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"Inflation is taxation without legislation." – Milton Friedman

In blackjack lingo, I believe you will find that the third quarter was a "push." In other words, we pretty much ended the quarter where we began. This is healthy for a long-term bull market. You simply don't want to see prices go straight up. The good news is that the forward P/E ratio (estimated earnings over this next year divided by the current price) for the S&P 500 is starting to fall to 21.87 - 12 months ago the forward P/E was 25.90. Earnings are catching up while prices are coming down. Stocks are looking slightly more attractive and good third quarter earnings seem to be driving the market as I write this letter.

One of the big topics over the past few months is whether the inflation we have seen in goods and services is transitory/temporary (as the Federal Reserve suggests) or if there is some element of persistent inflation as others suggest. I believe there is a strong case to be made for the transitory side mainly due to the pent-up demand for goods and services after a global pandemic. Remember "just in time" inventory management (JIT)? The idea is that manufacturers could keep inventory as low as possible, thus, decreasing the chance of inventory depreciation. Why take on that risk when you don't have to as long as the supply chain is well oiled, and it is supplying the widgets at the precise moment that you need them? The trouble is, JIT does not work as well when a global pandemic hits, companies run out of any inventory and their JIT process falls apart. As demand increases for their product after the pandemic, they can't keep up because they don't have the widgets. Once the supply chain is ironed out, prices should come down. I believe part of the inflation we are seeing right now is due to the COVID pandemic and should be resolved in the months ahead.

How do we protect our investments if the "persistent" portion of inflation is larger than what the Fed is thinking? The first thing many of you are probably thinking is that during inflationary times, you should sell stocks and purchase gold because gold is a better hedge against inflation. I'm not so sure. According to an article written by Mark Hulbert at the Wall Street Journal, stocks could initially suffer after large inflation increases, but corporations are able to pass along the persistent inflation to their consumers in the form of price increases over the long-term. Gold, on the other hand, proves to be a good inflation hedge over "very long periods of a century or more," but is not a good hedge over shorter periods like a few decades in length. Other potential inflation hedges include commodities such as grains, meat or other precious metals. According to a different article written by Hulbert, "researchers found that less than half of the commodities they studied were significantly correlated with inflation." With that said, I will let my mutual managers purchase gold and/or commodities if they want, but otherwise, I plan on filtering out the noise and will continue to concentrate our portfolios in two asset classes that have proven themselves over time: equities and bonds.

I would like to welcome Ryan Mulcahy to our firm! Ryan is taking the place of Nicole as she ventures on a 13-month national park excursion in her newly purchased camper van. She plans to re-join AIAI in September of 2022. Ryan is on track to graduate with a degree in finance from Edgewood College in Madison next spring. While we miss Nicole, it has been a great pleasure to work with Ryan. Please stop in and say 'hi' sometime – he would enjoy meeting you.

Enclosed you will find your Portfolio Holdings statement as of September 30, Performance Analysis and Position Performance summaries and a quarterly Account Management Fee Statement. Please contact us for the latest version of the Form ADV Part 2A. Should your investment objectives or personal financial situation change, be sure to call us.

Best regards, Bill