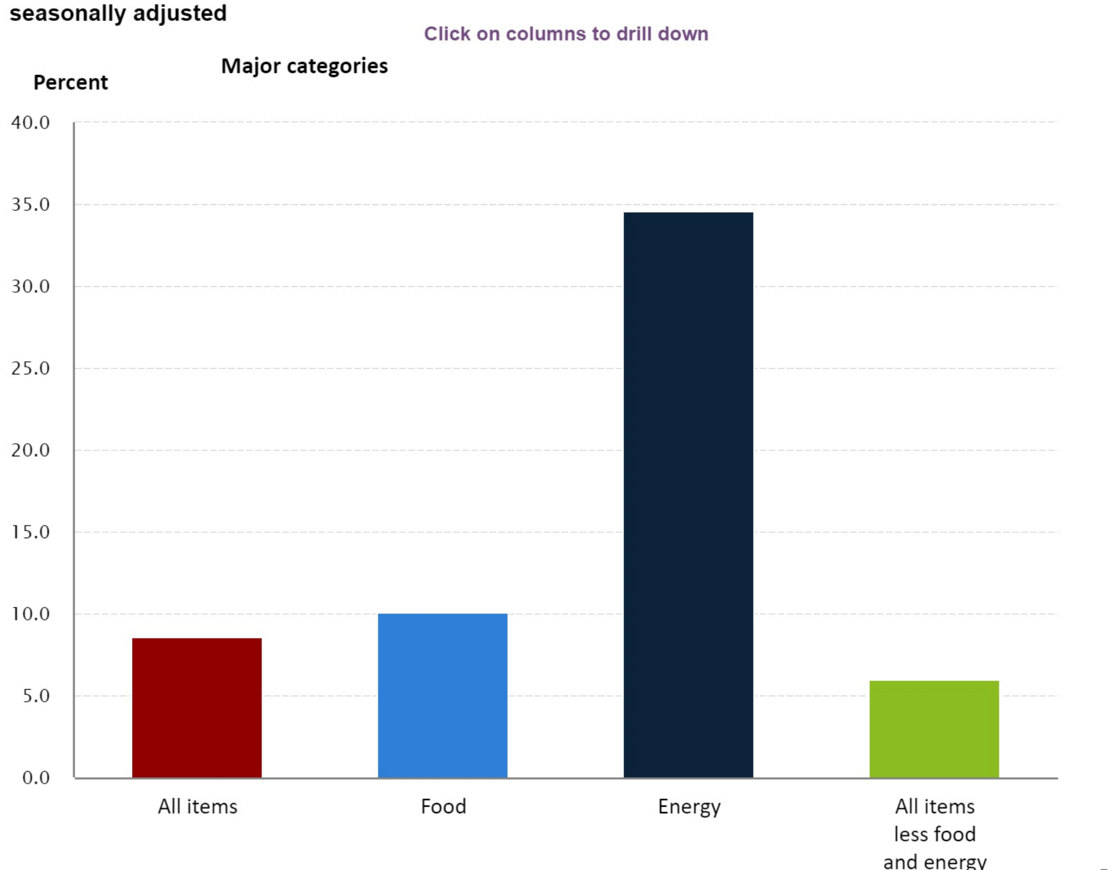
This data must be consumed with the understanding that the CPI calculation methodology used today is different from that employed in the 1980s. Methodological adjustments in the way the government compiles and reports CPI has shifted the widely accepted "CPI For All Urban Consumers" metric further and further away from a true measure of the cost of living in comparison to a particular standard of living.

If we used the 80s technique inflation would be approaching 17%. Inflation will moderate at some point. However, considering global grain, fertilizer, and oil shortages I believe it's safe to assume that inflation will remain relatively high for the foreseeable future. Especially when you consider the aforementioned shortages directly impact the two most frequent interactions all consumers have with the economy. Food and energy are not discretionary.

June 11, 2022

THE ANSWER TO INFLATION'S EROSIVE EFFECT (Cont.)

12-month percentage change, Consumer Price Index, selected categories, May 2022, not seasonally adjusted



Source: U.S. Bureau of Labor Statistics.

June 11, 2022

THE ANSWER TO INFLATION'S EROSIVE EFFECT (Cont.)

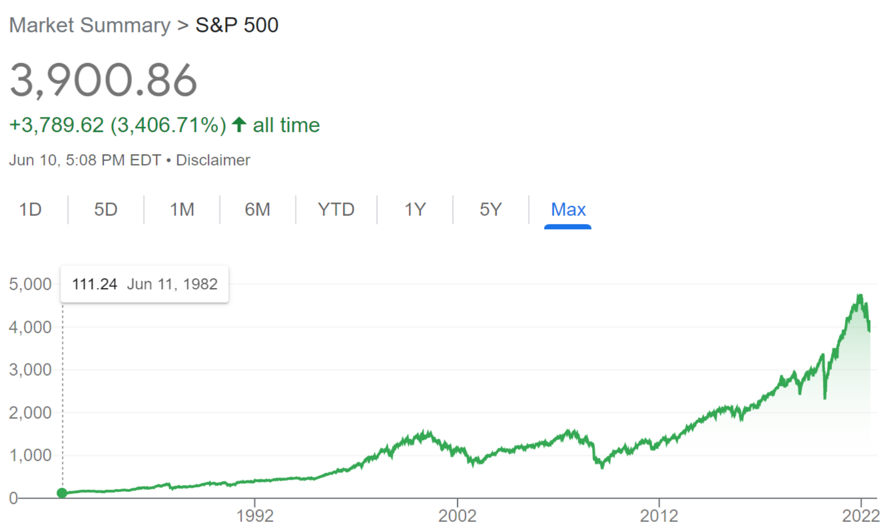
While market volatility is the order of the day the alternative is a fluctuating dollar that has lost value for most of the last 3 years. The Administration's decision to weaponize the greenback in response to Russia's invasion of Ukraine has also caused dollar stalwarts like Israel to adjust policy with regard to what currency predominates their foriegn reserves. Although it is viewed as symbolic, Saudi Arabia has publicly announced that they are considering selling a portion of their oil in Yuan instead of dollars. The mere consideration and the public pronouncement, by OPEC's most influential member no less, demonstrates a willingness to question the philosophy of the petro dollar as the superpower of reserve currencies.

For a real world understanding of the impact inflation has had in the last year consider this: for every $100,000 you have sitting idle (in a bank savings account, CD, under the mattress, etc) you've lost $6,977 to inflation (being generous and accounting for a full percentage point of interest). Parenthetically, when one considers the fractional reserve lending mechanism, which allows the bank to multiply deposits for lending purposes, deposited money is working...for the institution. Not the depositor.

June 11, 2022

THE ANSWER TO INFLATION'S EROSIVE EFFECT (Cont.)

Although the S&P 500 is down -8.16% in the last 12 months it trounced inflation in 2020 when it ended above 16%. In keeping with the adage, "But low, sell high", a discounted market is nothing to fear. Some would say, "We're not at the bottom yet. The market bottom is only recognizable well after that point has occurred. Further, a strategy employing dollar cost averaging, regular consistent investing, has been shown to smooth volatility and reduce the overall cost basis. It is important to note that in 2020 and 2021 the S&P 500 concluded the year above16% and 24% respectively. The index has increased in value by 3,406.71% since 1982. Compare that with 202% inflation since that time. Keep in mind also that many conservative Blue Chip equities pay a dividend which moderates any loss on per share value.



June 11, 2022

THE ANSWER TO INFLATION'S EROSIVE EFFECT (Cont.)

In this environment I believe it is prudent to keep money in a position where it has the potential to realize its potential. This has a scant chance of happening with savings products. In fact, as previously mentioned, that is a money losing proposition.

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