

Hello Everyone,

“Inflation is when you pay fifteen dollars for the ten-dollar haircut you used to get for five dollars when you had hair.” Sam Ewing, American author, and journalist.

I guess if I could make one “almost for certain” prediction for 2021 it would be there will be a lot more currency creation. I know. I am really going out on a limb there. :>)

Today’s missive looks at inflation and stocks. I have heard some financial pundits make the argument, *“Every printed dollar must go somewhere. So, stocks will inflate with everything else”*. True regarding the first sentence. I’m not so sure regarding the second one.

This is our last report of 2020. I am eager to see what 2021 brings. Sort of. :>)

Signed, Your With-A-Few-Days-To-Go...2020-Could-Sure-Use-A-Happy-Ending Financial Advisor,

Greg

KKOB 2020.12.28 Inflation Is Deceptive

Brandon: So, Greg, you have warning that all this money-printing would lead to inflation. And I believe our listeners are seeing this in their everyday lives.

But wouldn’t inflation inflate stocks, too? I mean the money must go somewhere. And it seems like a lot of the printed money of 2020 went into the stock market.

Greg: Brandon, that is a great point. And one I believe can be substantiated very easily. It certainly wasn’t the Covid-economy that boosted stocks this year.

Anyway, historically, you will find that in the first phases of any great inflation, stocks fare well. But as the inflation train picks up steam, some sleight-of-hand

occurs with respect to inflation and stocks.

Let me start with an extreme example...and then move to a more moderate one.

First the extreme.

Brandon, guess what the best performing stock market was in 2019? And since it is an unfair question, I'll just answer it. Venezuela. The Venezuelan stock market rose over 200,000%. Yes, that is correct. Not 20%. Not 2000%. 200,000%! Not bad.

Brandon: But I know the punchline to this. The inflation rate had to be higher. Otherwise, everyone would be talking about the fortunes they made in Venezuelan stocks.

Greg: You are correct, sir. The inflation rate in Venezuela that year was over one million percent. So, yes, the stock market soared. But it was meaningless. Venezuelan's buying-power was crushed by the collapsing currency.

So much for extremes.

Let's now look at a far more subtle example from right here in the good 'ol US of A.

Brandon, I am going to take you back to 1965. That wasn't that long ago. US stocks had had an amazing run since the end of WW II. And a group of 50 stocks known as the "Nifty-Fifty" were in everyone's portfolio.

How could you go wrong with names like Kodak, IBM, Polaroid, and Xerox? The Dow hit the unheard-of level of 864! But

analysts said only blue-sky was ahead for America's tech leaders.

But a funny thing happened. President Johnson wanted to do two things. He wanted to expand both the Vietnam war and the social programs of Medicare, Social Security, welfare, and so on. Thus, the politicians started printing money. Sound familiar?

Inflation began slowly, but by the 70's it was running hot. President Ford's answer was WIN buttons. Meaning---Whip Inflation Now. President Carter had no answers at all.

Anyway, on the first day of trading in 1982, the Dow stood at 865.

Brandon: Wait. That's 17 years. And the Dow had moved only one lousy point?!

Greg: Yes. There were lots of ups and downs, but point-to-point, nothing. Now Wall Street will say, "*Stocks held steady during a tough time in American economic history.*" But, if you adjust for inflation, the 865 of 1982 was really worth 380 in 1965 dollars. Thus, the stock market had lost over half its buying power.

This prompted *Business Week* magazine to run a cover that read, "**The Death of Equities**". The death of stocks. I mean, why take risk in lifeless stocks when you could invest in risk-free CDs, which at the time were paying 12-14%? Of course, about the time the mainstream media declares something dead, you should be buying.

The point is---- inflation is not the stock market's friend. Although initially it will seem to be.

So, to wrap this up. I have heard some other financial analysts on KKOB say, "*It isn't what you make. It's what you keep.*"

And, Brandon, when I hear that, I nod my head in assent. Usually, however, they are talking about taxes.

I believe, however, in the years ahead you will have to add inflation to that calculation. But unlike taxes, which are known, inflation is more deceptive. You may think you are holding your own, or even getting ahead. But you are losing in a stealth way. Just ask the Venezuelans or the Nifty-Fifty investors of yore.

Brandon: I totally get that. You had a good year here on KKOB. A lot of what you said would happen, did happen. How do people reach you?

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

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