

Hello Everyone,

Does anyone remember the “psychic” Miss Cleo? 20 years ago, she was a staple on late night TV. People would call in and she would answer questions about love, money, and work.

Well, 2020 is upon us---and though I am no Miss Cleo---there are some things that are predictable.

- The Federal Reserve will be buying US Government debt.
- There are new hidden taxes coming your way.

Today’s missive addresses the first bullet point above and, as usual, I hope you find it edifying....and, confirming regarding your investment mix!

Signed, Your Prepared-To-Be-Surprised-In-2020 Financial Advisor,

Greg

## **KKOB 12.30.2019 Mr. Math in 2020**

**Brandon:** So, Greg, this is our last report of the year. And, as I look back over 2019, many things you said would happen in the financial world came to pass. At the same time, I don’t think you saw the political landscape evolving as it did.

**Greg:** No. Politically, I wasn’t even close. I’ll say this--financial predictions are easier because math doesn’t care if you’re Republican or Democrat.

**Brandon:** That’s true, but if you had told me the President would be impeached--- yet the market would be up over 20%, I would have thought you were crazy.

**Greg:** Right. I thought some “crisis of confidence” theme would bleed over to Wall Street, but investors didn’t care. I guess that’s why Yogi Berra said, *“It’s tough to make predictions, especially about the future.”*

Having said that, I am still going to make a prediction about 2020. And, Brandon, it's not a hard one to make because it is already underway.

Here it is. The Federal Reserve will be forced to monetize trillions of US Government debt in 2020.

**Brandon:** Ok. Wait. Before you go on. I have heard the term "monetize the debt" before---- and I'm pretty sure I know what you mean. But pause here and just clarify.

**Greg:** Of course. Sorry. When a government issues a debt, it's similar to issuing an IOU. Well, as with any IOU, someone must first loan the money. Once loaned, the borrower/government is obligated to pay the lender back with interest. Easy enough.

But what happens if no one lends? At that point, government can do something you and I can't. They can print it. That's where the Federal Reserve steps in. They print the money and give it to the politicians. That's called monetization. Maybe a better word would be money-ization.

**Brandon:** So, you're saying this is an easy prediction because Fed Chair, Jerome Powell, is already printing to cover the government debts. Right?

**Greg:** Correct. So, what's going on? What prompted this?

Well, Brandon, do you remember back in September when Bob and I talked about how overnight lending had frozen? Three months ago, banks stopped lending to each other...trust broke down. Which is exactly what happened during the Lehman mess of 11 years ago.

**Brandon:** I remember that. You said----to keep the banking system greased--- the Federal Reserve started lending billions to

any bank that needed funds. So, I assume the printing started then.

**Greg:** It did. But what started out as a small problem metastasized...quickly. In September, we needed \$20 billion a day in financial grease. By December, we needed a half a trillion (!) to get us through two weeks! Yet, no one explained why. And who authorized the Fed to print like this?!

**Brandon:** I don't know. But it seems like something is broken...otherwise we wouldn't need so much.

**Greg:** I agree. So, what broke? Some believe---several European and Asian banks are in trouble. Others say JP Morgan saw that situation and piled on to make a profit. And while there is merit to both those cases, the most compelling argument is there aren't enough buyers of our government's debt. Thus, the Fed is printing to keep government funded.

So, let's look at Mr. Math and see why my prediction is easy.

Over the course of 2020, \$4.7 trillion of US Treasuries will mature and must be rolled over. That's a record. On top of that we'll add another \$1.2 trillion in new debt. That means someone must loan us nearly \$6 trillion over the next 12 months.

Brandon, who is going to do that? Europe? Asia? The Saudis? Grandma and Grandpa buying savings bonds? Probably not.

The Federal Reserve will likely print---and thus monetize a hunk of that \$6 trillion. Otherwise the system grinds to a halt.

**Brandon:** So, we may be able to keep interest rates low, but inflation (which I am already seeing) will accelerate. Right?

**Greg:** That's my take. And, as that reality becomes visible, I believe all kinds of investment opportunities will arise.

**Brandon:** Enjoyed it as usual. Happy New Year-- and how do people reach you?

**Greg:** Happy New Year to you as well. And, just go to my website at [zanettifinancial.com](http://zanettifinancial.com).

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