ZANETTI FINANCIAL, LLC

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Speed Wobble

"If everything seems under control, you're not going fast enough."
~ Mario Andretti

Hello Everyone,

Mr. Andretti may be right when racing a car. But when economies start careening, that's another matter.

Today's missive will use the analogy of "speed wobbles" to explain why everything seems so topsy-turvy in stocks, bonds, commodities, real estate, and even cash.

So, let's get to it.

Speed Wobbles.

The scientific definition of a speed wobble is “an oscillation….at frequencies too high for an effective reaction of the rider.”

For layman like me, imagine this:

You are 12-years old and on a skateboard. Your older brother says, “Hey, grab this rope and I’ll pull you on my motorcycle.” So, being young and dumb, you say, “Cool!”

All is well at the beginning. You think, “I can do this.” Then your brother decides to pick up speed. And you think, “This is so much fun!”

Then the little wheels on your skateboard start to meet the limits of their capabilities. They can’t handle the turns the motorcycle makes----or the bumps in the pavement.

Something knocks you a little off balance. Your skateboard wobbles. You overcompensate. That overcompensation then causes a bigger wobble. You try to steady the board. Compensate back. But it’s too late. A tiny rock causes the board to flip. You fall. Flesh meets pavement. You scrape your face and the entire side of your body.

And your brother yells at you for being uncoordinated.

That’s speed wobble.

And what does that have to do with investing you may ask?

I believe this is what the global economy is going through right now.

A few years ago, no one would have imagined:

- Europe in the throes of an energy crisis and now assured of a recession…or possibly even a depression.
- China experiencing persistent bank runs--- and on the verge of a deep recession (depression?) as well.
- The US saying, “We really think we can navigate a soft landing in our economy.” Uhhh, OK.

So what happened?

Prior to 2020, our financial skateboard was humming along behind the motorcycle of low inflation, low interest rates, free trade, and relative peace.

And, yes, a lot of Federal Reserve “stimulation” unnaturally propelled us along.

Then we hit a very real bump. Covid. Wobble.

Then came a global governmental overreaction. Lock downs. School closures. Draconian business mandates. Centralized directives. (Remember Ford and GM making ventilators?) Massive government spending programs.

It was as if our motorcycle-riding brother (the government) hit the **brakes ("*Shut down the private sector!*")** and the **gas ("*We need government stimulus!*")**, at the same time.

That overcompensation caused more financial and economic wobble than the original cause.

The greater-wobble included Inflation, rising interest rates, rising unemployment, and massive wealth disparity. The wobble also turbocharged the real estate and stock markets.

For better or worse, all of this affected our personal financial skateboards.

Now here we are.

Despite reassurances that things are returning to normal, many of us sense things are not under control. Things are still moving too fast.

We wonder. What will cause the next speed wobble? Can we handle another one? How?

Now the Federal Reserve is trying to bring us back to center. They say they can stop the wobble of inflation by raising interest rates and cutting off the "punch bowl" of free money.

But Fed Chair, Jerome Powell, also admits his compensating actions will cause “some pain.”

Allow me to translate what he means:

- Our current recession will deepen.
- We will have rising unemployment.
- Credit crunches are all but assured. (BTW, the business-world survives on credit creation.)
- Energy disruptions are likely.
- Economic/trade wars will ramp-up as nations look for ways to gain even the slightest trading advantages.

And while that may seem gloomy, the reality is huge opportunism will manifest investment-wise as the world adjusts.

We just need some financial situational awareness.

First, realize three pillars of low inflation are now gone:

- Cheap Chinese/Asian labor providing low-cost consumer goods to the west is fading quickly.
- Low-cost energy available from multiple sources is a thing of the past. War, changing alliances, and remarkably naïve, foolish, and politically-motivated policies have almost certainly guaranteed higher fuel costs.
- Just-In-Case has replaced Just-In-Time. The efficiencies of “just-In-time” deliveries are not possible with broken supply chains. Redundancies (think warehouses and alternative supply lines) are required…just in case.

Next, interest rates will continue to rise, but never as much as the inflation rate. Here is why:

- The US Government is America's biggest debtor. The Fed can't raise interest rates too much without bankrupting Uncle Sam.
- Also, rising rates are kryptonite to stock, bond, and real estate markets.

Unfortunately, bad politics usually trumps good economics.

Therefore, somewhere, "out there" the pain will be too high, and the political pressure too much, for Mr. Powell. The Fed will have to pivot back toward easier money.

But, that pivot will have national and international consequences for our currency. More wobble.

And never discount that "unforeseen event" (Wall Street calls them black swans) that ends up being the little rock that flips our financial skateboard.

What that black swan is, is anyone's guess. A banking collapse in Europe? An earthquake in California? The sinking of a British aircraft carrier? Who knows? Whatever it is, we will then blame that for our tumble. But, in truth, we guaranteed our eventual fall when we grabbed the rope of debt and easy money in the first place and said, "Cool! We can do this!"

This doesn't mean it's the end of the world. To the contrary. Life will go on. We will learn. Get smarter. Dust ourselves off and embrace better, more honest, and stable ways to build an economy.

Until then, invest in things that don’t wobble much. Food, energy, commodities, precious metals. These are things people have needed (or wanted) for thousands of years. You’ll then have the means to clean up the scrapped knees of those who tumbled.

Signed, Your Really-Wants-Our-Clients-To-Avoid-A-Face-Plant Financial Advisor,

Greg

(i) whether you now currently or may in the future become a client of Zanetti Financial, LLC and (ii) the terms contained in any applicable investment management agreement or similar contract between you and Zanetti Financial, LLC.

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