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INFLATION SURIVAL GUIDE

The Definitive Guide to Trading Inflation

BASE CAMP TRADING

RISK DISCLAIMER

Inflation Survival Guide:
The Definitive Guide to Trading Inflation

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INTRODUCTION

"Inflation is transitory! Don't worry about it!"

That's what we heard from the Federal Reserve for all of 2021. Just don't worry and it'll all blow over soon!

But go to the store, the pump, anywhere — that inflation doesn't seem so transitory.

Experts also disagree with the Fed: whether it's Paul Tudor Jones exclaiming that inflation is the "single greatest threat to the markets."

Meanwhile, Michael Burry of 2008 Financial Crisis and The Big Short fame predicted that inflation would smack the economy when it reopened… in April 2020.

Even a Federal Reserve branch president implied that inflation isn't transitory!

Speaking of Burry, though, we all know he made out like a bandit when he correctly predicted 2008. The thing is, while other investors watch their portfolio values dry up…

You can potentially make some big-time profits and keep your wealth safe during these inflationary times…

Which is why I created this guide.

First, I'll explain inflation and its causes. From there, we'll check out the warning signs that point to not-so-transitory inflation. Toward the end, I'll finish things up with some potential investment ideas for a taper and a non-taper situation.

WHAT IS INFLATION?

Inflation is a decrease in the purchasing power of every dollar you have. In other words, prices are higher — it takes more dollars to buy the same good or service.

Some inflation is considered normal. It (in theory) signals a strong economy if wages are increasing and unemployment is low. Higher wages make goods cost more to produce.

Furthermore, these employees are also consumers, and they have more money to spend. Companies can raise their prices to capture more of this income. These companies now have more money for hiring and increasing wages, and the cycle continues.

Because of this, The Federal Reserve usually targets around 2% inflation per year. But as you may have noticed, inflation can lead to financial chaos. More on that later in this guide.

There are a few broad types of inflation. Here they are, along with some factors that can cause them:

Cost-Push Inflation

Cost-push inflation happens when production gets more expensive.

Plenty of factors can cause this, from higher raw materials costs to increasing wages to rising energy prices. Even taxes could lead to cost-push inflation.

Regardless, companies have to raise prices to maintain their profit margins, making you pay more.

Demand-Pull Inflation

Basic economics says supply and demand regulate price…

So when you have more demand, prices increase because businesses can get away with it. That's all demand-pull inflation is, just on a larger scale.

Demand-pull and cost-push can happen at the same time — such as now. Look at all the supply chain issues and shortages alongside huge demand increases for goods and services. Lower supply of stuff needed for production + more demand for goods and services = lots of inflation.

Monetary Inflation

Monetary inflation is an expansion of the money supply. In other words, when the Fed "prints more money," it creates monetary inflation. Here's why:

More dollars in the economy makes people value each individual greenback less. They'll be fine parting with more dollars to buy goods and services. Eventually, as money flows through the economy, it takes more dollars to buy the same good or service.

Think about it on an individual level. If you have $100 to your name, each of those dollars is worth a lot to you — you want the most for your money. Spending $1 means parting with 1% of all your wealth.

However, if you won the $100 million lottery...

Suddenly, each dollar you have is less valuable to you.

WHAT IS INFLATION?

That same $1 is a fraction of a fraction of a percent, so spending it doesn't hurt as much.

Now, expand this to everybody in an economy. They have more cash, so they care less about spending it. They spend more money more often, so businesses get away with raising prices.

Since more cash flows into these businesses, they value each dollar earned less than before. So do their suppliers and vendors. Eventually, they raise prices to cover their higher costs.

This ripples through the entire economy.

Other Types of Inflation

Here are some unique and more extreme types of inflation.

Hyperinflation

Hyperinflation is just inflation taken to the next level.

Weimar Germany is a classic example. After WW1, Germany had unbelievable debt because it borrowed (and printed money without backing) like mad to fund the war effort and because it owed reparations to its former opponents per the Treaty of Versailles.

Money printing, debt, and political instability led the German mark (their currency at the time) to become essentially worthless.

By November of 1923, you could buy 4,210,500,000,000 marks with a single US dollar. A loaf of bread cost millions of marks. You've probably seen the famous black-and-white images of people hauling wheelbarrows of money to the store.

Stagflation

Stagflation is inflation alongside consistently high unemployment and slow economic growth. The most prominent (and perhaps only) example is the 1970s. A mix of energy crises, government policy, and Fed policy led to increasing prices and slower growth.

WHAT FACTORS POINT TOWARD RISING INFLATION?

In his Jackson Hole, WY speech, Jerome Powell assured us inflation is "transitory." Yet, some prominent figures in the Federal Reserve system actually disagree.

For example, Atlanta Fed President Raphael Bostic tried to calm nerves with some inflation-related remarks in mid-October 2021… but he also mentioned he and his staff would no longer use the word "transitory."

Governments and related organizations pay close attention to wording to avoid alarming the public. But, if you read between the lines, dropping this "t-word" makes a big statement about how temporary the inflation truly is.

When you consider the following signs, it's easy to see why the "transitory" mask is slipping.

Consumer Price Index (CPI)

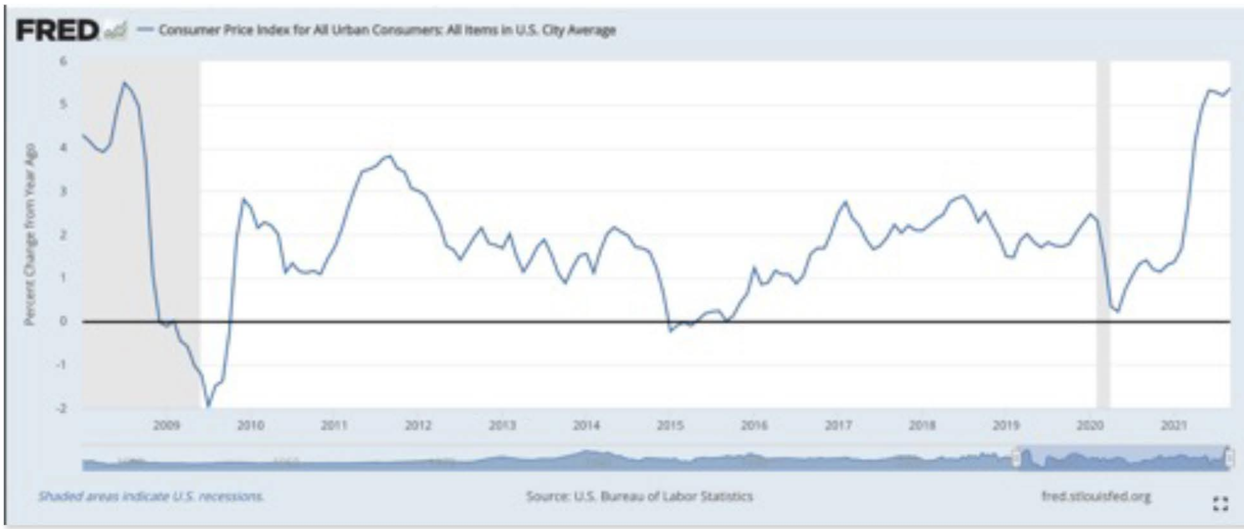
The Consumer Price Index (CPI) is the main tool used to measure inflation. It basically tracks the price of a "basket of goods" the average person buys. The higher the CPI, the higher the inflation. Headline CPI is the main figure, measuring everything.

At first, the recent numbers don't look that bad:

WHAT FACTORS POINT TOWARD RISING INFLATION?

The month-to-month change from August to September is only 0.4%. The turnaround upwards is worrying, but it can't be all that bad, right?

Now, take a look at the year-over-year change.



In September 2021, the Headline CPI was 5.4%, beating the already high expectations of 5.3%. There was the tiniest little dip before inflation decided to continue up.

Yes, Core CPI — which strips out food and fuels — was a little lower MoM and YoY. See the red lines in the MoM graph here:

And the YoY graph here:

But the trend still looks like it's heading upwards.

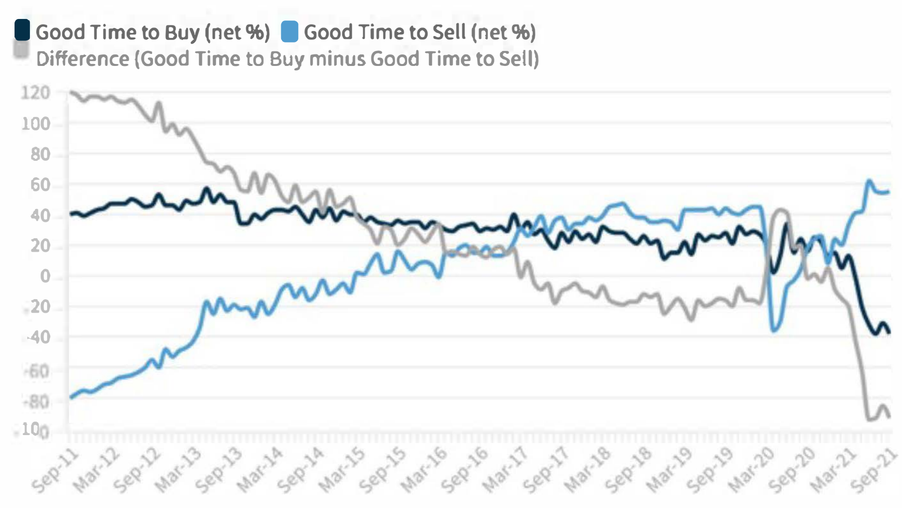
And even if it weren't: food and fuel are some of the most essential items out there. I care more about the price of my gas and groceries than new cars or clothes because I buy gas and groceries all the time! I think Headline CPI is the more important figure here.

The Housing Market

When inflation goes up, so do housing prices. People need housing, and the materials themselves can cost more. Add in rock-bottom mortgage rates and demand for housing soars.

Check out that difference between "good time to buy" and "good time to sell." Why do you think more owners want to sell, and fewer buyers want to buy?

My guess: houses are getting expensive.



Source: Home Purchase Sentiment Index® (HPSI)
Note: Net percentage equals percentage of respondents saying it's a "good time to buy/sell" less those saying it's a "bad time to buy/sell"

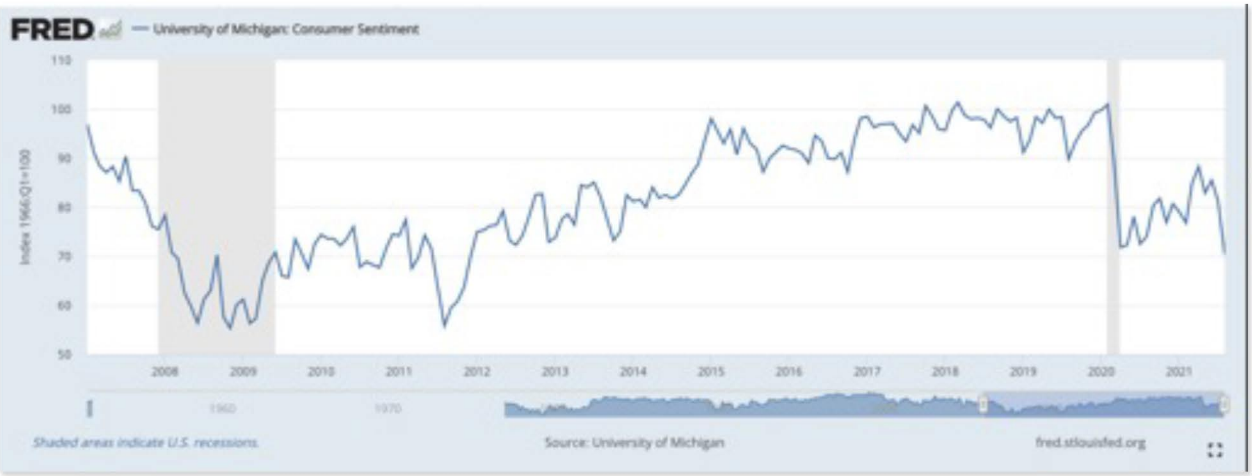
WHAT FACTORS POINT TOWARD RISING INFLATION?

Consumer Sentiment

Who better to ask about inflation than the consumers themselves?

The University of Michigan's widely-used Consumer Sentiment Index helps estimate expectations for future spending and saving…

And things aren't looking too great:



Vaccine rollouts helped it inch back up in the early months of 2021, but as you can see, things have plummeted back below even the beginning of the COVID crash.

In short, people have a bad feeling about prices.

Debt Ceiling

Raising the debt ceiling means the Treasury needs to borrow more money. Borrowing more money means the government is more likely to default on all its debt. Thus, it has to raise Treasury yields. Corporate bonds become riskier when you can earn a better yield on "safer" bonds, forcing corporations to raise prices.

Debt ceiling hikes could mean tax increases to cover its debts, too. Tax increases generally force companies to raise their prices to maintain their margins.

Guess what? Congress has never let the US default on its debt and basically always votes to raise the debt ceiling and borrow more. They did it yet again in late 2021.

WHAT FACTORS POINT TOWARD RISING INFLATION?

Shortages and Crises

Shortages and crises are pointing towards inflation — they're making things more expensive, both directly and indirectly.

One of the prime suspects is the energy shortage. Several sources, from Bank of America analysts to high-level OPEC+ people, predict oil will hit $100/barrel this winter. In the face of soaring gas prices, the Biden administration even met with US oil producers regarding production, breaking campaign promises.

When energy gets more expensive, so does everything else because of production and transportation costs.

Then, you have to get into the other shortages: labor (making wages increase), chips (inflating the prices of cars, computers, and so on), and now there are even talks of food shortages.

HOW YOU CAN TAKE ADVANTAGE OF THIS

We'll look at some good potential portfolio choices for two scenarios:

- The Fed tapers and hikes rates, and the crises fade away

- The Fed doesn't taper or hike rates, and the crises continue

If the Fed Tapers and Hikes Rates… and the Crises Abate

The Fed sounds like it'll taper its bond-buying, leading to a rise in rates. Most (but not all) kinds of stocks will likely take a hit. Here are some ideas for playing this scenario:

Shorting Tech

Tech is generally a rate-sensitive sector, with a love of low rates. That's because investors assume tech profits happen far into the future, so a slight uptick in rates today drastically reduces the value of those future profits.

The moment rates begin to rise, tech may take a big, sudden hit — shorts could potentially benefit big-time on a rate-hike bet.

Value Stocks

Value stocks tend to be the opposite of growth stocks, like most of the tech sector. They can potentially do better when interest rates rise. They realize profits sooner rather than later, and the market moving from growth to value could certainly help value stock prices.

Financial Stocks

When rates rise, banks make more on the spread between what they earn from lending and what they pay to savers and other bank customers. Brokerages also earn more interest income when rates rise.

In the short term, brokerages might take a hit from the smaller amount of easy money available for investment. However, rising rates signals the economy could strengthen, which could ultimately lead to more investing activity.

Lastly, insurance companies tend to do well during rate hikes. They put a lot of money into safe debts so they can pay out claims when needed, and those debts will come with higher rates attached. Once again, if the rising rates point to a healthier economy, more people will be buying things they need insured (like cars).

Refinance Your Home (if you Have One)

Ok, this isn't strictly an investment opportunity… but if you're a homeowner, refinancing your home before the rate hikes kick in could save you a ton of money in the future. That's money you could pour back into your portfolio.

If the Fed Doesn't Change Course… and the Crises Don't Abate

There's always the chance the Fed reconsiders tapering — especially in the arena of employment data. Additionally, the crises adding to inflation could continue longer than anticipated. The headlines bombard us with crisis news, after all.

HOW YOU CAN TAKE ADVANTAGE OF THIS

This scenario would create a much different set of potentially beneficial investments, so let's peek at a few:

Precious Metals

Precious metals are a gold standard (pun partially intended) in the inflation hedge world. The reasoning: Many societies throughout history have used gold as currency. It's scarce, shiny, doesn't corrode easily, can be easily made into coins or jewelry, and even has manufacturing uses. Silver has many of these qualities, too.

Platinum and palladium are also considered "precious metals," but people pay more attention to gold and silver. And so, lots of people run to particularly gold and silver during high inflation.

Physical metals tend to be best, but you do need to worry about storage and security. If that's too much effort, gold and silver ETFs or even stocks can still give you that exposure.

Commodities (or the Stock Tied to Them)

You may have noticed that oil, copper, and plenty of other commodities are on the rise. That tends to happen during inflation, so gaining some exposure could potentially help you out. You could play the futures market, but if that's too complex, sticking with stocks or ETFs connected to commodities might be a good idea.

Cryptocurrency

Cryptos are touchy, yes, but more and more people treat them as an inflation hedge. In fact, Paul Tudor Jones (a legendary trader and technical analyst) said that he prefers crypto over gold as an inflation hedge.

There are tons of cryptos — but unless you plan on becoming a crypto expert, sticking with big names like Bitcoin (BTC) and Ethereum (ETH) could potentially be a good bet. The rest of the market knows those names quite well, anyways, so that's where the money will go.

Real Estate (again)

After food, water, and clothing comes shelter. We'll pay whatever we have to for some real estate, residential or commercial. Thus, inflation tends to drive up prices. Real estate is once again a potential contender for your portfolio if you get in early enough.

This is especially true when rates are kept low. Debt is easier to pay for, making real estate easier to acquire. Easier acquisition = higher demand = increasing prices.

That said, not everyone has a down payment for a rental property sitting around. Real estate investment trusts (REITs) are a good alternative — these trade on the markets and offer income. That income tends to rise due to rising rents. Also, valid REITs don't pay corporate tax. More potential returns for you.

Short-term options

Inflation creates volatility, and volatility creates plenty of options opportunities. This is especially true now in sectors like energy that are going insane.

However, short-term options tend to outperform their long-term counterparts in inflationary periods. Longer-term options see more of their value eroded.

CONCLUSION

At this point, it should be clear that inflation isn't as "transitory" as the powers that be want you to think. The CPI is on its way up alongside home prices, with consumer sentiment crashing back downwards. The debt ceiling debate and various supply crises are only making things worse.

As traders and investors, we know that any sort of economic upheaval like this creates opportunities. By taking advantage of these, we can potentially protect our wealth and even add to it.

So hopefully after reading this guide, you feel more confident facing inflation. While other investors remain clueless about getting ahead in these interesting times, you've got some ideas for where to put your money and guard your wealth.

Perhaps you'll even come away with some nice profits.

And if you're serious about taking advantage of the current opportunities in the market I encourage you to act fast on what you've learned in this guide.

If you have just a few minutes to educate yourself on the 4 primary setups I use to generate consistent weekly income check out this video I made titled… "Simple Setups for Weekly Profits"

In this short video, I share exactly how to spot 4 setups for weekly profit potential – no matter what the market is doing! You'll see exactly how you can start to see these setups each trading day and how to take advantage of them.

>>> <u>Click Here to Watch Simple Setups for Weekly Profits</u>

To Your Success,

Thomas Wood
Partner & Pro Trader
BASE CAMP TRADING