

Hello Everyone,

"All roads lead to Rome.

French Poet, Alain de Lille, 1175

"All roads lead to money printing."

American Financial Advisor, Greg from Albuquerque, 2020

World stock markets today are rallying because China, Europe, and the US are all "prepared" to stimulate (translation: print money and lower interest rates) to cushion the blow of the coronavirus.

We predicted this three weeks ago.

Today's missive, however, comes at money printing from a different angle...i.e. the US Budget for 2021. My take is, the financial answer to the budget will be same as the financial answer to corona. Print baby, print.

Signed, Your Would-Have-Liked-To-Have-Met-Alain-de-Lille-And-Discussed-Rome
Financial Advisor,
Greg

KKOB 02.24.2020 2021 Federal Budget...Surprise!

Bob: So, Greg, over the past few weeks, we've focused on China and the coronavirus...and for good reason. The stock market has lost 4000 points from its high. But, today, you're **coronavirus-ed out** and want to talk about something far more exciting---the budget.

Greg: I sense some doubt about the entertainment value of this segment. And yes, there is more to markets than the coronavirus.

So, let's start with this. Three weeks ago, Congress released its proposed budget for 2021. Here are some of the highlights:

- We're expecting another trillion-dollar annual deficit. OK, we're used to that.
- Next—and here is the surprise---the budget proposes to “cut” hundreds of billions of dollars of funding for Medicare and Social Security over the next decade.

Bob: OK. Wait. You and I both know there is no way politicians will be able to cut funding to either Social Security or Medicare. It's political suicide.

Greg: You are correct. But we also know both programs have—uhh let's say---financial challenges. Social Security's own 2019 report said outflows have exceeded non-interest income since 2010.

Oh, that means they'll be broke by 2035.

Meanwhile, Medicare is in worse shape. That Trust fund will go bust in 2026. That's only six years from now.

That prompted this nugget. The government needs to give taxpayers ample time to ***“adjust their expectations and behavior to the major changes that will end up being made to the program(s) as a result of these fiscal realities.”***

Bob: What does that mean...***adjust their expectations and behavior?*** And, what changes?

Greg: Ahh grasshopper, now we are getting into the exciting part of budgets. One way to close the \$20 trillion (!) funding gap is to push out the retirement age by 5 years or so. Let's put some numbers to that.

Currently, the average married couple receives \$36,000 in annual Social Security benefits. So, delaying benefits for five years means a loss of \$180,000 to that couple.

Bob: But they paid in. They were promised those benefits. So, the government is really breaking their promise—just not completely.

Greg: That's a fair analysis. But it might be more politically acceptable than option two which is to simply cut benefits 23%. That's the number Social Security's trustees have indicated would be needed to cover the *short-term* funding gap.

Under that scenario, that's a reduction of \$160,000 per couple from the benefits they were promised.

Bob: But this is really just a soft default. Or, another way to look at it is ---- this is a tax increase. It's either a \$180,000 tax hike by delaying...or it is a \$160,000 hit by reducing.

Greg: I think that is---once again---a fair analysis. But, remember, we are up against Mr. Math here. Something must happen.... or something will happen to us.

What they didn't mention was option 3. And that is to just print the money. If the deficit is going to be north of trillion each year, why not make it a trillion and a quarter? Or a trillion and a half? At that point it's just more digits in the ether.

Bob: But that means the dollar gets debased and prices rise for everyone.

Greg: But it also means the Democrats blame the Republicans and vice versa. Or, we blame the Federal Reserve, or Putin, or China, or space aliens. Regardless, the population is so confused the incumbents have a better shot at getting reelected.

So, all's well that ends well.

Bob: So, that's why you keep telling our listeners to invest in things that can't be printed----and shift to investments that do well in an inflationary environment.

What I can't get over is this. These budget shortfalls are happening during a time when:

- The economy has grown.
- Tax revenues are at all-time highs.
- Unemployment & inflation rates are low.
- And, despite the recent drop, the stock market has still done well.

So, what happens when a recession hits?

And don't answer that. I know the answer. We'll print more. It seems whether it is coronavirus or budgets, the answer is always printing more money. How do people reach you?

Greg: My work is done here. Well said...and you know I agree. My number is 505-250-3754. Or, go to my website at zanettifinancial.com

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