Hello Everyone,

Today's missive uses the analogy of sparks and fuel to make a point about both bull and bear markets. As investors, we tend to focus on sparks. They draw our eye and seem more exciting. It is, however, the slow-but-steady fuel build-up that makes a market move.

I hope this helps you see how sides are being defined in today's market. And, why the push-pull of daily market moves is increasing in intensity.

Signed, Your Watching-The-Fuel-Piles-Build Financial Advisor,

Greg

KKOB 10.19.2018 Sparks and Fuel

Bob: So, Greg, last Monday you used the analogy of fuel and catalysts with respect to the markets. You said, markets need both fuel and a spark to move either up or down. And, today, you want to continue with that thread. Right?

Greg: Right. And, Bob, I've come to believe we focus too much on the sparks and not enough on the fuel. The fuel is far more important than the spark.

Let me explain…and, let's start with a positive example

A generation ago, any company that survived the trauma of the late 60's and 70's was generally lean-and-mean by the early 80's. That was the fuel---good, solid companies with experienced management teams. Still, in 1982, stocks were trading at 1965 levels. We needed a spark. Then came Reagan--- and the tax cuts and deregulation. And, whoosh (!) the markets soared.

Of course, we all still talk about Reagan's great moves….which is true. But, without all the quiet, unseen, and underappreciated, hard-work in the prior 15 years, the Reagan spark wouldn't have had anything to light. So, that's a positive fuel-spark example.

Now, let's look at a negative fuel-spark event.

I still hear people say the Lehman Brothers default caused the mortgage collapse of 2008. Now, Lehman was important. It was important as the spark, not the fuel. The fuel was years of bad government policies, Wall Street flimflam, and millions of liar loans. Without that fuel, Lehman would have just been another failed financial firm. With that fuel, Lehman erupted into the great financial crisis. Do you see what I'm saying?

Bob: I do. So the fuel is far more important than the spark. I mean a spark can come from anywhere. It can even be a surprise that catches everyone off guard…like Lehman. But, without the fuel, a spark just disappears without doing much damage.

Greg: Right. This is why properly identifying the fuel source is so important. So, let's look for fuel today.

The bulls will say, "The market is going higher due to the strong economy. The tax cuts and regulatory relief are real. Strong company profits are real. The global economic expansion is real Yes, the Fed printed money after Lehman…the Fed did its job. Disaster was averted. Now, the economy can stand on its own." That, to the bulls, is the fuel to power stocks ever higher. I get that.

Conversely, the bears say, "No. This nine-year market rally was driven-- in large measure-- by financial engineering, not real growth. The Fed's actions masked our problems. They didn't fix it. All that printed money was debt--- and, it's debt that brought on the crash of '29, the dot com bubble, and the mortgage mess of '08.   In reality, the Fed's so-called solution planted the seeds of the next crisis…only this time bigger. And, now that rates are rising, you'll soon see the folly of it all."

Bob: So, is this why the markets seem stuck in neutral? I mean, we had a good run from January to October; but now, the markets are about where they started the year. The debate seems to be ….what fuel pile will spark first.

Greg: I think that's right. And, again, the arguments for both fuel-piles have merit. So, now you look for sparks. I'd say this---the bulls need a new spark. Tax cuts are old news now. So, their spark must be ***accelerating*** organic economic growth.

Meanwhile, the bears are saying rising rates and currency problems are the sparks that will light the debt pile. But, that hasn't happened yet. So, as you said, we're stuck in neutral.

Bob: So, what do you think? Who has the stronger argument? Who sparks first?

Greg: I expect the debt dragon will have to be addressed before stocks can go appreciably higher. I believe debt will be addressed via inflation and devaluations. That means there will be huge opportunities…but, you must position now, and you must position for inflation.

Bob: I already see inflation picking up. It's subtle, but it's happening. How do people reach you?

Greg: My number is 508-5550, 508 triple 5 zero. Or, go to my website at zanettifinancial.com.

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