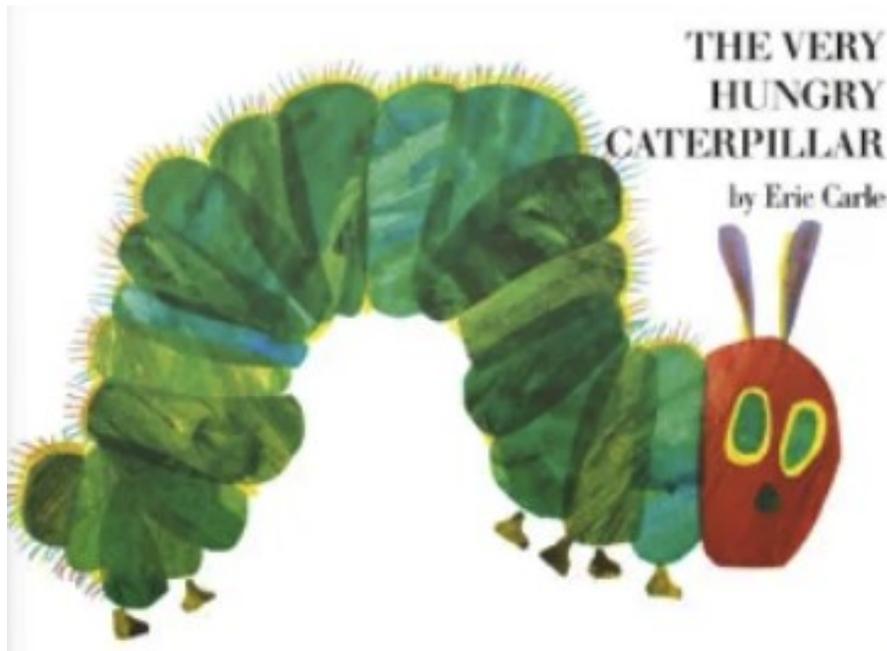




Zanetti Monday Missive 2022.06.20 The Very Hungry Caterpillar

**"Now he wasn't hungry anymore -- and he wasn't a little caterpillar anymore. He was a big fat caterpillar."
~ Eric Carle, *The Very Hungry Caterpillar***

You're probably wondering what in the world the beloved children's book, *The Very Hungry Caterpillar*, has to do with investing.



Hang on and I'll show you...

This past week I read an interesting headline:

3% **See more at [WSJ.com/Markets](https://www.wsj.com/markets)**

Caterpillar
Shifts
Its Main

Office To Texas

BY AUSTEN HUFFORD

Caterpillar Inc. is decamping to Texas from its longtime Illinois base, joining other major U.S. companies weighing hiring and costs as they work to move past the continuing Covid-19 pandemic.

The maker of construction and mining equipment said

That's right, Caterpillar is moving its headquarters from Illinois to Texas.

And just to be clear, we're talking about Caterpillar the heavy equipment company, not the cute little critters that grow into

butterflies.

So, why is Caterpillar moving its headquarters? Well, simply put, because the company cares about money.

Caterpillar (CAT) is a publicly traded company. People invest in the company for a few reasons, but one of the main reasons is because people want a return on their investments. The way a company makes returns for their investors is by selling a product for enough money to create the product, run the business, and have some money left over.

That's called **MAKING A PROFIT!** And a company must do that if it wants to stick around.

A well-run business like Caterpillar can set its prices and control its expenses, but one challenge that a business has a hard time controlling is taxes.

Caterpillar was founded in California in 1925. As the company began to grow and commercialize, they moved to the industrial Midwest where they could set up an assembly line business and ship to all corners of the country with relative ease. That location was Chicago, Illinois.

But over the years, Chicago has fallen victim to its own success – the way other financial powerhouses have.

Illinois, and Chicago specifically, has grown and become successful; attracting and growing a large population. The larger the population became, the more promises politicians made to that population. To pay for those promises, taxes had to be collected, and collected, and collected.

And increased, and increased, and increased.

Today, Illinois has a high corporate state tax. But guess who doesn't?

TEXAS!

Texas has a large labor pool, the Real Estate is cheaper, and the taxes are more favorable. Furthermore, Caterpillar said there were no additional tax incentives offered to the company to move its headquarters.

And this is where we tie back to *The Very Hungry Caterpillar*. The "big fat caterpillar" doesn't have to stay in Illinois anymore. It can move to a new place and become a butterfly.

And, Caterpillar isn't the only company on the move. And Illinois isn't the only expensive state.

Tesla, Oracle, and HP have all moved their headquarters from California to Texas.

These moves have gotten me thinking. Yes, a dangerous pastime of mine.

Money moves all the time.

It moves from one person to the next. From one investment to the next. From one city or state to the next. From one

government to the next. That's how money works.

When local government increase their expenses, they have three options: 1) decrease those expenses, 2) raise taxes, 3) default. The Federal government has a third option: PRINT MORE MONEY!

We already know it's unpopular to decrease government expenses when the population gets used to the comfort provided from those expenses.

Now we're seeing how unpopular it is to keep raising taxes on the few (the employers like Caterpillar, Tesla, Etc.) to pay for the expenses of the many. If there's a choice, the few get up and leave to go somewhere less "tax-y."

Local governments can change paths though, and taxes can rise and fall depending on the market movements. So, Illinois may make enough changes to bring money back into the state.

The scary one is the Federal government. The most popular option is the one they choose the most: PRINT MORE MONEY. And it's the easiest.



The problem is this can camouflage the economic disease lurking under the surface. This has happened in the US for quite some time and now it's painfully obvious to everyone with exceptionally high inflation.

But what's not clear to everyone yet is that the US spends more than it makes and the only way it can cover those expenses is to print more money.

We're now at a point where something's got to give. Either the government cuts expenses (improbable), raises taxes (unpopular – and might push away taxpayers), print more inflation causing money, or default.

The wild card for the government is to think outside the box, as President Franklin D. Roosevelt did when he increased the price of gold by 75% after the Gold Reserve Act of 1934. This shrank the deficit and allowed the government to pick up the pace of spending.

We shall see if the U.S. has another wild card up it's sleeve. But

no matter what, something's gotta give.

Meanwhile, that's why Greg and I are not quick to encourage people to hold a ton of cash right now. We would rather exchange cash for things that hold value, are in demand, and can't be printed.

Your Caterpillar-Considered-Moving-North-Of-Texas-But-Didn't-Because-It-Was-Just-OK Financial Advisor,

Walt

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Our mailing address is:

5120 San Francisco Rd NE
Suite A

Albuquerque, NM 87109