# WCM December Newsletter

**DID YOU KNOW**

## 10 Themes for 2024: You Can Get RJ Insight from The WCM Website.

Raymond James CIO Larry Adam will hold a Webinar on January 8th at 2pm. See this short commentary from Larry that can be found on our WCM website and Join us again on the 8th for this Webinar.

**MONTHLY COMMENTARY**

## The Great Oz

**“Inflation is taxation without representation.”**

**-Milton Friedman-**

**DOING GOOD TOGETHER**

Look to our Newsletters over the next couple of months for opportunities to join us in making a difference.


*Thank you for the continued trust you place in us and our office. Our practice continues to grow because of you. Your referrals are the best compliment that you can give.*

DID YOU KNOW ?

# Client

**You can find timely relevant commentary on the WCM Website such as this "10 Themes for 2024"**

Raymond James CIO Larry Adam shares some insight as we wrap up 2023.

This an other new insight can always be found by going to the WCM Website and then clicking on "Resources" on the top right side of the site.

Search on this site by: Date, Category, Topic, and Media type. This is a great way to get move insight on the Markets, Investing, and Planning.

# The Great Oz

**"Inflation is taxation without representation."**

**-Milton Friedman-**

By Mark Lazar MBA, CFP®

*Mark Lazar is an independent writer with Pathway to Prosperity and is not affiliated with Raymond James. Views expressed by this writer are the current opinions of this author and not necessarily those of Raymond James & Associates.*

For most of its existence, the Federal Reserve operated without a specific inflation objective. It wasn't until 2012 that the Fed declared that 2% was its official inflation target; a figure they contend is consistent with the Fed's dual mandate of maximum employment and price stability. Which begs the questions, who came up with 2%, how did they come up with it, and is it really the optimal number?

| Item | YTD Change |
|---|---|
| Dow Jones Ind Avg | 8.46% |
| S&P 500 Index | 18.97% |
| EAFE Foreign Index | 9.31% |
| Emerging Market Index | 3.21% |
| Barclays Agg Bond Index | 2.51% |
| 10-Year Inflation Forecast | 2.22 |
| Unemployment Rate | 3.9 |

* Market index data as of 8/31/2023 (*The Stock Indexes mentioned are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.)*

In the late 1980s, New Zealand, along with the rest of the world, was experiencing crushing price increases when Arthur Grimes, a freshly minted Ph.D. economist began working for their central bank. Grimes suggested that instead of focusing on interest rates or money supply, the bank should instead target changes in consumer prices.

Politicians then, as they do now, pointed their fingers at the usual snarks and grumkins; oil producers, supply chains, corporate greed, rising wages, and weather events, to name a few. The notion that prices could be controlled by the central bank was met with skepticism, at least by those unfamiliar with the academic works of economist Milton Friedman on monetary theory.

In 1989 the Reserve Bank of New Zealand officially introduced inflation targeting. Canada followed suit in 1991, the UK in 1992, Sweden and

Finland in 1993, and the Federal Reserve eventually joined the club nine years later.

Before tackling the question as to whether the Fed's inflation target is the optimal number, let's first review what (recently redefined) inflation is; *a persistent increase in the level of consumer prices, or a persistent decline in the purchasing power of money, typically expressed as a percentage, year-over-year*. In other words, inflation destroys purchasing power. A dollar today is worth less a year from now, and even less a year after that.

But I digress. It might surprise 80s-era economists to learn that the natural course of price levels is lower, not higher. Let me qualify that statement; *in a free market, with free trade, and a stable currency*, the natural trajectory of price levels is lower. Why? Innovation, technology, globalization, and declining population growth are all deflationary phenomenon.

So why do price levels rise? As Friedman correctly observed, *inflation is always and everywhere a monetary phenomenon*, meaning at the end of the day, the central bank is the culprit. In fact, after the kiwi central bank adopted its inflation target, Roger Douglas, the Labour Party Finance Minister, was considered the most despised man in New Zealand. Central bankers around the world felt betrayed by his tacit admission that inflation was the purview of the central bank, and could be controlled with prudent monetary policy. The jig was up for central bankers everywhere.

Now for the final question; is 2% the optimal inflation number? The answer depends on who you ask. If you pose this question to Uncle Sam, the answer is a resounding *yes*. In fact, policymakers today are arguing for an inflation target between 3–4%. If you can't hit the target, just make the target bigger.

Gradual, predictable currency debasement is good for governments but always bad for citizens. It's the monetary equivalent of planned obsolescence. There isn't a single academic argument that demonstrates inflationary monetary policy increases prosperity. Besides the steady erosion of purchasing power, inflationary monetary policy acts as form of economic morphine; lower interest rates increase the value of risk assets (stocks, bonds, real estate, precious metals, etc.) which, via the wealth effect distracts us from rising prices. More specifically, inflationary monetary policy devastates the middle and lower class by reducing real wages.

Lastly, inflationary monetary policy takes the onus off of government. Rather than be accountable for economic prosperity, both Congress and presidential Administrations point their collective fingers at the central bank. It couldn't be the crushing regulation, oppressive/ponderous taxation, protectionist trade policies, and crowding out the private sector. Central bankers must be to blame.

Much like the enigmatic Wizard of Oz, the Fed attempts to project an air of pomp and omnipotence. Akin to the wizard's delusions of grandeur, the Fed's dogmatic belief in the magic of loose monetary policy seems to suggest that prosperity can be conjured from thin air. However, as Dorothy and her companions discovered when the curtain was drawn back, the reality behind the Fed's actions become clear. The Fed's misguided attempts to manage the economy through monetary chicanery have done as much or more harm than good.

Unless/until the Fed gains wisdom and learns humility, it will never recognize that the panacea for what ails us isn't always and everywhere dovish monetary policy. The right/best inflation rate is ZERO. Economic growth doesn't come from printing more dollars, but rather from increased output. Perhaps it's time for us to see through the illusions of the Fed's monetary policy and seek a more effective path to economic growth and stability.

**Mark Lazar, MBA**
Certified Financial Planner™
Pathway to Prosperity

# WCM Team This Month

## Stan

A final pickleball outing before the winter.

## Nicola

Nicola and crew for Thanksgiving!
Myannah, Mason, Imani, Rey, Nayellie and Hayven

## John

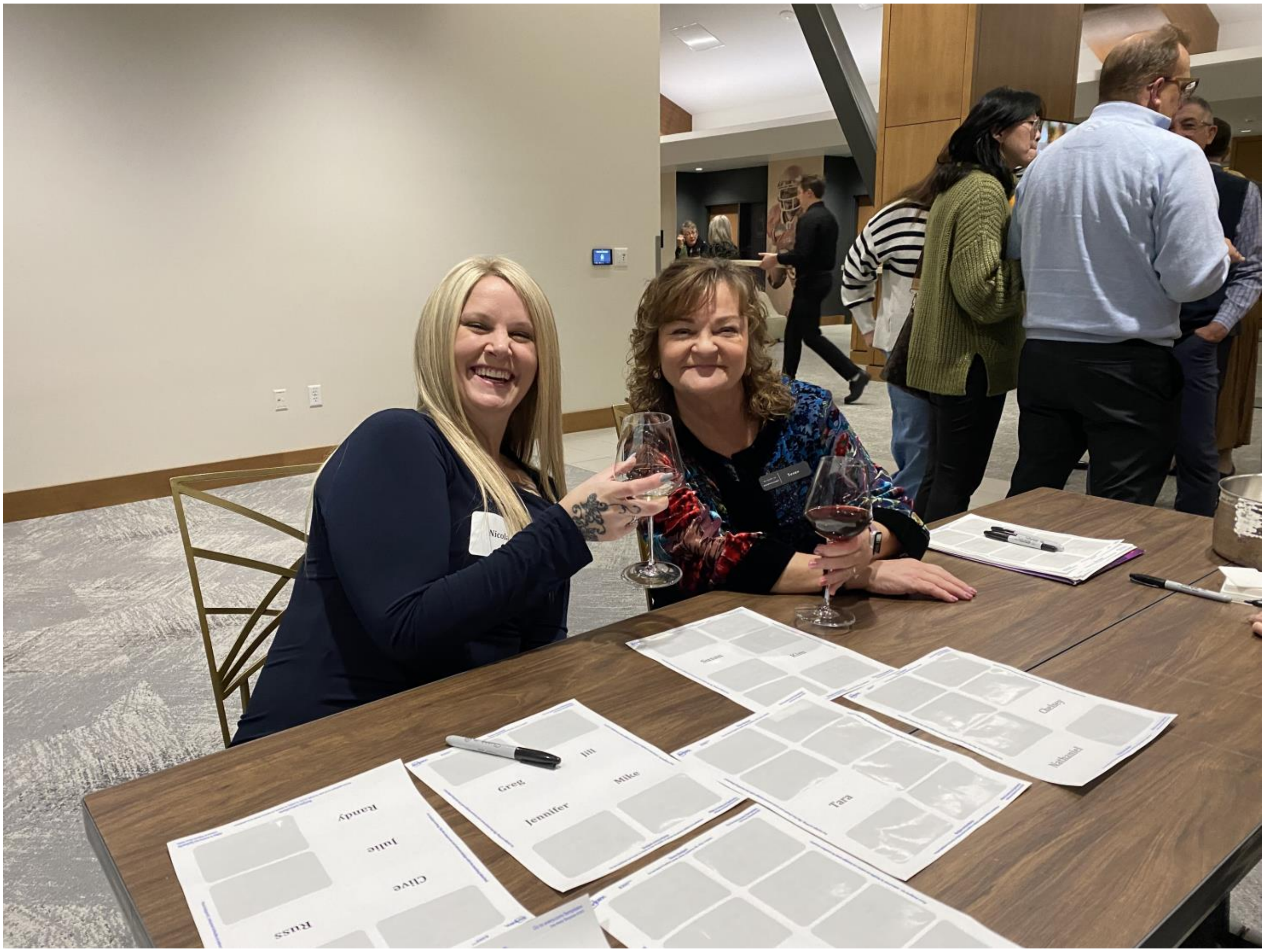
John and Shawn in Sayulita, Mexico in November

## Jon

Jon on the beach in Newport Beach, CA with Kailani and Marika

## 2023 WCM Holiday Party. Thank you to all of you that came!


WASATCH
CAPITAL MANAGEMENT OF
RAYMOND JAMES®
Merry Christmas
EXIT


Randy
Julie
Clive
Russ
Greg
Jill
Jennifer
Mike
Tara


TALIA DIGLISIC FAMILY LOUNGE

Stan Goodell, CFP®, Managing Director - Investments | 385-275-3792
Rees Petersen, CFA®, Vice President - Investments | 385-275-3607
John Clower, CFA®, Vice President - Investments | 385-275-3590
Reed Grant, Financial Advisor | 385-275-3797
John Bergerson, CFA®, MBA, Investment Portfolio Associate | 385-275-3608
Matt Brunner, Financial Advisor | 385-275-3795
Jon Metcalfe, MBA, Senior Registered Client Service Associate | 385-275-3793
Nicola Rand, Practice Business Manager | 385-275-3585
Susan Jackey, Senior Client Service Associate | 385-275-3799
Jessica Hymel, Senior Registered Client Service Associate | 385-275-3796

**2750 E Cottonwood Parkway, Suite 520, Cottonwood Heights, UT 84121**

**1389 Center Drive, Suite 200, Park City, UT 84098**

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