ZANETTI FINANCIAL, LLC

Zanetti Monday Missive 2022.06.13
Cheers and JP Morgan

"Sometimes you want to go
Where everybody knows your name,
and they're always glad you came."
~ Lyrics to *Cheers*, 1980's Sitcom

"You know, I said there's storm clouds but I'm going to change it … it's a hurricane."
~ Jamie Dimon, JP Morgan CEO. June 1, 2022

Hello Everyone,

It's been a while since I've written a missive.

I am so grateful to Walt for covering for me ---- and to all of you for your support during my run for governor. Words can't express….well, you know the rest.

Thank you.

So, let's turn from politics to economics and explain how the theme song from Cheers connects to Jamie Dimon's warning.

For those of you who watched Cheers, you may remember you rarely saw Norm, Cliff, or Frazier (the patrons) pay Sam Malone (the bar owner) for their drinks.

No. Sam ran a tab.

Basically, Sam had a "mental line of credit" he extended to his regulars. He "knew their names." The line of credit was likely different for each customer.

Norm was the least financially secure, so Sam may have settled-up at the end of each night with Norm-y. Cliff was employed by the postal service. He wasn't rich, but had steady income. Maybe Sam and Cliff settled-up once a week. Frazier, the psychiatrist (not pictured), was the wealthiest of the three. Sam may have extended Frazier's bar tab (credit line) for weeks without much concern.

The point is this: credit can act as money. And credit can be both flexible------and fickle.

For example, what if Sam heard that Cliff had lost a bag of mail? And what if Cliff might now be fired? Sam might be inclined to insist that Cliff settle-up each night. Cliff, of course, would also be nervous about his employment status. Thus, he may not frequent Cheers quite as often.

That would be bad for both Sam and Cliff.

Now let's say the same type of thing happens to Norm---and even the rich-guy, Frazier. Sam would likely do what all smart bar owners do. He'll either limit—or even revoke—the lines of credit. After all, it's better to not make money than to lose money.

Realize though, with respect to withdrawing credit, the slowdown came first. In this scenario, Sam just reacted to what he saw/learned.

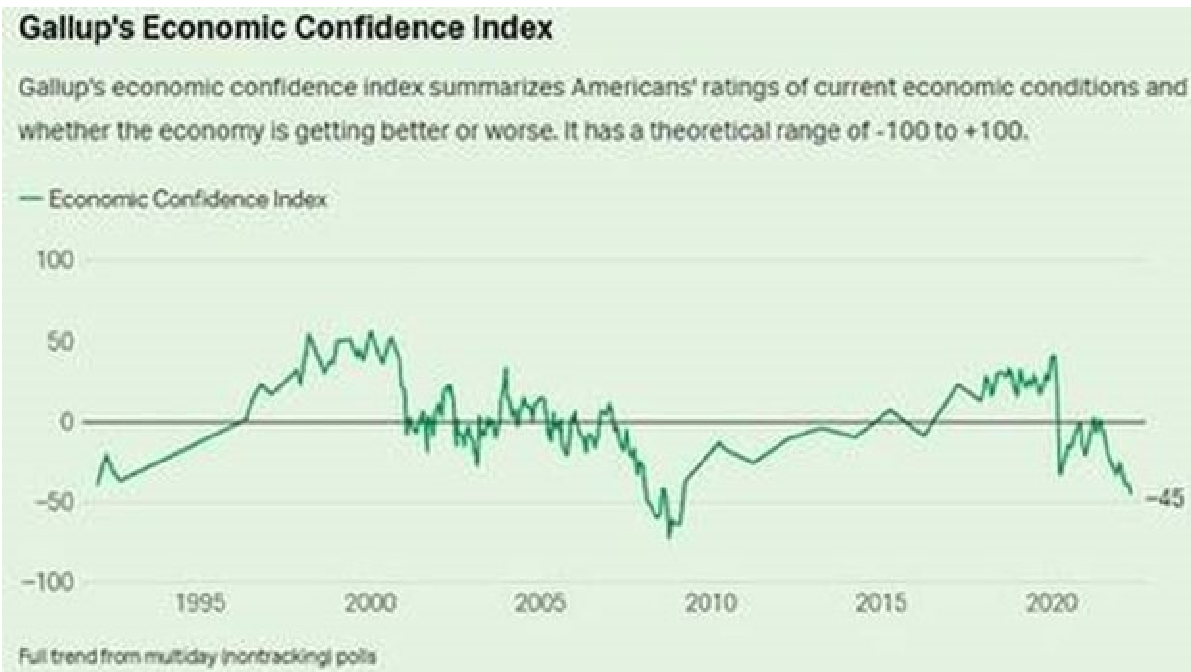
All of which brings us to Jamie Dimon's quote. A hurricane? Wait. Jamie, you are the CEO of JP Morgan. What are you seeing that Greg and Walt from Albuquerque aren't?

Allow me to speculate.

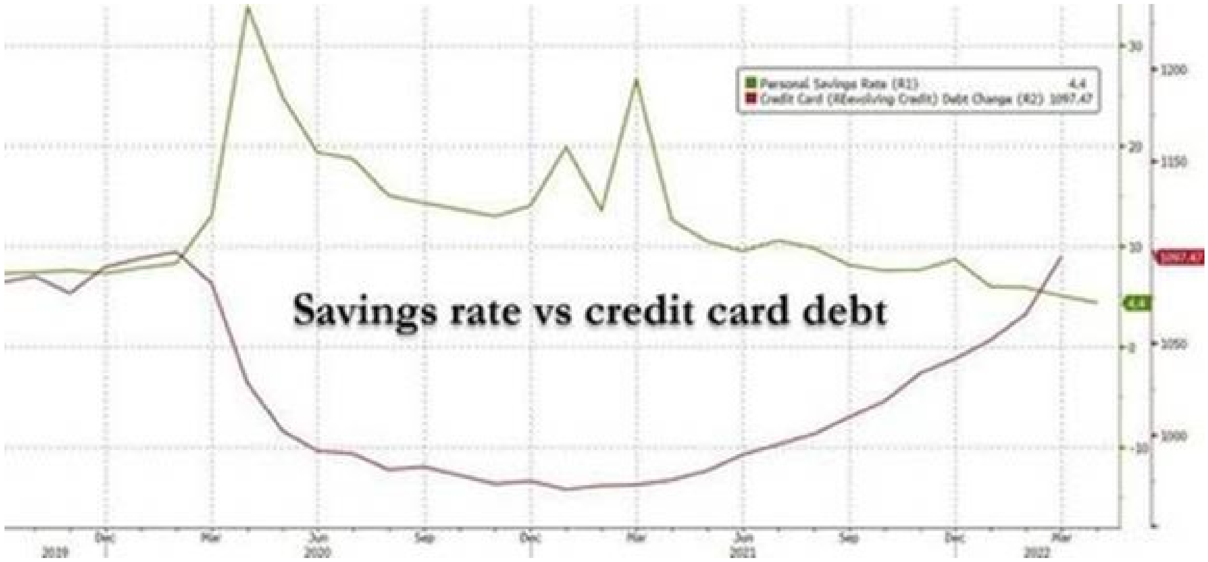
The thing about extending credit (a la Sam at Cheers) is that credit can scale up. Thanks to mega and meta databases, the sharp-pencil teams at JP Morgan (JPM) can know more about Norm, Cliff, and Frazier than Sam could ever hope to know.

JPM can also know more about Microsoft, IBM, and Wal-Mart than the general investing public.

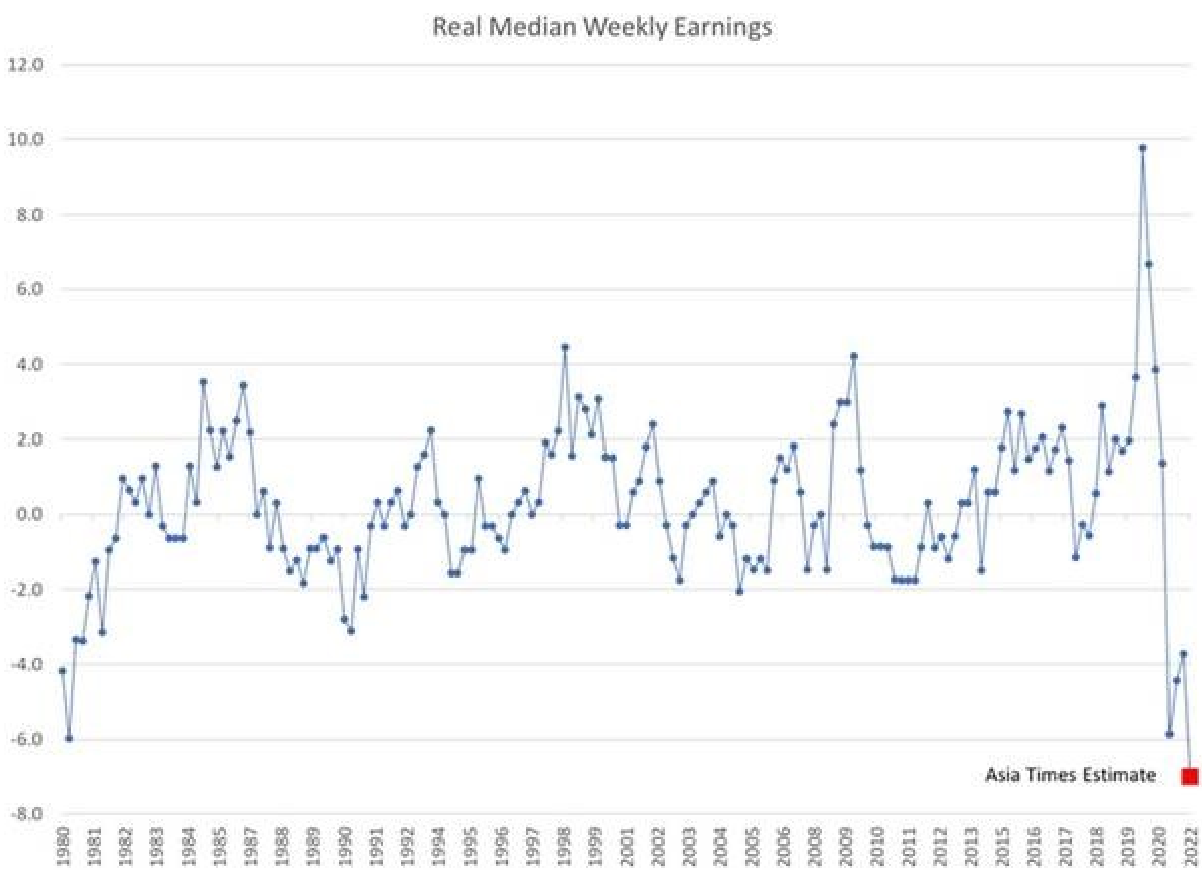
Knowing this, let's take a look at some charts.
This one shows economic confidence falling.



The next chart shows that Americans are dipping into their savings accounts and using their credit cards more often to make ends meet. Hmmmmm.



This next chart shows the buying-power of workers' earnings (think paychecks) once inflation is considered.



So, to summarize:

- Confidence down.
- Savings down.
- Credit card debts up.
- "Real" (inflation adjusted) wages dropping fast.

Does that translate into more or less money being spent at Target, the Apple Store, or Amazon?

Thus, whether you are Sam at Cheers or Jamie at JPM, would you be extending more credit or less credit to Norm…or for that matter IBM?

And since credit can act as money, you can see how we could easily get a self-reinforcing financial hurricane that Mr. Dimon is warning about.

But never fear! If Jamie and Sam won't help, Uncle Sam will. Unlike Jamie and Sam, however, Uncle Sam won't loan you money. Uncle Sugar will just give you money. It is already happening.

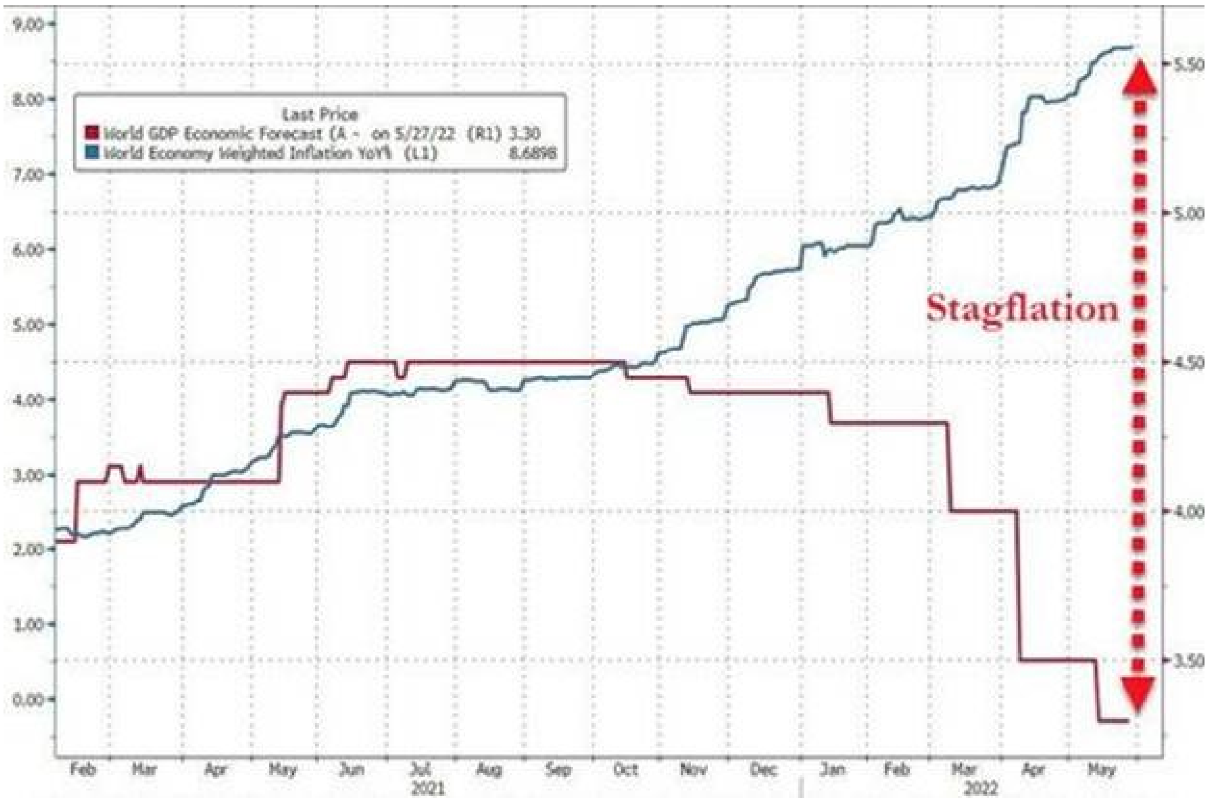
$10,000 in college loan forgiveness. Isn't that just a $10,000 bonus?

What about the billions going to Ukraine? Isn't that just billons printed out of thin air going to defense contractors? How about that Green New Deal? You get the idea.

The point is, **Uncle Sam does not lend money (extend credit) into existence. The US Government spends money into existence.**

This is money that does not have to be repaid. This money behaves much differently. It acts like a sugar high. Or a drug hit. It feels good until people start to say, "Hey, how many of these dollars have been printed?! How much confidence can I have in this currency?"

Oh, and we are not alone. The whole world is doing the same thing. Printing and hoping. Historically, this is the road to "stagflation," which is a stagnant economy coupled with rising inflation. Take a look at this final chart.



This is a good graphic that explains why you are invested as you are.

Hard assets (things that can't be printed) are the tried-and-true investments to get us --"the ones who are still sane" -- through the craziness that lies ahead.

Signed, Your Glad-I-Ran-for-Office-But-Happy-to-Be-Back-Boring-You-With-Endless-Charts Financial Advisor,
Greg

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