

Time To Call It A (Bubble) Wrap

In this final chapter of [Bubble 3.0](#), I cover the subject a number of you have been asking for since we began publishing my book in chapters and mini chapters: How best to protect your personal wealth from the radically different investment environment in which we find ourselves.

It's simply stating the obvious that when I wrote [this chapter](#) late last year, I had no idea V. Putin would attack Ukraine. It was, and continues to be, my view that this was a foolish move on his part. The reports of severe personnel and equipment losses, as well as the unification of the West, would seem to justify my opinion. So, I guess, in that way, I'm one for two on the geopolitical front, which is definitely not in my strike zone!

Putin's aggression has served to amplify trends that were already in place before the invasion, particularly with regard to inflation. Unfortunately, few investors have been positioned to benefit from this shift. As of the end of last year, a mere 3% of the S&P 500 was represented by direct inflation beneficiaries, such as energy and metals miners. By contrast, tech and consumer discretionary sectors made up nearly 42% of the S&P. These types of stocks typically struggle during times when the CPI is surging.

However, that appeared not to be the case last year. In fact, both sectors had strong showings, at least superficially. Yet, as I've often noted in these pages, there was serious sub-surface damage done to a plethora of stocks within them. Thus, money was stealthily flowing away from the longtime growth winners, mostly tech, into more hard-asset-type equities even before Russia's attack. This was similar to the epic rotation that started in the spring of 2000 when the dot.com playthings were pounded, and the overall market stayed relatively resilient as the previously lagging "old economy" names began to rise out of the ashes of a two-year bear market.

Once more, it's merely describing what's inarguable that this tragic war is making the energy shortage much, much worse. As many of you know, in October of last year we pulled forward our *Bubble 3.0* chapter on energy. We did this in order to highlight how dire the situation was even back then, when a Ukrainian invasion was a low-probability event.

In addition to a severe energy crisis, a bigger risk for humanity is the increasing likelihood of widespread food shortage. The two are related as the rocketing cost of natural gas is driving fertilizer prices up to levels that are becoming unaffordable for farmers, particularly outside of the U.S. Fortunately for America, our bountiful quantities of natural gas, thanks to the "shale miracle, are hugely beneficial in this regard (natural gas is a key fertilizer ingredient). However, with roughly 25% of the planet's wheat supply coming from Russia and Ukraine, food shortages and accelerating inflation are almost inevitable.

The bottom line is that wars are inflationary. As BlackRock's CEO Larry Fink wrote in a letter to his shareholders yesterday, the war in Ukraine is likely to further reverse globalization, another trend that was in place well before the war. De-globalization is yet another upward price pressure as production is shifted away from lower cost venues such as China and closer to end markets in America and Europe.

As a result of these factors, and many others, such as the U.S. government's reckless embrace of Modern Monetary Theory (MMT) during 2020 and 2021, elevated inflation is likely to be with

us for at least the next few years. Thus, the momentous developments this year have reinforced my conviction in this chapter's investment recommendations. The section "What Would Rhett Butler Do?" is particularly relevant in that regard, for those who would like to skip ahead to home in on the specifics.

There is a common theme that runs through all of my wealth preservation suggestions and that is to seek protection from the persistent, yet hidden, asset value erosion of inflation. Treasury bonds, for decades a key pillar of portfolio stability, definitely do not serve that purpose. When I was writing this chapter, and expressing my bear view of treasuries, the 10-year T-note was yielding around 1 ½%. Today, it has rocketed to 2 ½%. Accordingly, my negativity toward treasuries, one that I've repeatedly expressed in these pages, was well-founded. Even at this much higher yield, though, with inflation running at 7%, I continue to view bonds as "certificates of confiscation". Yet, millions of U.S. investors remain heavily exposed to long-term, fixed-rate bonds, particularly in their retirement accounts.

Lastly, I'd suggest special attention should be paid to the brief section on breakouts and breakdowns, which one of the world's foremost investors refers to as "range expansions". This may be among the most valuable insights of *Bubble 3.0*. As I articulate, I've been astounded by the applicability of this approach to most areas of finance and economics. For example, early last year every chart I've seen on the various ways inflation is tracked was screaming that it was decisively breaking out of the 1% to 3% zone that it had stayed within for over a decade.

Whew! It's been quite the experience we've all had since *Bubble 3.0* started hitting Substack in January. The journey isn't totally complete, as there is an Epilogue coming out shortly, but the finish line is in sight.

Thanks for joining me on this adventure!

David Hay