Warren Financial
Q4 2021
Market Strategy

INSIDE THIS EDITION

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Warren Financial
Investing for a Greater Purpose®

INSIGHTS

The Biden government wants to spend Trillions. So far under this administration, all the grand spending proposals are still sitting on the table and nothing has been passed.
That doesn't mean they won't get the votes "tomorrow" and pass these things, but if they had the votes to pass them, they would have done so.
The longer it takes to pass these spending proposals, the less likely they will ever get passed.

Is the stock market worried about Congress extending the debt ceiling? About Congress passing these trillion dollars in spending? Sure. These are always things to watch out for.

But we don't sell or get conservative because we don't like what's going on in Washington. Instead, we look at the economy. Is there a recession in the near future? No.

What about inflation rising? Interest rates rising? Dollar falling? Should we sell for these reasons? No.

The market follows earnings. Earnings were up recently. Earnings this year are up over 90% compared to last year. That's not recessionary. That's expansionary.

Corporations have suffered from "supply chain" shocks. But some of those are just now starting to become "less worse" – not good, just less worse. The crisis is not over, but perhaps it won't get worse from here. Corporations are beginning to rebuild their inventories. This is economically expansionary, not recessionary.

Warren Financial brings you Access:

New Real Estate Opportunity

At Warren Financial, we get "offers" all the time for various real estate investment opportunites and honestly, they all seem rather mundane. We repeatedly hear about real estate deals that offer a 9% or 10% or 11% IRR (Internal Rate of Return). Frankly, that's not enough! FYI, IRR is a way of calculating return on investment that is most often used in real estate and internal corporate financial decisions. Usually, it's better for us and for you if we find our own real estate opportunities.

In a private real estate opportunity, we are looking for better opportunities than the mundane. Keep in mind that the downside to a private investment opportunity is that it ties your money up for a few years. Therefore, you should demand a "better" return for that "illiquidity". So, we look for returns that target at least 15% and prefer them 20%+ or even better. When we started with Vero Beach, we were seeking a 25% or 30% IRR. Since Covid, prices in the FL market have risen and the villas are selling at higher prices which in turn sends our estimated IRR soaring to 40%, 50% or better.

Again, for our next investment, we are seeking high returns. We have a great partner in RCP investments out of Dallas Tx. RCP is also a big investor in the Vero Beach project. They have put together a package of 5 and possibly up to 8 commercial properties which collectively target a 24% IRR and with a 50% bonus on their promote, we estimate a final IRR of 33%. Again, these are the kind of numbers that make sense. A 33% IRR means that we as investors should be doubling our money in about 3-4 years.

Most people are familiar with the idea of "flipping houses", or buying a subpar house in a good neighborhood, fixing up the house, then selling it to someone who wants to move in to a renovated home in a great neighborhood. Think of this RCP investment as "flipping commercial real estate", like multi-family units, retirement properties, office, retail, or hospitality properties.

Many of you have already expressed interest in this opportunity.

If you are interested, the best way for you to get involved is:

1) Take $100k from your bank and invest it in this package of real estate
2) Take $100k from your joint or individual account and invest it
3) Last choice, take $100k from your IRA and invest it

The IRA is the last choice because of UBTI. We've talked to our CPAs and auditors and administrator partners, and they all seem to agree that funneling the money through the WSEF sidepocket ensures that any UBTI is potentially avoided. Call for details.

This opportunity may be closed by Oct 31. But call to make sure.

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. This is not a solicitation to buy or sell anything. It is information that you should be aware of so that you can talk more to Warren Financial.

All investors must be accredited which according to Congress and the SEC means you have at least $1m to invest overall (not including primary residence); or, you have individual income of $200k/family income of $300k for the past couple years with an expectation of this continuing in the future.

The 2021 Re-Opening Continues

2021 certainly seems to be a year marked by rotation. First one sector goes up, then another. Chasing this market is deadly. By the time you see, it…. The rotation has begun to move on.

Originally, the markets anticipated that the re-opening would become a backdrop for a huge bull market. But the problems associated with the re-opening have risen to the forefront. Most specifically, supply chain shortages.

Due to supply chain constraints, Ford, GM and others can't even build cars because they can't get the microchips from Asia that are designed into the vehicles. This is just one that is more obvious and prominent out of hundreds of examples. While these supply chain constraints are difficult, it appears they are no longer getting worse. Improvements have not yet begun, but perhaps the worst is behind us.

Strategy Update for Q4 2021

1) US continues to be the best country in the world to find good investment returns.
2) Supply chain problems are causing inflation, and everyone is worried.
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.
7) As interest rates rise, we have positioned (as much as possible) some portfolios toward interest rate sensitive investments, such as regional banks, which do well when rates rise.

WHAT'S NEW?

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

The RCP Texas real estate investment is looking very attractive. It is less overall correlated to the equity markets and thus provides some nice diversification and risk reduction when used in conjunction with equity.

Things to Worry About

There is a pretty long list these days, but none of these things are indicating recession on the horizon, and thus, we should not get conservative. We should ride out any market rough patches.

- Higher inflation
- Higher interest rates
- Supply chain shocks
- Chinese crackdowns
- US govt shutdown
- US Fed bond tapering
- Fed rate hikes next year
- Mortgage demand drops
- Consumer Price Index at 5.3% this year
- Stock market volatility

And there are probably more…. But nothing here to indicate looming recession.

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WARREN SAFER-EQUITY FUND

The Warren Safer-Equity Fund

*Still rising.
*Some 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.

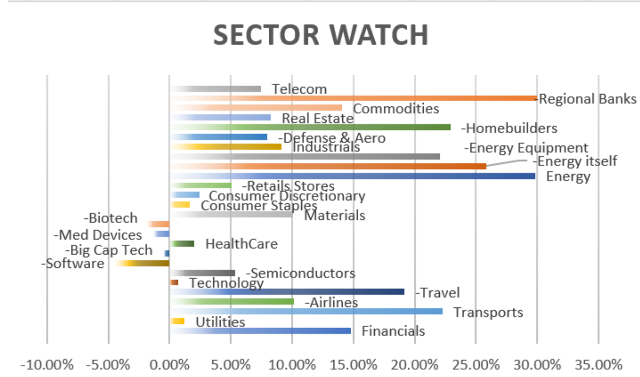
Disclosures:

Please refer to our website for regulatory disclosures.

Sector Watch (in search of a Bull Market)

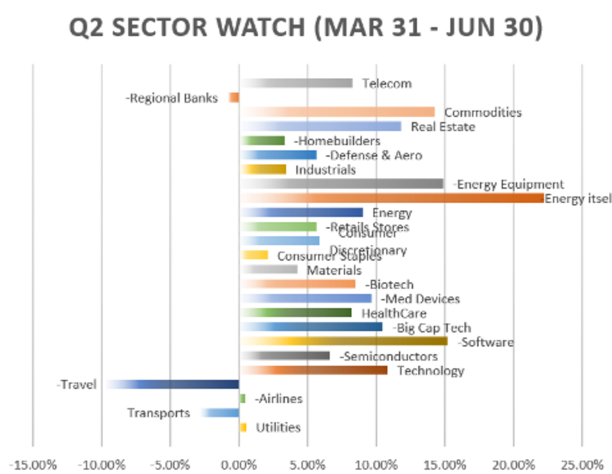
What happened in Q1:

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



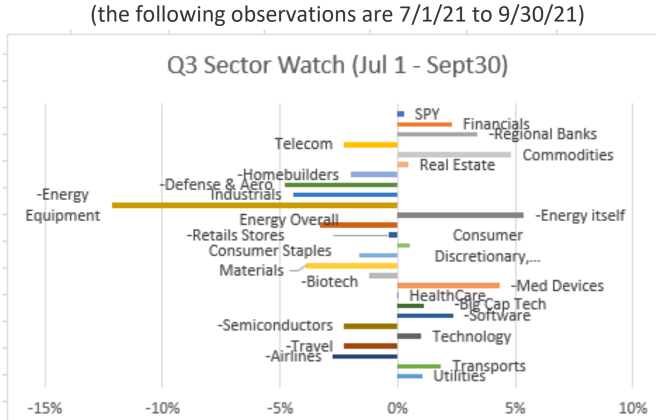
What happened in Q2:

(the following observations are 3/31 to 6/29 as the newsletter goes to press)



What happened in Q3:

(the following observations are 7/1/21 to 9/30/21)



Notice how scattered the sectors of the economy were in Q3. Many were negative while many were also positive. Q1 and Q2 were much more overall positive. It's a tough environment, but the economy is still growing, adding jobs, and building corporate inventories. We must manage through the current stormy waters.

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