

Hello Everyone,

Playin' a fool's game hoping to win,

Tellin' those sweet lies and losing again,

I was lookin' for love in all the wrong places..." Country
Western Singer, Johnny Lee

The Federal Reserve is not necessarily looking for love. But, apparently they are looking for inflation. They can't seem to find it. I believe they are *lookin' in all the wrong places*.

Thus, today's missive is meant to help Mr. Powell and his team at the Fed. It's what we do here at Zanetti Financial.

Signed, Your Sings-That-Song-With-The-Radio-Whenever-It-Comes-On Financial Advisor,

Greg

KKOB 09.28.2020 Looking For Inflation In All The Wrong Places

Bob: So, Greg, in July, the Federal Reserve announced they were ready to let inflation run. They said they were no longer bound by their 2% inflation target. Simultaneously, they said they would keep interest rates near zero. Then, last week they said they said inflation wasn't rising fast enough.

Greg: Right. There is a lot to unpack here. So let's start with their desire to

spark inflation--- while keeping interest rates near zero. If that sounds unfair to you savers out there, you are right.

So, let's see, the Fed's goal is to generate maybe 5% or 6% inflation, but they want you to get 1%-2% on your CDs?

Bob, does that sound like a very good deal to you?

Bob: No. In that situation, the longer I leave money in savings, the more buying-power I lose.

But I also know why they want to do this.

It is a lot easier to pay off debts with inflated dollars. And since Cost-of-Living-Adjustments are indexed to the inflation rate, this is just a quiet way of reducing benefits without the public really understanding it.

Greg: Exactly. This is why people complain their social security checks don't go as far as they used to. The Fed calls this *financial repression*. And that's just a fancy term for what you just described.

Anyway, moving on.

Now they are saying they can't find enough inflation out there. Well, let me help them by using their own statistics. According to the Fed's August numbers, the inflation rate was a paltry 1.3%.

But when you dig a little deeper, you'll find this:

- Prices in the meat, poultry, fish, and eggs category were up 7.1%. That won't surprise many of your listeners.
- Dairy products were up 5.7%.
- Non-alcoholic beverages were up 5.1%
- Cereals and baked goods up 4.6%

You get the idea.

So, why was their stated inflation rate so low? Well, that's easy. Energy.

Because of Covid, people are driving a lot less. Plus, there are a lot fewer planes flying. Oh, and it's not just here, but all over the globe. So, yes, there is an oil glut.

Thus, the Fed reported gas prices were down 23%...and fuel oil prices were down almost 17%.

Therefore, when you blend energy and food into the inflation calculation, you get a benign inflation number.

Bob: But that doesn't reflect real life for me. I am not driving nearly as much as I used to. And I'm sure not taking long vacations with multiple plane flights. So, the gas savings are nice, but not that impactful to me.

Meanwhile, I have to eat every day. And, yes, I have noticed how rapidly some prices are rising at the grocery store.

Greg: Right. So, let's go a little deeper again. We all understand how an *oil glut can push prices lower*.

But, on the other side, *is there a shortage* of corn, or wheat, or eggs, (or even meat anymore) which would explain why food prices are jumping? And the answer is, no. In fact, farmers had a bumper crop this year.

From North Carolina to Kansas, it was a great year. You didn't hear of floods, or droughts, or insects destroying the crops. So, shortages can't explain rising prices.

Now, there could be another explanation.

Bob, maybe the food improved. Thus, people were willing to pay more for the new and improved food on the shelf.

Bob: That's funny, but obviously not right. Corn is corn. Wheat is wheat. Eggs are eggs. They don't improve like computers do.

Greg: Exactly. So, if it is not shortages-- or improvements---what drove food prices up? And the answer is, maybe it wasn't food prices rising, but it was the dollar falling.

And all that money printing in the spring to fight Covid is now filtering into the general economy. And that's why food prices are rising. So, if the Fed is looking for its inflation, I found it. And so did you, and Carol, and your audience. It is in the grocery store.

Bob: So, it's like you've said before, "*Inflation is lumpy.*" It doesn't hit everywhere evenly. And clearly, the statistic doesn't always reflect real life. How do people reach you?

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

By accepting this material, you acknowledge, understand and accept the following:

This material has been prepared at your request by Zanetti Financial, LLC. This material is subject to change without notice. This document is for information and illustrative purposes only. It is not, and should not, be regarded as "investment advice" or as a "recommendation" regarding a course of action, including without limitation as those terms are used in any applicable law or regulation. This information is provided with the understanding that with respect to the material provided herein (i) Zanetti Financial, LLC is not acting in a fiduciary or advisory capacity under any contract with you, or any applicable law or regulation, (ii) that you will make your own independent decision with respect to any course of action in connection herewith, as to whether such course of action is appropriate or proper based on your own judgment and your specific circumstances and objectives, (iii) that you are capable of understanding and assessing the merits of a course of action and evaluating investment risks independently, and (iv) to the extent you are acting with respect to an ERISA plan, you are deemed to represent to Zanetti Financial, LLC that you qualify and shall be treated as an independent fiduciary for purposes of applicable regulation. Zanetti Financial, LLC does not purport to and does not, in any fashion, provide tax, accounting, actuarial, recordkeeping, legal, broker/dealer or any related services. You should consult your advisors with respect to these areas and the material presented herein. You may not rely on the material contained herein. Zanetti Financial, LLC shall not have any liability for any damages of any kind whatsoever relating to this material. No part of this document may be reproduced in any manner, in whole or in part, without the written permission of Zanetti Financial, LLC except for your internal use. This material is being provided to you at no cost and any fees paid by you to Zanetti Financial, LLC are solely for the provision of investment management services pursuant to a written agreement. All of the foregoing statements apply

regardless of (i) whether you now currently or may in the future become a client of Zanetti Financial, LLC and (ii) the terms contained in any applicable investment management agreement or similar contract between you and Zanetti Financial, LLC.