JONATHAN DAVIS

Wealth and Later Life Finance Advisers

Chartered Financial Planner

Booms & Busts Report

The prices of goods and services have been soaring. Official inflation (RPI - Retail Price Inflation) at the last count, was 11.1% p.a. (the highest in over 40 YEARS!). And this is with fraudulent calculation methodology.

However, as I see it, we are probably NOW in economic recession. Inflation is PEAKING right now. The costs of living are now FALLING!

Unemployment will rise.

This is the July 2022 Booms & Busts Report. I publish these, free, every two months.

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In this edition of The Booms & Busts Report

- **Why is inflation falling?**
- **Examples of me recently in Media**
- **House prices**
- **China (aka Basket Case)**
- **Which investments for a Recession?**
- **Gold**
- **Cash is right in these times, no?**
- **How are JD WM client portfolios doing?**

DISinflation

In the Spring of 2020, fuel at the pump prices were £1 a litre, or so. Recently, we were paying £2 a litre. A 100% rise in fuelling a vehicle. This has a big effect on households, directly, as well as in the food and goods we buy, as they have to be transported.

Home energy has risen 30%, 40%, 50% even 60% a year, since 2020.

Food costs are up double digits, especially when you add in the insidious Shrinkflation.

Manufacturing input costs have soared 20%, 40%, 60% or more.

But...

In recent weeks (perhaps a few months) most commodities have fallen in price, materially.

I filled up my car tank this week at £1.94 a litre. A small but important FALL in pump prices.

Our home heating oil price has fallen from £1.01/litre, in March, to 84p, last week.

Oil

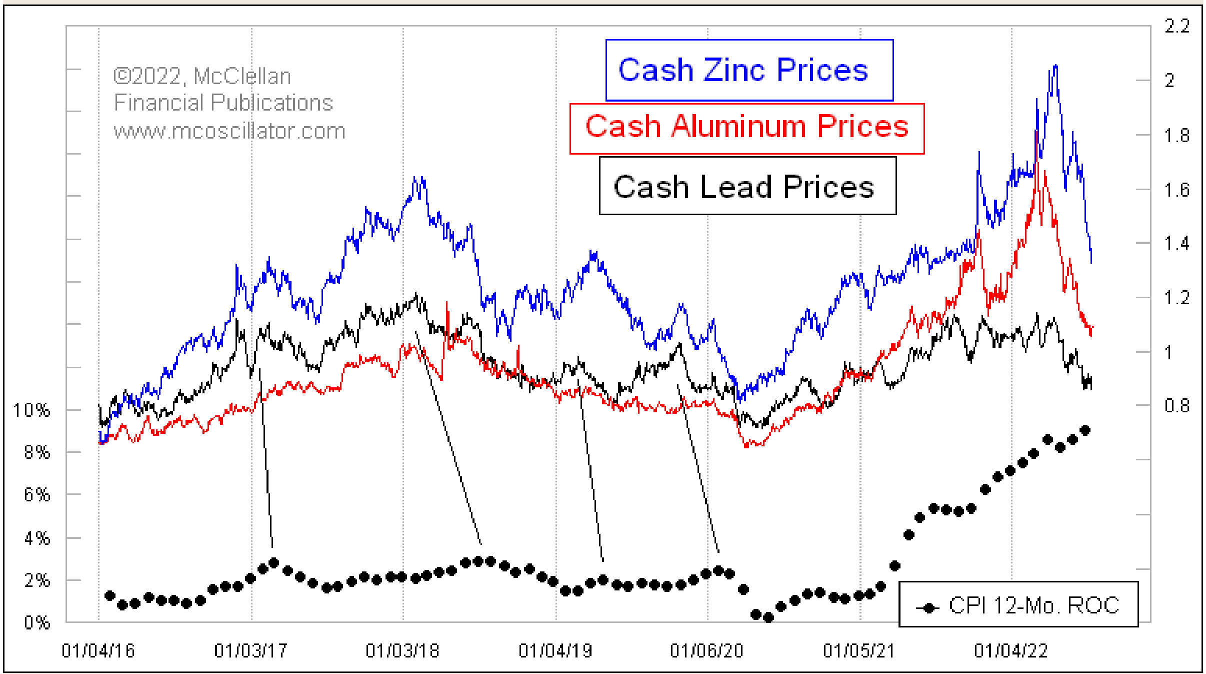
So, the price of Oil has been net flat since before the start of the War, 2,000 miles to our East. (Blaming the Russians for high oil is infantile and propaganda. It had been soaring for two years, before the declaration of war.) If the price falls any further, then it will actually be down Vs February 2022 - a full six months of not rising Oil but actually falling Oil. Not what you hear or read in the so-called News. Deflationary.

Copper

They call it Dr Copper as it has an uncanny way of telling us what is going to happen in the economy. It is so much needed right across industry and construction. When it soars the economy is normally doing well. And vice versa.

Copper has been plummeting in price for months. It's back to where it was in 2018. This suggests global economic recession or, at least, slowdown. And falling prices, generally.

Lead, Aluminium, Zinc



It's not that these are particularly material to the rate of inflation.

Note though how they have peaked, in recent years, just before the inflation rate peaked. It is reasonable to assume this relationship still holds. They've been crashing for weeks. We should see US (which also means Global) inflation fall from around here.

It is the case that what happens in the US, economically, affects the Global economy.

The US is probably in recession, as I type. It has had two consecutive quarters of falling GDP. Most folk believe that is the definition of a recession. Actually, it is not. It is A technical definition but not THEE definition.

The National Bureau of Economic Research decides whether or not the US is or has been in recession.

It considers six main indicators to determine a recession. Industrial production, employment, household consumption etc.

A recession is called when most of these go negative and we see "a significant decline in economic activity that is spread across the economy and that lasts more than a few months."

Unemployment, by the way, has been rising since the Spring. Before that, it had been plummeting.

There have been two consecutive quarters of negative GDP. The NBER has not pronounced a recession as yet. Likely, they will. In this quarter or by Q4 2022. If not by then, then it is likely bypassed. That will be a surprise but it is entirely possible.

NB For investors, recession, of itself, is not the issue. In fact, historically, the stock markets have tended to TOP six months before the NBER calls a recession. And the market may have topped in December last year.

The question is, have markets now bottomed, after 25-35% falls, in the US.

It is notable the IMF, this week, cut its expectation for full-year global economic growth, from, previously, 3.6% to now 3.2%. I would expect them to cut it (much) further before the final outcome.

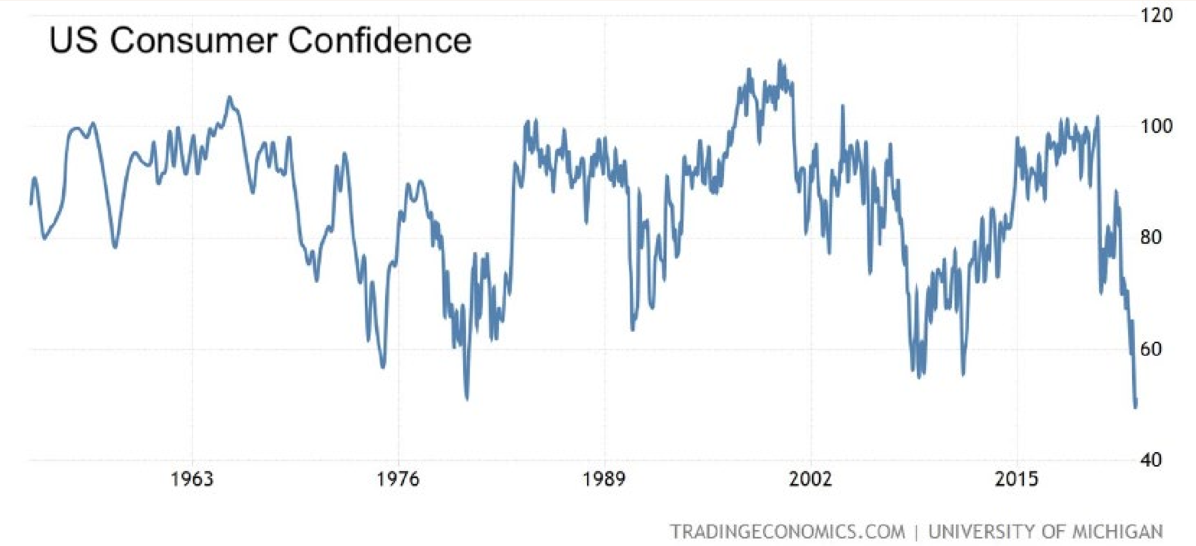
Of course, part of the reason why the US (and elsewhere eg the UK) is probably in recession is the cost of borrowing keeps ramping up. Just on Wednesday, the US FED (central bank) raised the Base Rate (again) by 0.75% to 2.0%. It was, effectively, 0% just in February! And it had been near 0% for much of the last 15 years!

If that wasn't building trouble I don't know what does. Yet, everyone was brainwashed into believing 0% rates are good and no problems would ensue. At least, they brainwashed themselves into believe such nonsense.

And, of course, they are raising rates... probably GOING INTO RECESSION.

You. could. not. make. it. up.

Mortgage rates have soared. The costs of living have soared (because of politicians and central bank policies). Unemployment is no longer falling. The big retailers (eg Walmart) are saying the consumer is now largely only buying food and gas (fuel for the car). Free and easy discretionary spending has collapsed. Their inventories have soared. (The discounts in the Sales will be huge... Deflationary.)



Look at US Consumer Confidence, as tracked by The University of Michigan (producer of this index since 'ever'). The lowest level since... 'ever'. Can you understand how bad the US consumer is right now? There is ZERO doubt the US is in or rapidly heading to a major economic recession.

What did you expect with everything thrown at people over the last year - freedoms taken away, censorship, apparent ending of free speech, apparent ending of freedom to protest, fuel soared, energy soared, food soared etc etc?

Misery Index

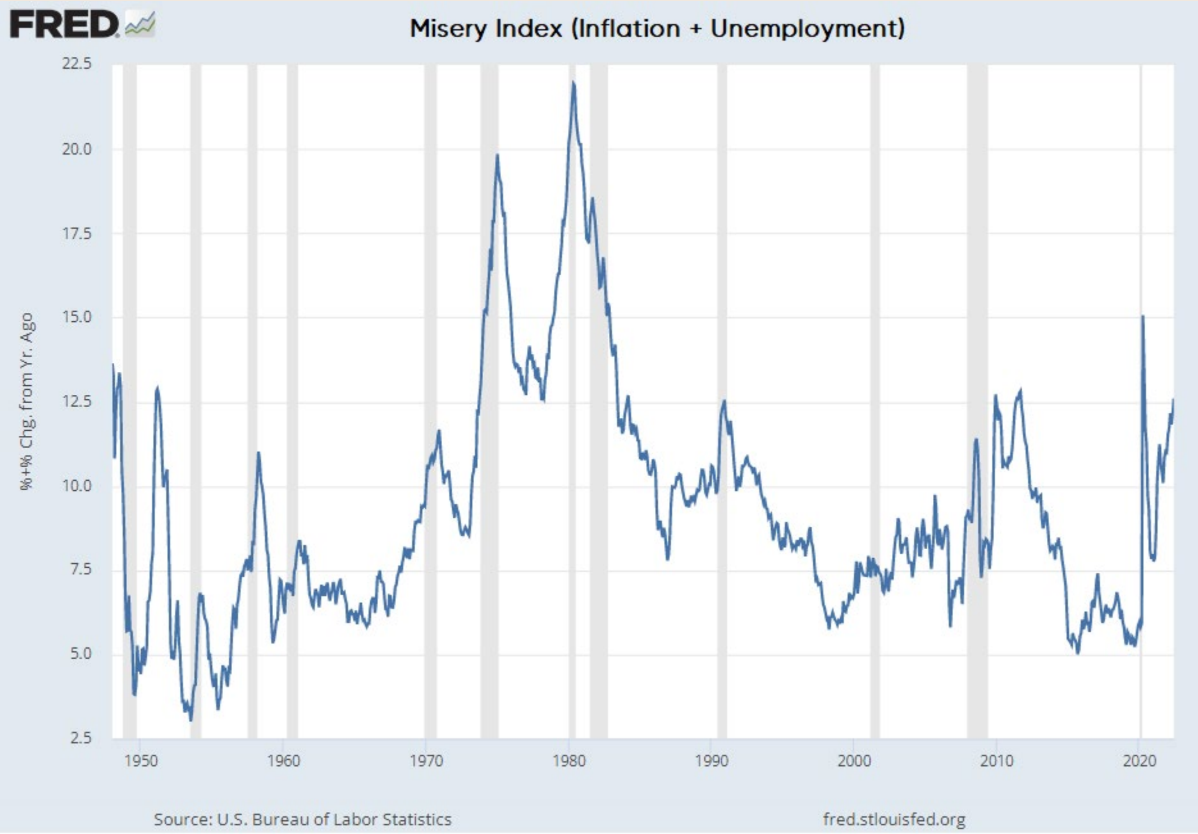
The FED considers Inflation and Unemployment and puts them into this index. Quite aptly named, if you ask me.

It's above the level of 2008.

The last time it peaked for a very short period was March 2020. A brief recession.

It's soaring again. It may go much higher than 2008 and higher than 2020...

And this is before unemployment soars. Which it will.



How do you think this will affect global property? Residential prices tends to lag recessions by around a year. H2 2022 into 2023 should see house price falls.

Me in Media, recently

Click on the images to watch/listen to the pieces. (27 and 28 July 2022)

GB News - what should the government do about parlous State finances?

BBC Regional Radio (3 Counties - Beds Herts and Bucks) - should energy companies be nationalised? (This is what the Authoritarian, Communist, propagandist BBC believes should happen, and wants everyone to believe it too...)

28 JUL 2022

JD with @talkRoberto @BBC3CR: Politicians and Climate liars made our energy costs soar.

House prices

I had someone argue with me recently that house prices remain strong. Sure. The indices show 10% gains over **the last year**.

The pent up demand from 2020 carried on through for months.

(Of course, he doesn't read The Booms & Busts Reports. And he indicated he wouldn't. Nothing like being open-minded to non-mainstream views and facts...)

However, property bulls don't see the economic waterfall. The higher costs of borrowing. The reduction in Real earnings (inflation higher than income increase).

I would suggest you look again at what I wrote in May's Booms & Busts Report. I cannot see the bullish case for house prices, for the next year, five or 10 years.

I am not YET saying prices will fall more than a few percent, over the next year or two. (As the annual percentage increase falls, that means prices will have fallen.) Maybe they can fall, materially i.e. 20/30%+.

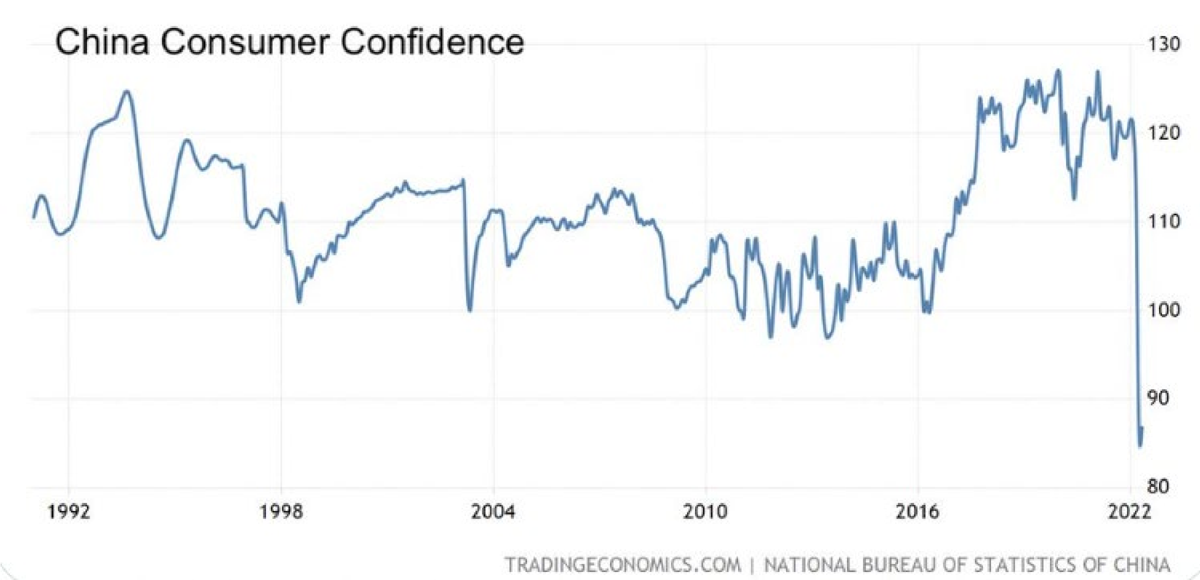
I just know - as you do - the politicians and the bureaucrats rarely do anything to hurt themselves.

But I certainly cannot see the bullish case for big price rises - short, medium and long terms.

China / Hong Kong

Then you look at the #2 economy in the World, China, AKA The Basket Case. Property has collapsed. It is the #1 economic sector in China. The Yuan is crashing. And it is still a bureaucrat-fixed currency. Manufacturing is leaving China for elsewhere.

China is rapidly 'Turning Japanese' as in the basket case that has been Japan since the late 1980s.



It was the early 90s that China entered the WTO and began its move to a modern economy. (Of course, all this time, it remained Communist / Totalitarian / Undemocratic. So, it was inevitably going to implode. It was just a matter of time.)

We should expect China to have a long economic depression. Brought on by the sheer weight of debt and, of course, that the West has decided it no longer wants to be friends with China.

Anyone with assets in Hong Kong better get them out ASAP. At some indeterminate time, China will reset all HK assets in Yuan, from the HK Dollar. They will be sellable after that. Sure. But you will only get Yuan. Effectively, useless outside of SE Asia and possibly only in China-controlled countries. Do you really want to be holding that bag?

Needless to say, we sold all Emerging Markets assets in 2020. I have zero intention of investing in China areas for, probably, ever.

So, how do you invest to make money in a recession?

The first thing to note is that US stocks indices had **already** crashed 25-35%. After a rise, these indices are now down around 15-22%. They are still rising.

The UK market, which had gone up much less than had the US indices, since the crash of early 2020, had only fallen around 10%, and has risen since. And still rising.

So, stocks are bullish just now. It remains to be seen if these are merely Bear Market Rallies i.e. after a sizeable rise they will crash further and below the June lows. An economic recession would suggest this. It is by no means a done deal.

Or, have we seen the lows, in June, after some seven months of falls?

Currently, we are happily heavily invested in Big Cap US stocks. #onverra

In a recession, inflation falls, as I wrote above. Base Rates have been rising, in recent months. (Soaring!)

However, Long-Term government borrowing rates (10 year+) have, in recent weeks, been falling. Falling Government Bond **interest rates** normally boosts Government Bond **Prices.** We now have a sizeable exposure to long term Government Bonds. If inflation falls for a year or maybe even two, Government Bonds should do well for that time period.

I have written, previously, repeatedly, of Uranium and Uranium Miners. Since the low of March 2020, the UK fund through which we access this sector, is up some 400%. 400. Percent.

It seems to me there is a lot still to come over the next few years. #onverra

The world needs more and more electricity and there is no better source than nuclear power. What you have been brainwashed to believe about it (negatively) is just utter nonsense and deliberate propaganda.

Even though Home Energy (Natural Gas) prices have soared I see little let up on the horizon. The price ought to stay high, and rise further, for some years still. This is recessionary. However, the question was how do you invest in a recession, in order to make money.

So, there's a few ideas.

Our clients, of course, receive the full, detailed picture, when we advise on investing.

Gold

Some readers may recall I have, in the past, waxed lyrical of the virtues of investing in the Precious Metals' sector.

Long term, this decade, we expect to make, again, a LOT of money in this sector.

Since H2 2021, though, we have been out. It has been in a Bear market since Summer 2020. (We made a lot up to then.)

The chart shows Gold, again, reached the multi year low below $1700/oz.

'Everyone' said Gold was in a new multi year Bull market, after Summer 2021, the last time it was down here. Almost uniquely, I said I expected this not to be the case. The silence, these last several months, from Gold bulls (Goldbugs), has been deafening.

I have written (also seen on Twitter) that a bounce was/is expected from that sub $1700 level. As I type, it is ~$1780.

The 200 day line stands at $1830. $1830 is to be expected.

The broken trend is met at c $1900. That is possible. I would be surprised to see Gold exceed the broken trend. Or even get to that level.

I expect the Bear market to resume and we will see sub $1500/oz by next year. It will be equally hard on Silver and Miners' share prices.

Hence, we remain out, for now. Out of Gold, Silver and Miners.

The bounce, since $1685, gives investors yet another chance to sell, before even bigger losses.
If you 'need' Gold etc to be in a bull market then, as I see it, you are picking up pennies in front of a steamroller, as the metaphor goes.

Cash
It has been put to me, by some folk, that Cash is the right 'investment' for now.

What they mean is, as stocks and Government Bonds have crashed in recent months - which means that the bulk of UK/US investment portfolios are down 10% to 20%, **this year** - Cash has kept its value.

Cash has kept its VALUE. However, due to the rising costs of living and of doing business, Cash, over the last two years, has LOST at least 25% of its PURCHASING POWER!

And, even the last six months, Cash has lost some 5 to 10% of its purchasing power.

So, Cash, these last two years, has NOT been the right investment.
Indeed, look below, at what our clients' portfolios have made in the last two years. Has Cash been right?

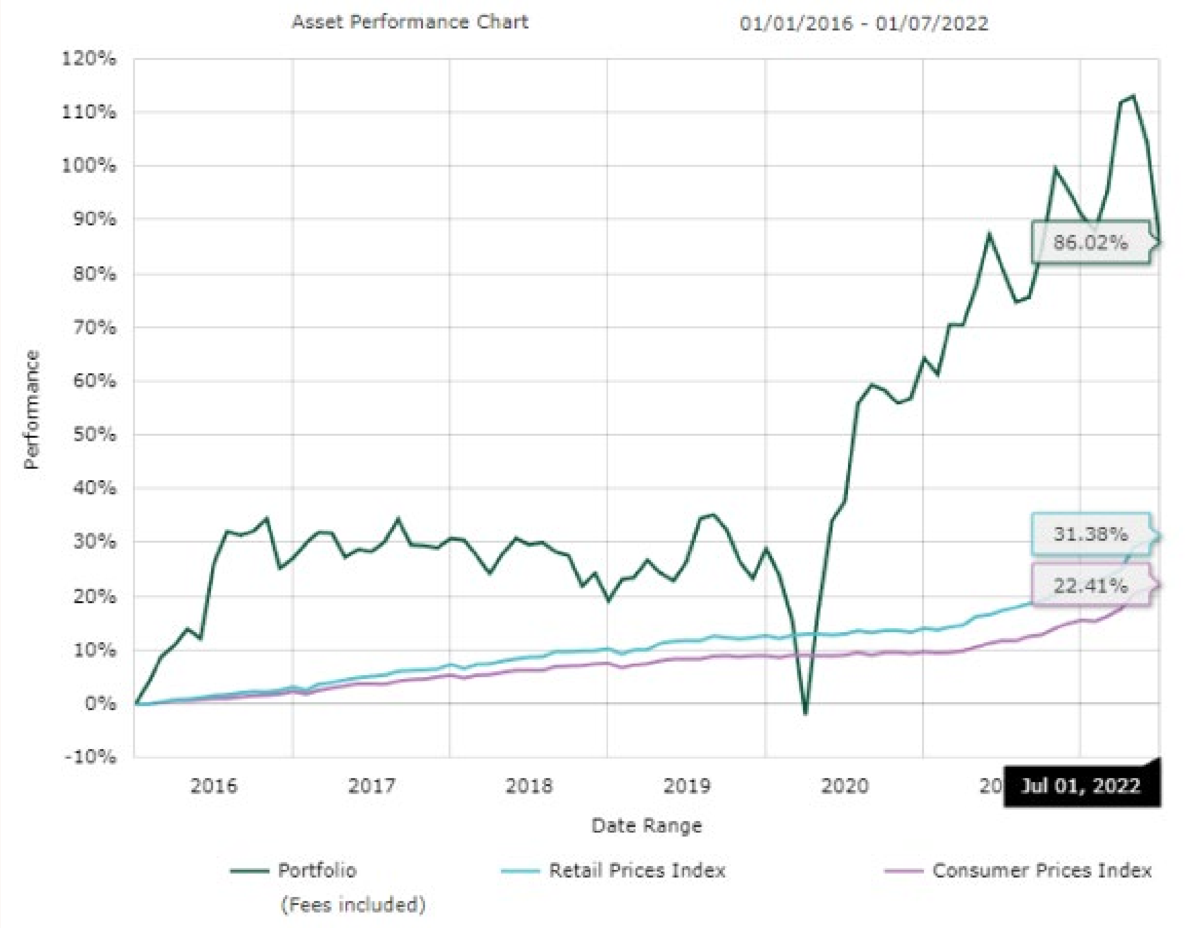
The best I can say about it, for the last six months, is that it has not been the worst investment.

I'd hardly say it has been the right investment though.

Now, going forward, even if inflation falls, **there will still be inflation**. Cash will lose purchasing power. For years and years.
If inflation falls, Government Bonds, as I say, ought to rise in price. Whereas Cash will not.
So, from here into next year, if the question is Cash Vs Government Bonds, for me the answer is the latter.

After that, 2024 on: After any recession and any stocks collapse (IF it happens), holding Cash will be pointless as Inflation and Stocks, again, will likely soar. (And that assumes that there will be a stocks collapse. At this point, that is unclear.)

Clients' investment performance (to end of H1 2022)



JD WM Typical Client (TC)* portfolio performance

Since 1 January 2016, the TC is up ~86% net (Vs RPI of ~31% / CPI of ~22%).

An annualised compound return of 10.2% net Vs 4.3% pa RPI inflation.

After a big, double-digit percentage, rise in Q1, we had our first quarterly fall (Q2 2022) since Q1 of 2020.

At this point (29 July), we are up between 0 and 5% for the year-to-date.

How has your portfolio performed in recent years and months?

* A 'Typical Client investment portfolio' of Jonathan Davis Wealth Management has a capital growth objective, accepts potentially high volatility^, and has an investment risk profile classed as Speculative.

^ NB Volatility does not mean down. It means movement size... which can be down or up.

We are more positioned now, than for the last two years, expecting falling inflation - Disinflation. We remain positioned to take maximum advantage of the disinflationary conditions, that we expect will remain for at least a year.

I expect the full year of 2022 to be another strong investment performance year, particularly after a strong July.

We advise private clients, exclusively, nationally and internationally (ex-UK residents). I have limited space for new clients.

Some international folk, non-UK, subscribe to our Client Only Updates.
I have unlimited space for subscribers to our Client Only Updates.

We advise clients all over the UK and, indeed, on four continents.

“We advise you based on what we would do, were we in your shoes, given what we know."
Call me personally to see how we can help you.

I think most folk do not realise the growing opportunities in investment markets. They will. But will they have benefitted from the correct actions taken?

Follow me on Twitter @j0nathandavis where I frequently comment on markets and economics and where you will see day-to-day thinking, and sometimes big picture.

If you have any queries over any of the issues raised call me or email by clicking ***here***.

With kind regards

Jonathan Davis **BA MBA FCII FPFS EFP**
Wealth and Later Life Finance Adviser
Chartered, Financial Adviser and Economist

SOLLA
Society of Later Life Advisers
ACCREDITED

Chartered Financial Planner
JONATHAN DAVIS
Wealth and Later Life Finance Advisers

Share this:

0345 862 2919
jonathandaviswm.com
Hawthorn House, Hoadleys Lane, Crowborough TN6 1TH

Please note that investments can fall as well as rise. And they do!

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