



Zanetti Monday Missive 2022.08.15 A Federal Rug Pull

**"Honesty is the best policy - when there is money in it."
~ Mark Twain**

How much is a "**TRILLION**"?

I got to thinking about that number after Greg explained the "water dropper" math at Cowboy Stadium.

We hear trillions thrown around a lot these days. Especially when it comes to the economy and the TRILLIONS of dollars the Treasury printed during the Covid pandemic.

We used to not hear that word too often. Even typing the word out feels weird. But now we hear it a lot, and it's almost becoming a word that just rolls off our tongue. Or at least the tongues of the mainstream news outlets.

In the “real world”, a trillion is so massive it’s difficult to truly comprehend. But let’s take a stab at it, shall we?

If you earned \$1 per second, it would take 11 days to make a **million** dollars.

Now \$1 per second is a pretty good income, wouldn’t you say? And, heck, working 24 hours a day at that rate, you’d be a millionaire in only 11 days. Sign me up! It’s easy to produce a lot of cash at \$1 per second, right? Well, hold on...

If you wanted to make a **billion** dollars, at that breakneck speed, it would take 31 years.

31 year is much longer than 11 days, but “only” 31 years to become a billionaire? Not bad!

What about a trillion dollars? Well, buckle up Buttercup. At \$1 per second, and at 24 hours per day, it would take 31,688 years to earn 1 trillion dollars.

Crazy! Right? The Great Pyramid of Giza was built around 4,500 years ago!



But that's how long it would take some low-achiever to earn a trillion dollars.

Not the US Government! No, siree! They can "print" 6 trillion dollars during Covid and voila! No more waiting 31,688 years! It's here. Sent out in stimmy checks.

And let me also say, again in reference to the water dropper analogy, it took the US Government 227 years to print its first \$6 trillion. Then in a matter of months recently, it printed that amount again.

Oy vey!

The Federal Reserve reassured us that this massive printing would not create inflation. Then that inflation became "transitory." Then we were told inflation was actually a good thing for the economy.

HUH???



We are now looking at the largest debt in the history of the world.

The US Federal debt is now over \$30 trillion. To put that back in the perspective we had earlier – at \$1 per second, it would take over 966,484 years to pay that off.

Of course, to shrink the debt, Congress could drastically cut spending. But that's not how politicians get re-elected so I wouldn't count on that one. They will continue to spend more than they earn (via taxes).

How does the overspending get paid? DEBT! The US

Treasury just issues more debt to cover the difference.

Then, the Federal Reserve creates more US dollars out of thin air to purchase that debt. (BTW, the US Government is the largest purchaser of its own debt.)

And what does that dollar creation do? It leads to further inflation. In the old days, they called this “debasement of currency.” It’s what happened when kings would shave off the edges of their gold coins so they could create “more” coinage – but the market catches on to that pretty quick and prices move higher.

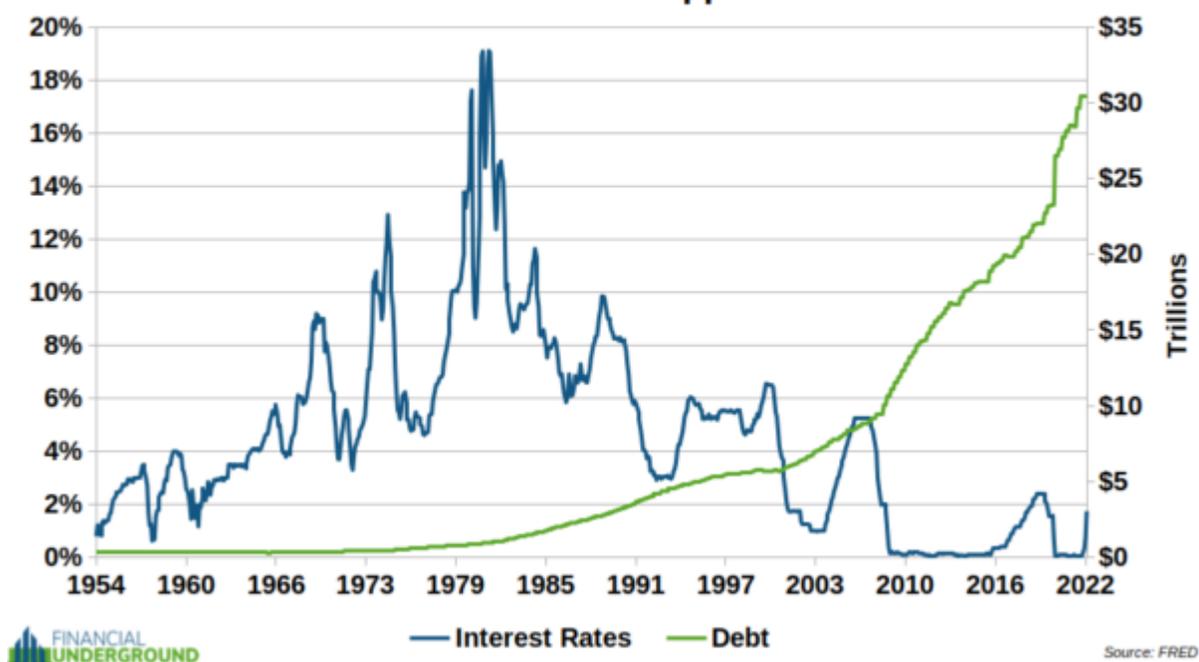
But now the Fed is trapped!

Inflation is so high that the Fed will need to keep raising interest rates. But let’s say they raise it to 10% (only about high as it was in the 1980s) – the US Government would be paying that 10% interest rate on it’s \$30 Trillion of debt.

Their annual debt payments would be more than what the government brings in with taxes per year!

As you can see from the next chart, the higher the debt, the more painful it becomes to raise interest rates!

The Fed Is Trapped



In short, the Fed needs to raise interest rates to combat inflation, but it can't because that would lead to its own bankruptcy.

So, I think interest rates will fall sooner rather than later. When that happens, inflation will continue to climb. As it climbs, we will be ready. We **ARE** ready. At least when it comes to your investments.

Your The-Problem-With-Zero-%-Interest-Is-That-It-Makes-No-Cents Financial Advisor,

Walt

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