

Hello Everyone,

***“The human brain starts working the moment you are born and never stops until you stand up to speak in public.”*** George “Lucky Boy” Jessel, American actor, songwriter and producer.

Ahhh, the human mind.

Do we invest logically or emotionally? Wall Street shows you charts, graphs, timelines, and column-upon-column of numbers. All of it designed to show you how logical it all is.

The reality is more complicated.

Today’s missive looks at how our pursuit of reason still ends up in fits of panic and/or euphoria.

As usual, I hope the upcoming series will make you better investors.

Signed, Your Rumor-Has-It-The-Government-Is-Going-To-Spend-\$2-Trillion-To-Study-Why-Inflation-Is-So-High Investment Advisor,

Greg

## **KKOB 05.17.2021 Software, Hardware, and Wetware**

**Bob:** So, Greg, when I saw today’s topic I kind of did a double take. You want to talk about software, hardware, and **wetware**. I know what hardware and software are. But what is wetware? And it sounds kind of gross.

**Greg:** Well, wetware is kind of gross. But it is also magnificent. Wetware is slang for the human brain. And despite our technological leaps --- nothing yet in the computer world can compare to the mind.

With that said, our brains seem hardwired to swing from euphoria to panic...and back to euphoria. And though Wall Street dresses itself up as a logic machine, the reality is emotion and psychology still carry the day.

So, Bob, that brings us to today's question. Are investors (as a group) exhibiting signs of euphoria or panic?

**Bob:** That's kind of tough. I get to listen to business reports every day, so I hear both sides. Some say the Covid recovery is underway and it's time to pile into stocks. Euphoria. Others say it's a mirage and it's time to get out. In short, panic now....beat the rush.

**Greg:** Right. But over the next few shows, I'm going to make the case "*we are in the midst of euphoria*". So, let's start with this.

Historically, there are elements to all bubbles. And one of those elements is you must have ***a large number of people participating in the frenzy.***

And this makes sense. You can't have a bubble if only a few speculators lose their shirts. No. Any real mania will rope in the masses.

So, let's start there.

So, besides the millions pouring money into stocks via 401K plans every month----Bob, guess what the most downloaded app over the past year was?

**Bob:** Well Facebook-- or Amazon-- or something like that--- would be the logical choice. But that's not the direction you're going with this. So, I won't guess those. It must have something to do with investing.

**Greg:** It does. Robin Hood. You know. The app that allows anyone to day trade stocks like they are playing a video game.

That makes **seeing** a mania more difficult.

In the 1920's the mania was obvious. People were lined up outside brokerage houses.

During the dot com era, people went over to the Dean Witter or Merrill Lynch offices and used the firms' computers to day-trade tech stocks.

Well, today, the trading happens on phones; so we don't see it the way we used to. But it is just as real. Whether it's trading Bitcoin, or GameStop, or Tesla, the thumbs are flying across the screens and the trading is manic.

**Bob:** I get that. But I would argue this. Some of this wouldn't be going on if the government weren't providing the fuel to the masses. I mean the stimulus checks are free money. So why not take a chance on multiplying it with cryptos? Or on Wall Street?

**Greg:** Great point. And I agree. Plus, if you want to be a "player" you can borrow money to juice your investments. On Wall Street they call these margin loans. Or borrowing money on margin.

And guess what? Margin debt is at all-time highs...by a lot. So not only do you get free money, but Wall Street lets you have even more---at super low interest rates.

What could go wrong?

So this all leads to the greed part in our wetware brain getting turned on--- and going into overdrive. Speculation becomes rampant. People jump from bubble to bubble at ever increasing speeds.

Thus, today we see wild swings from stocks to housing to cryptos to emerging markets to bonds and then back to stocks. It's dizzying. Even the most innocuous headline (or tweet) can stampede the herd in another direction.

**Bob:** You're right. Housing prices are soaring. Stock and bond prices are near at all-time highs. And the cryptos move like they are on a trampoline.

**Greg:** Right. We are calling it "***The Everything Bubble***". Anyway, there is more to a bubble than participation rates. So, let's look at another element next week. Does that work?

**Bob:** Sounds good. Until then how do people reach you?

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

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