

Hello Everyone,

British Investor and Hedge Fund Manager, Bill Blain has an axiom that goes like this:

"The Market has but one objective – the inflict the maximum amount of pain on the maximum number of participants."

It's so British...kind of dour, but also kind of funny.

Of course, our objective here at Zanetti Financial is to avoid financial pain for our clients. Some weeks are better than others.

What seems certain, however, is governments will do what governments will do. They will accumulate massive debt ----and then "repay" that debt via inflation and devalued currencies. There are no historical exceptions....anywhere...anytime.

Thus, our investments are positioned accordingly.

Today's missive looks at how our government is going down the same well-worn path. I hope you find it educational and edifying.

Signed, Your Maybe-We-Should-Take-The-Road-Less-Traveled Financial Advisor,

Greg

KKOB 10.07.2019 We Did It! A Trillion Dollar Deficit for 2019

Bob: So, Greg, I know the government ends its fiscal year on September 30th. So, we closed out 2019 last week.

What I didn't know was 10% of all government spending is done in the ***last week (!)*** of the year. You would think it would be spaced more evenly. But everyone seems to race to spend every dollar before the year ends.

Greg: Right. And, Bob, I'll confess I was guilty of this. When I was in the Army, we all knew if we didn't spend our budget, we might have our budget cut the next year.

So, the speech went something like this. *"Look guys, we have \$75,000 left to spend this year. Now, I'm not telling you to waste*

it. But, if there is anything your unit needs, parts, equipment, desks, volleyball nets, weights, let us know so we can get the requests submitted before September 30th."

Bob: But, if you didn't do that, you'd lose the money---and risk not getting fully funded the next year. So, the incentive was to spend and not to save. I don't think that has changed.

Greg: I don't either. And this is partly how we end up with trillion-dollar deficits. And, yes, for 2019--- in a single year (!)---we overspent by more than a trillion dollars. That's a hard number for people to comprehend.

The irony is, fiscal-year 2019 was pretty good money-wise.

- The stock market did OK.
- Real estate prices reached all-time highs.
- Corporate profits per share hit records.
- Personal income hit a record high.
- Unemployment was near all-time lows.
- There were no major wars or natural disasters.
- There were no banking crises---- or economic panics.

The end result was---- in terms of tax revenues----Uncle Sugar never had it so good.

Still, we overspent by \$1,015,736,491,184.

Bob: You forgot the cents.

So, President Trump is right about the economy doing well, but—you're also right--- no one mentions the spending. I guess if we were really honest about it, some of these good times can be attributed to a mounting pile of debt.

Greg: I think that's a fair statement. And let me add a quick clarification. Yes, the economy has done well, but I'd also say this---the recovery has been remarkably uneven. For many, it's been fantastic. For large swaths, however, not so much. So, the averages are a little deceiving.

The difference is this--- in past recoveries, you could almost always point to some positive gains across all economic groups. But, again, not this time. It's lumpy. And, Bob, that's why--- heading into the 2020 election-- both sides can claim "facts" about the economy and be right.

Bob: OK. I get that. So, let's look ahead. What happens when a recession comes, and tax revenues fall? We all know the spending never stops. Wouldn't the deficits get even bigger?

Greg: Sure. So, what will the solution be?

Well, the Powers-That-Be seem to agree, we can just print our way out of this. The Democrats want to spray money to everyone via the New Green Deal, student loan forgiveness and Medicare for all.

Inflate that debt away, baby!

Meanwhile, as much as I like many of the things President Trump has done, fiscal prudence clearly isn't super-high on his priority list.

Bob: But this will eventually just lead to higher prices for everyone...and, I don't know why I said "eventually". I'm seeing inflation already.

Anyway, as an investor, I know where you are going with this. You'd say, trust your eyes. Inflation is escalating. Therefore, invest in things that can't be printed. For example, you can't print food. And even though higher prices at Albertson's & Wal-Mart are bad for consumers, they're good for investors. Right?

Greg: Right. And that summation was really succinct. You should come work in my office. Anyway--- bottom line---I believe low tech will beat high tech during this cycle.

Bob: What do you pay? And good report. How do people reach you?

Greg: Bob, I could never match your multi-million-dollar KKOB contract. My number is 508-5550. Or go to my website at zanettifinancial.com.

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