



Zanetti Monday Missive 2022.09.18 The Cobra Effect

"We have forty million reasons for failure, but not a single excuse."

~ Rudyard Kipling

"Nobody in football should be called a genius. A genius is a guy like Norman Einstein."

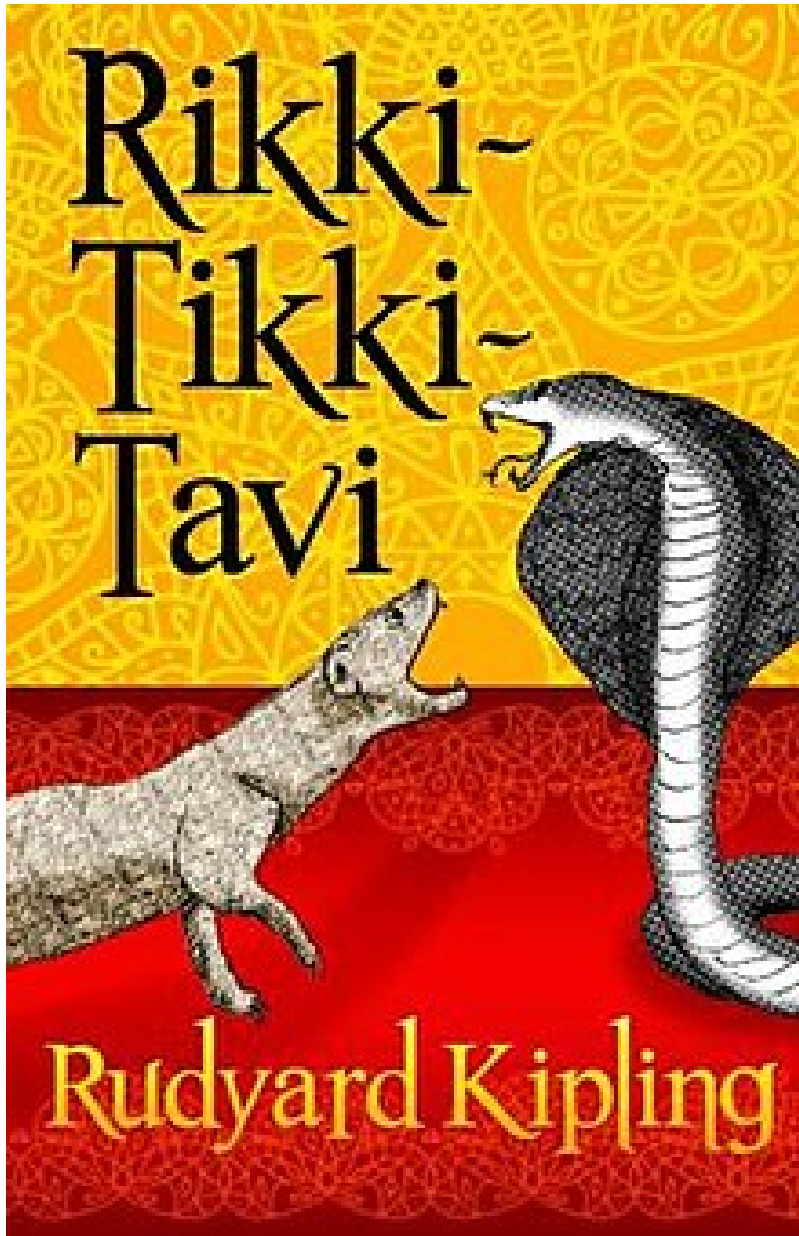
~ Joe Theismann, Former Washington Redskins Quarterback

Happy Monday everyone!

If you've been around Greg long enough, you may have heard him talk about the Cobra Effect.

For those of you who haven't heard of this phenomenon, it stems from a famous incident when Great Britain controlled the Indian subcontinent in the late 1800s.

If you ever read the short story Rikki-Tikki-Tavi by Rudyard Kipling, you know Cobras are a dangerous problem in India.



Back in the late 1800s, there was an official in the British government who realized the best way to solve a problem is with good ol' fashioned GOVERNMENT INTERVENTION!

So, this old chap decided to place a bounty on every

dead cobra the locals brought in to the government offices. And it started working!

The locals started catching and killing cobras and bringing the carcasses in for money. The government was happy to get rid of these pests and the locals were happy to get extra cash. WIN-WIN!

But a funny thing started to happen, and the government official took notice. Instead of the volume of dead cobras declining, the pace was picking up! The locals were bringing in more and more every day. Each day saw new records for dead cobras being turned in for more money.

The locals were getting rich!

Finally, the government official started investigating. Lo and behold, what did he find? The locals had begun breeding the cobras as a cash crop!

The exasperated bureaucrat threw up his hands and immediately ended the reward program.

The locals had no use for these now worthless cobras, so they released them into the wild. There were now more cobras in the wild menacing the population than there had been before the government intervention.



This famous illustration highlights how the unintended consequences of government policies can actually create the opposite effect of what was intended.

Joe Theismann might have just as well said the same thing about "bureaucratic geniuses."

How can we tie this story to today's environment?

Let's start with the \$6,000,000,000,000.00 of government stimulus!

The stimmy checks were intended to help the world as we coped with COVID. And, like the Cobra story, at first it did work! The money provided relief to businesses and households who had to shelter in place and lock the doors.

But what it has now produced is crippling inflation that is now forcing the Fed to aggressively raise rates, which is pulling the whole world into a global recession.

In fact, just last week the CEO of FedEx said that based on their international shipping rates, he sees a global recession in the near future. That's right, not just a US recession, but a worldwide recession.

And the world's Central Bankers are now copying what Jerome Powell and Janet Yellen have done. They're admitting they were wrong.

The director of the International Monetary Fund (IMF), Kristalina Georgieva, was in France this past Wednesday and admitted "we were proven wrong: wrong when Omicron hit, wrong when Russia invaded Ukraine, wrong when during this summer, climate shocks [affected] agricultural productivity."



(Pictured: Kristalina Georgieva)

Wait, Russia? Oh, now they're finally admitting they were wrong about that as well???

Yes, in another illustration of the Cobra Effect, Russia is now wealthier than they were before they were hit with world sanctions.

Why is that?

Russia's wealth comes from commodities and commodity prices have risen steeply. It was their cash flow that took the hit when the Western world weaponized the US dollar and stopped trading with them – stopping the flow of US currency (the reserve currency) in their economy. But Russia has since been able to recover their cash flow by trading in greater amounts with China and India. Now the Russian Ruble is stronger than the US Dollar.

Russia has since responded by weaponizing their natural resources and have cut Germany off from their natural gas. If this remains in place, Germany could have a financial meltdown that would have a greater impact than the collapse of Lehman Brothers.

So here we are, and I think just like the Cobra Effect, the world will be in a worse spot financially than if the central planners had just left well enough alone.

That being said, humans still need food to eat, commodities to keep building the world, energy to keep the world moving, and precious metals to offset the erosion of fiat currencies. That won't change anytime soon.

Signed, Your Sounds-Like-Martha's-Vineyard-Is-A-Popular-Destination-Right-Now Financial Advisor,

Walt

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