Majestic Oak Financial
A Registered Investment Advisor

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I hope you had a safe and delightful 4th of July weekend with family and friends.

What's Going on with Inflation and Should We Worry?

After more than a decade of historically low inflation rates, we're starting to hear rumblings about rising inflation. What is inflation and why is it rising? How worried should we be about it?

Inflation is simply a measurement of how much we can all buy with the money in our pockets. We know that the price of "stuff" goes up over time. To measure this price increase on an economic scale, we track the price of the same basket of standard goods and services (i.e. housing, food, fuel, utilities, clothing, healthcare, etc.) year-over-year. The increase in that price is one measure of the inflation rate. For example, if the basket cost you $100 on 12/31/19 and the same basket of stuff cost $102 by 12/31/20, it would be said that the inflation rate was 2%.

In economic theory circles, there are three ideas to explain why prices drive ever higher. The first is your basic rules of supply and demand. If there is a limited supply of, say, sneakers and everyone wants these sneakers, the sneaker seller is going to raise the price to find that sweet spot where the demand for sneakers equals the supply of sneakers. Expanding this to a whole economy, when people have easy access to money (everyone is employed, the cost of borrowing is very low, tax rates are low, home equity and investment values are up), they want to spend it causing the demand for all types of things to increase. Smart sellers will recognize this and increase prices to maximize their profit.

The second cause of inflation is when the cost of production increases. If the prices of fuel, lumber, labor, office rent – any or all of the inputs needed to create a good or service – goes up, generally the business can only eat these price increases for so long. In order for the business to survive, it raises the prices of the things it sells. That makes things more expensive for you and me. For example, the recent spike in lumber prices have helped to drive up the cost of new home construction.

The last theoretical cause of inflation is a circular process. As prices rise, workers need to earn more money to keep their same standard of living. If employers do not raise wages, the workers would change jobs to earn more. In a tight labor market, wages would need to increase to keep the workforce stable and again, businesses would pass some of those higher costs to the consumer. Those consumers, for whom prices are now a little higher, are also those in the workforce who would then eventually require more money again to keep their consumption stable. And 'round and 'round she goes.

It's rare that only one of these causes is working at any one time. And today, it seems that all three mechanisms are fully in play. With the Fed's current monetary policy stance, there is a lot of easy, cheap money in the system chasing a still-limited supply of goods thanks to Covid. The price of gas has bounced back and the cost of natural resources like lumber have sky-rocketed. And, we all can see that wages are having to increase to entice workers back to work. Hence, the recent jump in inflation.

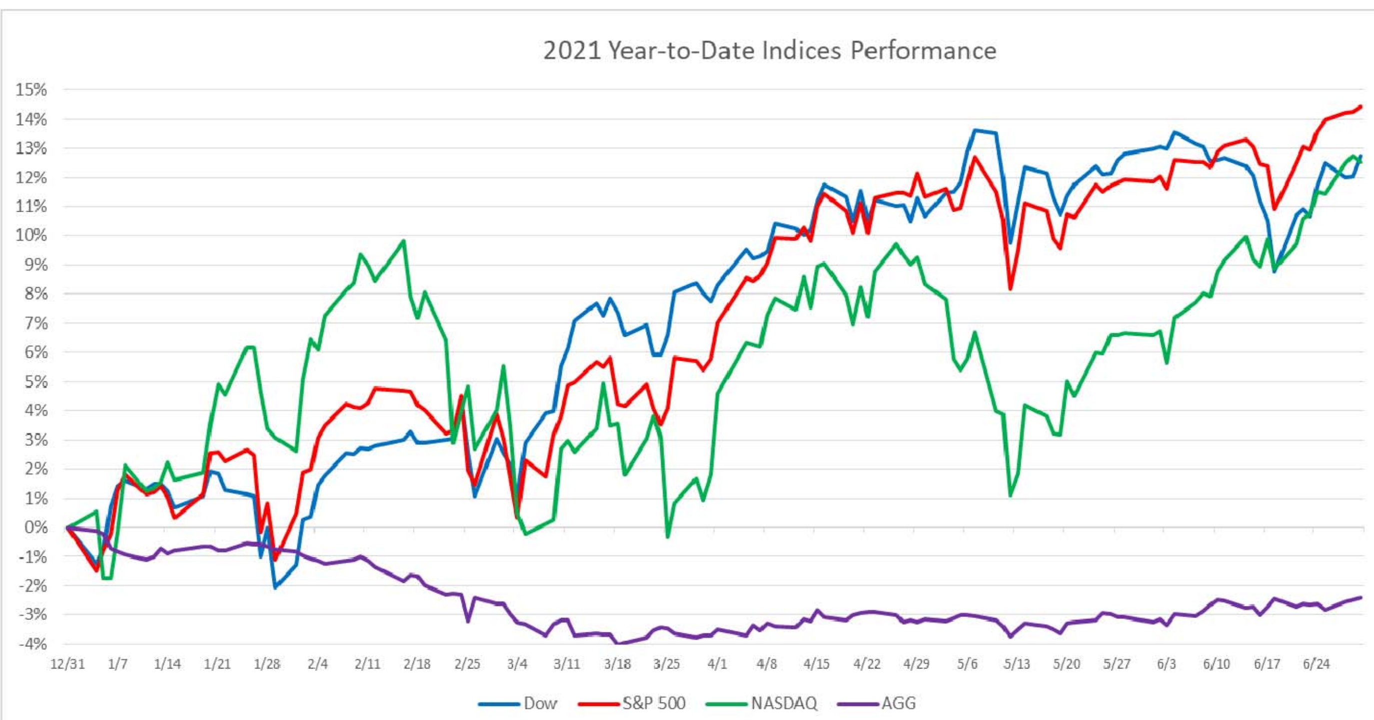
In reality, we need some level of inflation to keep a healthy economy humming along with moderate growth but without overheating, stagnating, or lagging behind. Economic theory and the Federal

Reserve – who has the mandate to control inflation and employment – consider the optimal rate of annual inflation to be 2% per year to balance spending, saving and investing.

So where are we right now and what's to come? The long term average rate of inflation since 1929 is 3.04% per year. Back in the 1970's, the average rate was 7.25% with a year when inflation was as high was 13.3%! In the decade of 2000 – 2009, the average annual rate was 2.54% and for 2010 – 2019, it fell even lower to 1.75%. 2020 came in at 1.36%. But in this first 5 months of 2021, we've experienced a 3.31% hike in prices. According to the Fed's latest signaling, the recent spike is temporary due to workers returning to work. Additionally, consumers feel like the worst is behind us with no chance of shutting down the economy again which makes paychecks fairly secure, and so it's time to spend money to make up for all we did not get to do, see, and buy in 2020. Eventually, the consumer will find an even keel, those who want to work will be employed, and the economy will level out. It always does.

2nd Quarter 2021 Market Performance*

Index	06/30/2021 Ending Value	2Q 2021 Performance	Year to Date Performance
Dow Jones	**34,502.51**	**4.61%**	**12.73%**
S&P 500	**4,297.50**	**8.17%**	**14.41%**
NASDAQ	**14,503.95**	**10.52%**	**12.54%**
Lehman Aggregate Bond	**115.33**	**<3.69%>**	**1.31%**



Your Individual Investment Reports

The following reports for 2nd Quarter 2021 are provided for your review:

- ***2nd Quarter 2021 Portfolio Performance*** – Compares the Year-to-Date 2021 percentage performances of the S&P 500 & Lehman Aggregate Bond Index with your portfolio performance.
- ***2nd Quarter 2021 Portfolio Performance vs. Inflation*** – Performance of your investment portfolio compared to the rate of inflation as measured by the Consumer Price Index (CPI) for both the since inception period of your accounts and year-to-date 2021.
- ***Account Summary*** **–** Current market value of each asset within your accounts as of 06/30/2021
- ***Investment Billing Statement*** for the 3rd Quarter 2021**: Investment advisory fees for the period of 07/01/2021 through 09/30/2021 (based on 06/30/2021 values). *This is an informational billing only.* Your account is automatically debited unless other arrangements have been made.

Please remember that this investment reporting is for informational purposes only. You should also refer to the monthly account statements you receive from TD Ameritrade Institutional.

If you happen to know anyone who might benefit from the services I provide in assisting you in managing your investment portfolio and reaching your financial goals, I would enjoy speaking with them. Don't keep me a secret! ☺ And as always, please do not hesitate to contact me if you have any questions about your reports or wish to discuss any other financial matters.

Sincerely,

Anna

Anna M. Popke, CFP®, RICP®

*Index performance is provided as a benchmark only. The performance of your individual investment portfolio will vary from that of any one index. Past performance of an index is never a guarantee of future results.

*****PLEASE NOTE:*** Clients who hold "cash reserves" within their brokerage accounts will have slightly different portfolio balances depicted on the Statement of Assets Summary and the Billing Statement. This is because "cash reserves" are excluded from the advisory fee. However, cash held awaiting investment in the upcoming quarter *will* be subject to the normal quarterly fee.

Investment Advisory Fee Calculations:
Fees are paid in advance on the 7th (or prior closest business day) of the month following the end of the quarter. The amount due is calculated by applying the prorated annual fee percentage to the previous quarter-end account value(s). Fees are further prorated for accounts opened after the beginning of a new quarter. Fees may be paid directly from the investment account(s) or consolidated and paid from a specified account. Money market/cash reserves are excluded from totals. Statements have been prepared by Majestic Oak Financial from information provided by TDAmeritrade and while deemed reliable, are not guaranteed.