

June 2024

Rain, rain, go away!

I've had enough with the rain... Then again, my garden and yard look terrific. Enough said on that topic.

Let's discuss another concept: 'Elasticity'. When we think of elasticity, we often imagine a rubber band or a bouncy ball that can change shape. In economics, the term 'elasticity' refers to *the way in which an economic variable responds to a change in another variable*. For example, some things, like rubber bands change shape, and return to their original shape, more quickly/slowly than others. Similarly, some prices can change quickly (like gasoline), while other things such as rents or worker-compensation, may take longer to change.

This is important to us, as investors. In 2021, as the effects of Covid waned, and the several trillion dollars of stimulus money worked its way through people's wallets, some prices started to rise quickly. In the case of many 'services' and 'goods', prices had changed during Covid due to differences in supply and demand. For example, during Covid there was less demand for airline flights and hotels (prices fell), while prices for hand sanitizer rose. These price-changes returned to normal as people returned back to work and the supply chains opened up. We didn't have significant, 'sticky', inflation at that point.

But I remember when I started reading reports and hearing from business owners that Employee Wages were increasing, across the board. It was understandable. As a result of the relationship between workers and jobs, employers needed to increase wages in order to get the employees needed. It was at this time that I said to the team, "Wage inflation is sticky. Inflation is going to get worse from here." That is, once a person's wages are increased, it's VERY difficult to reduce them.

We were correct. And we adjusted our portfolios in early 2022 as a result, adding to managed futures funds. Now, a few years later, nearly all prices (except maybe gasoline) have risen substantially. Think about airline tickets, dining out, wages, and so on. Price got 'back to normal' and then rose even more! Inflation has risen tremendously. We shouldn't have expected anything to occur differently. The government injected several trillion dollars into the economy. It was going to be spent. The demand increased more than the supply. Prices rose. No surprise!

Here's the rub. When this spending-party comes to an end and the economic recession ensues (2024, 2025, 2030???) we need to think about the following: "in exactly what way will goods and services come back down in price?" Here are some questions to consider:

- Will wages come down, or will employers start layoffs? (Think about your friends and family.)
- Will rents come down? How long will it take for the housing-system to respond to recession?
- Will food prices come down?
- Will restaurants decrease prices as eating-out slows? (By the way, in Newport at least, there's no sign of slowing!)

Of course, we can ask this question of *every single thing that costs money*...items at Walmart, Home Depot, electronics stores, automobiles, cell phones and so on. And don't forget about Services: massages, lawn mowing, consulting services, and so on.

The reason that thinking about this is important to our team is that investors/clients have charged us with thinking about the ways this might happen, as well as when it might happen, and to prepare investment strategies designed to navigate our way through these scenarios.

Don't worry, we love this! Tune into the monthly teleconferences to hear more, or give us a call.

Related to these investment exercises, In Mid-May, Chris conducted a Due Diligence meeting at the PIMCO offices in Newport Beach, CA. PIMCO is one of the world's largest managers of Fixed Income (think bonds of all types, Treasury, corporate, municipal, in both the US and around the world). Their research teams and resources are tremendous. The focus of the Due Diligence trip is for asset managers and financial advisors to do a deep-dive into the data, for the purpose of analyzing the current investment environment, and to run scenarios posing various possible future investment paths.

During the meeting, a small group of us met with the CEO of PIMCO, Emmanuel "Manny" Roman. In his view, there are 3 major themes investors need to consider in the next several months.

- 1) High interest rates (likely for longer),
- 2) Smaller banks need to de-lever. They've lent too much money, and to borrowers who may run into financial issues. Many of these banks need to raise cash. As a result, they are selling massive bond portfolios at discounts. As an example, PIMCO recently purchased a 17-billion-dollar portfolio from a small bank. This benefits PIMCO bond fund owners...which include us.
- 3) China & politics.

Our team has been adjusting our exposure to various types of bonds/fixed income over the past few months. These review meetings are critical to our development of investment theses.

Next topic. Between the three of us, in the last week alone we've easily received 2 dozen suspicious emails and phone calls...all seeking to lighten our wallets. We must keep this topic 'top of mind'. It's important. So we're including a 'repeat' note from earlier this year. We hosted a Cybersecurity Seminar and at least one important piece of advice to all of us is to "PAUSE and VERIFY." Whether the type of threat is presented on the phone, in an email, or through a text message, remember to ask yourself, "Is this a normal form of contact for this organization?" If it's questionable, hang up the phone, close down the computer and **DO NOT** click on any links. Take time verify the interaction and the circumstances. If it's legitimate you can initiate the interaction again on your own terms. Our speaker shared two valuable resources which we encourage everyone to read, and importantly, to SHARE with loved ones and friends, (and especially parents!) The links are listed below (they're safe!!) We highly recommend spending a few minutes looking over these resources with your loved ones.

- [Nine Ways to Protect Yourself From Scams\\*](#)
- [Protecting Your Data: Aware & Prepared Brochure\\*](#)

Our team's "**Shred Day**" event was a success! Thank you for your participation. We saved a lot of trees together!

Similarly, our team hosted an extremely informative women's-focused seminar in coordination with our partners at MFS Investment Management, entitled "Savvy Women, Smart Investors." Presenter Liz Flint covered real-life scenarios highlighting the financial issues regarding balancing current needs and long-term goals. Most importantly, she left the audience better equipped with the knowledge and confidence to take ask the right questions toward finding solutions. Liz was gracious enough to share some of her favorite resources with us, and we are happy to pass them along (see the links below) to all of you!

- [What Keeps You Up At Night: Women's Checklist](#)
- [Building a Financial Foundation for the Next Generation](#)
- [2024 Social Security Reference Guide](#)

This summer, The Yalanis Private Wealth Management Group will host our annual Newport Gulls baseball game on Friday July 19<sup>th</sup>, where we celebrate our American Heroes. Keep an eye out for the invitation. Tickets are free for all of our clients and their families.

And, as we have for the past two years, we intend to have another mid-summer gathering at Ragged Island Brewery. This event is scheduled for July 10<sup>th</sup>.

As always, please share this letter with your friends and family. We're also posting these letters on our website (The website link is available in the signature section of our email). If your friends and loved ones find that they need financial expertise, guidance, or a second opinion, our "20-Minute Ask Anything Sessions" are available to them. We're happy to share our professional expertise.

We want to sincerely thank you for your business as we continue into 2024. We are committed to helping preserve, manage, and grow your net worth by addressing a comprehensive range of complex financial issues including those related to income-during-retirement, cash flow, investment goals, and insurance-related risks, all while remaining sensitive to your Business, Estate and Income Tax planning needs.

Sincerely,

Chris, Greg & Darcy

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