

Hello Everyone

Today's missive will look at the possibility that we are already in a recession to explain why the market is behaving so erratically.

Oh, and don't view recessions as awful. You have lived through many already. There are plenty of investment opportunities in recessions....depending on their form.

I hope you find this helpful.

Signed Your Congratulations-To-The-Red-Sox-Even-Though-I'm-A-Life-Long-Dodger-Fan Financial Advisor,
Greg

KKOB 10.29.2018 Lumpy Flavorful Recessions

Bob: So, Greg, I know you believe the stock market and the economy are two different things. The market can go up while the economy stagnates, or vice-versa. Still, markets don't like recessions and you want to talk about recessions today, right?

Greg: I do. So, let's start with a quick quiz. Bob, guess how many recessions there have been since 1970?

Bob: I don't know. I was a kid in 1970--- and, frankly, I didn't know much (or care much) about the economy in the 70's, 80's, or 90's. So, I don't know---five recessions? Ten?

Greg: Good guesses...seven. Some were worse than others, but what's telling is your, "***didn't know and didn't care***" observation. Bob, you're normal. Most people don't remember recessions. People find ways to adjust and life goes on. We used to call this the business cycle--- and it was an accepted part of financial life.

Bob: I think I know where you're going with this. Since we haven't had a recession since the post-Lehman mess of 2008-2010, you're saying we're due, right?

Greg: Well, this is the "Greg wondering out loud" thing. As you know, both the Fed and the Department of Labor tend to acknowledge

both the Fed and the Department of Labor tend to acknowledge recessions anywhere from 6-8 months late. They say stuff like, “Based on our revised numbers, the recession started...” and then they give a date several months past. Of course, the reaction is always the same, “Why didn’t you tell us then?”

Bob: So, why don’t they tell us earlier? I mean, why not just acknowledge the recession right away, so people will know?

Greg: Well, they have constraints. Almost every economic statistic is backward-looking by at least three months; so that’s one issue. Plus, they want to show a trend before they make an announcement. That means they need a couple of quarters to verify. I get all that.

Bob: Me, too. So, the good news statistics we’re seeing now are from earlier this year. So, I’ll ask. Do you think, are we already in a recession?

Greg: I see signs. Nationally, both car and home sales are down double digits. Then, last week, Amazon stock dove because they projected rough waters ahead. Well, to me, Amazon reflects retail.

Then, if you look at the finance and transportation indexes (think lending and trucking) they’re both tipping down. So, cars, houses, retail, banking, transports all flashing yellow...and together they comprise a big part of the economy. Thus, it makes me lean back in my chair and say, “hmmmmm.”

Bob: But, like you said, recessions are natural...and, you’re right, my life has gone on pretty much the same through several of these.

Greg: Right. Plus, I’ve come to believe recessions are lumpy things...and they come in different flavors.

So, real fast---let me explain what I mean.

First, lumpy. After Lehman, if you were selling cars or homes, the recession hit you hard. If, however, you were a government employee, or were retired with pension checks rolling in, Lehman didn’t hurt you much. That’s lumpy...recessions hitting some groups harder than others.

Now, different flavors. Some recessions are inflationary. Some not. The post-Lehman recession wasn’t. The recessions of the 70’s, however, were. In those days, car dealers and home builders could adjust prices---

while government employees with fixed salaries--- and retirees--were constantly falling behind.

So, the lumpiness reversed. Therefore, the flavor of the recession (inflationary or not) determines who takes the lumps. And, that sounded really stupid, but do you see what I am so ineptly trying to say?

Bob: No. (pause) Just kidding. It makes perfect sense. So, which flavor do you see coming?

Greg: (laughing) I think it's inflation's turn; but for different reasons than the inflation of the 70's. The coming inflation will be debt and currency driven.

And, that means all kinds of investment opportunities, because recessions are really nothing more than wealth transfers from one group to another. So, on Friday, let's look at how inflation can trick you into thinking you're making money when you're not.

Bob: Sounds good. 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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