



Palmetto Wealth Management

“Pravda”

John M Gustafson - 31 March 2022

"Dishonesty inspires more euphemisms than copulation or defecation. This helps desensitize us to its implications." - Ralph Keyes

Mr. Keyes wrote a book entitled, “The Post Truth Era” and that is clearly playing out daily in the entertainment people consume, laughingly called “news.” What's even more shocking is that he penned his cautionary tale back in 2004!

My conclusion in that scenario is the cast of characters we see daily are not a glitch in modern society but an evolution of behavior based on incremental mission-creep over multiple decades. Technology and the ability to share information and do “research” that was the promise of the internet has become weaponized, clearly progressing far more quickly than human minds can contemplate and digest. We have the ability to access more information than ever before in human history, but it has also opened the door to people being able to live in completely alternative realities with plenty of “facts” to justify their echo chambers.

Tinfoil-hat wearing conspiracy theorists used to have to quietly hunt for those with similar tall tales to share. Now the algorithms of the online world happily push them all together without even the need to swipe right. “You have a crazy idea about X, Y or Z? Cool! Here are 50 more people in your zip code that do as well! And we can even connect you with people in other countries to help you shape your wild speculations and broaden them in ways you could never even imagine! All with previously “secret facts” that are only now coming to light!”

This is partially why the title of my last note was “Sophistry.”

“Honesty is the first chapter in the book of wisdom” - Thomas Jefferson

What does that all have to do with my role as an investment manager? The access to information is unbelievably broad as I just partially described, but it has also added a step that requires significant additional time in order to verify the legitimacy of what I am able to uncover. There

are far more fraudulent and unreliable sources currently in the discoverable information universe than useful ones - and that is seriously frustrating.

I am constantly being sent articles and information that appear interesting and factually correct on its face, only to be completely debunked by either further investigating the author or taking even the shallowest dive into the data set used to draw the purported conclusion. I'm sorry, but I can't believe what you say about anything scientific and/or financial if a 3-minute search of your blog / website reveals a half-dozen things you've written recently about the "fact" that the earth is flat.

Over the dozen or so years I've written these market notes, I've never used them to outline what I see as absolute "facts" but rather to outline my thought process in somewhat real-time, as to how I'm strategically thinking of asset allocation and interpreting market movements going forward. I find them also to be a good review tool to see if my assumptions have been generally correct or not over the past decade.

"Truth will always be truth, regardless of lack of understanding, disbelief or ignorance." - W. Clement Stone

The most recent example of business "news" being 180-degrees from reality appeared this week. We are continually bombarded with the message that "consumer confidence is crashing" and "nobody is happy," when in reality, the latest survey of confidence (yesterday) rose once again. Yes, it peaked last June and fell into the fall / winter as COVID returned, but it remains at a significantly higher level than late 2020 into early 2021. Of course, people are worried about Ukraine and inflation, but the reality is there remains tons of liquidity from all the stimulus payments and as previously noted, the job market continues to be hot.

Once again in February, a record number of employees quit their jobs (4.4 million) because they know a better one is available. That is a sign of economic strength, not weakness and certainly not a lack of confidence in the future. People and talking heads on the news can say whatever they want, and many folks may even believe the constant messaging of doom & gloom to the point they repeat it in person and share it on social media, but societal actions say definitively otherwise.

"People will generally accept facts as truth only if the facts agree with what they already believe." - Andy Rooney

Another area with current cognitive dissonance on messaging versus reality is inflation. Yes, prices have risen over the past 18 months or so, but the economy (as evidenced by employment, housing, and other economic indicators) is booming. Remember, the COVID outbreak slammed on the breaks for months and sent us into deep but brief recession. During that time, billions of dollars were put out into our economy with little chance of those dollars purchasing what was desired. Once the vaccines came around and it grew easier to live with COVID in general, all of

that pent-up demand was unleashed. (With billions currently remaining unspent and still waiting to deploy.)

Also, the raw inflation number that the media likes to splash across the headlines is normally adjusted by ignoring food and energy to arrive at the core rate. I used to think it was crazy to do so because everyone eats and almost everyone has to drive or use petrol to heat their homes, but those prices can be incredibly volatile - both rising and falling.

For example, crude oil has gone from \$70, to \$120 and now back below \$100 per barrel just in the past six months. That also affects the production costs for food and other items in the short term. Wages, benefits, other raw materials tend to be less volatile but the actual inflationary effects are more permanent from a business planning standpoint.

And the dozen years after the “Great Recession” of 2008, saw continuously zero interest rates, sub-2% economic growth rates and almost no inflation. We have some catching up to do in terms of economic output and the associated costs of accelerated growth.

“I believe that it is better to tell the truth than a lie. I believe it is better to be free than to be a slave. And I believe it is better to know than to be ignorant.” - H. L. Mencken

I hate to be a killjoy, but the reason energy companies are sitting on thousands of current, non-producing leases and haven't begun to warm up their drilling equipment is simply because they believe that crude prices a year from now are likely to be significantly lower. Better to enjoy the money now at current supply levels rather than make huge capital expenditures to extract your resources for less money next year.

Corporations have the obligation to serve their shareholders, not the general populace. Unless of course Putin decides to go totally off the rails and start a full-scale, world war. Then it's all hands on deck to support the cause. In the meantime, we need to deal with reality on reality's terms.

“The masses never revolt of their own accord, and they never revolt merely because they are oppressed. Indeed, so long as they are not permitted to have standards of comparison, they never even become aware that they are oppressed.” - George Orwell, “1984”

Now it is my turn to speculate about things far outside my expertise and purview, simply because it is the current wildcard for the global economy. Why is Putin waging war in Ukraine? I'm not sure he would have if he knew in advance things would go this poorly. He has personally done something nobody else has been able to accomplish since the 1940's - organize the free world against a common enemy.

Armed conflict has also proven once again who are friends and who are enemies. China is not a surprise, though they seem to be trying to balance on the knife's edge in case Vlad goes fully out of his mind and launches a nuke or chemicals at the citizens of a sovereign, democratic nation.

Nor are the folks in the OPEC nations who like our money and not much else about the U.S. I hope they get used to fighting those they dislike in the region with slings and arrows rather than shiny, American military hardware down the road.

The one I find confusing is India... I'm not sure why an educated, growing economic power would cast their lot with a despotic crazy person who has quickly alienated almost everyone the Indians would like to have as future business partners. That's one I'm watching closely for the economic impact.

As for the ending, I'm not sure how much worse this will become, but I'm willing to bet that eventually both China and India slide back onto "Team America" - at least in terms of politics and economics. They are economic players with grand future plans - ones that Russia has zero ability to help promote as Putin's economy is only as large as Italy's. "A gas station masquerading as a country," to partially quote John McCain.

Maybe we and the rest of the Western democracies can't immediately "punish" those countries economically, but just as China began to do under the trade sanctions, we can slowly move away from them all going forward, and that is what they can't survive.

"Doublethink means the power of holding two contradictory beliefs in one's mind simultaneously, and accepting both of them." - George Orwell, "1984"

Current American politics has devolved solely into uncovering problems, blaming the other team and proposing no solution because your calculus is that if the other side takes the blame, you will remain in, or regain power. Over the past six years we have observed (and lamented) the fact that the two political parties simply switch sides of the complaint-stadium when power changes hands, as if nobody will notice their hypocritical flip-flops - all easily recallable on video. Lather, rinse, repeat...

A perfect recent example that is no longer discussed were the supply chain disruptions in American sea-ports that became daily news headlines last fall - threatening to ruin Christmas! Once again, you can't think the economy is dying, yet American's continue to purchase so many goods that we don't have the ability to move them through our shipping lines efficiently. That problem has been mostly solved in terms of offloading cargo, but delays will remain as long as demand is strong.

Another situation I railed about over-and-over under the previous administration are the ridiculously uneconomic import tariffs that serve as a direct tax on Americans. Why the current admin, who is taking all the heat on the inflation front, hasn't reversed this stupid policy simply defies logic. You want to help reduce inflation immediately? Remove the 25%+ tax on the imports coming from our largest, current global trading partner. Those regressive taxes were implemented via Executive Order and can be easily removed by one.

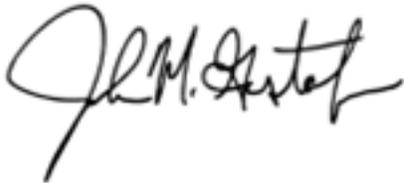
“We swallow greedily any lie that flatters us, but we sip only little by little at a truth we find bitter.” - Denis Diderot

Having seen the overall markets correct and now begin to recover this year – some based on valuations and some based solely on the global events described above, I remain comfortable with our adjusted allocations and exposure after the portfolio updates at the beginning of February. Cash exposures were adjusted where necessary as well, so foreseeable needs are easily met.

With a wary eye on Russia and crazy Vladimir, we’re comfortable for now that we are well-positioned to navigate the currently choppy waters of the markets. If things should change drastically, we’ll tack the ship and inform you of the adjustments.

Thank you as always for your business, trust and friendships. If you have any questions or need anything in the interim, please reach out via phone, text or email.

Cheers!

A handwritten signature in black ink, appearing to read "J.M. Gustaf". The signature is fluid and cursive, with a large initial "J" and "M" and a stylized "Gustaf" following.