

The Summer of Getting Back to Life... and Inflation

July 2021

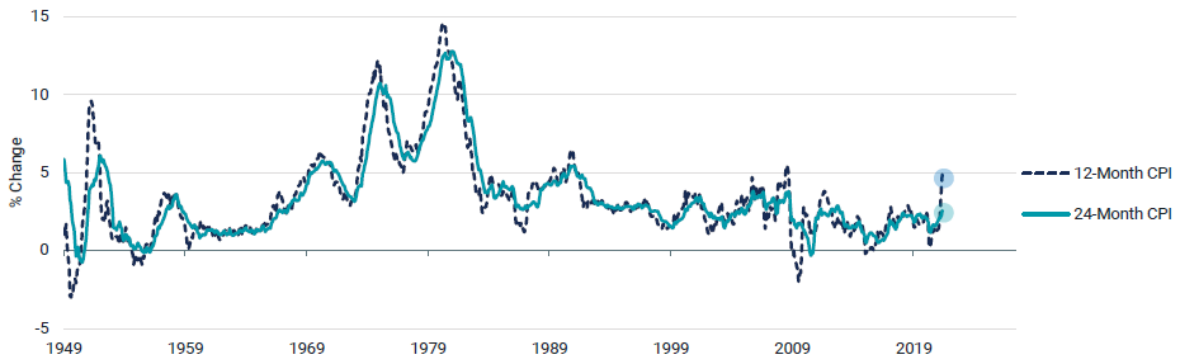
“Modern finance is based primarily on scientific reasoning guided by theory, not subjectivity and speculation.”

-John McQuown

Recent headlines have been reporting a noticeable uptick in inflation. Superlatives like “best” and “worst” grab the most attention, so outlets have been abuzz with reports of how a 5% May inflation figure was “the biggest 12-month inflation spike since 2008¹.”

Before you read too much into rising inflation figures, let’s not forget the context here. These numbers are comparing May 2021 to May 2020. As I’m sure you recall, Spring 2020 was a very interesting time in the world... That’s what these numbers are being compared to – the most ludicrous period (economically) of the pandemic. Moreover, as the WSJ explains, “If a company takes a hit in one year and then gets back to normal the next, it can look like its profits are soaring when in fact they are just getting back on track².”

To further illustrate context, let’s expand our lens from 12 months to 24 months, annualized inflation over the last two years was just over 2.5%³. The higher-than-expected 5% inflation was preceded by a period of no inflation, so the inflation environment over the last two years is well within the expected long-term annual range.



Data from 1/15/1949 –5/15/2021. Source: Bureau of Labor Statistics, Avantis Investors.

This leads to my next point: *Not all inflation is bad*. Inflation goes hand-in-hand with economic growth and reasonable interest rates for lenders and borrowers. An inflation rate of about 2-3% is a desirable norm for greasing the wheels of economic activity and maintaining the working relationship between currencies and costs.

So, we can explain inflation just fine, but what about predicting it? If higher inflation does materialize, will it arrive sooner or later? Will it be moderate or severe? Brief or prolonged? Forecasts vary widely, because we often forget the academic evidence that informs us: Even excellent explanatory models rarely serve as effective predictive models.

For example, scientists can readily explain why earthquakes occur, but when it comes to predicting the when, where, and how bad - all bets are off. It's about the same with inflation. Economists can explain its intricacies, but precise predictions remain elusive. If inflation operated in a vacuum, maybe we'd have a chance. The reality is that there are many variables that will influence the shape inflation will take in the future. To list just a few, there's COVID-19, climate change, politics, the Fed, other central banks, consumer banks and lenders, borrowers, employers, employees, investor behavior, global currencies, cryptocurrency, financial, the media, and so much more. Any and all of these could ruin predictions about the timing, angle, and magnitude of inflation.

So, what's there to do about it? Over time, global equity returns have considerably outpaced inflation. For example, one dollar invested in the S&P 500 Index from 1926–2017 would have grown to \$533 worth of buying power by the end of 2017⁴. That's *after* adjusting for inflation.

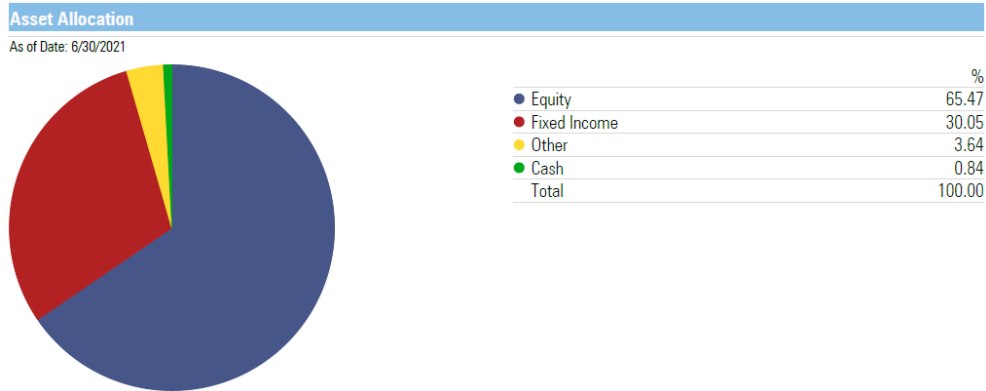
It's important to note, market-timing moves are not required or even desired when participating in the stock market. In fact, trying to tactically dance around with your investments at seemingly opportune times is more likely to detract from the vital, inflation-busting role stocks play in your portfolio rather than add to it. In the words of Nobel Laureate Eugene Fama: "The nature of the stock market is you get a lot of the return in very short periods of time. So, you basically don't want to be out for short periods of time, where you may actually be missing a good part of the return⁵."

New Performance Reports

As I'm sure you've already noticed, our reports look quite a bit different this quarter. We completed a long in-the-works overhaul of our quarterly performance reporting. The idea was to make our reports more informative, more transparent, and more visually attractive. I think we were able to hit on all of those goals.

The main thing to be aware of is that the majority of the information presented in this new format represents how your accounts have performed *in aggregate*. In our previous reports, we provided information on accounts individually. For clients for whom we've employed different strategies per account, this led to a 'miss the forest for the trees' effect. We believe what really matters is how accounts are allocated and perform in harmony, so this is the main impetus behind the redesign.

What follows, is a tutorial of sorts to explain what information is on display in each section of the report.



This graph simply illustrates the broad asset class allocation among all of your accounts aggregated. The 'Other' category reflects allocations to Real Estate and/or blended investments such as a target-date funds, for most clients.



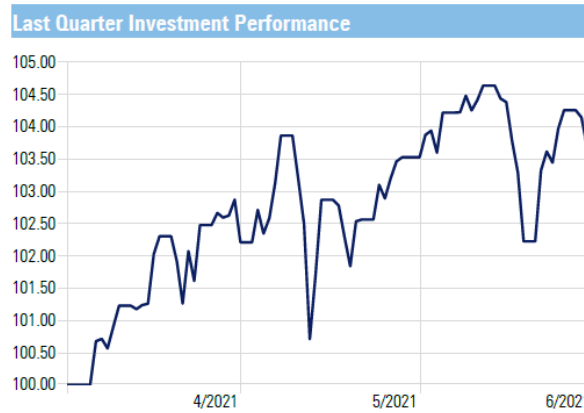
The Historical Account Value graph illustrates the daily balance of all of your combined accounts going back ten years (or from the date you became a client, if less than ten years). Keep in mind this graph represents not only investment growth, but deposits and withdrawals made from your accounts as well. Typically, straight vertical jumps or drops in this graph are from money coming into or leaving your accounts (a deposit and withdrawal in the sample above is highlighted).

Performance by Account
Time Period: 7/1/2020 to 6/30/2021

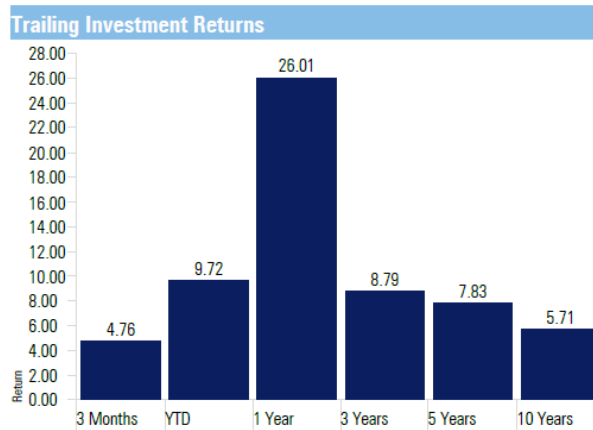
	Account Number	3 Mo (%)	1 Year %	3 Year %	5 Year %	10 Year %
IRA	-	5.05	26.42	8.90	7.69	5.88
Roth IRA	-	5.94	42.75	10.95	12.06	-
Taxable Account	-	4.06	21.21	8.02	6.93	5.11
Total Portfolio	-	4.76	26.01	8.78	7.83	5.71

The Performance by Account table displays the periodic trailing returns of each of your accounts separately, as well as all accounts aggregated. For periods greater than one year, the return figure is annualized. If an account was created with the last ten years, it will not have a return figure in the 10-

year (or 5 year, 3 year, etc...) until the inception date of the account has that tenure. All performance represented here, and in the charts and graphs to come, are expressed as the account and portfolio return net of fees.



The Last Quarter Investment Performance graph illustrates the daily cumulative performance of your aggregated accounts over the past three months.



The Trailing Investment Returns graph is simply a visual representation of the Total Portfolio figures in the 'Performance by Account' table above.

Page 4

Account Activity (Last Quarter)

Time Period: 4/1/2021 to 6/30/2021

	Account Number	Beginning Market Value	Additions	Withdrawals	Gain/Loss	Ending Market Value
IRA	-	567,356.00	0.00	0.00	28,676.00	596,032.00
Roth IRA	-	149,100.00	0.00	0.00	8,850.00	157,950.00
Taxable Account	-	490,677.00	0.00	-16,195.50	19,703.00	494,184.50
Total Portfolio	-	1,207,133.00	0.00	-16,195.50	57,229.00	1,248,166.50

The Account Activity (Last Quarter) chart details any additions, withdraws, and investment gain/loss of each account in the last three months. The chart below this details the exact same information, but over the preceding 12 months, instead.

Page 5 (and on)

Investment Holding Summary							
As of Date: 6/30/2021							
	Symbol	Quantity	Price	Market Value	Total Cost	Gain/Loss Since Purchase	Percent Asset
IRA	-	-	-	596,032.00	336,800.00	259,232.00	47.75
DFA Emerging Markets Core Equity I	DFCEX	400.00	26.98	10,792.00	9,060.00	1,732.00	0.86
DFA International Core Equity I	DFIEX	3,000.00	16.10	48,300.00	35,430.00	12,870.00	3.87
DFA Investment Grade I	DFAPX	15,000.00	11.72	175,800.00	150,600.00	25,200.00	14.08
DFA Real Estate Securities I	DFREX	1,000.00	45.44	45,440.00	23,010.00	22,430.00	3.64
DFA US Core Equity 2 I	DFQTX	10,000.00	31.57	315,700.00	118,700.00	197,000.00	25.29
Roth IRA	-	-	-	157,950.00	88,250.00	69,700.00	12.65
DFA Global Equity I	DGEIX	5,000.00	31.59	157,950.00	88,250.00	69,700.00	12.65
Taxable Account	-	-	-	494,184.50	295,458.75	188,225.75	39.59
DFA Emerging Markets Core Equity I	DFCEX	275.00	26.98	7,419.50	6,228.75	1,190.75	0.59
DFA International Core Equity I	DFIEX	2,500.00	16.10	40,250.00	29,525.00	10,725.00	3.22
DFA Investment Grade I	DFAPX	17,000.00	11.72	199,240.00	170,680.00	28,560.00	15.96
DFA US Core Equity 2 I	DFQTX	7,500.00	31.57	236,775.00	89,025.00	147,750.00	18.97
Fidelity® Government Cash Reserves	FDRXX	10,500.00	1.00	10,500.00	-	-	0.84
Total Portfolio	-	-	-	1,248,166.50	720,508.75	517,157.75	100.00

The final page(s) provide an accounting of each holding you own in each of your accounts account. This is a bit counter-intuitive, but “Total Cost” is not solely the purchase price for each investment, as reinvested interest and dividends are added to the cost of investments. For taxable accounts, this represents your tax basis when it comes to selling an investment at a gain or loss. As positions are bought or sold, whether through tax efficiency trades, cash needs, or simple rebalancing, the Total Cost and Gain/Loss Since Purchase figures will not necessarily represent the performance of the individual investment, but should instead be used a reference for the unrealized gain or loss of the holding.

The final column on this chart shows what percent of your entire portfolio each individual holding represents (and account, in bold).

Wrapping Up

If these new reports may spark any questions or if you’re confused by anything, please let Derek or Jon know and we will help explain anything. Of course, if there is anything else on your mind, whether inflation, pandemic recovery, or anything else – we are here to talk.

¹ Crutsinger, Martin, "Inflation spikes in May as prices jump at fastest annual clip since 2008, squeezing consumers as economy reopens". USA Today. <https://www.usatoday.com/story/money/2021/06/10/inflation-report-consumer-prices-leap-may-economy-reopens/7634849002/>. Published 6/10/2021. Accessed 7/9/2021.

² Crutsinger, Martin, "The Fed's Inflation View Is All About That Bass". The Wallstreet Journal. Published 6/6/2021.

³ "Avantis - June Field Guide" Avantis Investors. Accessed 7/13/2021.

⁴ "How Does Inflation Impact Investors?". Dimensional Fund Advisors. <https://www.dimensionalfundadvisors.com/us-en/insights/impact-of-inflation>. Published 6/1/2018. Accessed 7/9/2021.

⁵ "Inflation: An Exchange Between Eugene Fama and David Booth" Dimensional Fund Advisors.

<https://www.dimensionalfundadvisors.com/us-en/insights/inflation-an-exchange-between-eugene-fama-and-david-booth>. Published 6/2/2021. Accessed 7/9/2021.

This newsletter contains general information that may not be suitable for everyone. The information contained herein should not be construed as personalized investment advice. Past performance is no guarantee of future results. There is no guarantee that the views and opinions expressed in this newsletter will come to pass. Investing in the stock market involves gains and losses and may not be suitable for all investors. Information presented herein is subject to change without notice and should not be considered as a solicitation to buy or sell any security. Investment advisory services offered through Ferguson-Johnson Wealth Management, a registered investment adviser.