

**To:** Investors!  
**From:** Mike Sullivan  
**Date:** September 13, 2021  
**Re:** Red Flags ...

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Normally, rolling into mid-September, we would wait until the end of the quarter to release information in our Quarterly Letter. However, a sequence of events ranging from highly conflicted behavior by Federal Reserve officials to anti-constitutional mandates on vaccines throws confidence in a few more institutions under the bus. So, we are sending this out now.

For years, we have written about the money printing strategies deployed by the Federal Reserve and their correlation towards similar episodes throughout history. To date, that message has been one that perhaps may have been interesting, but not necessary to heed yet, as the Fed's money printing has successfully lifted asset prices, but simultaneously hidden graft all around.

In webinars where we have covered the History of Money, aside from educating viewers about said history, we have often wondered how things could ever progress that far here. At this point it seems rather clear that the knowledge of such events is not widespread (therefore people do not anticipate it happening in the U.S.), and there is an obvious attraction to asset prices rising, thus fostering an expectation by investors it will just continue perpetually.

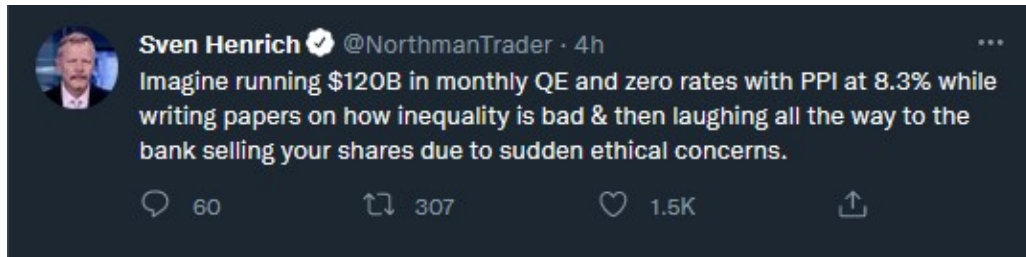
At some point the game *will* end, the key question is '*when?*' Institutional corruption won't help.

Aside from the many correlations the Fed ruined versus their historical relationships, many advisors join us now in pointing out the Federal Reserve's market distortions ... all the while the Fed denies the distortions even exist! Of note, more than a few advisors are of the view that 'the top may be in' for this long rally, including one that has been bullish steadfast, including through the COVID beat-down and Fed-induced rally that brought us to current levels. A top here too would be historic given the level of 'accommodation' the Fed continues to put forth.

One needs to look no further than statements the Fed makes about 'striving to achieve 2% inflation for the greater good'. Everyone reading this knows full well, *first-hand*, that the inflation in their daily lives far exceeds 2%. So, be sure the Fed knows it too. That makes everything else the Fed says devoid of credibility. The Fed further destroyed its credibility this week when it was revealed that several Fed Presidents (there are 12, one from each Fed 'region') were trading stocks personally for their own accounts while simultaneously voting to authorize more money printing (which rests on the backs of every citizen that uses the U.S. dollar). Every dollar printed increases the supply of money chasing goods and services, the definition of inflation. Thus, the Fed is inflating their own wealth, paid for via inflation borne by all U.S. citizens. The Fed's printing press has created the greatest wealth disparity in history, while at the same time the Fed fails to acknowledge it is a problem and that they are the cause. Now it is revealed that they are *personally* profiting, trading stocks.

The key for all investors will be to determine when this ride will end. That becomes a psychological proposition, since history shows us it ends when people lose confidence in the institutions in charge, and subsequently, the purchasing power of their money. Confidence just took another big hit. Only because they were revealed to be engaged in such an egregious conflict of interest, did Fed presidents Kaplan (Dallas) and Rosengren (Boston) suddenly find a spirit of ethics, and agree to sell their stocks to 'do the right thing'.

All of their obviously conflicted behavior happened under the (missing) oversight of Fed President Jerome Powell and Treasury Secretary (and former Fed president) Janet Yellen. The backlash on social media was swift and damaging:



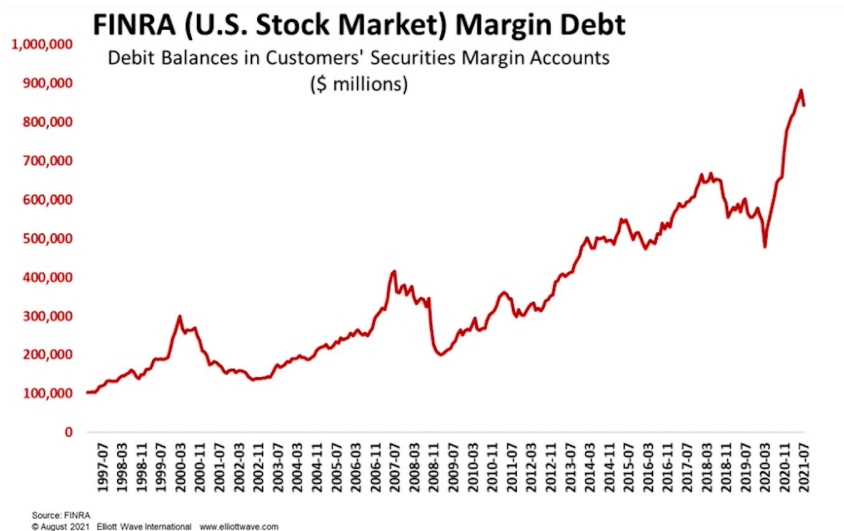
The chart that follows, on the heels of upwards of \$15 Trillion in new money created since the COVID crisis arrived, displays the timing of their discovery of personal ethics:



Doesn't exactly inspire confidence, does it?

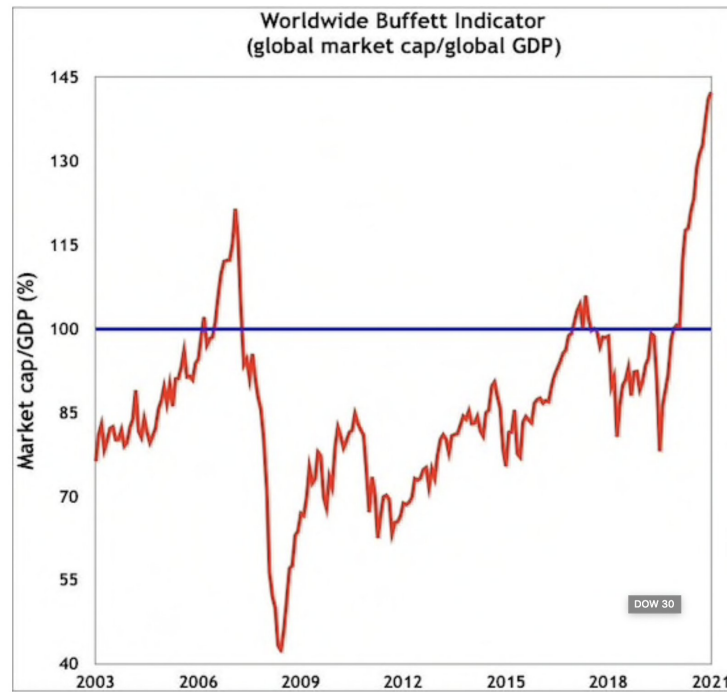
Importantly, the Fed's policies have not only enriched its wayward presidents, but it has also done the same for investors holding similar assets, in particular stocks and real estate.

The Fed's antics have enticed a record number of investors to follow along with Kaplan and Rosengren, trading stocks on borrowed money. Here is a look:



Record margin debt historically causes major problems when markets subsequently decline.

The Fed's current policies have also stretched asset prices to valuations never seen historically, including famed investor Warren Buffet's metrics which we publish periodically. Buffet's metric measures the value of 5,000 U.S. stocks as measured by the Wilshire 5000 divided by Gross Domestic Product, the value of all goods and services produced. It is at record highs, far surpassing Y2K. Here is a global version, overlaying the value of global stocks against global GDP:



The global version of the Buffett indicator.

Bloomberg data

These are all concepts about which we have written in the past. To date, they have not mattered. At some point they will.

The additional wild card in play is that of election audits. Physical canvassing in Arizona has cast into legitimate doubt the election results in that state, despite being downplayed by main stream media. The physical canvassing audit tactic can be easily repeated in other states. So, we can throw a discussion about potential election fraud into the mix as well. It matters not at all anyone's personal preference of the election candidates, what matters is legitimacy of the electoral process. So, yet another major institution is in the crosshairs. Red flag.

For our clients that have not yet been interested in dialing down risk exposure, perhaps now is the appropriate time to consider it.

As always, call us if we can be of service reviewing the crazy backdrop of today and your allocations! We can be reached at (614) 734-WLTH (9584).

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