INVESTMENT UPDATE

2021 --- 2nd Quarter

MUCH LIKE THE FIRST QUARTER

ACTIVITY IN THE SECOND QUARTER WAS A LOT LIKE THE FIRST QUARTER. If you saved last quarter's letter you could read that and understand what has continued to develop! The stock market produced very good quarterly returns, generally between 4% to 7%. Add that to returns from the first quarter and many investors had returns up to 13% for the year so far.

The widespread rollout of vaccinations unleashed powerful pent-up demand in the U.S. economy. A recent surge of the Delta variant of the virus is causing a fear that it will lead to more shutdowns and slow the reopening of business activity. Because of the number of those vaccinated and the extent of the reopening activity that has already occurred, it is very unlikely that shutdowns will take place once again in the U.S.

Inflation, where it goes from here and how long it stays around is still the hot topic of the day. If you are trying to buy lumber or a used car, you probably feel like inflation is out of control. A reawakening of the U.S. economy – boosted by pent-up demand and unprecedented government stimulus – has stoked investor fears of higher inflation. But those fears may be overblown. Despite higher prices for some raw materials and consumer products, signs of broader price inflation appear to be mostly short term in nature and unlikely to produce sustained, long-term inflationary pressures.

Prices are being driven higher across a variety of sectors mostly due to supply and demand imbalances. The economy has reopened with such speed and businesses are having a hard time keeping up, especially if they can't get all the materials they need. Take used cars as an example. The price of used cars has really gone up in the past year. It is linked to a shortage of new cars, which is linked to a shortage of computer chips needed for new car production (as well as other products), etc. Eventually, the supply chain will once again catch up with demand.

Inflation should spike in coming months as stimulus-induced demand meets COVID-restricted supply. This is the process of the U.S. economy trying to find a new equilibrium. As stimulus wanes and the economy fully reopens, inflation should return to pre-pandemic levels of around 2% annualized. Or possibly we will enter a "new-old" normal with inflation once again running between 2-3%.

Invest for the long term.
Throughout the ages, many of the world's greatest thinkers have told us that, in life, **change is a given**. "The only thing constant in life is change." The same can be said of the investment process, where change and cyclicality are unrelenting. Markets go up and markets go down, economies crest and economies recede, interest rates move higher and interest rates move lower. Yet amid all the change in the investment world there are principles for success that remain the same. One of those is to invest for the long term. Having a long term view, with an understanding that much of the short term noise is just noise and will pass, is the best way to be a successful investor.

Feel free to call Nan or Ann at 414-431-6491 with your questions.

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