

Subject: Zanetti Monday Missive
From: "Walt" <waltbenson1@outlook.com>
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To: patti@candothat.com;



Zanetti Monday Missive 2022.02.07 Who Cares About Debt?

The Golden Rule: He who owns the gold, makes the rules.

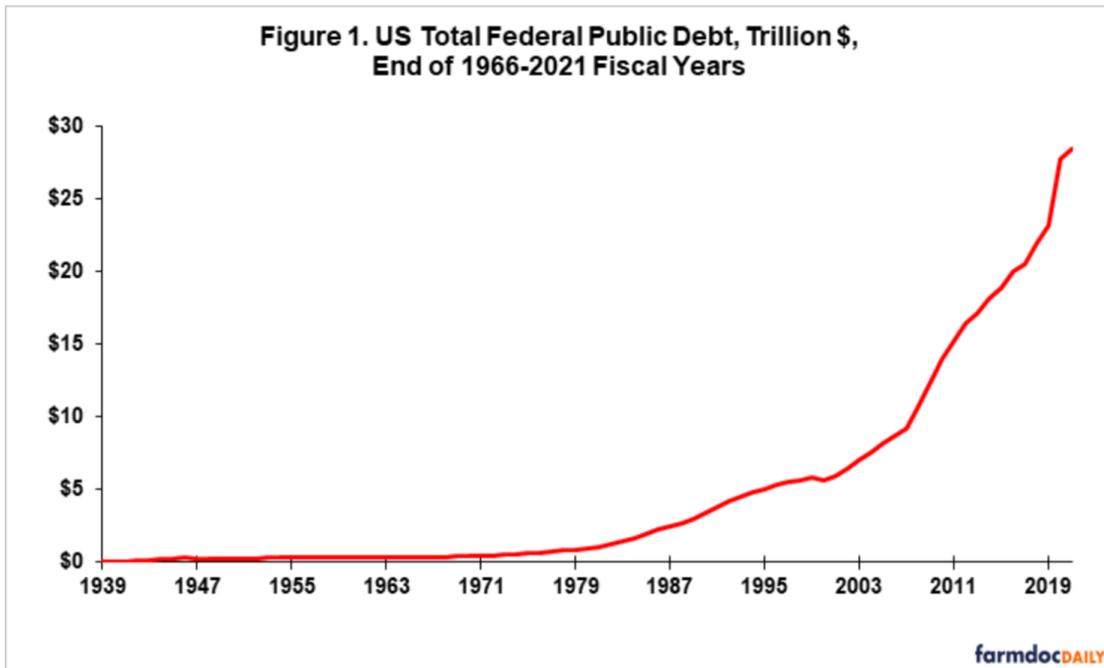
~ Johnny Hart

Last week, the news outlets were screaming about Meta (formerly Facebook) falling 26% in a single day – setting a corporate record – and Mark Zuckerberg briefly losing his spot among the top 10 billionaires (Poor Mark!). Meanwhile, here's what caught our attention at Zanetti Financial, which barely made any news: The US debt limit surpassed \$30 trillion!

Let that sink in... That's a 3 followed by 13 zeroes.

\$30,000,000,000,000

To put this in perspective, let's look at this number charted historically:



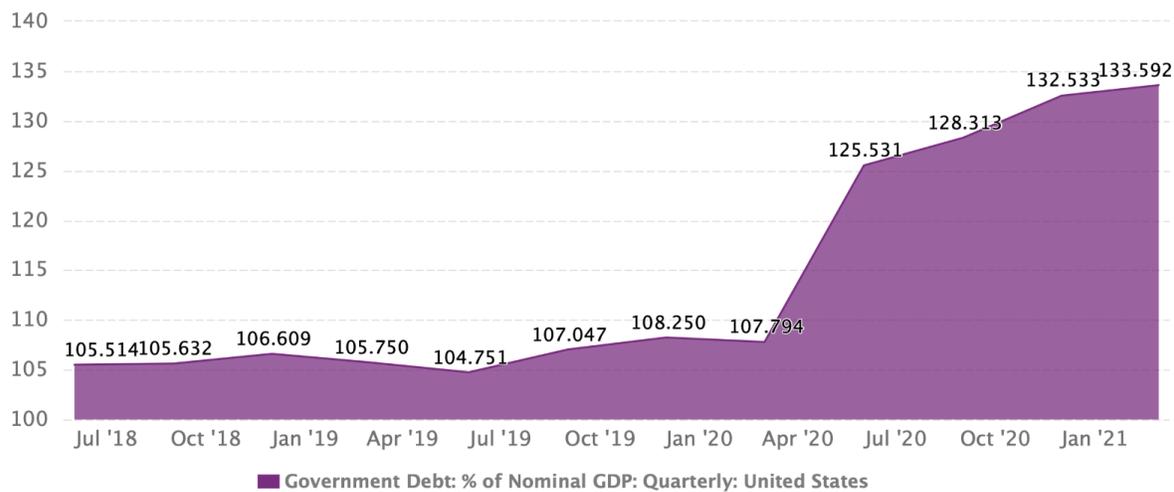
If it looks like our national debt has been growing rapidly in the last several years, your eyes aren't playing tricks on you. In fact, it was only a few years ago – March 16th 2007 – when Congress passed a bill to increase the debt ceiling from \$8.2 trillion to \$9 trillion.

Isn't it funny how quaint \$9 trillion dollars sounds today?

What's crazy is that it took our nation 231 years to reach \$9 trillion in debt. And only 15 years after that to more than triple it!

That's what I call inflation! In fact, by some definitions that could be called hyper-inflation.

One way to look at our national debt is to compare it to our national GDP. Below is a chart that shows that our debt has grown above 100% of our GDP and shows no sign of changing course.



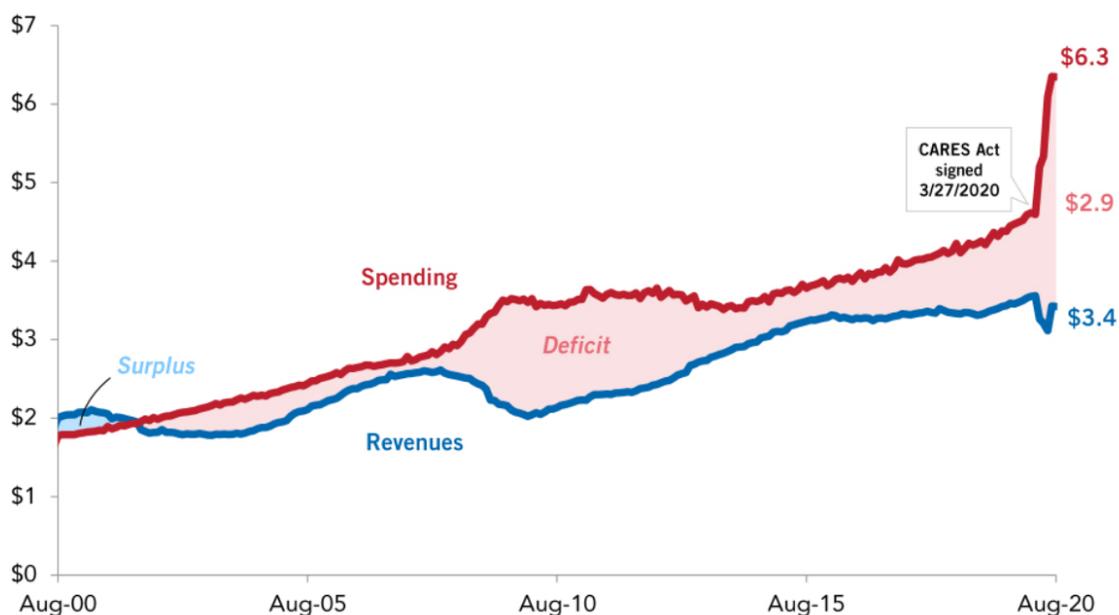
As you can see our national debt is 134% larger than our national economy.

Well, what about how we pay our debt? In most calculations, that's the most important way to measure debt. When you go to a bank to borrow money, they call this the debt-to-income ratio.

Bankers like to see a personal debt-to-income ratio of 35% or lower. So, your debt payments should be about 1/3 of your income. The bankers think you should be able to live on the remaining 65% of your income. If you get above 50%, the banker gets worried you can't handle your payments.

Given those levels, what is our government's debt to income? Well, our government raises income via taxes to pay its debts, so that's part of the problem. They don't raise enough in tax revenue to pay for their expenditures – which is why the debt keeps growing.

12-MONTH ROLLING SUM OF SPENDING AND REVENUES (TRILLIONS OF DOLLARS)



SOURCE: U.S. Department of the Treasury, *Monthly Treasury Statement*, issue for August 2020.
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So, now you're probably thinking, "I got it, Walt, the US Debt level is high! But I've heard our interest rates are around 0%, so who cares! Can we pay those debt payments or not?"

Well, gentle reader, I'm glad you asked! Here's a visual for you, back when the numbers weren't "quite so bad" in 2020 ;-)

2020

REVENUES, \$3.4 TRILLION



OUTLAYS, \$6.6 TRILLION



So, no. The US can't really afford to even pay its own debt interest (much less pay the debt down).

A banker would wag their finger vigorously at this borrower and say, "Bad borrower, bad!"

What's worse is all of these debt payment numbers are achieved with near ZERO interest rates. Meanwhile, the Federal Reserve is planning to combat inflation by raising rates in March. What will that mean for the US debt payments? You guessed it! Just like if a credit card company raises rates, the payments go UP!

As payments go up, the US has a couple of choices. Raise taxes (not popular for any politician), print more money to pay the debt (this will raise inflation even more), go to war with a large lending country, or possibly pull an FDR move with the Gold Reserve Act of 1934 and just reprice an asset like Gold at a higher price, which will shrink the percentage of debt. (Imagine you telling a bank your house is now worth twice as much, they

accept it, and now your mortgage is a much smaller % of your house value – so you can borrow more!).

As you can see, inflation is bigger than just the price of beef at the grocery store or the price of lumber at Home Depot. What we're looking at is a systemic problem.

Given the situation the US is currently in, it makes sense for individuals to invest a portion of their assets in gold and silver to protect their wealth. It's hard to imagine a scenario where gold and silver go down in value from here over the long-term.

Signed your I-Wonder-If-Zuckerberg-Can-Make-Himself-The-World's-Richest-Man-In-The-Metaverse,

Walt

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Our mailing address is:

5120 San Francisco Rd NE
Suite A
Albuquerque, NM 87109

505-858-3303

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