

Fox-Smith Wealth Management Quarterly Commentary

Second Quarter - 2022

“Don’t Panic”

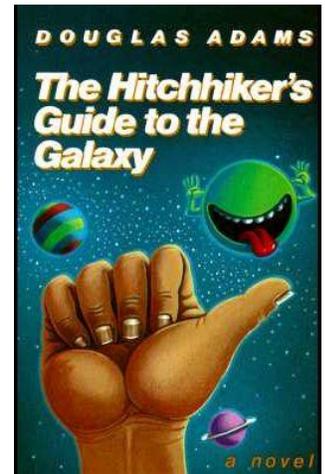
Economic Outlook and Market Commentary – Gustin D. Fox-Smith, AIF®, ChFC®

Don’t Panic. Lately I am reminded of this advice on nearly a daily basis.

You most likely do not know this about me, but I am a huge Douglas Adams fan. His *Hitchhiker’s Guide to the Galaxy* series of novels are among my favorite books ever written. For those unfamiliar with his work, in the first novel we are introduced to a truly miraculous book called the Hitchhiker’s Guide to the Galaxy. The guide was really a computer database organized like an encyclopedia and contained information about every location in the galaxy as well as everything and everyone you might encounter as you travel through it. When closed, it looked like any other book. It had a plain black cover displaying just two words, “Don’t Panic”.

This advice was meant to calm and reassure any galactic travelers that might be using the guide in an effort to escape certain death or to find a way out of a predicament. It reminds us that when we are facing apparently insurmountable challenges, before anything else, we must first remember not to panic. Once we have begun to panic, logic ceases to drive our thinking and we become slaves to our fears and emotions.

In recent months we have been faced with countless valid reasons to panic. All you have to do is turn on the news and you are bombarded with so many disheartening stories that it is overwhelming. I am often left asking “Where are we going and why we are in this handcart?”



The reality of recent market volatility, rising inflation, labor shortages, Russia’s invasion of Ukraine, and the inability to reliably find basic goods at your local store are enough to make us worry about the future. But when the government and media routinely attempt to gaslight the public with claims that some of these things aren’t even happening or try to frame them as positive outcomes, it seems the lunatics are running the asylum. When it appears those who are in charge don’t have a clue what they are doing and the media is not being honest, worry can easily turn into panic.

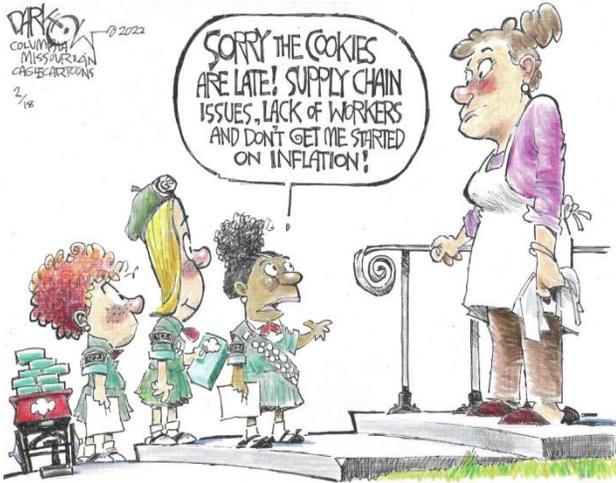
We have all seen and read a multitude of stories and analyses of the worrisome events I mentioned. To avoid repeating things you already know, I will not comment on those events here. Instead, I want to focus on the content of one potentially panic inducing speech delivered by President Biden that may have pushed many into the panic zone. And, since this topic is by nature politically adjacent, I will provide sources for all quotes and factual information I provide so you may verify the accuracy of everything in this article yourself.

Due to the pain we are already experiencing from inflation, I feel it is important to address this topic because it is directly related. Speaking at a news conference in Brussels on March 24, 2022, President Biden made the following statement:

“With regard to food shortage, yes, we did talk about food shortages. And — and it’s going to be real. The price of these sanctions is not just imposed upon Russia, it’s imposed upon an awful lot of countries as well, including European countries and our country as well. And — because both Russia and Ukraine have been the breadbasket of Europe in terms of wheat, for example”

(Source: <https://www.whitehouse.gov/briefing-room/speeches-remarks/2022/03/24/remarks-by-president-biden-in-press-conference-7/>)

First, please remember the sage advice, Don't Panic. Now that we are calm, we can address the terrifying nature of this statement and defuse the fear it is intended to foment.



A food shortage is not just an inconvenience. Food shortages are not something to flippantly mention in passing. Even the term “Food Shortage” produces a vision of people on a reduced calorie diet, not the horror that really occurs when it happens. Until recently, there was another term that we used to describe food shortages which is far more accurate, Famine.

Living through a famine does not mean each person will just have a little less to eat. Famine means those with wealth, position, and power typically have all the food they need, but at the cost of the rest of the population who don't just eat less, they starve. Famines have incited riots,

inspired assassinations, caused governments to be overthrown, and even destroyed entire civilizations. Famine is no small matter.

If all of this is true, why am I telling you not to panic? The reason is, contrary to President Biden's statement, I do not believe that the U.S. will experience famine, at least not from one season of low crop yields in Russia and Ukraine. The United States is the third largest producer of food in the world. Only China and India surpass our food supplies. And we are the largest food exporter in the world. (Source <https://www.worldatlas.com/articles/the-american-food-giant-the-largest-exporter-of-food-in-the-world.html>)

Because of this, any loss of food production would first decrease our massive food exports to other countries. For production to decrease enough to affect the amount of food we consume internally would require far greater disruptions than anything we are seeing now. With that said, I do believe that globally we may produce less food than usual in 2022 and that it may mean some nations that cannot produce enough for their own people could have huge problems. If large producers decrease exports, it will have an effect on net importer nations. We are being told that world leaders are aware of the potential problem and are preparing to manage it. I certainly hope this is true. However, what I expect will occur in the U.S. if crop yields are down, is another year of astronomically high rates of food inflation. You may think your grocery bill was bad after the 2021 price increases, but at this time next year it may be a lot worse. This is yet another reason I keep saying that inflation will not be a short-term challenge. There are too many things working to push prices higher for everything to suddenly level out overnight. But at least food should still be available and even plentiful in the U.S., albeit expensive.

Financial Trivia

Last quarter's trivia question was: “As of Dec. 31st, 2021, what is the highest priced stock and its year-end price in dollars?”

Answer: Berkshire Hathaway at \$450,662 per share

The client who had the right answer and became the proud owner of a brand new, shiny Amazon gift card was Russ Y and Rick M. as honorable mention as he was not the first to answer. Great Job, Gentlemen!

This quarter's question:

Inflation Trivia - When adjusted for inflation, what was the highest grossing movie of all time? Double prize value bonus if you can name all of the top 3.

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!*)

A second statement of concern has not only created panic but has caused many to question whether America has lost its moral compass completely. From the same press conference, MSNBC reported the following:

At the news conference, ABC News' Cecilia Vega asked Biden, "If chemical weapons were used in Ukraine, would that trigger a military response from NATO?"

Biden replied: "It would trigger a response in kind, whether or not, you're asking whether NATO would cross — we'd make that decision at the time."

Source: <https://www.msnbc.com/opinion/msnbc-opinion/biden-s-hawkish-pivot-russia-ukraine-over-chemical-weapons-n1293067>

Biden, in an early evening news conference after meeting with NATO and G-7 leaders, warned that a chemical attack by Russia "would trigger a response in kind."

"You're asking whether NATO would cross. We'd make that decision at the time," Biden said.

(Source: <https://www.pbs.org/newshour/politics/watch-live-president-biden-speaks-with-reporters-in-brussels-amid-russian-invasion-of-ukraine>)

To be clear, stating that we would respond "in kind" constitutes willingness and a threat of the U.S. using chemical weapons in battle if Russia used them first. This is not something we should even consider as a civilized nation. This statement has caused further panic from some and has communicated to the rest of the world that, as they suspected, the once principled United States has now completely lost its moral compass. A nation that claims to be a leader of the world has no place entertaining such brutal tactics as chemical warfare...Not now.... Not ever.

But even more worrisome is the way this statement has exposed media bias and protectionism. I have watched several videos of the statement regarding chemical weapons and PBS is reporting it accurately. Please take 15 seconds and re-read the words the President actually said as reported by PBS above. Reported identically, here is how MSNBC reported the statement:

And one more from NPR, focusing on just the answer Biden gave:

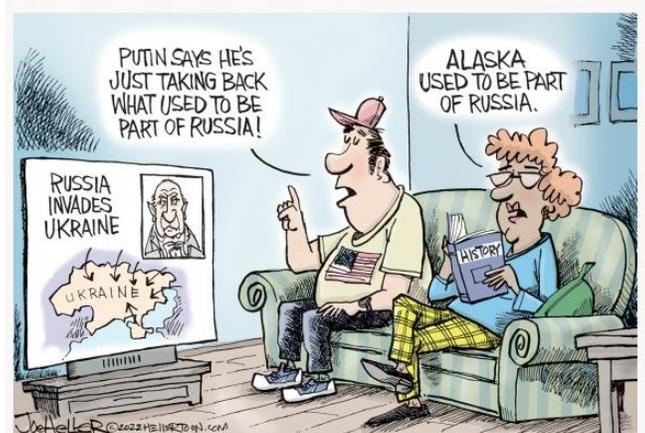
"It would trigger a response in-kind," Biden told reporters. "Whether or not you're asking whether NATO would cross, we'd make that decision at the time."

(Source: <https://www.npr.org/2022/03/24/1088335739/watch-bidens-press-conference-after-talks-with-nato-allies-on-russia-ukraine-war>)

I have purposely chosen 3 sources of this quote that are considered to be on the political left. I did this because it is unlikely that left leaning sources would denigrate a sitting Democrat president so we can feel fairly confident that their quotes are accurate. So if 3 left leaning sources have all reported the "in kind" quote, why is it that when we look up the transcript on many other news sites, the statement has been edited yet is still claimed to be a direct quote.

From Reuters:

U.S. President Joe Biden said on Thursday that if Russia were to use chemical weapons in its invasion of Ukraine, the United States would respond. "We would respond, we would respond if he uses it. The nature of the response would depend on the nature of the use," Biden said at a news conference in Brussels.



(Source: <https://www.reuters.com/world/biden-says-us-would-respond-if-russia-uses-chemical-weapons-2022-03-24/>)

From CNN:

Biden responded that he could not provide information on intelligence, but added on the issue of chemical weapons, "We would respond if he uses it. The nature of the response would depend on the nature of use."

(Source: https://www.cnn.com/europe/live-news/ukraine-russia-putin-news-03-24-22/h_b4daacf79dfcfb1146be1ecb3a1f8bfd)

When we can no longer trust the information being provided by our largest and most used news sources, that is a reason to panic. Being able to rely on a free and honest press is what keeps our government working for the people and not against us.

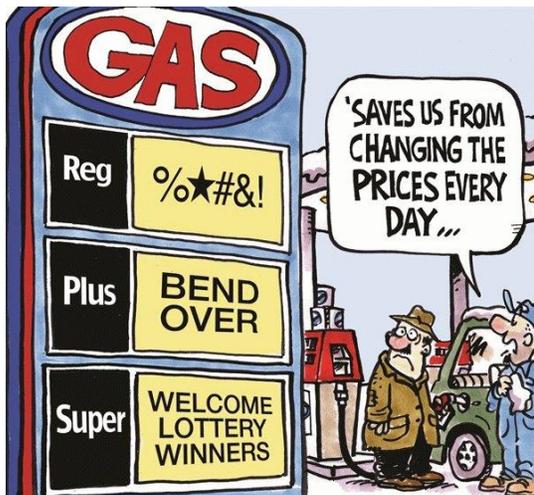
Once again, it seems I am advising that you should not panic while giving you reasons to do just that. Let me give you the reasons I believe panic is not warranted.

First, I do not believe Putin would be stupid enough to deploy chemical or nuclear weapons in Ukraine. The world is already nearly unanimous in their condemnation of the invasion, and he knows this would make the nations that are remaining silent finally take a position and it would not be supporting Russia.

Additionally, the biggest concern I had when this started was that it could be the beginning of a larger conflict that affects many more nations. For that to develop we would have been seeing countries choose sides in this conflict over the last several weeks and that has not happened. So far, with the exception of

Belarus, every nation that has publicly taken a position has denounced Russia and supported Ukraine and those that have not opposed Russia have remained silent. There is no parade of nations lining up in support of Putin's actions and that is a good thing. In fact, neutral Switzerland has even frozen Russian assets and supplied some weapons to Ukraine. This is monumental when you realize the Swiss didn't even freeze Hitler's assets during WWII.

Also, with no support Russia will have no choice but to back away from the goal of dominating Ukraine completely. It is possible and even likely that they may claim some portion of the country as Russian territory after the fighting ends and it may even be conceded by Ukraine out of self-preservation, but his goal of taking the whole country is already lost.



And I believe it is extremely unlikely that famine will develop in the U.S. in 2022. We will likely have to deal with higher food prices, which is not ideal, but we will not starve.

In terms of the market's recent volatility, keep a few things in mind to help with perspective. First, we have just closed the third consecutive year of double-digit market gains. Even without the FED tapering and Russia's invasion of Ukraine, we were due for some profit taking in the market so the decline since the start of 2022 is no surprise. Second, we are seeing yet another record level of cash in private hands in the U.S., totaling over \$7 Trillion today. While high levels of cash do not stop corrections from happening, cash typically does keep the corrections that do occur much shallower and the markets tend to recover much more quickly, which we have now seen twice in March 2020 and December 2018. One final positive effect of so much cash is that it serves as fuel for future market gains. Cash will eventually be used either for investment or for consumption which increases corporate earnings; both of which have a positive effect on stock prices.

In closing I am reminded that in Douglas Adams' Hitchhiker's Guide to the Galaxy, when the main character first encounters the Guide, out of curiosity he looks up what it says about Earth. There was a listing in the Guide consisting of just two words, "Mostly Harmless". Remember that when world events make you distraught or panicked, in the end we are mostly harmless.

If the current state of the world and all the things happening in it have made you distressed and despondent, I highly recommend you pick up a copy of the Hitchhiker's Guide to the Galaxy and begin reading. You'll thank me later. Adams' writing style is fast paced, highly intelligent and very humorous. The books are equal parts sci-fi, comedy, philosophy, and bureaucratic commentary on a grand scale. There are 6 books in the series, although the final book was written by another author after Adam's death. And if you are not a big reader, the first book was released as a TV mini-series by the BBC in 1981 and again as a major motion picture in the U.S. in 2005. Both film versions of the novel did a good job remaining true to the story and the hilarious dialogue Adams wrote. But if you are bothered by the muted hues and low production value of BBC productions from the 1970's and 80's (think early Dr. Who episodes), skip the BBC version and go for the more current film. But for now, just remember:



~ Disclosures and Definitions ~

The Dow Jones Industrial Average is a widely followed market indicator based on a price-weighted average of 30 blue-chip stocks that trade on the New York Stock Exchange which are selected by editor of The Wall Street Journal.

The S&P 500 Index is a capitalization-weighted index made up of 5000 widely held large-cap U.S. stocks in the Industrials, Transportation, Utilities and Financial sectors.

The Russell 2000 index is an index measuring the performance of approximately 2,000 smallest-cap American companies

The EAFE Index is a stock index offered by MSCI that covers non-U.S. and Canadian equity markets. It serves as a performance benchmark for the major international equity markets as represented by 21 major MSCI indices from Europe, Australasia, and the Middle East.

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