

Hello Everyone,

...we are fast approaching the stage of the ultimate inversion: the stage where the government is free to do anything it pleases, while the citizens may act only by permission; which is the stage of the darkest periods of human history, the stage of rule by brute force. **Ayn Rand, Capitalism, The Unknown Ideal, Appendix, "The Nature of Government," 1967**

Ms. Rand was a little early, but the sentiment was right.

To do most routine things, we need government permission. Drive a car. Fish. Start a business. Close a business. Open your business...but only 25%. Remodel your home. Get married. Take "excessive" money from your bank account....and so on.

And, Covid19 hasn't made things better.

Do we still have rights or merely government concessions?

Today's missive covers none of that. Instead we close out the "phases of inflation" series. I hope you find it edifying...and ever a bit humorous. :>)

Signed, Your When-Did-Moth-Season-Become-A-Moth-Invasion-In-Albuquerque Financial Advisor,

Greg

KKOB 05.18.2020 Inflation Cycles Part 3

Hyperinflation

Bob: So, Greg, today we'll get the final phase of any inflation cycle---hyperinflation. And, I think our listeners knowthis is a phase no one wants.

Greg: Agreed. And, since your listeners know what happens during hyperinflation, I'm not going to rehash the old "wheel barrows full of money" stories. Instead, I want your listeners to understand how it starts.

So, Bob, imagine this. One day you decide to go outside, get some dry wood, and make a pile. Every day you do this. Oh, and your wife Carol contributes by pouring gasoline on the pile each day. As the pile gets bigger and more unstable, you are not deterred.

You expand the base and find ways to stack that wood to the sky.

One day, some neighbors walk by. They say, *“Hi Bob, Hi Carol, aren’t you two concerned your pile could catch fire?”* And you reply, *“You’re not the first ones to have warned us of this. But, we’ve been doing this every day for years, and nothing has happened. In fact, we may even accelerate our wood-pile-gasoline project.”*

And, Bob, as your neighbors walk away shaking their heads, you turn to Carol and say, *“Those busybodies. What do they know about wood gasoline piles? I have a PhD in wood gasoline piles. Shaaa.”*

Bob: Shaaa? I see where you are going with this. But, I can assure you, Carol and I have no intention of starting of gas-soaked wood pile.

What you’re getting at is money-printing can go on for a long time and nothing seems to happen. And since nothing happens, we get a false sense of security. We think we can pile trillions to the sky with no consequence. But, you’re going to say, one day a spark will come...and my woodpile will go poof.

Greg: Correct. There is an old saying, “People go broke slowly, then all at once”. The same thing happens with a currency. It declines slowly, then boom (!), down she goes. That is the danger of hyperinflation---and what makes it different from stagflation. Stagflation occurs when prices rise, but people’s wages don’t. That’s what happened in the 70’s and what the Federal Reserve is obliquely predicting now.

You see, they don't want to think of the spark. And the spark is always the same. It is loss of confidence in the currency. And, when it happens, it happens fast. It's like the story of *The Emperor's New Clothes*. Bob, once the kid said, "He's naked!" all chaos broke loose.

Bob: So, let's back it up further. What causes the spark...the loss of confidence?

Greg: Greg question. It can be anything. A lost battle. An election. A bank failure. An assassination. An earthquake. Most of these events are outside of government's control. And government will be quick to blame the spark for the bonfire of the currency. But we all know it was yours and Carol's fault for piling up the wood in the first place.

Bob: I keep telling you, Carol and I are not making a wood pile of money.

So, I have a question. What do people do as the pile of money is burning? They just don't stand there and watch it?

Greg: No. They grab money from the pile as fast as they can and try to spend it. They'll race to trade the hyper-inflating currency for food, clothes, medicine, alcohol, cigarettes, anything they think that has value. "*Here's a thousand bucks, give me your chainsaw!*" Bob, it will be stuff like that.

Bob: So barter comes back. I mean if the currency is deemed worthless, no one will want to trade anything real for paper.

Greg: Right. That's the "**Even Cows Have Earrings**" phase we talked about last week. But that phase is typically short. Government isn't stupid. They will have a new currency ready to

go. This is why in Israel you see New Shekels, or in Argentina New Pesos....because the old shekel and old peso went away.

Bob: But we can still avoid this, right?

Greg: I believe so. But we must get back to work.

Bob: I liked this series. I learned a lot. Talk to you on Friday. Until then, how do our listeners reach you?

Greg: My number is 250-3754. Or, go to my website at zanettifinancial.com.

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