# Fox-Smith Wealth Management Quarterly Commentary

## First Quarter - 2022

# "Another Positive Year Ahead, but Keep an Eye on the Details"

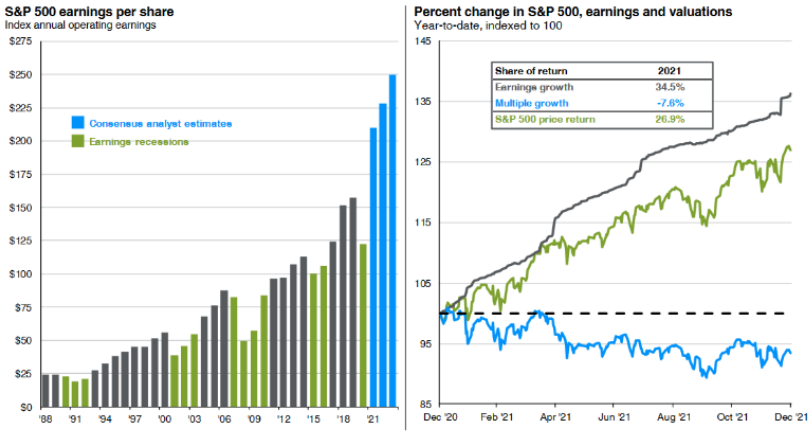
Economic Outlook and Market Commentary – Gustin D. Fox-Smith, AIF®, ChFC®

As I am certain you are aware, the S&P500 continues to trade near record highs. The pattern for most of 2021 saw the index creep above the previous record levels by just a few points every few weeks. Watching the market set new highs for such a long period has had a dual effect on investors.


Source: Yahoo Finance

The first thing investors have made clear by their behavior is a general feeling of FOMO (Fear of Missing Out). This, along with a steady flow of newly minted money from the FED, is what keeps driving the market higher.

The other thing we have seen building in market and consumer sentiment is a sense that the party may be nearing its end. They don't quite hear the fat lady singing just yet, but they can hear her doing vocal warm-ups backstage preparing to go on stage soon. Sentiment has steadily decreased for the last several months, but has not yet reached the level where I would call it a recession signal.




When we analyze market conditions, we see a market that is overpriced compared to history, but not nearly as expensive as the markets were in 1999 or 2007. We also see a market that has steadily become less and less expensive for the last 18 months because stock prices have not grown as quickly as earnings. Adding to this, we have rapidly growing GDP and an almost inconceivable amount of cash and liquidity in the system. All of this should signal full steam ahead for another great growth year in 2022. So why are things languishing lately?

As you know, I have always focused my market projections more on behavioral factors than on the commonly applied statistical and mathematical models. I do this because human beings in large groups are so easy to predict. What we are seeing on the behavioral front as a reaction to the stimulus of our current economic and political climate is beginning to affect investor behavior, which is affecting the markets.

The first culprit is the specter of inflation, which we have covered extensively over the last couple of years. As we predicted, it keeps climbing and is now having a dampening effect on consumer spending and on investor expectations.

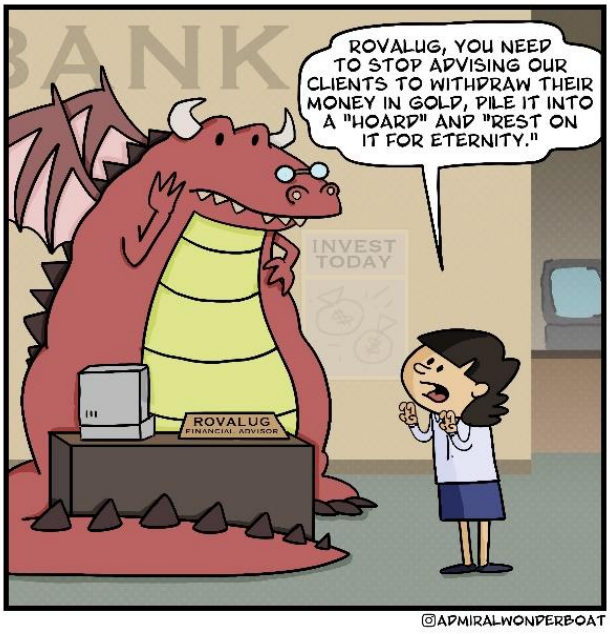
Source: JP Morgan Guide to the Markets

Next, GDP growth has stalled. This is a very confusing thing to see as we continue to open more businesses, and see more activity, and still have a way to go before we are back at pre-Covid levels. Shouldn't we still be seeing GDP growth of 4%-5% or more? Without a headline GDP number that is greater than recent average, investors begin to have less of the FOMO feeling driving their decisions. Things don't seem to be running away from them so quickly and it gives them time to make more thoughtful decisions. It is my opinion that the primary drivers of the slowing GDP growth number are the disrupted supply chain with all of the undistributed goods held in our ports and the unprecedented labor shortage we are experiencing today. Consumer demand has now recovered, and we are back to using hospitality and leisure services at near pre-Covid levels. Yet when we go out to spend money, it is not always certain that the things we want to buy will actually be in stock or that the restaurant/hotel we are visiting will have the staff to serve us in the way they used to. It is beyond my skillset to be able to calculate the negative effect the lack of sales and revenue that results from these problems has on GDP, but it has to be a non-trivial amount. I expect that GDP growth could be as much as 0.75% -1% lower because of these two issues. Solving them quickly is key to continued growth.

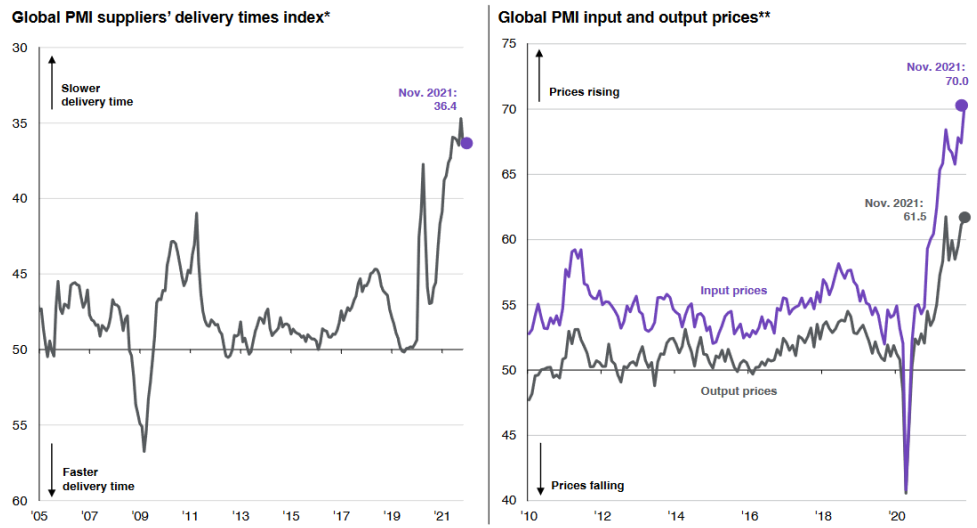

Empty shelves at Local WalMart. Source: My Camera

There is a third issue building that is caused by the supply chain and labor market problems. What I see has not yet had a sizeable effect on consumer behavior, but left unsolved, it may very soon change behaviors enough to even cause a recession. What I am concerned about here are the behaviors prompted by scarcity.

Before 2020's run on toilet paper and disinfectants, I had only seen empty store shelves one other time in my life. For a brief period after the pre-Christmas blizzards hit the area in 2006, I remember seeing half empty shelves at my grocery store because the semi-trucks could not get in to deliver goods to the stores for over a week. But being weather related, it was clear to everyone that it was a short-term problem. Today, we routinely walk through aisles in stores of all types and see whole shelves are bare and we are becoming accustomed to being unable to find many of the things we normally buy. The shortages pop up randomly. For example, my daughter likes a specific type of yogurt and we have struggled to find it in stock for months. I get a call from Erin regularly asking me to pick some up on the way home from work and I have to visit multiple stores to find even a few cups of yogurt on the shelf. On my last yogurt foraging excursion it appeared the King Soopers near my home was experiencing a full-on yogurt shortage as the yogurt shelves were over 80% empty. As time goes on, I have begun to notice empty shelves



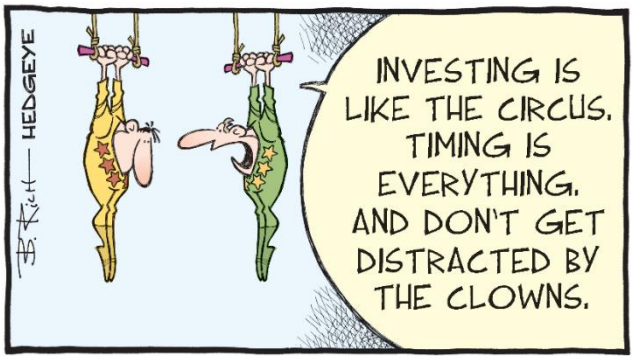
more frequently and a larger number of products seem to not be available. I am sure you have noticed this too. This is my largest concern in terms of a recession trigger. The stimuli of seeing more empty shelves and product shortages, if it continues, will eventually have a severe effect on consumer behavior. At some point, scarcity will cause panic buying like we saw in 2020. The panic buying and hoarding will further increase the scarcity of many items and will trigger more panic behavior. It is important to note that this cycle may seem economically stimulative because consumers are out spending money, but that is not the case. Once people begin to act from a fear of scarcity, they cease all discretionary purchases. They stop traveling, stop buying appliances, cars, and houses; and stop investing and begin to behave like hoarders. When you only buy the essentials, even if you buy a basement full of toilet paper, it does not drive GDP and earnings for public companies. This has not yet become a reality, but I am concerned if the situation worsens much more, that it may occur. You will know when we have crossed the tipping point if you see runs on certain lines of goods like we saw in 2020. That will be the sign that not only will those products be hard to find, but the economy and markets are about to enter recession and correction very soon as well, because of the lack of consumer spending beyond purchases of necessities.




Source: IHS Markit, J.P. Morgan Asset Management.
*Participants in IHS Markit's PMI business surveys, conducted in 44 countries, are asked: "Are your suppliers' delivery times slower, faster or unchanged on average than one month ago?". Index includes the manufacturing and construction sectors. A reading of 50 = no change, >50 = faster delivery time, <50 = slower delivery time.**Participants are asked: "Are input/output prices the same, higher or lower?". Values shown reflect the composite index, which includes both manufacturing and services. A reading of 50 = no change, >50 = price increase, <50= price decrease.
*Guide to the Markets – U.S.* Data are as of December 31, 2021.

J.P.Morgan ASSET MANAGEMENT

I am encouraged that we are finally seeing the FED and many in government acknowledge that inflation is a problem that must be addressed. This is a much better place than where we were just 6 months ago when every official source kept saying there would be no inflation and that the FED had it under control. The FED is signaling a halt to their easing activities and rate increases coming sooner than expected. These actions should slow inflation down and bring it back to the norm over time. I am also convinced that once wages reach an attractive enough level, workers will return to the marketplace and the labor shortage will alleviate as well.




## Financial Trivia

Last quarter's trivia question was: "Who was the first woman to ow a seat on the New York Stock Exchange and in what year did she join the Exchange?"
Answer: Muriel Siebert first joined the 1,365 male members of the Exchange on December 28th, 1967.

No one guessed last quarter's trivia question correctly. Better luck this quarter!

This quarter's question:

**As of Dec. 31st, 2021, what is the highest priced stock and its year-end price in dollars?**

E-mail your answers to Erin at erin@fswealth.biz and we will award a prize to the first correct answer *(Be honest, no "googling" it!)*

The supply chain issues are a more difficult problem to solve and so far, the few actions I have seen governments take have targeted causes that have nothing to do with the problem. Bottom line, until we have enough truck drivers working in California to move goods, this problem will persist. California's decision two years ago to force trucking companies to make all their previously independent contractor drivers into employees has had the unintended consequence of eliminating almost all of the trucking jobs in that state. This is where the problem with the supply chain needs to be solved. However, even if California does not solve this issue, there are plenty of other ports where goods can be shipped and companies will begin using Portland, Seattle, even Houston and New Orleans via the Panama Canal. Eventually, this problem too will end, and I am hopeful that it will occur before investor behavior changes so much that recession becomes unavoidable.

While we wait for these stressors to abate, we still sit in a market environment with record liquidity and cash in the system which should provide a softening of down markets and fuel for increasing prices. But it only works if the consumer stays in the game. I expect the year ahead will be another up year in the stock market, although I think we will see lower returns than we saw in 2021.


**"Why I Love My Job."**

I have often said that I love what I do and that the main reason this is true is the remarkably awesome clients we are blessed to work with! Recent events have once more proven that it is you who make our firm what it is.

During the height of the Marshall Fire that destroyed so many homes in Superior and Louisville, I sent a communication to any clients who were evacuated or displaced by the fires. I wanted to know how we could help. I offered to deliver basic necessities, be a supporting ear, or help in any way we could provide service. The response I received to this letter was amazing.

I did not get a single message from anyone asking for help, which surprised me. But what really blew me away was the response I got from so many of you offering to help others as well. We had clients contacting us to ask if they could provide clothing or food to anyone. Some offered space in their homes for evacuees until they could return home or find other solutions if they lost their homes. Before I even got the letter out, a couple of clients had already called me directly, knowing I once lived in Superior, and offered a place for my family to stay if we had been displaced. The outpouring of love and support within our client community was overwhelming, especially knowing that most of you do not know each other, so these generous offers were being made to complete strangers. It truly warmed my heart.

So, I wanted to take this chance to say **Thank You!** Thank you to everyone who so generously offered their time and resources to help anyone who needed help and thank you for once again proving to me that I have been given a gift in being able to know and serve such an amazing group of people. You are an inspiration to me and to the world.

## Get To Know Your Fox-Smith Wealth Management Team

In order for you to better know your team that are here to serve you at Fox-Smith Wealth Management, we will highlight one of our team members each quarter. This quarter we are featuring one the most amazing parts of our team; he has done it all, from Client Liaison, to Advisor, to being Gus's Right-Hand-Man in running the office. The son of one of our recently retired Advisors under the Fox-Smith Region, *the one, the only…*

### Alex Liss, ChFC®

Chief Administrative Officer
Financial Advisor

Alex is a Colorado native who grew up in Loveland, CO. As a child, he loved to play basketball, golf, and watch football, especially the Nebraska Cornhuskers. Some of you CU fans may be dismayed but try not to hold this against him!

Alex's father, Rey Liss, was a Financial Planner in the Fox-Smith Region for the last 13 years. Alex grew up watching his father, but he did not have much interest in finance himself when he was younger. However, he could see how much Rey truly enjoyed what he did and loved working with his clients. Alex really enjoyed numbers, and when it was time to pick a college, he decided to go to the University of Nebraska at Omaha, where he studied Finance.

As his interest in the industry began to grow in college, he worked part time with Securities America, a Broker-Dealer in Omaha. This is where he realized how much he enjoyed speaking with clients and advisors; and helping them to solve their problems. He received an Undergraduate Degree from the University of Nebraska at Omaha with a Major in Business Administration. Shortly after graduation, Alex moved back to Colorado and took a position with our firm as a Client Liaison and Advisor candidate. He quickly added to his degree and securities capabilities by earning the Series 7 and Series 66 Securities Registration, and recently completed the Chartered Financial Consultant (ChFC®) designation. He is also currently working toward earning additional registrations which will allow him to work in tandem with, Gus supervising our other advisors

Alex still loves Nebraska Football as well as other sports; he is an avid golfer and can often be found visiting different local breweries. His precise attention to detail, experiential competence, and exemplary intelligence, highlighted with his calm and jovial demeanor is such a cornerstone to our Team at Fox-Smith Wealth Management. His advice to "Try not to take things too seriously" has proven to be a wonderful managerial style that ultimately brings out the best in his team, all the while servicing his clients and keeping Gus from working 24 hours a day. Alex may have been on the team for just over 3 years, but it is already impossible to imagine our company operating without his contributions to our mission.