

Hello Everyone,

*"There is a tide in the affairs of men.  
Which, taken at the flood, leads on to fortune;  
Omitted, all the voyage of their life  
Is bound in shallows and in miseries.  
On such a full sea are we now afloat,  
And we must take the current when it serves,  
Or lose our ventures."*

Shakespeare from *Julius Caesar*

There is indeed a "tide" in motion. I believe it is an inflation tide. And I do not wish for you to lose your ventures.

There are three major arms of money in the United States. Here is what they did last week.

- The Treasury Department is going to release \$1.229 trillion into the economy.
- The Federal Reserve is releasing an additional \$1.829 trillion through various banking operations.
- And Congress just approved an additional \$1.9 trillion of stimulus...with the Green New Deal programs still to come.

All of the above will happen before the end of June.

And gold and silver fell last week? Hmm. You can't always believe the paper markets. Don't fret. The tide is with us.

Today's missive looks at inflation from the "street level". My hope is you will marry what is written above with what is written below and understand why we have charted our present course.

Signed, Your For-An-Army-Guy-I-Sure-Used-A-Lot-Of-Navy-Terms-Today Financial Advisor,

Greg

## **KKOB 03.01.2021 The Jimmy Carter Trap**

**Bob:** So, Greg, today you want to talk about something called the Jimmy Carter trap. And, I must admit, I have no idea what that is.

**Greg:** It's just an obscure financial reference to being in the wrong place at the wrong time. Let me explain.

Bob, you probably remember that President Carter's Administration was marked by rampant inflation. Well, those rising prices weren't really all his fault.

Inflation seeds were being planted as far back as the mid-60's during the Johnson Administration. It was LBJ who decided to print money to simultaneously pay for both the Viet Nam War and the social programs of the Great Society.

Then along came Presidents Nixon and Ford. Well, they didn't do much to discipline government spending either. Thus, by the time Carter took office there was an inflation tsunami on the near horizon. And there wasn't much he could do about it.

So, why am I bringing this up today?

I believe that President Biden may have fallen into the Jimmy Carter trap.

**Bob:** I think I see where you're going. Spending has been out of control for a long time; and it's usually the guy who is in office who gets the blame when bad things happen. But if I remember right, President Carter wasn't very proactive either.

**Greg:** You're right about that. He did what the Biden team is doing. Despite the red flags, Carter ramped up spending. So, given that, let's look at some of the statistics that make me think this administration is going to face Carter-esque challenges.

- Oil is now over \$60/barrel. And rising energy costs have a way of seeping into every part of an economy.
- Next, the prices that manufacturers are paying to get their components (and raw materials) have gone up eight

straight months and are now at 10-year highs. And, Bob, if they must pay more to produce their products, they usually pass those costs on to us.

- Next, the “*Food At Home*” price index has risen from 91 last March to 107 today. That’s a 17% rise in 10 months. Plus, over the past six months, grain prices are up 50%---- and dairy prices rose 4.5% last month alone. In short, expect some sticker shock at the grocery store.

And I know it’s early, but my concern is the Biden Administration is refusing to even acknowledge that inflation is manifesting, much less addressing it.

**Bob:** Right. It seems to me the checkbook is wide open.

But inflation can be tamed. The cure back in the 70’s was to hike interest rates into the high teens. That hurt, but it was effective. I don’t see how we can do that today though.

**Greg:** I agree. Debts were much lower then. Today, we can’t even afford to pay interest on our trillions of debt. That’s why rates are at zero. If we had double digit rates, the budget (and the stock market) would be blown to smithereens.

So, the answer to inflation will have to come from a more disciplined approach to our spending. The government will have to spend less. The problem is---cutting spending is political suicide for both sides.

Just listen to this headline from last Friday... “**27% Of All Household Income In The US Now Comes From The Government.”**

Now, Bob, knowing that--- imagine a politician saying, “*Uhhh we are going to have to cut spending. So, all of you getting government checks, uhhh sorry. Pay cuts for you.*”

**Bob:** That’s never going to happen.

But this helps me understand why both sides have basically thrown in the towel on the debt. I mean, there must be some sense of resignation....some giving up.

**Greg:** That’s my take, too. In that sense, we’re all in the Jimmy Carter trap. So, as an investor, you may want to ask, “*Is that an inflation tsunami I see on the horizon?*” And if you think so, then before the wave crashes to the shore, you might want to reevaluate your portfolio...but not based on the metrics of the 2000’s, but on the metrics of the 1970’s.

**Bob:** Greg, if that means wearing a leisure suit as I look over my investments, I refuse. How do people reach you?

**Greg:** Bell bottoms make you smarter. My number is 250-3754. Or go to my website at [zanettifinancial.com](http://zanettifinancial.com).

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