



Warren Financial  
*Investing for a Greater Purpose*



# Warren Financial

## Q1 2022

### Market Strategy

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## INSIGHTS

### POLITICS:

So, other than the \$1T infrastructure bill, it now appears that the additional \$3T spending in the BBB bill is dead.

Perhaps Congress can revive some of that spending in a new, more targeted bill, but the \$3T bill is officially dead.

With stimulus now gone, and the Fed talking about tapering and raising rates in 2022, the outlook doesn't seem very bright.

In fact, the chance for a Roaring 20's type boom seems fairly low. And with Omicron raging throughout the world, travel may be slow to get going in 2022.

### INFLATION:

This particular bout of inflation has been supply side driven. When boiled down, current inflation is just too many consumer dollars trying to purchase too few supplier goods – so prices rise. Suppliers have been hit with manufacturing slow-downs and shut-downs causing their output to dwindle while consumers have been given cash to spend.

When consumers can't travel due to Covid, they sometimes decide to spend more money on products (cars, houses, washing machines, etc) rather than travel and restaurant services.

### ULTRA-LOW INTEREST RATES

When rates are set ultra-low, investors tend to move from lower risk investments up to higher risk investments seeking to get a better return, such as from treasury bonds to corporate bonds, and from corporate bonds to stocks. Yet when rates are rising, that process reverses itself. At least, that's the conventional wisdom.

## Oil: How Inflation May Adjust Itself

### WTI Crude Oil Spot Price

79.11 USD/bbl for Nov 2021

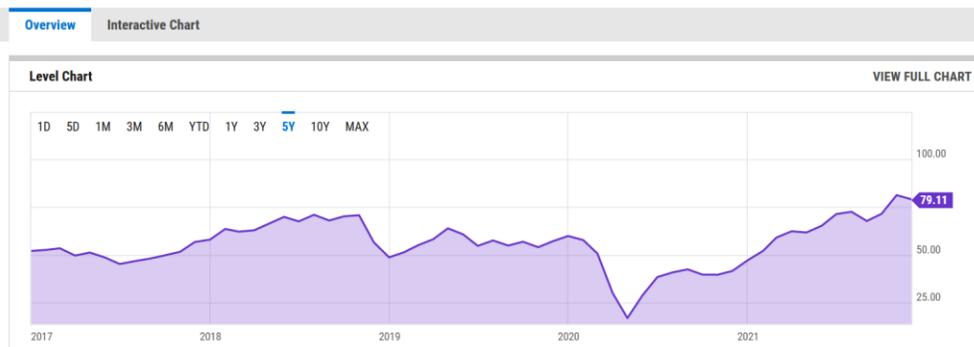


The chart above shows West Texas Intermediate Oil prices last year. WTI began last year at \$47.09 per barrel. WTI ended last year (as of Dec 20) at \$79.11. The change in oil prices represents a 68% increase. To make another 68% increase in oil prices in 2022, oil prices would have to rise to about \$133/barrel. This seems very unlikely. RBC Capital analysts predicts the price to be between \$79 and \$86.

Oil prices were very low coming out of 2020 due to the pandemic shutting down travel. But now, moving into 2022, oil prices are quite high relative to prices from 2017 to 2019 which averaged about \$60/barrel. Here is the 5-year lookback on the price of oil:

### WTI Crude Oil Spot Price

79.11 USD/bbl for Nov 2021



The quick rise in oil prices shows up in the inflationary data driving the headline inflation rates reported on the news to alarmingly high levels. But with this rise unlikely to repeat itself in 2022, inflation rates are very likely to come back down.

This is an example of how inflation can self-adjust. Many commodities have had similar runs up in 2021 and are now very unlikely to repeat their inflationary upward pressure, even if they maintain or slightly gain from their current high prices.

One interesting idea for the government to help spur the economy out of the Covid era, is to consider some supply side stimulus. Rather than just a relief plan like the PPP from 2020, the idea would be any plan that actually helped corporations get workers back so supply can catch back up with demand. We admit this doesn't seem likely since government never seems much in a mood to help corporations these days. But return-to-work bonuses and worker retention bonuses could really help.

## Will there EVER be a Post-Covid Re-Opening?

Here at the end of 2021, we're getting hit with a triple whammy. Just when the reopening was supposed to happen (again), the Omicron variant is shutting down countries and restricting travel. Based on the app, OpenTable, reservations at restaurants have sagged once again. And with the economy taking another (perhaps less severe) gut punch from Covid, the Federal Reserve is providing the left-hook to the economic jaw by speeding up the removal of stimulus and rushing to raise rates in 2022. Perhaps, the knock-out punch, much of the Congressional stimulus is now dead. While many with an eye on the longer term may cheer the death of the Build Back Better potentially pork-barrel spending spree, even wasting money is economically stimulative. Not a very nice setup for going into the new year. But fear not! It's not as bad as it looks. Corporations are adapting.

Our short answer opinion is, YES, there will be a re-opening. People who love to go on cruises are still planning to go. And virtually everyone wants to travel again. But people are getting used to Covid waves and may begin to recognize that as Omicron peaks, consumers might flock to travel – quicker than ever – before the next Covid wave.

## Strategy Update for Q1 2022

- 1) The US continues to be the best country for investors. US stocks are by no means the cheapest. But that swan song seems very lame as international returns have continued to lag American returns. Many experts feel that US investment dominance boils down to technological innovation.
- 2) It seems strange that as we exit a year when corporate earnings grew at about 50%, most "experts" are predicting 8-9% corporate earnings growth in 2022. That's a stunning decline in growth rates. It's NOT a recession (when growth goes negative). But it seems like more "conventional wisdom" that never seems to pan out. We expect corporate earnings to have another great year in 2022 – while certainly not predicting anything like the 2021 50% growth rates. The rest-of-world is not doing well and not responding to Covid very efficiently or effectively – from a company perspective. American innovation continues to drive our companies higher, and if you think of the world as a pie chart, our companies continue to steal more and more of the pie from the rest of the world.
- 3) With rates expected to rise, bonds continue to be unattractive, while stocks continue to be attractive.
- 4) What kinds of stocks are attractive? With rates rising, the speculative names tend to get hit and sometimes, the big tech names take a punch by simply being too closely associated with the speculative names. So, in addition to the super earning big tech names (Microsoft, Google, Amazon, etc), 2022 might become a year for conservative stock names, in consumer staples, banks, and utilities.
- 5) Considering that tech is on one side and conservative stocks on the other, the investment strategy starts to resemble a barbell approach.
- 6) But if the Fed blinks.... stimulus removal slows, and rates stay low, the rally in everything reignites!

### WHAT'S NEW?

The RCP investment was completed in Nov.

Statements for the RCP real estate investment have begun flowing to your email from Alter Domus. Alter Domus is sending "sidepocket" statements from the Warren Safer Equity Fund.

### Things to Worry About

The list is long – as usual, but this quarter we're emphasizing the Federal Reserve reducing stimulus and hiking rates.

- Higher inflation
- Higher interest rates
- Supply chain shocks
- Chinese crackdowns
- Chinese and Russian military maneuvers
- 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.

### The Bottom Line

Looking forward to another good year in 2022. Never expect 20%+ gains, but it's nice when things go well. The economy should be strong in 2022 and economists we follow don't expect recession until 2026.

## WARREN SAFER-EQUITY FUND



### The Warren Safer-Equity Fund

\*Still rising.

\*No hedges currently, but this could change quickly if markets go into a tailspin (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.

## RCP Statements Have Arrived



Big Dividend Hedge Strategy L.P.

November 1, 2021 - November 30, 2021

Investor Name: ██████████ - RCP

If you invested in the RCP real estate opportunity, you have already received an email from Alter Domus. Inside the statement they sent you, you should notice that it says "RCP". This statement is distinct from any other potential WSEF/BigDiv statement you might ALSO receive. So, you might be receiving multiple monthly statements from Alter Domus. Check your SPAM and JUNK folders and be sure you are getting these statements.

Statements for RCP (just like Vero) will come out monthly and probably not change much for the first 2 years. After the first two years, we expect some investments in the RCP fund to mature and pay-out which will DECREASE the value of the fund, but will pay out the capital on that project plus the profit. Eventually, after all properties in the RCP fund have matured and paid-out, the fund will be worth nothing, but you will have received all pay-outs.

These RCP pay-outs will be collected in the WSEF/BigDiv SidePocket, then Alter Domus can distribute them back to your TD account. Pay-outs will be distributed as they arrive, not waiting until the end of this multi-year project. The annual K-1 tax forms will come from WSEF/BigDiv via Alter Domus and the Warren Financial CPA.

## Warren Financial clients enjoyed "ELF" the musical, presented by SALT Theater, Chester Springs



Buddy the Elf, shown here with Vicki and Randy Warren.

About 130 people came out for the presentation and SALT did another amazing job this year.

Keep this in mind for next Christmas – you might enjoy a night out, compliments of Warren Financial.

And don't forget to get your points. Download the Warren Financial loyalty app, say, "Hey Siri, download the Warren Financial app".