



Fourth Quarter 2021

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THE METAVERSE

On Christmas day, a 10 billion dollar telescope was launched on a 29 day journey a million miles into space to its stationary destination. Its mission is to observe infrared light that left its origins some 100 million years ago. It is expected that the knowledge gained from this endeavor will be profound.

But here on earth we have better things to do. We are building our own universe: The Metaverse. It's a concept that has been kicked around for decades but Facebook made it official when it changed its company name to Meta. When the 7th largest company makes a statement such as this, it warrants taking notice.

Facebook

Although the Facebook name change was made because of its multibillion dollar commitment to the Metaverse, some say it is really because of the multiple investigations that have plagued the company. Facebook data yields tremendous power. It is alleged they have used that information to exploit users in ways detrimental to their psychological welfare. Much of this is directed at youth and the impact has been exacerbated by the pandemic. Many hospitals report that child psych wards are saturated and, if you continue to read this article, you too may be at risk of losing your own grip on reality!

The internet, as we know it, has been a tremendous boost to many disciplines where information, research and news can flow almost instantaneously. At the same time, it is fraught with false advertising, schemes to invade our privacy, distortions of facts, viruses that destroy data and ransomware that takes over your com-

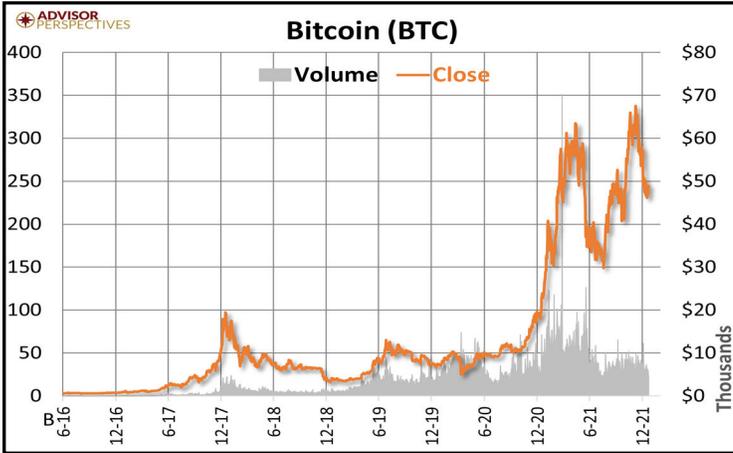


Inflation is Here

Deflation is greatly feared because it has been known to destroy economies. If the price of a car continues to decline month after month, consumers will never buy the car and sales will grind to a halt. Once this process starts, it is hard to stop.

For this reason, the Federal Reserve has been trying to create inflation for well over ten years. The Fed has been creating money and getting more money into circulation. At the onset of the pandemic, the Federal government mailed much of this created money directly to individuals and businesses. It is known that the more cash people have, the more they spend. As this money is spent on various items, businesses skim profits off the money that passes through them. This, in turn, leads to businesses buying more resources for expansion and also allows them to hire more labor to handle the growth. So some inflation is good and promotes economic growth. If inflation is too high, it means that today's dollars will have less buying power next year and, as it accelerates, that time frame shrinks to months, weeks or even days. Money isn't saved, it is just spent and eventually money becomes worthless.

The primary indicator of inflation is the Consumer Price Index or CPI. It is created by the Bureau of Labor Statistics where several categories of goods are monitored. Keep in mind that there are many variations of the CPI where the components are weighted differently and each of these is used for different things. Ironically, the most



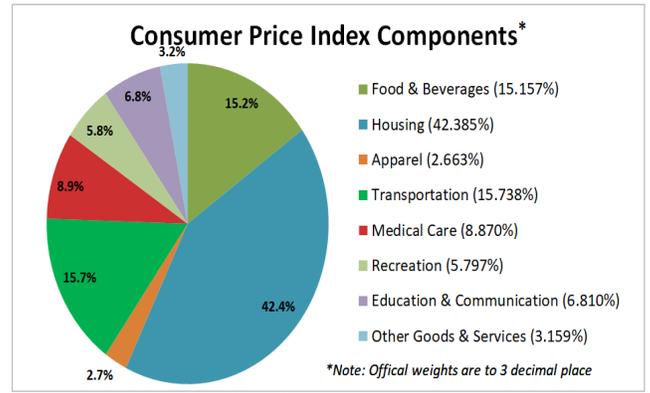
puter and forces you to pay a ransom (in Bitcoin) to get it back. It was ransomware that shut down a major oil pipeline this summer.

Early in 2021, online gangs that became known as "Apes" (after Planet of the Apes) gathered together in virtual chat rooms to discuss opportunities in the markets. They stumbled upon a new game to play where they would buy, in unison, stocks of companies that were on the verge of bankruptcy. These companies were heavily shorted, meaning large institutions were betting their stock prices would drop. Just for fun, the Apes pushed the price of AMC Entertainment from 12 to 72 dollars in a week. This crushed institutional investors who were betting against them but also illustrated how much power a wild, unprofessional mob could have over multibillion dollar professional investors. It is also a bit analogous to how terrorists use technology available to everyone to overthrow the establishment.

Virtual Currencies

Over the years we have seen Bitcoin, a virtual currency, explode. The Federal Reserve controls the dollar. No one controls Bitcoin! That is the attraction to Bitcoin. This year we have seen many of these virtual currencies come into the marketplace. Most people that are buying these currencies do not fully understand what these currencies are or their ramifications to our financial society. They only know that they are new, have appreciated tremendously over a short period of time, and as the hyped up media claims, will be the currencies of the future. So they simply want to be in on it!

But their fate remains to be seen. The U.S. Federal



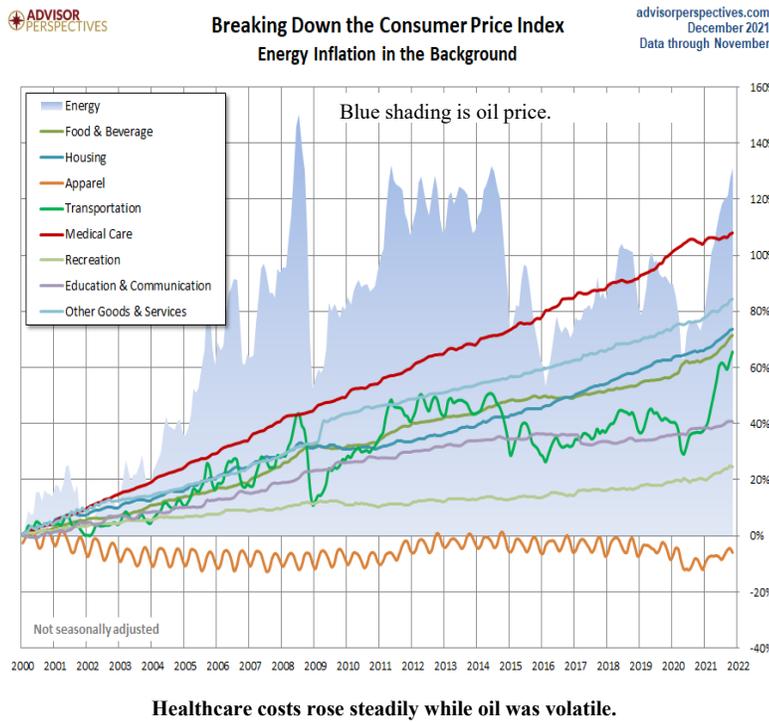
talked about component of inflation is the price of gas at the pump. In reality, only about 6% of the total CPI is attributed to gas and this figure is buried in the transportation sector. Gas and heating oil increased well over 50% in 2021. Housing has the highest weighting and that segment was up around 18% for the year. Food was up close to 7%, with beef up 20%. The auto industry is in disarray. New cars are hard to come by with all the shortages on computer chips. This pushed used car prices up 25-30%, with rentals up 40% or more. Healthcare continued its solid upward trend, rising steadily, and will easily continue due to the ramifications of the virus.

One variation, CPI-W, geared more toward the working population, affects Social Security payments. This year, Social Security has increased by 5.9%, the greatest increase since 2009. Unfortunately for some, the Medicare payment was also increased by some 14.5%. It should be noted that with all the political rhetoric about taxing the rich, this structure hurts those with the lowest Social Security income.

Have and Have Nots

This past year, we have noticed that even though one sector of the population struggles, others still spend. Certain segments of the population have benefited from the pandemic. They are working at home and earning the same salary. They save on gas, clothes and lunch. Others that received government money supplemented with sideline cash jobs. Although the final figures of the 2021 holiday have yet not been beaten to death by analysts, preliminary data indicates that holiday sales were up between 8 and 11 percent from pre-pandemic levels. This indicates that many consumers have the money to pay inflated prices.

The traditional remedy for inflation is higher interest rates. This time, however, it is a little different. Higher rates will slow down the housing bubble and the market speculation. But it won't solve the problem of shortages and all the ripples caused by the covid virus. For that we need time. Things may never be the same as they were, but in time we will adjust to the new reality.



Reserve and other government agencies are trying to figure out how to regulate, tax and control these virtual markets. If successful, the allure of a virtual currency with no governing body may subside. In the end we will probably have virtual currencies but the final form of these currencies is a subject of much speculation. One currency, Dogecoin, was created as a joke. It surged after Tesla's Elon Musk supported it but collapsed after he joked about it on Saturday Night Live. This illustrates that people buy these currencies not because they have any intrinsic value or for any financial reason other than the price went up.

The Metaverse

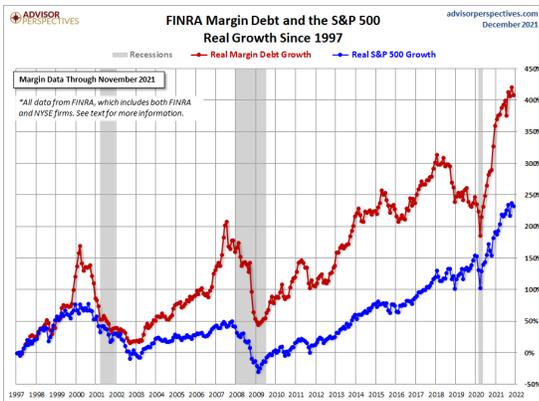
Virtual currencies are the ticket to being a real dweller in the Metaverse. In the Metaverse, the currencies are held and processed by virtual banks or wallets that, by the way, can be attacked by virtual bank robbers. The virtual banks are being used just like regular banks to transact virtual business. It's important to note that Bitcoin and all the other virtual currencies are called "fungible". Dollar bills are fungible. This means that every paper dollar is the same. Every unit of Bitcoin is the same. But these currencies can be used to buy a "non-fungible" token called an NFT. An NFT is unique in that it is mathematically encrypted. It cannot be duplicated. Right now electronically unique NFT art is being created and sold for thousands of dollars! Since each NTF is unique, its value changes and can be traded and sold like a stock. Also, you could go to web pages like "The Sandbox" or "Decentral Land" and buy virtual land! I don't recommend any of this. What we have is one big videogame that now is getting serious! Wearing virtual 3-D goggles we can live in a 3-D environment and communicate with digital avatars of ourselves socializing and doing business while we sit in an armchair munching caramel popcorn. NFT art now trades for hundreds to millions of dollars! Some formats allow NTFs to pay dividends! People will make money; most will lose.

This all sounds ridiculous but there are also valid and usable applications to the virtual world. Educational programs, virtual meeting places, surgical and engineering applications are a few. With the powerful 5G data streaming networks coming onboard in 2022, this world will grow rapidly right under our feet. As this world becomes a reality, these tools will be used and abused by people just like the current internet. Years ago, many were skeptical about purchasing online. Now it dominates consumer spending.

A New Reality

I bring up all of this insanity behind virtual money and virtual worlds because part of this is the result of all the excess cash floating around in our pandemic economy. While real money flows into the virtual world, others have been investing in cars that use hydrogen, advanced batteries that go forever, flying taxis and drone truckers. Great concepts but a long way from practical use and a harbinger of a frothy market.

Meanwhile, excess cash, along with shortages and a completely dysfunctional labor market, is driving up retail prices. Not only is it hard to find help for stores, restaurants and many retail businesses, but also wages have gone up. Increases in minimum wages and fewer available workers are contributing factors. Throughout 2021 workers at all levels quit their jobs at record rates! But, in spite of all the negatives, the



Speculative debt used to purchase stock has increased.

stock market keeps going up while somehow many companies continue to generate decent profits.

The Fed

In November, President Biden re-nominated Fed Chief Jerome Powell. Since then Powell started to reverse his views on inflation. Early in the year he felt that the inflationary spike was temporary. He felt shortages and the surge in the post-pandemic upturn were the source and it would be short lived. But, as the year progressed, he started to feel that the potential for

longer term inflation was on the table. In order to keep interest rates at near zero, the Fed has been buying an unprecedented 120 billion dollars in bonds every month. They started in 2008 but increased it dramatically when the pandemic hit. Now they want to reduce this by 30 billion a month until it is eventually zero by Spring, 2022. At that point, they plan to slowly raise interest rates. The trick is to do this slowly enough so that it does not crush the economy and quickly enough to keep inflation in check.

An increase in rates may also curb some of the speculation. Speculators borrow money against their stocks. When the markets take a sudden drop, investors are forced to sell good and bad stocks to reduce the percentage of debt causing sudden and steep drops. So far, these drops have been short term followed by swift recoveries, but in the year 2000 the declines were deep and went on for over 2 years. It took some 5 years to recover. The declines of 2008-09 took 16 months and then over 4 years to recover. Many companies never recovered.

Investing in 2022

In early 2021 it looked like the pandemic would end. But a new strain of the virus, called Delta, started to emerge. It hit Britain and Europe hard. Many countries shut down. Then a third major strain emerged in the final days of 2021. Not seen as fatal but it spreads very rapidly and hospitalizations increased dramatically. It is once again causing many shut downs. Investors are on edge. The markets were up 20% for 2021 but it was a rollercoaster for many industries. Tech was a clear leader but a lot of tech stocks collapsed as the pandemic seemed to wane. Airlines initially surged but then suddenly pulled back. The virus, weather, labor shortages and a host of technical problems contributed to their problems. Oil surged but pulled back toward the end of the year.

The consensus is leaning toward good news. This supposedly weaker virus will surge and then burn out. Herd immunity will be reached and, with vaccines and new meds, the economy will get back on track. Supply glitches could fade and inflation could stabilize. Chances are it will be a rocky road for 2022 as we digest all of these issues. The best news is that if we can put a telescope 1 million miles into space to see the beginnings of our universe, we can work our way out of any situation.....Unfortunately, our politicians are not rocket scientists. **HAPPY NEW YEAR!**

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