Thanks to the rapid development and distribution of effective vaccines, America's "herd" is acquiring immunity to the virus. American life is (slowly) returning normal. Schools are reopening. People are working in the company office. Shoppers are going to the malls. Sports fans are returning to ballparks. Travelers are crowding into airplanes and hotels.

Big-Ticket Consumption and a Very Strong Economy

For years, millennials tended to delay home and car buying in favor of travel spending and apartment living. The pandemic reversed that, unleashing years of pent-up demand. Suddenly, everyone needed a big home to accommodate a home office and private recreation.

Suddenly, people couldn't dine at a restaurant… much less travel. Lockdown- forced savings soared, particularly as government stimulus checks arrived. Millions of households quickly raised the cash needed to make a down payment for a new… or larger home. Record- low mortgage rates made it more affordable to finance a bigger, more expensive home.

At the very start of the pandemic, home buyers were totally locked down, and home sales plummeted. That lasted for a month. When the lockdown eased, home- buying traffic resumed, and home sales soared to over to 6 million units per year.

Figure 1: Existing Home Sales, in Thousands, Seasonally Adjusted Annual Rate

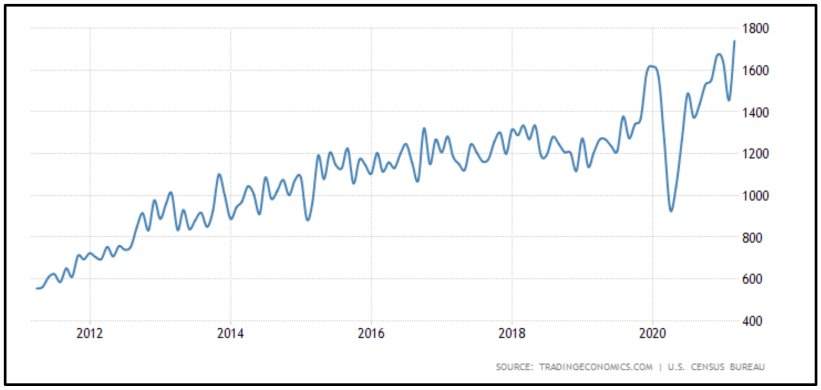
As a result, the inventory of homes available for sale collapsed to less than two months' supply.

Figure 2: Month Supply of Existing Homes

Source: Tradingeconomics.com

The home-buying boom soon transformed into a home-building boom. Across the country, home-building activity is soaring.

Figure 3: Housing Starts, Seasonally Adjusted Annual Rate, in Thousands



Housing starts would be even stronger if not for critical supply shortages. According to Chuck Fowke of the National Association of Home Builders (NAHB), "The supply chain for residential construction is tight, particularly regarding the cost and availability of lumber, appliances, and other building materials."

In some Sunbelt and Rocky-Mountain locations, homebuilders use waiting lists to allocate coveted building lots to committed buyers.

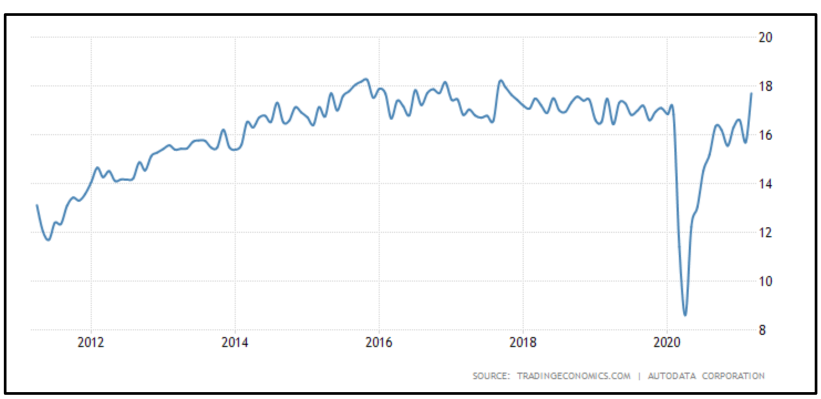
The home building boom generates secondary demand for big-ticket consumer purchases, including appliances, furniture, lawn mowers and other items related to new home ownership.

Car Sales Jump

Big-ticket consumption has not been limited to the housing market. Car sales climbed to the record-high annual selling rate of 18 million units.

Numerous factors are stoking demand. Pandemic-related health concerns raised the utility of secure private, transportation. During the height of the pandemic, car rental companies sold their unused fleets. That accommodated much of the demand for cars. As the inventory of used cars evaporated, new car demand soared.

Figure 4: US Auto Sales, Seasonally Adjusted Annual Rate, in Millions

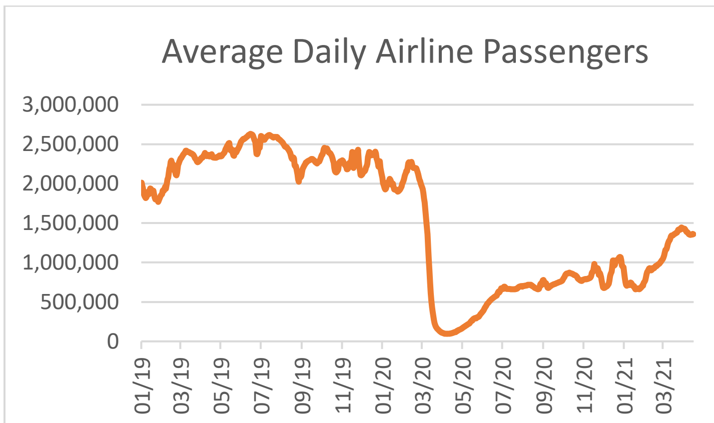


Auto production stalled recently due to the semiconductor shortage, leaving a big, unmet need for autos. The car rental companies need to rebuild their fleets to accommodate demand from the returning air traveler, but they cannot find the cars to buy. The backlog of automobile demand assures ongoing growth in this vital part of the economy.

Travel Comes Roaring Back

Air passenger volume has returned to about 70% of the pre-pandemic norm. Companies will ease restrictions on business travel in the coming months, and air travel will probably recover to 100% of norm, or about 2.3 million passengers per day.

Figure 5: Average (7-Day) Daily U.S. Airline Passenger Count



Source: TSA

Most of the economy is following the same pattern as the airlines. It is just a matter of time before the economy fully recovers.

The soaring economy translates to soaring corporate earnings, and that supports a continued rally in the stock market… at least for now.

But storm clouds are building on the horizon. The Biden Administration has proposed large increases in corporate and capital gains taxes. If implemented, these new tax policies will reverse recent gains… and possibly lead to a bear market.

But for now, the economy is moving with such momentum… investors cannot afford to sit on the sidelines.

Are Market Returns Worth the Risk?

Investors should constantly compare the upside potential to the downside risk.

For the blue-chip S&P 500 index, that comparison doesn't look so good. Figure 6 shows a long-term trendline that rises at a rate of 7.5% per year. With an average dividend rate of 2.5%, this trend of appreciation corresponds to a 10% total return. This matches the average stock market return over time.

Figure 6 includes a parallel trend channel that typically limits the market's upside potential. The only time the index price has soared past the trend channel was during the internet bubble of the late 1990s. Currently, the S&P 500 is approaching the upside limit.

Figure 6: S&P 500 Long-Term Chart, Log Scale

At year-end 2021, the trend channel will approach 4720, about 13% above current prices. The downside potential is defined by the long-term trendline, which comes in at 2490 at year-end. That is 41% below the current index level. I don't like that risk-reward dynamic.

Why is the risk/return of the S&P 500 so negative?

The S&P 500 is weighted according to the market capitalization of its member stocks. The performance is currently dominated by the tech giants of the digital economy. During the pandemic, tech stocks soared. For the most part, they are extremely overvalued. They probably won't collapse anytime soon. But they also don't have much room to rally, for now.

But there are many investment options beyond the overpriced tech giants.

Investors can find more upside with "physical economy" stocks, including airlines, niche retailers, banks, energy producers, and manufacturers.

A trend analysis of the Vanguard Value ETF (which tracks the CRSP US Large Cap Index) confirms an attractive risk-reward condition for "physical economy" stocks. This index is dominated by banks, health care, energy, consumer products, travel, traditional media, and manufacturing companies. Between now and year-end, this index has about 38% upside potential to the trend channel, and 30% downside to the trendline.

Figure 7: Vanguard Value Index Log Chart (CRSP Large Cap Value Index)

Coping with Rising Inflation

For almost 40 years, inflation has declined. For much of that time period, collapsing interest rates delivered windfall profits to bond-market investors.

"The Times, They Are A Changin." Inflationary pressures are returning. The path of the new inflation remains uncertain. But two things are certain. Inflation will rise... and interest rates will rise... for a long time.

What worked for investors during the disinflation of the past 40 years will not work during the inflation of the next 40 years. Investors need to challenge biases in their thinking. Those who hold the old way of thinking will lose a fortune. Those who adjust to the new inflationary reality could make a fortune.

Typically, strategists suggest that investors hedge inflation risk by sprinkling their portfolios with hard assets like gold, collectibles, and real estate. Some also recommend buying shares of oil & gas or metals mining companies. Indeed, these assets belong in the inflationary portfolio. But unless you are a real estate developer, a farmer, a wildcatter, or an experienced art collector, these investments will probably not help you build wealth.

However, you may be able to build wealth with a simple, low risk strategy that is tailor-made for an inflationary era.

A Generational Wealth-Building Strategy

Property Casualty (P&C) Insurance Companies are ideally suited to create wealth during times of rising inflation.

The P&C insurance business is simple. The company charges premiums to insure various risks. The insurer collects enough premiums to deliver an expected profit after paying claims. Simultaneously, the company invests the premiums collected, earning a modest return. The insurer manages the risk exposure by diversifying policies across various geographies and business lines, and then buying reinsurance to hedge any concentrated risks. The underwriting and risk management processes provide the P&C company with relatively predictable profits.

During inflationary times, P&C profits get turbocharged in two ways. Inflation causes the value of assets to rise. From year-to-year, policy buyers must raise their insured values, which in turn raises premiums. Inflation acts as a growth accelerator for the P&C insurance business.

The secondary effect of inflation, rising interest rates, boosts the profit margin of P&C insurers. Right now, P&C companies earn little interest income on investments. But as interest rates rise, investment income will grow… padding the bottom-line profit of the business.

This dual effect of accelerating growth coupled with rising profit margins will deliver a powerful compounding effect on P&C company earnings and stock prices.

Legendary investor Warren Buffet built his fortune in precisely this way… through Berkshire Hathaway's ownership of Geico during the prior inflationary era.

Vigilante Investor does not suggest a concentrated investment in a single company, as Buffet did. Instead, we recommend buying a basket of well-managed companies… and adding to the investment as bargain opportunities arise.

Table 1 identifies four well-managed P&C companies with attractive valuations.

Table 1: Vigilante Investor P&C Insurance Company Basket

Company	Ticker	Price	Div Yield	Price/ Book	Debt/ Ent Value	Fwd EPS Expected	Fwd P/E Ratio	5-Year Exp Growth	PEG Ratio
Chubb Limited	CB	$166.03	1.93%	1.28	0.20	$12.57	13.21	22.89%	0.58
American Int'l Group, Inc.	AIG	$47.53	2.69%	0.62	0.46	$5.03	9.45	17.30%	0.55
Aflac Incorporated	AFL	$53.37	2.47%	1.10	0.22	$5.11	10.44	6.12%	1.71
W.R. Berkley Corporation	WRB	$80.44	0.60%	2.29	0.20	$4.41	18.25	26.31%	0.69

Sources: Finviz and Seeking Alpha as of April 26, 2021

Chubb Limited- the largest publicly traded P&C company in the world. Chubb operates a diverse global book of business. It offers commercial and personal P&C insurance lines in the US, including reinsurance, personal accident, supplemental health, and life insurance lines (overseas.)

American International Group, Inc. - A great success story… until it was decimated in the 2008 mortgage crisis.

Former Chairman Hank Greenberg took control of the then-tiny P&C company in 1962. Over the next 40 years, he transformed it into the largest financial services company in the history of the world. Greenberg's amazing business expansion was fueled in a large part by the combined forces of inflation and high interest rates.

After Greenberg's retirement in 2005, the company struggled to maintain high investment returns. The company built concentrated positions in leveraged mortgage derivative investments. In 2008, when the mortgage market collapsed, so did AIG. The company had become too big to fail. The federal government bailed out and reorganized AIG.

Today, a smaller AIG provides commercial and individual coverage in North America and various international locations. Its business lines include general liability, property, vehicles, boats, trade credit, political risk, crops, directors & officers' liability, personal accident, and supplemental health.

Aflac Incorporated offers disability, supplemental health and life coverage in the U.S. and Japan.

W.R. Berkley Corporation offers commercial business insurance and reinsurance in the U.S. and internationally.

Recommended Strategy: *Buy a half position of each of these stocks at current prices. Patiently wait for the next stock market crash, and then add to theses holdings.*

Personally, I expect this P&C company basket to become a lifetime investment.

Precious Metal Review

Gold prices slid about 4% since our last report. But mining stocks rallied. As a result, mining stocks don't look so cheap anymore.

Interestingly, the price of gold is trading at the same price as a year ago, but silver has soared 52% in the same time period.

Vigilante Investor is not changing any precious metal allocations.

Table 2: *Vigilante Investor* Precious Metal Scorecard[1] as of 4/26/2021

Precious Metal ETF	Price	Ratio	Hist Avg	Rating
GLD	166.84			
SLV	24.31	6.86	6.08	4
Stocks vs GLD	**Price**	**Model**	**vs. Model**	**Value Rating**
Barrick Gold (ABX)	$22.18	$23.77	-1.59	4
Yamana Gold (AUY)	$4.81	$4.99	-0.18	4
Royal Gold (RGLD)	$117.01	$118.83	-1.82	5
Newcrest Mining (NCM)	$21.55	$21.42	0.13	5
Sandstorm Gold	$7.80	$7.68	0.12	5
Jr. Gold Miners ETF (GDXJ)	$49.73	$49.12	0.61	5
Wheaton Precious Metals (WPM)	$42.31	$40.99	1.32	6
Gold Miners ETF (GDX)	$35.98	$34.97	1.01	6
Newmont Mining (NEM)	$65.28	$57.84	7.44	9
Stocks vs SLV	**Price**	**Model**	**vs. Model**	**Value Rating**
Silver Miners ETF (SIL)	$43.61	$46.05	-2.44	3
Pan American Silver (PAAS)	$33.38	$34.22	-0.84	5
Hecla Mining (HL)	$6.45	$6.03	0.42	6

Investment Strategy

The Vigilante strategy of buying value-oriented stocks has worked well in the past quarter. The rocket-ship economy should fuel continued success for this investment strategy in the months ahead.

We make cuts and additions to the model portfolio with every issue. This month, the Pacific, European, and Emerging Markets indices are cut. Ditto for Disney.

The portfolio is adding the four insurance companies as discussed. We also add the Vanguard Financial Services ETF. This diversified financial services fund will benefit from the economic recovery and rising interest rates.

We also increase our holdings of oil & gas production companies. Southwestern Energy (SWN) and Exxon Mobil (XOM) are poised to benefit from a recovery in production and prices.

American energy production has, thus far, recovered at a slow rate… despite a substantial rise in commodity prices. The slow increase in production is caused by lack of capital… and for good reasons. Banks and Private Equity companies have consistently suffered losses in the boom-and-bust energy cycles of the past 15 years. They are unwilling to provide more capital for the sector. Only the well-established, well-capitalized producers can fund new production. This limits

[1] The Vigilante *Investor* Scorecard rates large and mid-sized miners, streaming companies, and ETFs. The cheapest securities have the lowest Value Ratings, color coded in green. Fair Value is yellow, and expensive stocks are red. The scorecard also rates SLV, the iShares Silver Trust, relative to gold bullion.

competition, allowing producers to patiently expand production while improving profit margins. Now is probably the best time in the past 18 years to invest in this sector.

Table 3: The Vigilante Model Portfolio 4/26/2021

Sector	%	Selections	Symbol	Initial Price	Price (April 26)
5G	10%				
		Qualcomm Inc.	QCOM	$164.40	$138.98
		Nokia Corp	NOK	$4.85	$4.20
		Ciena Corp	CIEN	$55.00	$54.29
Low-Tech America	65%				
ETFs		VG Small-Cap Value ETF	VBR	$151.27	$172.49
		VG Mid-Cap Value ETF	VOE	$122.88	$140.09
		VG Large-Cap Value ETF	VTV	$121.81	$135.10
		VG Financials	*VFH*	*$88.21*	*$88.21*
Steel		Cleveland Cliffs Inc.	CLF	$16.58	$18.93
		Nucor Corp	NUE	$54.52	$80.62
Financials		Citigroup Inc.	C	$60.56	$72.20
		Prudential Financial	PRU	$81.96	$98.51
		Chubb	*CB*	*$165.98*	*$165.98*
		Aflac	*AFL*	*$53.38*	*$53.38*
		AIG	*AIG*	*$47.54*	*$47.54*
		WR Berkley	*WRB*	*$80.37*	*$80.37*
Transportation		Dorian LPG Ltd.	LPG	$11.86	$13.25
		Boeing Co	BA	$203.86	$241.44
		Southwest Airlines	LUV	$45.62	$61.97
		Ford Motor Company	F	$11.29	$12.27
Energy		Diamondback Energy	FANG	$61.33	$77.46
		Exxon	*XOM*	*$55.68*	*$55.68*
		Cabot Oil & Gas	COG	$18.69	$16.44
		Southwestern Energy	SWN	$4.06	$4.06
		Plains All American Pipeln	PAA	$9.02	$9.23
		Cameco Corp	CCJ	$12.73	$16.47
Real Estate		Simon Property Group	SPG	$97.48	$120.17
		Granite Point Mortgage	GPMT	$9.87	$13.01
Agriculture		Mosaic Co	MOS	$28.67	$34.78
Emerging	8%	iShares Mexico ETF	EWW	$43.12	$46.98
		iShares India ETF	INDA	$40.67	$40.64
Precious Metals	8%	Sandstorm Gold Ltd	SAND	$6.57	$7.80
		Royal Gold Inc	RGLD	$104.74	$117.01
		Wheaton Precious Metals	WPM	$40.31	$42.31
		Silver Miners ETF	SIL	$42.00	$43.61
Cash	9%	VG ST Corporate Bond ETF	VCSH	$83.12	$82.67

The Economy and Markets

The Vigilante Scorecard confirms that the economy is heating up. I have never seen the non-manufacturing PMI soar so high. This foretells extremely fast growth for the remainder of the year.

Table 4: Vigilante Investor Scorecard of Economic Conditions –as of 4/26/2021

Economic Condition and Score	Positive	Neutral	Negative
Growth 4 Contraction 2	US Non-Manf PMI 63.7 Global Comp PMI 54.8 US Productivity +2.6% US 2-10 Spread +1.44%		Fed Signal -1.2% US Real GDP -2.4%
Inflation 3 Deflation 1	Crude Oil +114.3 YOY US Dollar -9.5% YOY US Wages +4.4% YOY	CPI +1.4% YOY Crude Oil +3.9% YOY Gold - 0.2% YOY	Gold / Euro -11.9% YOY
Positive $ 2 Negative $ 0	US-Ger2YRSpread +0.87% US-Ger10YRSpread+1.86%		

Sources: Tradingeconomics.com, St. Louis Fed, and Investing.com

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If you haven't already done so, visit https://www.vigilanteinvestor.com/sign-up-1 to receive future issues via email. Invite friends and colleagues to do the same!

Have a great quarter!

Steve Koomar

April 28, 2021

Disclosure

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