



Zanetti Monday Missive 2022.10.03 Currency Cage Match

**“The game taught me the game. And it didn't spare me
the rode while teaching.”**

~ Jesse Livermore (Investing Legend)

Hello Everyone!

It is natural to use game analogies when talking about investing. After all, there are winners and losers in both. But it is the “spare the rod” part of Mr. Livermore’s quote that I want to focus on today.

We want to avoid the rod.

So, let’s get to it.

Picture this:

There are three fighters in the ring...

- The first fighter is a lightweight. And though he is the smallest, he is very active....very quick. The crowd is drawn to his movements.
- The second fighter is a middleweight. He is strong and reliable. But he is not very quick or exciting. He does not fire up the crowd.
- The third fighter is a heavy weight. Think Andre the Giant. He is powerful---but ponderous. He is so slow, no one pays much attention to him. If, however, he manages to hit either of the other fighters a knockout is certain.

Fighter number 1 is the stock market. It is the smallest market. But it moves fast...and erratically.

Fighter number 2 is the bond market. It is much larger than the stock market. It moves rather predictably based on interest rates.

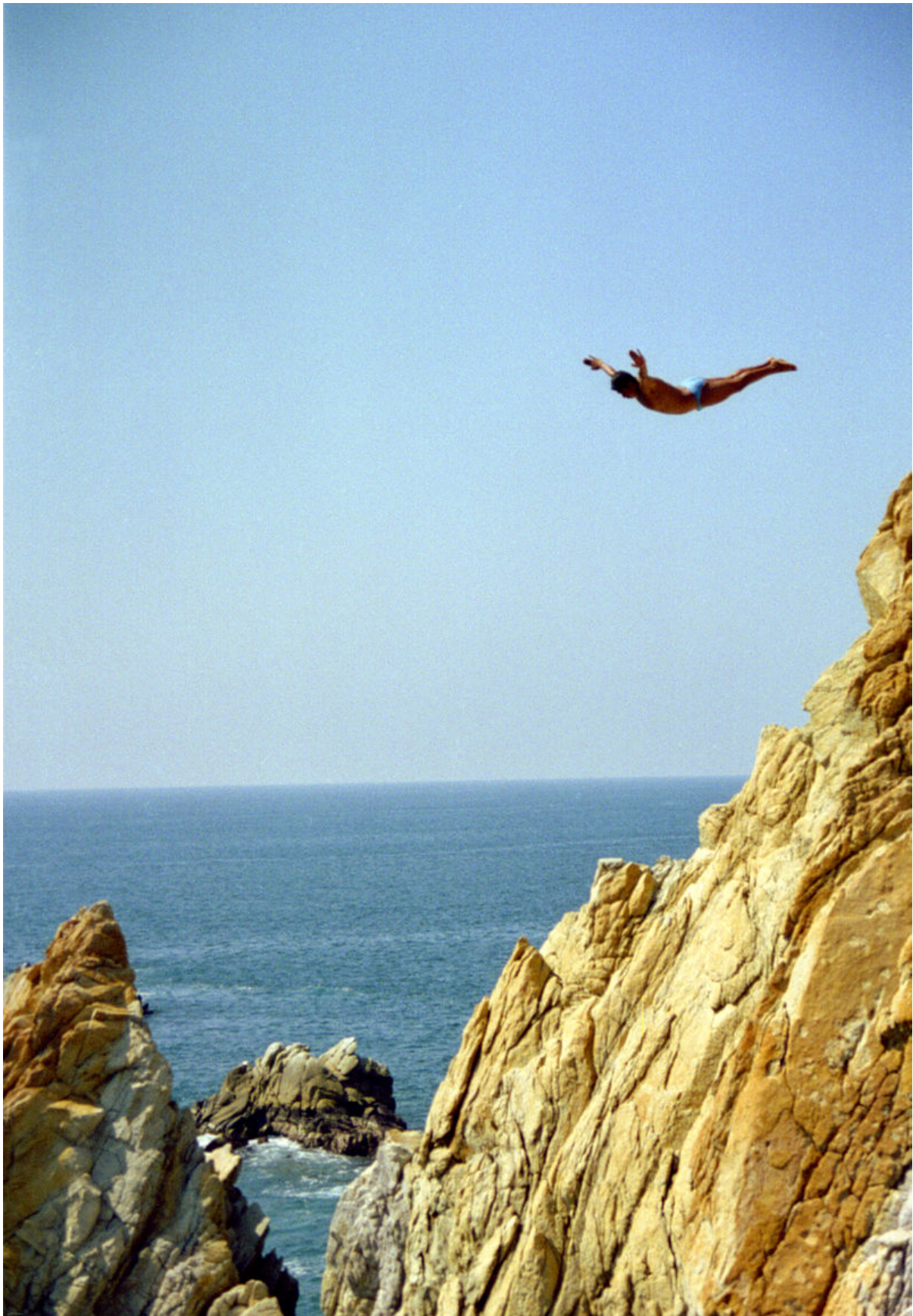
Fighter number 3 represents the global currency markets. Currency markets dwarf both the stock and bond markets combined. They are so big, they rarely move fast. But if they hit you...watch out.

Today, we are going to talk about the currency markets, because suddenly Andre the Giant is swinging quickly and erratically.



Let's start in Asia.

The Japanese yen hit a 24-year low vs. the dollar last week. The Yen vs. Dollar chart looks like an Acapulco cliff diver. The Japanese were so concerned a yen freefall was imminent, the Bank of Japan intervened in the foreign currency markets to support the currency. The Japanese had not intervened since the Asian financial crisis in 1997-98.



Meanwhile, in China, things have gone from bad to worse. China's real estate bubble has popped. (Shocking (!) given

China's culture of corruption and mal-investment.) This collapse has rippled to the banking sector (loans not being repaid) whereby the CCP has been forced to deploy tanks to prevent bank runs and riots.

Moving west...

Last week, the Bank of England had to intervene in the currency markets to prevent the collapse of the British pound. Many of you remember when \$2 bought one British pound. Now they are almost one to one.

Next, the Euro's very existence is now in question. Britain has already left the European Union. Then, last Saturday, Italy elected an "Italy-first" Prime Minister. Italian revelers paraded through Rome taking down European Union flags and replacing them with Italian flags.

Add to that:

- Russia has cut off almost all energy flows to the EU.
- Explosions in Nord Stream pipelines make a European energy crisis a certainty.
- No energy = no economy.
- No economy = no support for the euro.

In short, global currency markets are in upheaval. Stock and bond markets are ducking and weaving trying to avoid knock out punches. But, they are tiring.

So, what does this mean to us here in America?

And what does it mean to your investments?

If you are Japanese, Chinese, British, or German you are trying like crazy to get your money out of yen, yuan, pounds or euros. You are fleeing to dollars. We are the last currency standing....along with rubles, but rubles are a story for another missive.

This does not necessarily mean the dollar is inherently strong.

No. We, too, have printed trillions. We have unpayable debts. We, too, are in a recession. But we are currently the cleanest dirty shirt in the laundry. So, capital is finding its way to the home of the brave.

And, though it may seem paradoxical, as the dollar has strengthened, our stock, bond, and commodity, and precious metals markets have all been pounded lower. (Again, a subject for another missive.)

So, will the dollar strengthen in perpetuity?

No, again.

Behind the scenes, US politicians are fuming at Fed Chair, Jerome Powell. His interest rate hike regimen is contributing to the dollar's strength. And it is also crushing the economy. Many smart analysts believe he will hike until something breaks.

When something "breaks" he will likely do what the British and Japanese have done. He will "pivot" and intervene to

prevent disaster.

Meanwhile, Russia, China, India, (and possibly Saudi Arabia) are working on a commodities-backed currency to supplant the dollar as the world's reserve currency.

So what happens when all the Andre the Giants not only club the stock and bonds markets, but knock each other out as well? What will be left?

If history is any guide, the last one standing will be hard assets. Things you can't print. Oil. Gas. Timber. Food. Gold. Silver. Cotton. Etc. Things people must have.

I know the last few months have been tough. But Jesse Livermore also said, "Be Right. Sit tight." That's good advice.

Signed, Your The-Fed-Is-Behaving-Like-Someone-Who-Overate-For 14-Years-And-Now-Is-Trying-To-Drop-All-The-Weight-In-Two-Weeks Financial Advisor,
Greg

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