Hello Everyone,

"*Archeology is the peeping Tom of Sciences. It is the sandbox of men who care not where they are going; they want to know where everyone else has been."* Jim Bishop, American Author

If archeology is the peeping Tom of Science what does that make finance? All answers will be considered entertained. :>)

Today's missive links Indiana Jones with interest rates. There will, however, be no rolling boulders or rooms with snakes. Just old, dusty records that give us a hint into financial life over the centuries. I hope you find it interesting.

But, more importantly, I hope it gives you some perspective on the precarious position of trillions in financial assets.

Signed, Your Way-Too-Impatient-And-Clumsy-To-Be-An-Archeologist Financial Advisor,

Greg

KKOB 2020.12.04 Archeology and Interest Rates

Brandon: Greg, sometimes when I see the subjects you want to discuss, I just scratch my head. Your topic this morning is archeology and interest rates. Right?

Greg: Right. And you wouldn't think that mummies and Indiana Jones have a whole lot to do with money, but they do. So, let's dive in.

Brandon, when archeologists dig up old civilizations, not every discovery is earth shattering. In fact, most of what they find is pretty mundane. Think ledgers, tax receipts, routine correspondence, inventories, that sort of thing.

What may surprise your listeners though is this. On those non-descript records, they often discover what interest rates were being charged. And, for thousands of years, 5%-7% seems to have been the norm. Now, there was the occasional spike, but over the centuries, buyers and sellers have settled at around 5-7% as being fair to both parties.

Brandon: Which is what our rates used to be. I remember when 5-7% was considered normal. I never thought I'd see rates as low as they are now.

Greg: And that is the point of today's show. Archeologists have never-ever-ever uncovered records where interest rates were near zero as they are today. Now if you loaned to your brother, or son, or daughter---that was different. But real commercial loans for businesses, homes, land--they always had reasonable interest rates attached. And this was true worldwide…China, Middle East, Europe. It was always the same.

Anyway, what does this have to do with today?

Brandon, millions of investors have a classic (quote) "diversified-safe" portfolio of say 40% stocks and 60% bonds. And most people focus on the stock side. I get that. Stocks can be exciting.

Bonds, by comparison, are pretty dull.

They mostly move with interest rates. And while it may seem counterintuitive, when interest rates go up, bond values tend to go down. And when interest rates go down, bond values tend to go up.

Well, for most of your listeners' adult lifetimes, interest rates have fallen. Brandon, in 1980, the prime rate hit 20%. Credit card rates were in the 40's. And if you got a home mortgage at 14%, you were considered lucky. Many in your audience remember those days.

Then Reagan got elected. Rates began to fall. And though it has been an uneven ride down. Rates have fallen for 40 (!) years. And today, we are near zero.

Thus. This. Is. A. 3000. Year. Low.

So, what does this mean history-wise? Well, since interest rates are at zero…and because bonds are high when rates are low….that means bond values are at a 3000-year high. And, it is not often guys like me can say, "*Hey, Joe, your bond investment is trading at a 3000 year high! How about that?"*

Brandon: But if the idea is to buy low and sell high, shouldn't people think of selling their bonds?

Greg: You are not the first one to say that. Of course rates went to zero about 5 years ago and nothing has blown up yet. So a lot of people are beginning to think this "new normal" can hold. I'm not so sure.

My concern is… my industry is slavishly following an orthodoxy that says, *"Forty years of investment history says a classic 60-40 mix of stocks and bonds will keep investors safe."* To me 40 years isn't a very long time. And, if you say that, you're really saying the next 40 years will look like the last 40 years.

Call me crazy, but I don't believe interest rates will fall for the next 40 years. And since rising rates are kryptonite to bond values, your listeners might want to relook what they have been told is safe. Does that make sense?

Brandon: It does. But I must admit, the Fed has done a great job of keeping rates low. Everyone has said rates must rise. But it hasn't happened.

Greg: Great point. So, if you stay heavily invested in bonds, your bet is really on the power of the Fed. Can the Fed fight 3000 years of history? If you think yes, then keep your portfolio as it is. If not…you may want to adjust.

Brandon: WWKTD. What Would King Tut Do? How do people reach you?

Greg: Funny! My number is 505-250-3754. Or go to my website at zanettifinancial.com.

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