

Hello Everyone,

***“Look at the means a man employs. Consider his motives. Observes his pleasures. A man simply can’t conceal himself”*** Confucius.

There is nothing like a Confucius quote to get a missive going. Today we will look at motives. In particular, the motives of the Federal Reserve.

If Confucius is right, I believe you will see the economic landscape more clearly.

As usual, I hope you find this enlightening.

Oh, and since we are waxing philosophic, let’s close with Confucius again.

***When a country is well governed, poverty and a mean condition are things to be ashamed of. When a country is ill governed, riches and honor are things to be ashamed of.***

Signed, Your Was-Confucius-A-Closet-Capitalist? Financial Advisor,

Greg

## **KKOB 04.15.2019 Fed’s Self-Preservation Motive**

**Bob:** Ok, Greg, last week you said since 2008 our economic strategy was like someone in a car smashing on the accelerator and the brake at the same time. The accelerator was spending--- and the brake was debt.

Anyway, after we got off the air, my thought was----eventually we would either run out of gas....or wear out the brakes. Right?

**Greg:** That’s my take. There are limits. And Fed Chair, Jerome Powell, said as much last month in California. He knows what worked in ‘08 isn’t working now.

So, to set this up, I’m going to give you a quick quiz.

Bob, the Fed has three mandates:

- Maximize employment
- Keep prices stable, and
- Moderate long-term interest rates.

So, of those three, which one do you think is the most important?

**Bob:** I don't know. Maybe maximize employment...if people are working the economy normally does well.

**Greg:** It was a trick question. And, now I'm going to get cynical on you. The Fed's primary objective is-----to survive as an institution---to save itself. But that's true of any organization. And right now, the Fed is feeling very insecure--- which is why you will likely see major changes coming over the next several months.

**Bob:** OK. Wait. Why is the Fed feeling insecure? I thought everyone had the Fed on a pedestal.

**Greg:** You're right, but things are changing fast. In 2008, the Fed felt they had to act decisively to prevent systemic breakdown. So, they printed trillions and dropped interest rates to zero.

I'm not wagging any fingers here. It was a tough time. But, as with most actions, there are reactions. Imbalances and distortions ensued. Debts rose. Savers were punished by low rates. And the gap between rich and poor expanded to 1929-ish levels.

And, Bob, it's that rich-poor gap that has now sparked an intense **political backlash**. Thus, any Fed policy that's seen as helping the rich isn't going to fly.

**Bob:** So, that's why we're hearing about auditing--- or even ending-- the Fed.

But, c'mon, there is all kinds of hypocrisy here. I mean the politicians encouraged and participated **in all** the post-Lehman policies.

**Greg:** I know. But fair isn't a word used much in DC. The point is, if you can accept the premise that the Fed will bend to politics to save itself, then their next moves become clearer.

This is why I think Chairman Powell said this last month. *"My (FOMC) colleagues and I believe that we have a **responsibility to the American people to consider policies that might promote significantly better economic outcomes.** **Makeup strategies** are probably the most prominent idea and deserve serious attention."*

Let me translate: *We know our policies imposed an artificiality on the economy that benefited some groups far more than others. We need to balance the scales. That means instead of sending money directly to the*

*to the banks, we need to funnel any new money directly to the American people.*

**Bob:** Wait again. First, that sounds good. I want more money---- and if they are willing to give it to me, I'll take it. Still, I know if everyone gets free money, then it's not free. Prices would have to rise. The national debt would soar. That tells me these "***makeup strategies***" could distort the economy even more.

**Greg:** Good analysis. Even the Fed itself acknowledges what you just said. What they are hinting though is the mandate for stable prices will be sacrificed to placate the public and politicians....and for the Fed's survival.

Thus, as investors, you are being given a heads-up. Fed strategy is going to change. Not yet. But it is coming. It's not a conspiracy. It's not doom-and-gloom. It's merely the recognition that people (and institutions) tend to act in their own self-interest.

Knowing that, you can now adjust your portfolios---and you can do it early, before the crowd catches on. So next week let's dive into the mechanics of all this.

**Bob:** I'd like that. I want to know how they are going to push money directly to us. In the meantime, how do people reach you?

**Greg:** My number is 508-5550, 508-triple-five zero. Or, go to my website at [zanettifinancial.com](http://zanettifinancial.com)

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