

Monthly Depth Report – May 2022

Deep Knowledge Investing highlighted rising and understated inflation back in [November](#) when many Wall Street firms thought the Fed wouldn't raise rates for another couple of years. At the time, Federal Reserve Chairman, Powell, was still calling inflation "transitory". In early [January](#), we told DKI subscribers to short the QQQ and the SPY due to our understanding that the Fed was going to have to raise rates more than the market wanted and more than it expected. Since our recommendation the SPY is down 11.6% through the end of April and the QQQ is down 17.5% in the same time-frame. We also recommended buying put options that doubled and tripled in the following few weeks.

This past month was the worst April for the market in decades. The QQQ was down 13.6% and the SPY was down 8.8% in April. Much of that decline came in the last third of the month as the market was apparently [shocked](#) that the Federal Reserve was serious about a 50-basis point (.5%) increase in the federal funds rate instead of the 25 basis points (.25%) that the market preferred. DKI and our subscribers weren't surprised.

More importantly, we started warning about stagflation in early January both in [writing](#) and in a [DKI webinar](#) with James Davolos of Horizon Kinetics. We've been clear that we think the consumer price index (CPI) is understated by around 100%. That means the current 8.5% inflation number is really closer to the mid-teens. Further, once you adjust for inventory restocking and the understatement of inflation, gross domestic product (GDP) was negative in the fourth quarter. The first quarter GDP number came out last week, and was negative whether you take the official reported figure, or make the adjustments we do. Either way, we think actual economic growth has been negative for the last two quarters (which is the definition of a recession) and we're experiencing the highest inflation we've seen in 40 years. Despite a robust job market and over 11 million unfilled positions, the US economy is experiencing the stagflation we highlighted months ago.

We'd like to point out that we don't have access to information or government statistics different from what the big firms or the rest of the market has. What Deep Knowledge Investing does have is an ability to look at the same data everyone else has and draw alternate conclusions. We can't state highly enough the value of conflict-free research.

A couple of years ago, I was talking with a potential client who thought that Deep Knowledge Investing was at a disadvantage to the analysts at his establishment Wall Street firm who have C-level access (meaning they can arrange calls with company CEOs, CFOs, COOs). I told him that the access those analysts have is not only NOT a benefit; but rather, a liability as they have to keep the C-level executives happy in order to maintain the access they advertise. A negative report or rating on the company means they lose the thing that they promote as making them special. [This story](#) from a few years ago highlights the issue. A Goldman Sachs analyst put a "buy" rating on Tesla stock and later that day, Goldman Sachs was selected to lead an equity offering for the company. Was the Goldman analyst looking out for the clients of the firm, or the firm's investment banking department?

We take a different approach. We talk to industry executives, competitors, customers, and vendors all the time. We perform deep research. But we spend no time worrying about whether companies will like our conclusions or not. The only thing we care about is helping our subscribers and clients get better returns. We're conflict-free.

Being able to see the same information differently from other requires a level of creativity and flexibility. I find that being in unfamiliar places, encountering new people, and living in different cultures sparks that creative process for me. As a result, I'll be heading to Medellin, Colombia later this week. I'm sure there will be some interesting travel stories in next month's letter as well as the opportunity to do first-hand due diligence on a potential investment idea.

If any of you have questions, concerns, or thoughts regarding issues we should address in a future depth report, please feel free to reach out to me at IR@DeepKnowledgeInvesting.com. If you think a friend, RIA, family office, or portfolio manager would be interested in this monthly commentary, please feel free to pass it on to them.

Thanks for being part of Deep Knowledge Investing,

Gary Brode

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