



Warren Financial
Investing for a Greater Purpose



Warren Financial

Q2 2022

Market Strategy

INSIDE THIS EDITION

ENERGY, INFLATION AND THE
POSSIBILITY OF RECESSION

WHAT'S GOING ON?

STRATEGY UPDATE

ON THE HORIZON – LONG TERM

OUR WARREN FINANCIAL
PLANNING PROCESS

"HEY SIRI, DOWNLOAD THE WARREN FINANCIAL APP"



INSIGHTS

People are getting out.
Airports are packed.
Airplanes are packed.
Mask mandates are being dropped.

“We the People...” ... want to travel.

BTW, if you need a great travel agent, one of our clients is one of the best – we can put you in contact.

The Federal Reserve is really talking tough. Will they follow through? Or will the tough talk resonate with people such that inflation expectations come down after only a few rate hikes this year?

Corporations have been able to mostly pass along inflationary input costs to consumers without sacrificing profit margins. Passing along inflation is good for corporations and good for you as an investor, but bad for consumers. Yet another reason it's so important to be an equity investor.

As the market declined in the first quarter, it's always nice to remember that these declines present buying opportunities if you have cash that you don't need anytime soon.

Energy Inflation Infects Almost Everything

The problem with energy inflation is that energy is the base of nearly everything we produce and/or part of every product in the supply chain.

To get a product to market requires energy. If it is shipped from China, Taiwan, Vietnam, or Mexico – it requires energy to get to our shores. Further energy is required to move those products to your doorstep or your local store. Food. Everything you buy at Target or Costco. Medicine (all those pesky plastic pill bottles). Tires. Nearly everything we use daily has some connection to energy. When energy prices go up, it can act like a tax on the economy and slow down economic activity. “Just go buy a Tesla”, isn't always a practical solution since the price of electric cars is quite high, let alone the fact that while electric vehicles are great for the environment, they do nothing to help get a ship across the ocean filled with goods headed for Walmart. Green energy is clearly our future. But where does that leave pill bottles? Electric cars draw on the grid which is still fueled by nuclear and natural gas. I have a feeling we may still need some oil production for a while.

Combine energy inflation with rising interest rates and Boom!

Our economy is growing and still adding jobs with unemployment falling. But the strong economy is one driver behind the Federal Reserve feeling that it's OK to raise interest rates because the economy can “handle it”.

The first impact felt by raising rates is in the mortgage market. Mortgage refinancing demand has dropped by 60%. 30-year fixed mortgage rates hit almost 5% at the end of this quarter which is 1.64% higher than 1-year ago. Clearly this will slow down home sales. Yet, much of this is already priced into some home building stocks.

So, can energy, inflation, and higher rates cause enough headwinds to send the economy into RECESSION?

That is the question we wrestle with every day here at Warren Financial. Currently, these headwinds are NOT enough to send the economy into recession. However, they are strong enough to slow the economy and change the direction of some aspects of our investment portfolios. Specifically, we have been jettisoning stocks with relatively high financial fundamentals, such as high P/E ratios or high P/Sales ratio.

Why eliminate some stocks, but keep Microsoft, Google, Apple, Amazon, etc?

Because those larger, stronger companies are making massive earnings profits **today**. Companies we have to sell only have the “hope” of large future profits as opposed to making large money today. Complicating the issue is that companies are continuously changing, such as Tesla which used to have “hope”, but now is debt free and deliveries are growing exponentially – now, today. Yet even still, it is expensive.

So, the answers aren't always easy or clear. That's why we wrestle with all this data on a daily basis.

Bottom line: as of today, still no recession.

However, the possibility/probability of recession has grown significantly.

What's Going On?

- Inflation is running very hot
- Inflation is even worse in Europe
- Interest rates are rising quickly
- The Fed is raising interest rates slowly, but the market is anticipating a few rate hikes this year; so long term rates like mortgage rates are rising ahead of the Fed
- Economic growth forecasts are being reduced, but still positive
- The yield curve is close to being technically “inverted” – a sign that the probability of recession is rising
- The SP500 is up 10% from its Feb 24th low at the beginning of the war
- Corporate earnings have continued to be strong, but just like you, CEOs see all the bad news and begin to worry. Therefore, CEO forecasts are lower.
- Corporate buybacks of their own stock remain strong.
- Russian forces are nearly out of food, fuel, and ammo.
- Globalization of supply chains is finally being questioned
- Q1 2022 corporate earnings results will begin to arrive in mid-April

Strategy Update for Q2 2022

- 1) The US continues to be the best country for investors.
- 2) Warren Financial continues to favor equities over bonds. With rates rising, bond prices will fall leaving investors with coupon payments that don't even begin to make-up the losses.
- 3) Equities remain the asset of choice. America remains the best equity market.
- 4) What follows war? Famine. Russia and the Ukraine make up vast percentages (25%++) of the worlds grain production. These fields are being trampled by tanks and the people are being driven from their homes. So, it seems likely there will not be much field sowing going on this spring. An ETF named WEAT is available for investment if/when the prices start to rise. We started a very small investment in the hedge fund. But this type of thinking and investing could spread beyond just the fund into individual portfolios. So far, WEAT isn't doing much.

On the Horizon – Long Term Thoughts

- 1) Did Putin mis-calculate? Will the war drag on for 20 more years? Will the war spread to western Europe or south into Turkey/Syria? More questions than answers on this one. The WSEF has some nice positions in Lockheed (fighter jets) and Raytheon (handheld tank destroying missiles).
- 2) Will we all need to move to a crypto currency such as Bitcoin? The probability of this type of defensive move continues to rise. Currently it may only be a 10-15% probability, but in 5 years it could be up to 50% or more. We are preparing. If that sounds crazy to you, keep in mind that the federal government is also preparing – they are beginning to plan their own digital crypto currency – a digital dollar. President Biden has commissioned the beginning of the plan.

WHAT'S NEW?

We passed on a recent real estate investment opportunity because the time to react was too quick and the returns were only projected at 18% which is lower than our other real estate projections. If the time frame to react was longer, 18% isn't too bad. Look for more chances this year.

Things to Worry About

The list remains long – as usual,

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

And there are probably more....

The Bottom Line

Look forward to small gains in 2022, maybe 6-9% in equities and some pretty sizable losses in bonds.

WARREN SAFER-EQUITY FUND



The Warren Safer-Equity Fund

*Hedging has not been very effective in this environment because the market declines are too slow – spread out over weeks and months, rather than quickly over days/weeks.

*We are always ready to hedge but the models are not currently predicting large, short-term down moves. BTW, although a 10% decline hurts, it's not enough by hedging standards. The hedging is designed to avoid extreme losses of 25% or more.

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.

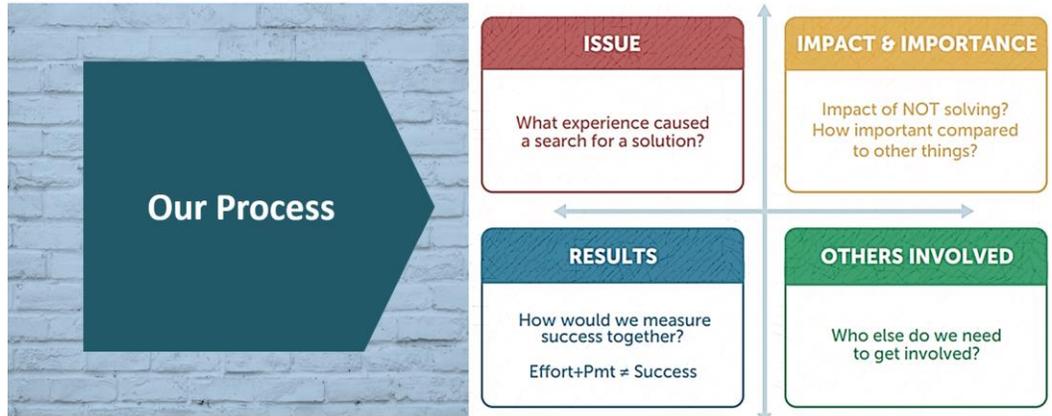
And we always appreciate your referrals – referrals demonstrate the height of a trusted relationship.

Disclosures:

Please refer to our website for regulatory disclosures.

Our Warren Financial Planning Process

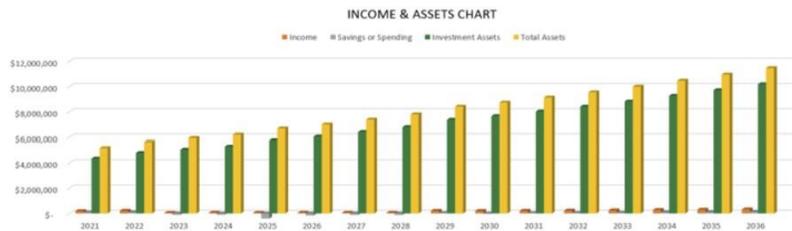
The Financial Planning Process



Do you have one of these plans? Some of you have had several. Some of you might want to get your first plan, or get your existing plan updated... we're here for you.



Cash Flow Charts



Cash Flow Planning and Forecasting

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Income	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Savings or Spending	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000
Investment Assets	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000
Total Assets	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000