



Warren Financial  
*Investing for a Greater Purpose*



# Warren Financial

## Q3 2021

# Market Strategy

### INSIDE THIS EDITION

#### INFLATION

During Q2, the cost of lumber skyrocketed, but then cracked and began to fall. This pattern was repeated by many commodities.

#### 2021: THE RE-OPENING

What happens Next?

#### STRATEGY UPDATE

#### SECTOR WATCH

In Search of a Bull Market

"HEY SIRI, DOWNLOAD THE WARREN FINANCIAL APP"



# INSIGHTS

The Biden government wants to spend Trillions on infrastructure. Their definition of infrastructure is pretty broad and includes many things besides roads, bridges, airports, and other traditional items. Q1 was marked by prices for infrastructure items going up and inflation expectations rising.

Into Q2, the Fed made it clear they would not stand by forever, but they would eventually combat inflation – and whoosh – inflation almost immediately disappeared. Lumber and other commodity prices plummeted.

And the stock market reacted by selling off infrastructure.

We may see a return to the “infrastructure trade” where cyclical, economically sensitive company stocks outpace tech. But for now, tech is once again outpacing everything else – because tech makes more money than anything else.

An exceptionally strong re-opening, marked by strong growth in jobs and GDP, along with Congress actually passing an infrastructure bill would likely be the catalyst that could cause the infrastructure trade to re-ignite. It could also cause inflation to rise and interest rates to rise.

## Inflation is a Concern 2021: Year of the Economic Re-Opening

Consumer prices have risen +4.9% change from 1 year ago. Why?

- Consider the fact that over 8million people have continued to choose to not work because the government is paying very high unemployment
- When people choose not to work, factories and the ability of companies to produce their products are reduced. There are “shortages” of manufactured goods, especially semiconductors.
- Covid is still a problem in some parts of the world (India).
- It seems likely that the economy won’t feel the full positive effects of the re-opening until workers return to their jobs



The Consumer Price Index for All Urban Consumers: All Items (CPIAUCSL) is a measure of the average monthly change in the price for goods and services paid by urban consumers between any two time periods. It can also represent the buying habits of urban consumers. This particular index includes roughly 88 percent of the total population, accounting for wage earners, clerical workers, technical workers, self-employed, short-term workers, unemployed, retirees, and those not in the labor force.

The CPIs are based on prices for food, clothing, shelter, and fuels; transportation fares; service fees (e.g., water and sewer service); and sales taxes. Prices are collected monthly from about 4,000 housing units and approximately 26,000 retail establishments across 87 urban areas. To calculate the index, price changes are averaged with weights representing their importance in the spending of the particular group. The index measures price changes (as a percent change) from a predetermined reference date.

While workers have stayed home from work, they still have money to travel...

### TSA checkpoint travel numbers (current year(s) versus prior year/same weekday)

This page will be updated by 9 a.m. daily. (Back to Coronavirus (COVID-19) information)

Date	2021 Traveler Throughput	2020 Traveler Throughput	2019 Traveler Throughput
6/22/2021	1,795,141	471,421	2,506,510
6/21/2021	2,030,577	607,540	2,716,428
6/20/2021	2,100,761	590,456	2,719,643
6/19/2021	1,882,381	507,129	2,378,559
6/18/2021	2,081,115	587,908	2,772,903
6/17/2021	2,039,425	576,514	2,728,786
6/16/2021	1,792,370	441,829	2,552,395
6/15/2021	1,678,688	417,924	2,466,574
6/14/2021	1,800,954	534,528	2,699,580
6/13/2021	2,097,433	544,046	2,642,083
6/12/2021	1,812,797	437,119	2,318,946
6/11/2021	2,028,961	519,304	2,727,860
6/10/2021	1,975,189	502,209	2,675,686
6/9/2021	1,669,537	386,969	2,509,058

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Business air travel and International travel are the pieces of “traveler throughput” that are missing so the TSA checkpoint numbers above can return to full normal. While international will likely come back strong, businesses have decided that “virtual” can save them a lot of time and money out of their travel budget.

### The Market Response

The market rotated in Q1 away from everything that was strong in 2020. Then, as expected, it rotated back in Q2 toward those companies that are successfully growing their revenue and earnings. Interest rates in Q2 didn't just stop going up (as expected), but they actually went down some. Inflation that was a problem earlier in the year broke and commodity prices (except oil) plunged.

The rotation back in Q2 was not as strong as the rotation in Q1, so the Nasdaq and technology companies are still lagging the SP500.

Our fear early in the year was that Q3 would bring back the same rotation as in Q1 and technology would suffer while economically sensitive companies (like energy, commodities, banks, chemical companies, industrials, etc) would thrive again. However, the market began a small pullback in late June and instead of re-punishing technology, it focused on punishing economically sensitive stocks; probably because they had been doing the best early in the year.

So, is the economy re-opening? Or not? In the second half of 2021, will the stock market favor economically sensitive companies, or technology?

It's really hard to predict. The best thing to do then is to stick with companies that have strong fundamentals – because in the multi-year long run, these companies will always be rewarded. Cyclical (economically sensitive) companies will come in and out of favor as the economy, interest rates, and inflation churn about. But companies that find ways to make profits in all environments will be long term winners, even if they aren't winners this year.

Meanwhile, with all the churning in the stock and bond markets, the good news is that the indexes are up and generally, everyone is making profits.

## Strategy Update for Q3 2021

- 1) US continues to be the best country in the world to find good investment returns.
- 2) Inflation has cracked and broken and we don't really expect it back any time soon because unemployment will run out and workers will return to the jobs which will put an end to production shortages.
- 3) Chasing winners in this market is not wise. Even sector winners rotate within a few weeks from hot to cold, and sometimes back again to hot.
- 4) Best to stick with great companies that are increasing revenue and earnings.
- 5) Let the markets “come to us”. Instead of trying to guess before a rotation, or trying to chase a rotation, it's much safer to “let the market come-in” and let the market rotate toward high quality stocks we already own.
- 6) We do have the ability to prepare and counter the rotations by adding (not changing) new investments that are intended to benefit from rotations, and economic re-opening.

### WHAT'S NEW?

The Vero Beach construction real-estate project is going very well indeed.

Vero has been able to pre-sell most of their inventory, while raising prices.

It's time to swing the hammer. The return on this deal is only going higher.

#### WE ARE SEARCHING FOR OUR NEXT REAL-ESTATE PROJECT.

To participate, you will need a significant \$amount in a taxable brokerage account, or a way to access cash from your bank. IRAs won't qualify according to IRS UBTI rules. Please also be aware that as we find special opportunities, they don't last long. Some opportunities are only open for a few weeks. So, getting cash into your TD brokerage accounts is an important first step – that way we know who to call.

ANVS surge continued. This biotech stock is risky. We may add a little bit in some portfolios, but not too much.



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## WARREN SAFER-EQUITY FUND



### The Warren Safer-Equity Fund

\*Still rising.

\*No hedges currently, but this could change quickly if markets go into a tail-spin (we don't expect any significant downward movement, but we are always ready).

### Do you have a friend?

Show them the Warren app you have on your phone!

We love to help people – let us help your friends and family.

And we always appreciate your referrals – referrals demonstrate the height of a trusted relationship.

### Disclosures:

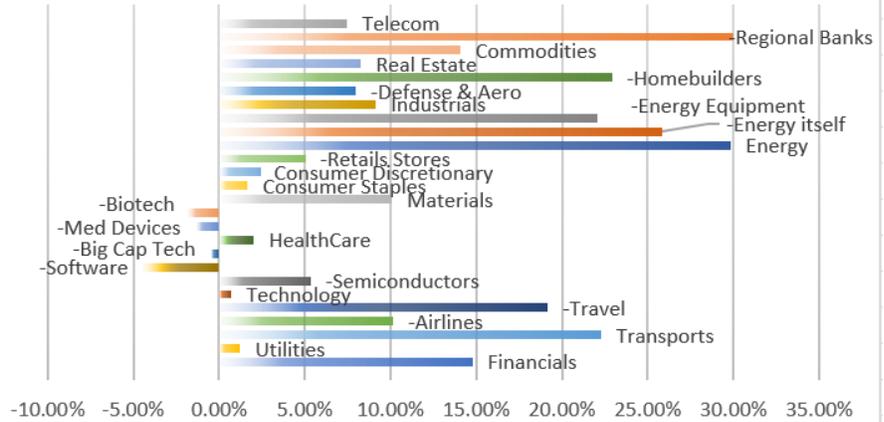
Please refer to our website for regulatory disclosures.

## Sector Watch (in search of a Bull Market)

### What happened in Q1:

(the following observations are as of 3/24 as the newsletter goes to print)

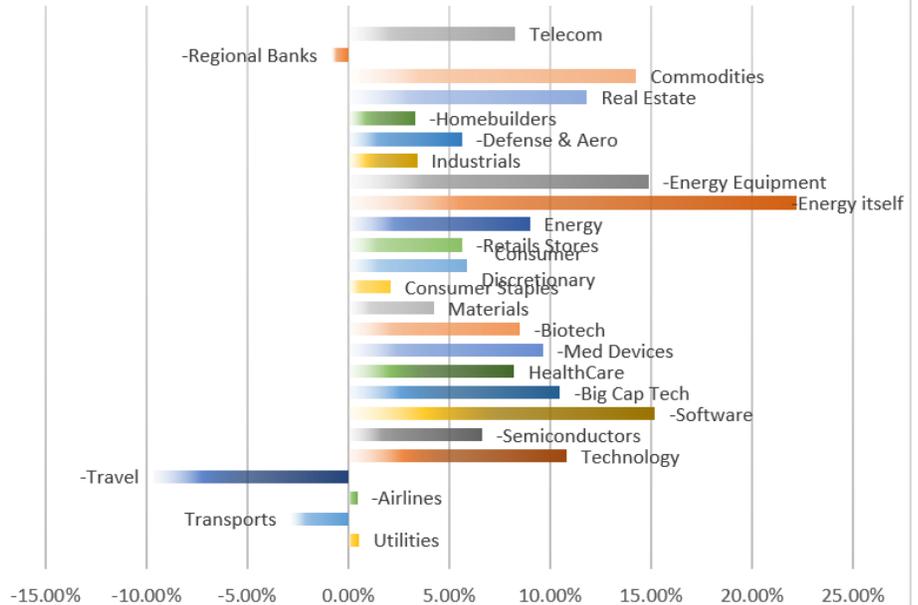
### SECTOR WATCH



### What happened in Q2:

(the following observations are as of 6/29 as the newsletter goes to press)

### Q2 SECTOR WATCH (MAR 31 - JUN 30)



Notice that sectors that were bad in Q2 (like Regional Banks and Travel) were good in Q1. That is called a rotation.

The best advancement in Q2 was made by tech and software, but those sectors still haven't caught up to the overall market this year - yet.