

Hello Everyone,

I remember a math exercise from high school where we deposited a fictional \$1 bill in a bank in Italy in 1492 and then compounded the interest annually at 5% to the present. The teacher then asked how much money we would have today. I think the answer was something like \$1,800,000,000.

The real answer should have been zero, for two reasons:

- Banks, governments, nations, empires all eventually fail-- and so does the money.
- Nothing grows exponentially...or even at a constant rate...over years much less centuries.

I think that is the problem with the virus models. They all assume some exponential-- or constant --growth. If that happened, viruses would eventually take over the whole world.

No. Things are born. They grow. They mature. They fade. They die. Including viruses.

That's enough high school math and philosophy for today. :>)

Today's missive takes us to Stage 6 of our Crisis model. It is meant to give you pause. We need to avoid this stage.

Signed, Your How-Can-A-Roll-Of-Toilet-Paper-Be-Worth-More-Than-A-Barrel-Of-Oil? Financial Advisor,

Greg

## KKOB 04.24.2020 Eight Stages of Crisis Part 3

**Bob:** So, Greg, we are going over what researchers call the Eight Stages of Crisis. So, far we have talked about, *The Warning, The Event, Disbelief, Panic,* and *The Hero* stages. Right now, we are in the *Hero* stage.

**Greg:** Right. And we went over the major players in this stage. Real heroes. Pretend Heroes, Anti-Heroes, and Opportunists. But before we get to stage six, I want to note how the stock market has mirrored these stages.

We ignored the *Warning Stage* because China lied. I get that.

The *Event and Disbelief Stages* played out with all kinds of conflicting reports about the severity of virus. And we saw the markets whipsaw with every new rumor or infection model.

Next, came the *Panic Stage*. As people panicked for hand sanitizer, the markets panicked, too, dropping thousands of points per day. Years of gains were lost in weeks.

And, Bob, now the market is behaving as you might expect in the *Hero Stage*. We've seen a nice rally. In the last month, the Dow has gained almost 6000 points---- and recouped about half the losses from the all-time highs.

**Bob:** So, our personal behavior has shown up in almost exactly the same way as in the market's behavior. Is that what you're saying?

**Greg:** It is. Money tells all about us. Show me your checkbook and credit card statements and I'll tell all about you in 10 minutes. That kind of analysis is far more accurate than any detailed survey. But, I digress.

Stage 6 is the next stage and is the one your listeners should now be looking for. This stage is called *The Cliff*.

Bob, if we go over *The Cliff*, it is reasonable to assume your investments will go over as well.

As the name implies, *The Cliff* phase is abrupt. Typically, it takes far longer to build something than it takes to destroy it. During a financial crisis, companies that took generations to build can collapse in months. In war, buildings like the Twin Towers which took years to construct fall in minutes.

You get the idea.

Oh, and by the way, we may have seen oil go over *The Cliff* earlier this week.

Anyway, in *The Cliff* stage, despite their best efforts, the real heroes fail. The pretend-heroes, anti-heroes, and opportunists hold sway. These bad guys then start a campaign of obfuscation and blame. Under this ruse, they then grab all the power and wealth that remains for themselves. You see this behavior all the time in socialist and communist countries.

With respect to money and the markets, *The Cliff* stage sees a distribution of wealth from the many to the few. It happens so fast, the masses don't even have time to react. Think the Crash of 1929, dot com, Lehman Brothers.

In almost every case, the wealthy and insiders ensure they are out of harms-way

before *The Cliff* occurs. For example, we just saw some US Senators selling their stocks before the *Panic Stage* hit from Covid19.

**Bob:** So do you think we'll avoid the cliff----- or go over? Or, is the oil market telling us that we are like Wiley Coyote? We went over *The Cliff* but are hanging in mid-air?

**Greg:** That's funny. To answer, I'll defer to an analyst named Martin Armstrong. He has been incredibly accurate in predicting cycle changes over the years. I don't know Mr. Armstrong personally, but every time I have read something of his and thought, "No, you're off", it was I who ended up being wrong.

Anyway, last week he wrote an open letter to President Trump saying based on his firm's analysis, if we do not open the economy by May 1<sup>st</sup>, we are going over *The Cliff*. If that happens, he says it will take 13 years to recover.

We'll see.

So, here is the investor dilemma. If you believe we're *not* going over the cliff, then you'll likely stay your current investment course. If, however, you believe we will, you would alter your investment mix now so you don't end up as roadkill.

**Bob:** And, I know that regardless, you believe low tech is the way to navigate this...in short, get back to the basics. How do people reach you?

**Greg:** I do believe that. My number is 250-3754. Or, go to my website at [zanettifinancial.com](http://zanettifinancial.com).

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