

Hello Everyone,

It's a gorgeous day. The birds are singing and the moth invasion has ended...mostly. :>)

With that in mind, I chose the nature theme of "frogs around a pond" to make my point about the markets this morning.

I hope it changes your perspective on investing ...if only just a little. :>)

Signed, Your My-Father-In-Law-Is-90-Years-Old-Today! Financial Advisor,

Greg

KKOB 05.29.2020 Philosophers, Frogs, and Stocks

Bob: So, Greg, this morning we are going to revisit the "frogs around the pond" analogy. Right?

Greg: Right. So, first, the quick recap. If you have ever watched frogs around a pond, you will notice they are almost always looking inward---toward the pond. And, it makes sense. Their lives depend on the pond.

Well, about 2400 years ago, Plato described the Greeks as "frogs around a pond". Like the frogs, Greek fortunes were tied to the Mediterranean Sea. Thus, they always looked there. The problem with this, however, is sometimes an enemy can sneak up from behind.

So, carrying this analogy forward to today-----Bob, what would you say the average, everyday investor's pond is?

Bob: I would say the stock market. Almost all 401K's & IRA's are loaded with stocks. Here at KKOB, we give the stock market report almost every hour. So, yes--- the stock market is the investor's pond.

Greg: I agree. But just as a pond is small compared to a lake, or an ocean, the stock market is small compared to other markets.

For example...

- On average, \$200-\$300 billion worth of stock trades per day. That's a lot.
- The bond market, however, usually trades over half a trillion per day...twice as much as stocks.
- And, the currency markets (Forex)? That trades **over \$6 trillion** per day.

Yet, on what exchange do most investors obsess? The smallest. Stocks.

Bob: So, we're like the like the frogs. We focus on stocks because that's what we're familiar with... and dependent on.

Greg: Exactly. But bigger things can sneak up on stocks.

So, with that in mind, let's talk about that next bigger market. The bond market. Right now, bond investors are preparing for a Covid shock. Company bankruptcies are piling up---- not just here, but worldwide. Additionally, we are seeing cities and states struggle as tax revenues fall.

To explain the situation a little better, let's do this.

Bob, let's pretend you're a Grandpa; and you have \$100,000 in bonds issued by the city of --and I'm just making this up---Las Cruces. And, every quarter, Las Cruces sends you \$1000...so four grand a year. Tax free! Oh, and in 10 years, they promise to give you your \$100,000 back.

Now imagine the other side.

Bob, let's pretend you're now the mayor of Las Cruces. Businesses are closing right and left. Tourism is way down. Property values are falling as homes go on the market. Your budget is a train wreck. And you can't print money. You realize you have a choice to make----pay the police and fire--- or pay Grandpa Bob.

So, Mr. Mayor, what do you choose?

Bob: I'd pay the police and firefighters. I'd think, *"Grandpa Bob made an investment and it went sour because of Covid19. Oh well. He took a chance and lost. Plus, he doesn't vote here."*

Greg: Right. But, what happens to Grandpa Bob? Not only does he not get his \$1000 every three months, he loses his \$100,000. Uh oh.

But, it's not just Grandpa Bob who suffers. Pension funds. Mutual funds. Hedge funds. They all own bonds, because they thought them safe. But, now they're not.

And this why you've got members of Congress saying, *"We need another \$3 trillion to bailout the cities and the states."* The problem is, many of those same cities and states have been so inept, and so corrupt, for so long much of America isn't in the mood to bail them out.

Bob: And, I don't blame them. But, circling back. Since the bond market is so much bigger than the stock market, I can see how this could eventually cripple stocks. I mean, how can you have huge entities struggling to pay their bills and think that stocks will be insulated?

Greg: That's my view. Plus, remember, there are *also thousands of companies that are now fighting for their corporate lives as*

well. And, in any bankruptcy, the bond holders outrank the stock holders. So, if a company goes belly up, the bondholders might get something back---- but stock holders? Not so much.

Bob: And we don't want stocks to be like "frogs around the pond" and croak. How do people reach you?

Greg: Very clever. And, my number is 250-3754. Or, to my website at zanettifinancial.com.

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