FIRST CAPITAL FINANCIAL

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Sponsoring Mutual Fund Dealer

Inflation is top of mind right now for many consumers, businesses and investors. Energy prices are up, commodity prices are up, home prices are *way* up, and used cars and trucks are through the roof. This trend is only going to accelerate as vaccination programs allow life to slowly but surely return to normal. Thanks to government stimulus programs and unprecedented money printing, real disposable income is higher than pre-pandemic levels and consumer consumption is expected to accelerate. This is highly inflationary, and yet officially inflation remains low and range-bound between one and two percent.

"This is money - get ready to worry about it for the rest of your life."

But what if we're measuring inflation all wrong? Inflation is measured by the consumer price index (CPI), and is based on a basket of goods and services that consumers have spent money on in the past. This includes entertainment, recreation, restaurants, and hotels, which have been largely non-existent in terms of the economy, due to Covid-19. Yet the CPI continues to incorporate the deflationary prices from these sectors, making it appear that inflation is lower than it actually is. As International Monetary Fund (IMF) economist Marshall Reinsdorf recently put it: *spending patterns changed abruptly, and the CPI weight suddenly became obsolete*.

In the U.S. the standard way the Bureau of Statistics measures inflation is to literally visit stores and ask them for prices. But with thousands of stores and businesses closed over the past year, researchers haven't been able to make in-person visits, leaving gaping holes in the data. As a result, there may be a significant amount of inflation that simply isn't being detected. Using alternative inflation data based on pre-1980 methodologies, consumer prices are shown to be increasing by 9% per year. Click <here>

So what does this mean in terms of investing? One obvious answer is to include exposure to real assets -metals and mineral, lumber, cement and other commodities. Resources appear well positioned to deliver strong results, particularly as the Biden Administration turns its focus to infrastructure. As always, we remain confident in our wealth management partners at **Dimensional**, **EdgePoint**, **Guardian** and **Mackenzie** to identify opportunities and capitalize on them. Each of the fund positions in our portfolios are tactical by design and have the ability to pivot to sectors that offer return potential for investors. And we'll need any higher returns they generate, to offset the rapidly rising costs of everyday life.

Be safe, be well!

Martin
519-546-5088