Hello Everyone,

“Summer breeze makes me feel fine, blowin’ through the jasmine in my mind.”

The sweet days of summer aren’t necessarily blowing jasmine through my mind, but they are certainly making me scratch my head.

Back in 2012, the acronym TINA became very popular on Wall street. **TINA** stood for **There Is No Alternative.** It meant that interest rates were so low, the only place to invest was stocks. Thus, the stock market was bound to go up. And, up it went.

Now we have a conundrum. Interest rates are still low, yet **TINA** is not working. Asia, Europe, and Emerging markets are all down. The US has been in a holding pattern since January of 2018. What gives?

Today’s missive looks at **TINA** pushed to extremes….the acceptance of negative interest rates in world finance.

I hope you find it edifying and even a little head scratching. :>)

Signed, Your Whatever-Happened-To-Seals-And-Crofts? Financial Advisor,

Greg

KKOB 08.19.2019 Negative Interest Rates

Brandon: Well, I thought August was supposed to be a quiet month on Wall Street. I mean everyone is on vacation. But not this year. The market seems to have convulsions almost daily.

Greg: You’re right. And you know my take on this. At the foundation of our markets is one common denominator….debt. And, I could spout the numbers yet again, but your listeners would get bored. So, let’s approach this another way. Let’s look at how dysfunctional interest rates have become.

Brandon: Well I know the yield curve has inverted. I heard Bob and Lee Munson talking about that last week.

Greg: I heard that segment, too. I thought Lee did a good job explaining it. So rather than repeat, let’s look at ***negative*** rates instead. And, this is a difficult concept for people to get their minds around.

How is it if you loan money to a government, you must pay the government interest? Or, how is it some banks will give you a home loan and then pay you the mortgage interest?! Yet, this is happening across the globe.

Brandon: I know. It makes no sense, but it seems almost accepted now as the new normal.

Greg: Right. What it tells me is we are reaching a point of debt saturation. I mean if economic powerhouses like Germany and Japan can't even afford to pay interest on their debts…they may have already hit the debt wall.

That should raise some eyebrows. But as you said, we have a new normal; so, everyone yawns.

Anyway, Brandon, globally, $16 trillion is trading at negative rates.

Brandon: But rates are still positive here in the US. Not by much, but at least we're not upside down.

Greg: Right. That's why former Fed Chair Alan Greenspan felt comfortable saying if we went to zero percent here again it wouldn't matter--- since so much of the world is in negative territory.

I almost spit out my coffee when I heard that.

Anyway, here's what you can expect.

If the economy slows down, the Fed will likely cut rates to zero...and maybe even go negative. Then they will crank up the QE machine. Remember QE?

Brandon: Sure. Quantitative Easing, which is really just a fancy term for printing money.

Greg: Right. And despite these policies not working in Asia or Europe, we seem intent on repeating them here.

Brandon: So, bottom line. What does this mean for stocks?

Greg: My take is, the sideways chop in markets since January of 2018 is telling you something. Big money is selling while the little guys (via monthly deposits in their 401Ks) are buying. That should make your listeners go, hmmmm.

Next, as you know, the bond market is exponentially bigger than the stock market. Negative rates tell me the bond market is broken.

Finally, currency markets, which are bigger than both the stock and bond markets combined, are signaling a diversification out of dollars and into other currencies.

Therefore, when the next recession hits, stocks, bonds and currencies will all be in flux. And, Brandon, I believe it will be the traditional pie-chart investor who will get hit the hardest.

Brandon: Wait. What's a pie-chart investor?

Greg: You know----the everyday investor who was told something like this: *"Sir, Ma'am, just put 40% in US stocks, 30% in bonds, 20% in international, 10% each in Emerging Markets, and Real Estate and you'll be OK no matter what happens."*

The result is, almost everyone has essentially the same mix of investments.

And here is the irony. Many pie-charts are based on the recent past. Yet, my industry says, "*Past performance does not ensure*

future results." Still, thousands of advisors are trained to sell past performance…even if the investment landscape has changed.

My view is the future will not look like the past. The cycle is changing. That means opportunity (!), but you must adjust. Meanwhile, if you stick to the pie-chart, I believe you will be disappointed.

So, my advice is to ditch the pie chart and invest in things that can't be printed.

Brandon: Now I want a piece of pie. How do people reach you?

Greg: I was told to say this more slowly---my number is 508-5550. Or, go to my website at zanettifinancial.com.

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