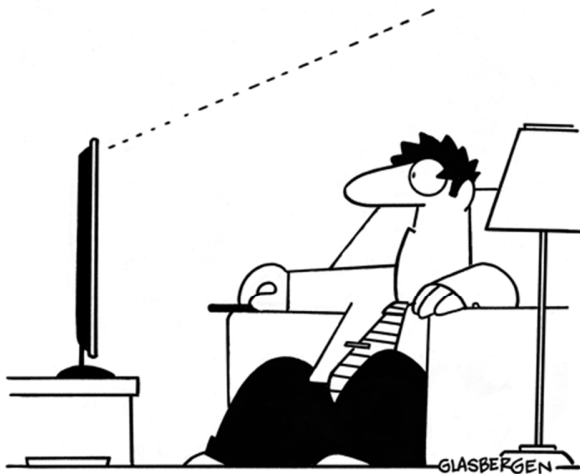




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“Today the government began delivering free espresso on Wall Street, hoping to speed up the economy by speeding up the economists...”

Dead Reckoning -Article by Mark Lazar

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.

If you don't know where you're going, any road will take you there. Lewis Carroll

Item	YTD Change
Dow Jones Ind Avg	<u>-9.21%</u>
S&P 500 Index	<u>-13.31%</u>
EAFE Foreign Index	<u>-12.76%</u>
Emerging Market Index	<u>-12.53%</u>
Barclays Agg Bond Index	<u>-8.92%</u>
10-Year Inflation Forecast	<u>2.75%</u>
Unemployment Rate	<u>3.6%</u>

**Market index data as of 5/31/2022*

JUNE 2022
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INSIDE THIS NEWSLETTER

- ❖ **JUNE COMMENTARY:
DEAD RECKONING**
- ❖ **WASATCH TEAM UPDATE**

My wife and I took a road trip in May to visit friends and family in Oregon and California. While our travels were wonderful, each stop at the gas pump was nothing short of painful. Our last fill-up prior to leaving California witnessed regular unleaded at \$6.99/gallon, and cost over \$100. Since December 2020 gas prices have increased [111%](#). In response to surging fuel prices, President Biden [ordered](#) the release of 180 million barrels of oil from the US Strategic Reserve, whereas California's governor, Gavin Newsom, [proposed](#) issuing \$400 debit cards to California residents.

Earlier this year, the White House announced its plan to curb surging meat prices, which entailed *investing* (subsidizing) [\\$1 billion](#) in the meat processing industry, asserting this would increase competition and reduce consumer prices. Since then the price of meat has increased [9%](#). Similarly, the White House recently unveiled a number of [policy measures](#) to combat inflation, such as raising the federal minimum wage to \$15, [price controls](#) for prescription drugs, increased subsidies for child care, and infrastructure spending.

Since 2020, the US money supply soared (from \$15T) to nearly [\\$22T](#), or an unprecedented 41% increase in two years. While the Federal Reserve was cranking up the (digital) printing press, Uncle Sam was busy borrowing money (issuing government bonds) and writing checks; stimulus checks, PPP loans, [windfall unemployment benefits](#), and the like, boosting federal debt from \$23T to over [\\$30T](#), a 31% increase. All of this excess money in the system would be a net neutral if [output](#) had increased by a corresponding 31%, but Q1 labor productivity *decreased* by [7.5%](#). To rub salt in the wound, labor costs increased [6.2%](#) year-over-year, but [real wages](#)—wages after inflation—have declined [6%](#) since 2020.

During a recent [interview](#), Treasury Secretary, Janet Yellen, admitted she had grossly underestimated inflation. Not to be outdone, Fed chair, Jerome Powell, had forecast 2021 [CPI](#) at [2.1%](#), however, inflation was [7.5%](#) for the year; over 2 ½ times more. Last June, Powell ignored market indicators, such as commodity prices and the [breakeven rate of inflation](#), all of which clearly suggested surging prices, and predicted inflation for 2022 would [cool to 2.2%](#). The Fed arrogantly continued its zero-interest rate policy and \$120B/month [quantitative easing](#) ploy. Not surprisingly, inflation is currently running [8.3%](#). How is it possible that two of the most esteemed and influential people in the financial world could have been so wrong?

In order to solve a problem, it's necessary to first identify what exactly that problem is. The second step is to determine possible solutions. The third, evaluate the solution(s) and, lastly, confirm that the benefits exceed the cost (explicit, implicit, and unintended consequences). In other words, the cure is preferable to the disease. Unlike mathematics, chemistry, or physics, which are examples of *hard* science, economics is a *soft* science, so you end up with competing ideas such as [socialism](#) versus a [market economy](#), [Keynesian](#) versus [laissez-faire economics](#), and [supply-side](#) versus [demand side economics](#). While an academic could make a compelling case for either side of these economic arguments, what makes for an interesting white paper doesn't necessarily translate into the real world. Reality always wins.

If policymakers want to address inflation they must first understand and agree on the cause. [Price levels](#) are affected by a myriad of factors, including population growth, globalization, innovation/technology, and the occasional [supply shock](#), but the single biggest driver of inflation is, by far, [monetary policy/money supply](#). While government schemes, such as issuing gas debit cards, subsidizing industries, releasing (depleting) oil reserves, price controls, and increased federal spending programs may sound appealing to the uninformed ear, how would they reduce inflation? Inflation can only be curbed by reducing the money supply, increasing output (via capital investment, technology, etc.), or collapsing [aggregate demand](#) (recession/depression). The market can and does efficiently react to news, both positive and negative. What the market doesn't respond well to is uncertainty. Current volatility/lack of direction and this extended market correction can be attributed to the Federal Reserve

and Washington policymakers, both of whom have demonstrated an obvious lack of understanding of the problem, and failed to provide tenable solutions and a clear path forward.

In days of old, sailors employed a process known as dead reckoning to calculate their current location by using a previously determined position, then incorporating estimates of speed, heading, and course over elapsed time. There was no subjectivity to it, just math, and mariners were able to navigate long, perilous journeys with great success. Unfortunately, economic policy ([fiscal](#) and monetary) is obfuscated by political ideology that fixates on subjective notions that sound good and enhance political capital, but oftentimes doesn't do good. How do subsidies, [price controls](#), spending programs, and increased entitlements effectively lower costs or increase [real output](#)? They don't. Rather, they do the very opposite. Only increases in output—making more widgets for the same or less input—can do that. Advances in science, technology, medicine, and manufacturing only occur in the private sector. The [invisible hand](#) serves the public good far better than any government agency, as a free market creates abundance from scarcity, provides ample goods and services (some of which we don't even know we want yet), and does so for a profit. If there's any doubt to this assertion, ask anyone who has had the misfortune of living in a country with a centrally planned economy, such as the Soviet Union, Cuba, or Venezuela; scarcity, poor quality, and stagnation aren't the exception; they're the rule.

Unlike government, private companies are subject to consequences. Good decisions benefit the company, the shareholders, and the public (e.g., the computer chip, internet, 3D printing, smart phones, cloud computing, etc.), whereas bad decisions can put a company out of business. The public good would be well-served if policymakers would use the equivalent methodology of dead reckoning rather than tried-and-failed populist policies that look good on paper and make for a good one-liner, but the end result is we're all a little bit poorer.

Mark Lazar, MBA

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Wasatch Team Updates

Stan

Stan celebrating 25 years with his bride!



Rees

Rees & family experiencing Memphis



John

John in Napa recently with friends!

Reed

Reed and Lisa in London after singing “Evensong” at St. Paul’s Cathedral with the Salt Lake Singers!



Nicola

Nicola with her grandchildren for their birthday.

Matt

Matt's recent engagement!



Jon

Jon and daughter practicing his artistic skills



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