Welcome to this week's **WMW**, I hope your week is going well in the markets. This week I'm going to take my pine tree outside of North America. Having spent some time on the Korean peninsula, I admire Koreans and the principles they live by and they have a love for pine trees that I share.

I brought home some symbolic art from Korea, which often includes Korean Red Pines and cranes. Below is an excerpt from an **article** highligting the Korean fascination with pine trees:

"Pine trees have a very special meaning in the hearts of the Korean people. For the most part, the pine tree represents longevity and virtue to the Koreans.

However, its meaning goes much deeper than that. In Korea, the pine tree is viewed as an honorable, strong, and wise being. It is held in deep reverence, much more so than other trees. Some are even worshipped as divine beings in rural areas of Korea. Many traditional Koreans pray to a sacred pine tree for good luck, prosperity, and good health.

When babies are born, pine branches are left on doors as a way to congratulate the couple, and for girls, this branch might be tied to a rope made of straw (known as GeumJul/금줄) with charcoal for three weeks to keep evil spirits away.

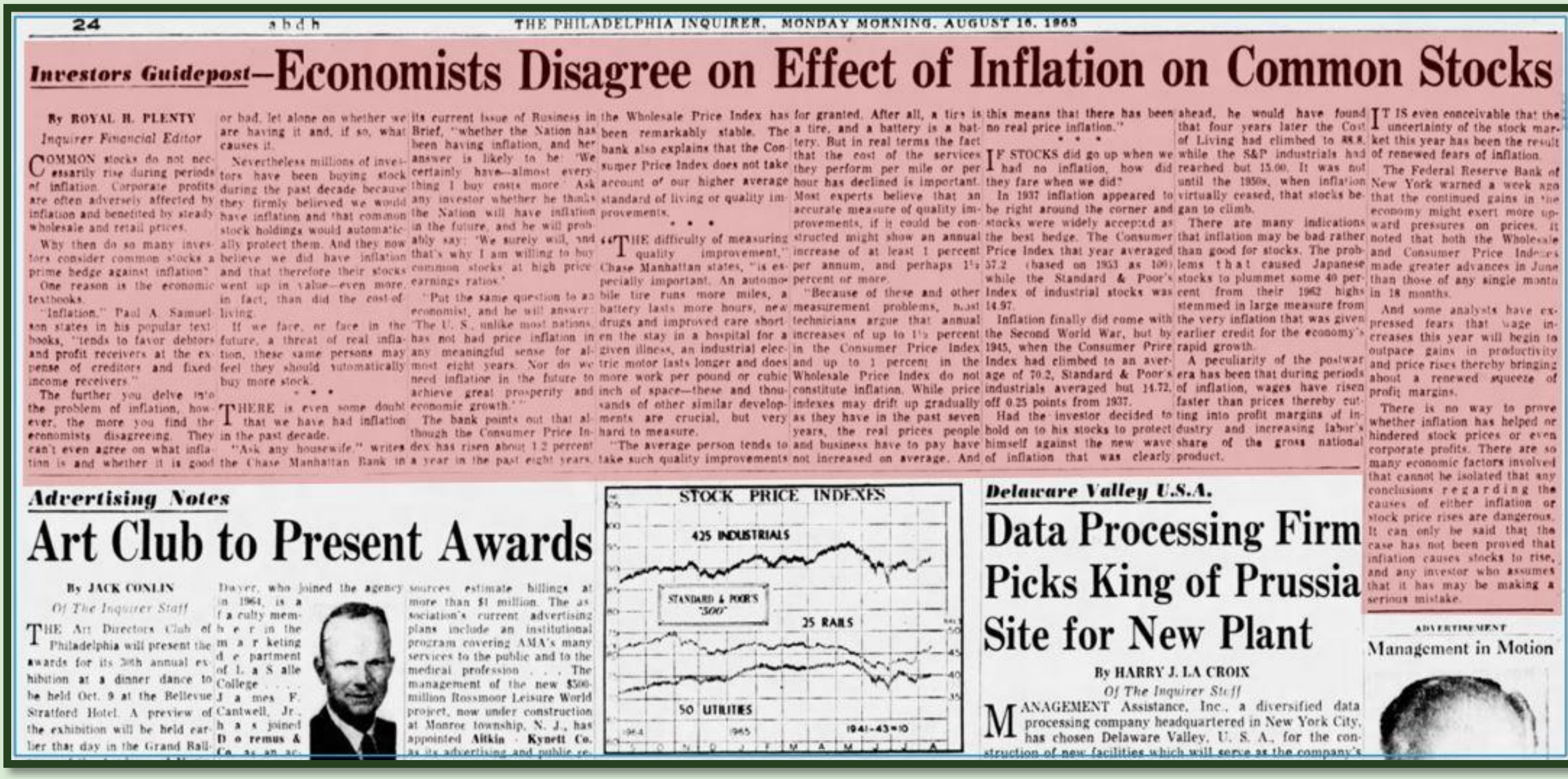
Pine needles are used as ingredients in various Korean teas, holiday dishes, and more.

The Korean pine tree is also regarded as a messenger that transports the souls of the dead to the afterlife. Many coffins are made of pinewood which helps facilitate transportation of the deceased's soul to Heaven.

The oldest pine tree standing in Korea is the tree that was used to build the roof of the oldest building in Korea! This tree, which is known as "Solnamu" (meaning "best tree" in Korean), has stood for over a millineum and has withstood wars, climate change, and much, much more. This tree can be found at Mt. Bukhan in South Korea."

If you google South Korean Red Pine or Japanese Red Pine (same tree) you will mostly find a lot of pine oil which is sold for aromatherapies and as an anti inflamatory oil with a host of claimed health benefits. I have no idea if any of that is legit, but the tree is well known for its beauty in Japanese gardens and as bonsai trees. I admire the Korean people's admiration of all things old. They love cranes and pines because of their longevity and respect their elders more than any culture I have been around. If you have never been to Korea you should check it out and perhaps with some red pine oil at the majestic **Mt. Bukhan**. A lot of investing principles that are old are often forgotten which is too bad. This is why it is essential to review older investing books and not just Jesse Livermore. Dust off an old and obscure book and I promise you will learn a lot. If you've seen my Twitter activity, you know I recommend a few books written by Kiril Sokoloff as they afford some perspective that is definitely relevant for today's market enthusiasts.

This week I am starting with the old newspaper article (which may be difficult to read I know). This is from the Philadelphia Inquirer from August of 1965. Until I think this analog is dead, I will continue to look back and see what people were saying in the mid 60s before inflation took off.



24 abdh THE PHILADELPHIA INQUIRER, MONDAY MORNING, AUGUST 16, 1965

Investors Guidepost—Economists Disagree on Effect of Inflation on Common Stocks

By ROYAL H. PLENTY
Inquirer Financial Editor

COMMON stocks do not necessarily rise during periods of inflation. Corporate profits are often adversely affected by inflation and benefited by steady wholesale and retail prices.

Why then do so many investors consider common stocks a prime hedge against inflation?

One reason is the economic textbooks.

"Inflation," Paul A. Samuelson states in his popular textbooks, "tends to favor debtors and profit receivers at the expense of creditors and fixed income receivers."

The further you delve into the problem of inflation, however, the more you find the economists disagreeing. They can't even agree on what inflation is and whether it is good or bad, let alone on whether we are having it and, if so, what causes it.

Nevertheless millions of investors have been buying stock during the past decade because they firmly believed we would have inflation and that common stock holdings would automatically protect them. And they now believe we did have inflation and that therefore their stocks went up in value—even more, in fact, than did the cost-of-living.

If we face, or face in the future, a threat of real inflation, these same persons may feel they should automatically buy more stock.

* * *

THERE is even some doubt that we have had inflation in the past decade.

"Ask any housewife," writes the Chase Manhattan Bank in its current issue of Business in Brief, "whether the Nation has been having inflation, and her answer is likely to be: 'We certainly have—almost everything I buy costs more.' Ask any investor whether he thinks the Nation will have inflation in the future, and he will probably say: 'We surely will, and that's why I am willing to buy common stocks at high price earnings ratios.'

"Put the same question to an economist, and he will answer: 'The U. S., unlike most nations, has not had price inflation in any meaningful sense for almost eight years. Nor do we need inflation in the future to achieve great prosperity and economic growth.'"

The bank points out that although the Consumer Price Index has risen about 1.2 percent a year in the past eight years, the Wholesale Price Index has been remarkably stable. The bank also explains that the Consumer Price Index does not take account of our higher average standard of living or quality improvements.

* * *

"THE difficulty of measuring quality improvement," Chase Manhattan states, "is especially important. An automobile tire runs more miles, a battery lasts more hours, new drugs and improved care shorten the stay in a hospital for a given illness, an industrial electric motor lasts longer and does more work per pound or cubic inch of space—these and thousands of other similar developments are crucial, but very hard to measure.

"The average person tends to take such quality improvements for granted. After all, a tire is a tire, and a battery is a battery. But in real terms the fact that the cost of the services they perform per mile or per hour has declined is important. Most experts believe that an accurate measure of quality improvements, if it could be constructed might show an annual increase of at least 1 percent per annum, and perhaps 1½ percent or more.

"Because of these and other measurement problems, most technicians argue that annual increases of up to 1½ percent in the Consumer Price Index and up to 1 percent in the Wholesale Price Index do not constitute inflation. While price indexes may drift up gradually as they have in the past seven years, the real prices people and business have to pay have not increased on average. And this means that there has been no real price inflation."

* * *

IF STOCKS did go up when we had no inflation, how did they fare when we did?

In 1937 inflation appeared to be right around the corner and stocks were widely accepted as the best hedge. The Consumer Price Index that year averaged 57.2 (based on 1953 as 100) while the Standard & Poor's Index of industrial stocks was 14.97.

Inflation finally did come with the Second World War, but by 1945, when the Consumer Price Index had climbed to an average of 70.2, Standard & Poor's industrials averaged but 14.72, off 0.25 points from 1937.

Had the investor decided to hold on to his stocks to protect himself against the new wave of inflation that was clearly ahead, he would have found that four years later the Cost of Living had climbed to 88.8, while the S&P industrials had reached but 15.00. It was not until the 1950s, when inflation virtually ceased, that stocks began to climb.

There are many indications that inflation may be bad rather than good for stocks. The problems that caused Japanese stocks to plummet some 40 percent from their 1962 highs stemmed in large measure from the very inflation that was given earlier credit for the economy's rapid growth.

A peculiarity of the postwar era has been that during periods of inflation, wages have risen faster than prices thereby cutting into profit margins of industry and increasing labor's share of the gross national product.

IT IS even conceivable that the uncertainty of the stock market this year has been the result of renewed fears of inflation.

The Federal Reserve Bank of New York warned a week ago that the continued gains in the economy might exert more upward pressures on prices. It noted that both the Wholesale and Consumer Price Indexes made greater advances in June than those of any single month in 18 months.

And some analysts have expressed fears that wage increases this year will begin to outpace gains in productivity and price rises thereby bringing about a renewed squeeze of profit margins.

There is no way to prove whether inflation has helped or hindered stock prices or even corporate profits. There are so many economic factors involved that cannot be isolated that any conclusions regarding the causes of either inflation or stock price rises are dangerous. It can only be said that the case has not been proved that inflation causes stocks to rise, and any investor who assumes that it has may be making a serious mistake.

Advertising Notes

Art Club to Present Awards

By JACK CONLIN
Of The Inquirer Staff

THE Art Directors Club of Philadelphia will present the awards for its 30th annual exhibition at a dinner dance to be held Oct. 9 at the Bellevue Stratford Hotel. A preview of the exhibition will be held earlier that day in the Grand Ball-

Delaware Valley U.S.A.

Data Processing Firm Picks King of Prussia Site for New Plant

By HARRY J. LA CROIX
Of The Inquirer Staff

MANAGEMENT Assistance, Inc., a diversified data processing company headquartered in New York City, has chosen Delaware Valley, U. S. A., for the con-

To clarifiy the reasons I find these periods similar, the mid 60s witnessed a budget deficit rapidly expanding after years of low rates and low inflation. Importantly this occurred as unemployment was in a similar range to today and as wages were rising. Today, the budget is a dumpster fire and unemployment (as measured anyway) is very low – so wages will be the key as we move forward. Inflation is rising but outside of myself and a few like me, most see it as temporary and benign.

I chose this old article for a bit different reason however, this article was tackling how stocks would do if inflation really started to bite (it did). This question should be on all of our minds today – especially those of us who think inflation will be biting as we move forward. Let's take a look at what that inflationary period of call it '65-'85 looked like.

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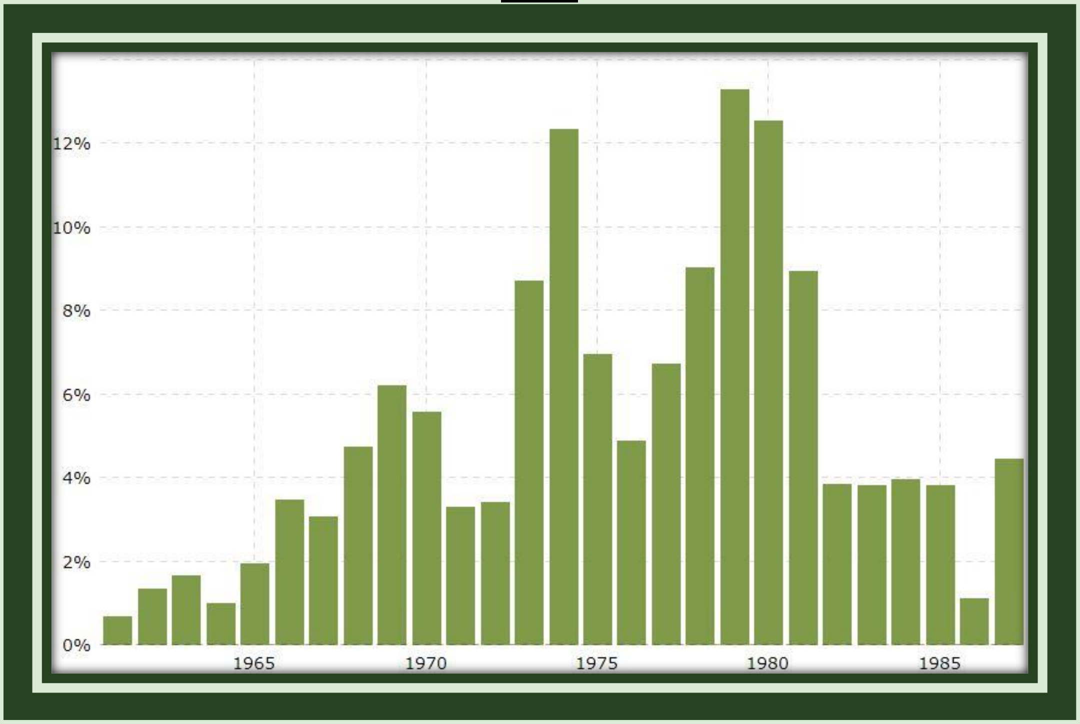
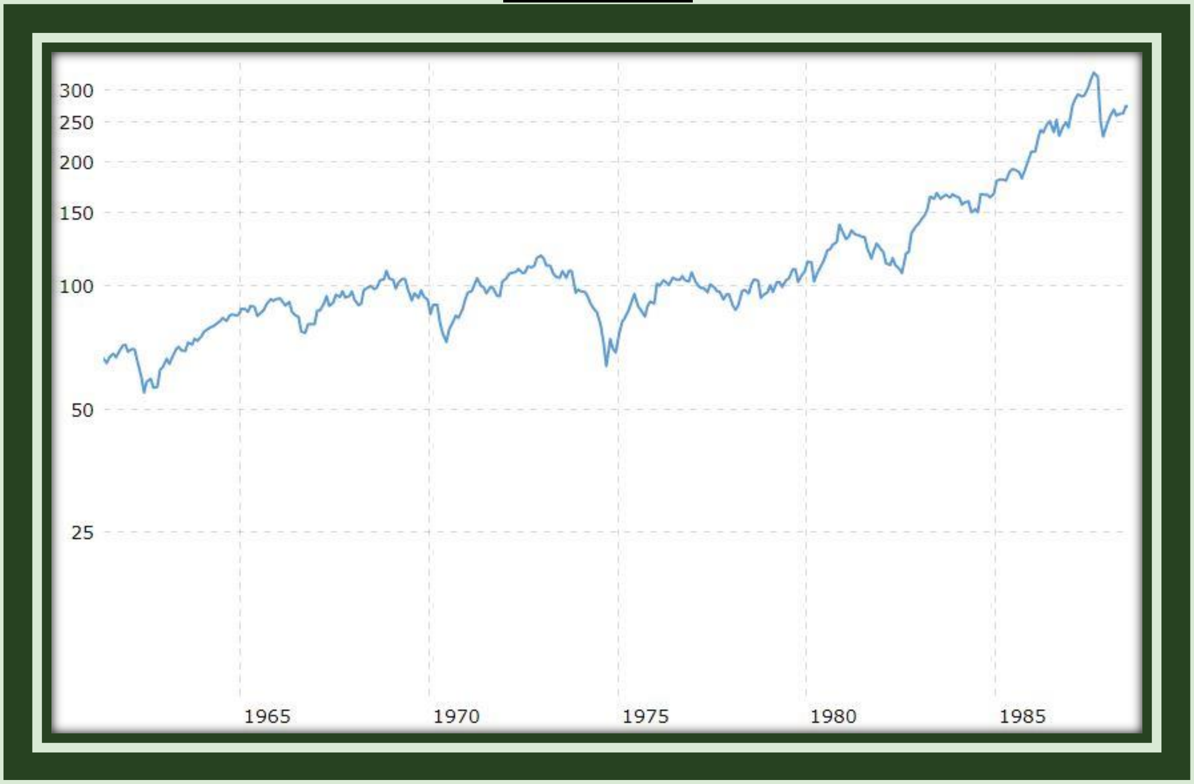
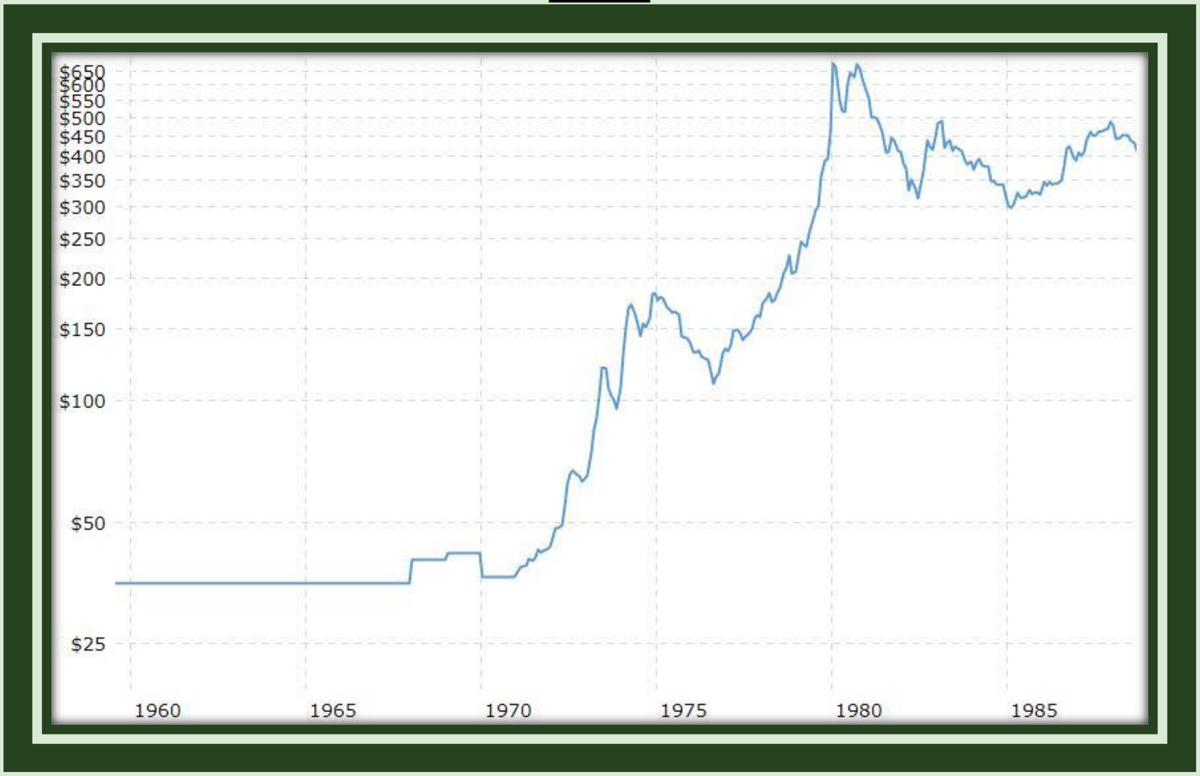


10 Year Yield

S&P 500



Gold



Charts from marotrends.net

Before I give my thoughts on all of this, just know that *I am not calling* for 70s style inflation. I think inflation will run hotter than most expect and for longer. Not 12% or anything, just higher for longer than expected – enough to hurt bonds and help commodities. Back to the article and the question of the day, will the inflation help stocks? As the charts show, while choppy, stocks did pretty well from '65 to '85 during the high inflation years…the S&P roughly doubled (took off when inflation died and yields fell with a bottom in '82).

Gold on the other hand went up 8x.

Inflation adjusted, stocks were down about 40% during the period, while gold was still up 2.5x.

So if you hear people who say gold is "not actually a good inflation hedge" – they are just wrong.

The 10 year went from about 4% to 11% so it did not exactly help you hedge your stocks. Having a position in the barbarous relic during this inflationary 20 years did wonders for your portfolio. Everyone's portfolio these days use bonds as a shock absorber for stocks because it has worked since the 80s. Well, inflation was falling that entire time so of course it helped. If inflation does come back, you need commodities (gold), not bonds as a hedge. Pension funds have been taking heat for allocating more and more to stocks over bonds seeking higher returns. I think they are going to accidentally benefit from this allocation. I think pensions need to add gold as a diversifier, but cutting bonds is prudent in my view. I use a robo advisor for some long term investing and I gamed the system with the risk questions and ensured that my portfolio is mostly stocks. My portfolio has 5% bonds and 5% natural resources. This is the "riskiest" setting I am pretty sure, which I fund funny, because I view it as the least risky setting I can choose – just wish I could add more commodities. I wanted my bond exposure as low as possible. I find the recent trends of pension funds on a pure stock to bond ratio metric as constructive. Stock bears see this as a disaster waiting to happen, but to me that better explains retirement portfolios stuffed with bonds coming out of a truly historic level of rates. But hey, maybe a deep recession hits and inflation vanishes and the 3Ds people get their deflation and the Fed pushes rates negative and me and the pensions and the stock buyback crowd all get pummeled. Time will tell and I could change my mind if conditions warrant.

What if we apply the question the newspaper asked in 1965 to the possible coming inflation. Will stocks help – will bonds – will gold? First and foremost, stocks absolutely hedge inflation. Weimar Germany showed us this and so did Zimbabwe and Venezuela lately. When Mugabe was finally sacked recently in Zimbabwe, the stock market tanked on the good news because inflation expectations changed for the better (despite not even having their own currency). This encapsulates my frustration with people desperately trying to marry stock prices and real economic health. My guess is US stocks hold up better than most expect during this inflationary period for a few reasons. As the dollar slowly loses reserve dominance, a lot of folks will want to turn dollars into assets worth their time and bonds will look worse by the day as the US runs enormous deficits it struggles to finance without monetization. US corporations have a substantial debt load, but if we get inflation after the corporate sector just refinanced at historic low rates – those balance sheets look better and better and so do owning equities – at least the ones with the cash flow to stay away from new debt at the new higher rates. Companies that have been buying back shares have taken a lot of heat and I get it – the executive compensation part of it is ugly – BUT – if you could buy a bunch of shares at a crazy low rate before rates spiked and you passed on that – you should be fired. Not saying these execs see inflation coming and bought back shares out of foresight and wisdom – but it may pay off and look like brilliant capital allocation in 5-10 years all the same. Too many people are viewing buybacks as the extraction of capital and not what it potentially is – a great investment. It is worth noting the irony in the fact that many of these buyback haters adore their precious dividends. US stocks will take a hit when rates rise enough, that is just how it works, but if inflation stays pesky and real rates stay low enough - US stocks get a bigger safe haven bid than most expect. If positioned in companies that leveraged up on low rates, but can easily live with higher rates with strong and resilient cash flows – investors with less bonds than normal - and more gold than normal – will be positioned well in my view. I think it is at least worth moving the needle in that direction if the inflation surprise nobody actually expects does in fact happen.

Chart of the Week: COPX

This week's chart of the week is $COPX which is a copper miner ETF. This is really a make or break time for copper and copper miners. We are currently seeing a retest of the trendline that goes back to early 2016 as well as a retest of an important zone over the past five years. We either see a big breakdown here or a breakout that could have some serious legs. My bet would be on copper moving higher from here but with global PMIs and China's credit impulse in the back of my mind, I could of course envision a scenario of a breakdown here. I am willing to trade whichever side the chart suggests.

For a bigger picture view, the next chart is the monthly chart of copper futures with the 60 month moving average which was decisively broken last year.

Copper Futures

I also provided the copper to gold ratio chart which is currently being saved by the 60 week moving average. As a bond bear I keep an eye on this chart.

Copper to Gold Ratio

Copper is clearly worth keeping an eye on for macro traders. I have been watching precious metals closely as I am itching to go long gold and silver if and when they breakout. The gold technicals are appealing and the silver positioning is appealing. I took a small position for a trade in platinum this week and it is up about $30 so far and I am hoping it leads the others higher so I can enter trades in them as well. I have to say, my reading of the tape on metals suggests continued struggles for the dollar and my only profitable dollar trades have been long against South Africa and Turkey. My euro short has been bouncing around and is nearly flat so far, but I remain short with a stop above the downward trendline.

Well that is all for this week, I hope you enjoyed another WMW. I hope some of you can take the perspective of the Koreans when studying the markets this week with a newfound respect for longevity, be it in nature or ideas or principles. I gladly welcome your thoughts.

"If anyone can refute me—show me I'm making a mistake or looking at things from the wrong perspective—I'll gladly change. It's the truth I'm after, and the truth never harmed anyone."

– Marcus Aurelius

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