

Hello Everyone,

*Slow down, you move too fast
You got to make the morning last
Just kicking down the cobble stones
Looking for fun and feelin' groovy*

Simon and Garfunkel thought slowing down and feeling groovy went together. That may be true as you kick the cobble stones, but not so much in the worlds of finance and government.

Over the next several missives we will look at the connection between the markets and politics. It is not as clear as you might think; which is a constant source of frustration to investors.

Today's subject is "time-lag". I hope you find yourselves doing head nods as you read it.

Signed, Your Now-Singing-*Hello-Lamppost-what-Cha-Knowing-I've-ComeTo-Watch-Your-Flowers-Growing-In-My-Head* Financial Advisor,

Greg

KKOB 11.15.2019 Politics, Governments, Economies & Investments --- Part 1 Time Lag

Bob: So, Greg, on Monday you and Brandon made a connection between the military and the markets, but today you want to start a series that connects government to the markets. I know we have an audience that's very politically attuned. I'm not sure you can tell them much they don't already know.

Greg: I know. And for that reason, this isn't going to be a "current events" series. Instead, my hope is to give your listeners a framework by which they can reasonably decide if a political event will affect their investments.

Bob: Well, I know with current events you are fond of saying, "*How will this affect IBM's profits?*" In other words, let's say, President Trump is impeached. Will that really affect how much stuff IBM, or Apple, or Ford sells?

Greg: Right. And, that's a great place to start. Often, you'll find the news of the day doesn't affect markets the way you would logically think. This is why guys who trade off the headlines get so frustrated when markets supposedly don't "behave the way they should."

So, let me offer some ideas why---- and let your audience decide if they have merit.

The first concept is something called "*time lag*".

We all know government moves slowly. Obviously, there is a time lag between the political diagnosis of a problem and then addressing it. The reasons are understandable.

- First, the politicians themselves must be educated about the cause --and the nature-- of the problem.
- Next, they must decide if they will either gain or lose power by addressing said problem.
- Then, if they think they will gain power, they must recruit others to their cause.
- Next, they must decide how to tackle it both politically and "in the real world".

- Then they must craft, introduce, debate, and pass a bill.
- And, if it is enacted, the bureaucrats must write the rules and regulations to implement the law.

The point is, by the time this all happens, the original problem may have:

- Been solved
- Changed dramatically, or
- Metastasized totally out of control.

Bob: Isn't this what happened with the housing mess of 11 years ago? I mean lots of smart people were warning about the house flipping, the liar loans, the fake appraisals, and so on. But, no one did anything until it blew up into a full-blown crisis.

Greg: Great example. Representatives like Ron Paul and David Stockman saw the future. They warned. But no one listened because there was no immediate political gain to be made by slowing the *get-rich-in-mortgages* phenomenon. So, the responsible politicians couldn't get consensus, and any hope of heading off the crisis ended there.

And, even if they had gotten consensus, they weren't warning until (what?) late 2006? They probably needed at least two years to get through all the steps to overcome the time lag. By then, it was probably too late.

Bob: I get all that. And, I believe all our listeners get frustrated at how slowly government moves...and how it mis-prioritizes things. It seems, important issues are ignored, and commonsense things take years to get through committees.

Greg: Right. And this is so much different than the way successful businesses run. When a problem is identified, smart businesses jump on it-- because profits and survival are the motivators.

Meanwhile, government is only attuned to the power game.

And, once elected officials get snared by that tractor beam, political survival and success soon become more important than the common good.

Bob: So, this is why the debt issue isn't addressed either. The political cost is deemed too high. But I believe both Republicans and Democrats know we can't run trillion-dollar deficits forever...but still nothing happens.

Greg: Exactly. And, that's a good place to start on Monday. Let's explore two things--one called logrolling and the other regulatory capture to see why the Tea Party--which started with such great promise to reduce the debt---isn't heard from much anymore.

Bob: I think I am going to like this series. How do people reach you?

Greg: I hope so. And, my number is 508-5550. Or, go to my website at zanettifinancial.com.

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