



CAPITAL INVESTMENT COUNSEL

The Columns

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Ask ten people about interest rates and you'll get eleven opinions. Should they be higher? Lower? Everybody's got a take. The rub is that it's trickier than most folks think. Look, I like low rates as much as the next guy, but not so low they throw gasoline on an inflation bonfire. So, time to dig into inflation, but we'll keep it entertaining.

We all have different goals. Some like to collect stuff. Me? I like to accumulate experiences. And last month I got one I'll never forget: working a wedding up in the NC mountains outside Rutherfordton. Our friend, Haines, runs a wedding planning business and she offered me the chance to do something interesting.

It was beautiful, it was fun, it was hard work. But there's also hidden perks. Once the wedding winds down, you enjoy the same catered meal as the guests. The difference is we ate ours standing up in the kitchen. Snap Pea from Durham was the caterer and it was a treat. Check out their Instagram: amazing!

I got to play bartender too, and at the end of the night the real bartender let me haul away all the leftover beer I could carry. Perfect for our family get-together the following weekend. Side note, a woman's skirt did catch fire, and I had to put it out but that's a story for another day.

We covered the fun part. Now, let's dig into the math. A 12-hour day at \$22 an hour works out to be \$264 gross. Not bad for one long Saturday. But here's where the numbers headed south. Three hours of driving each way meant that gas cost me \$70. Then a \$130 hotel bill because nobody in their right mind drives on I-40 past midnight. By the time that

was stripped out, my \$264 "ribeye" of gross pay was a \$64 "sirloin" of net. And let's face it, \$64 doesn't buy what it used to. That's inflation. The silent killer.

We shrug at "3% inflation", like it's a rounding error. But three percent inflation compounds over and over and over. That's the cruel trick. A hundred bucks today, a hundred and three next year, and so on, until fifteen years later the same thing costs you \$156. If you're on a fixed income, or even just trying to make the monthly math work, that creep matters.

The Fed catches heat for keeping rates high and politicians whine about growth. But inflation grinds everyone, rich or poor. It's not a loud event like a stock market crash: it's more like a slow bleed.

That wedding reminded me of it. By the time Uncle Sam, the gas pump, and a hotel bill finished gnawing on my paycheck, my gross turned into a ghost. Inflation works the same way: it shreds our money before we even realize it's gone. That's the bigger lesson: whether you're hauling chairs at a wedding or managing a portfolio, it's not the gross that matters. It's what inflation leaves you with at the end. The good news is that we may have seen the worst as CPI inflation continues to head lower. As housing costs continue to dip, that could mean inflation heads closer to the Federal Reserve's 2% target.

Let's follow up from something back in May. In the wake of the Liberation Day meltdown, the market took time to find its footing. However, once things stabilized, stocks quickly made up for lost time. The S&P's big run from May 12th to 14th triggered a rare but powerful bullish signal. Generally, after a big move higher, stocks take a breather. Not this time. On Monday, May 12th, the S&P ripped 3.25% higher on upbeat Chinese tariff news. Instead of cooling off, it jumped another 0.75% on the 13th. And just to drive the point home, it added another 0.10% on the 14th.

Now, that three-day sequence might not look thrilling at first glance but here's the kicker: every time this exact pattern occurred since 1950, the S&P was up a year later. 30 for 30. Undefeated with an average gain of 20%. Never any guarantees, but interesting to note.

So, how's it doing so then? It looks like the market might potentially make it 31 for 31 in the positive column. Since May 14th, stocks have been up 15%. That potential one-year gain of 20% by next May may be at this point. This is where things get interesting. Some may take the view of sitting tight and enjoying the ride higher by another 5% to hit that average return.

My view is a little different. Stocks may have run ahead of themselves lately, which I see as positive. It could mean a pullback is coming to consolidate those gains. I call this Bob Barker time: build the shopping list and step in when the **price is right**.

Using history as a guide is like getting a sneak peek at how the story might end. Stocks were higher 30 of 30 in similar times and I like those odds. A 5% dip could set up even more upside into next May if the 20% target comes into play. If you have any comments, feel free to contact me at heddins@capital-invest.com or call at 919-656-0836.

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