

Hello Everyone,

Sometimes I just shake my head.

Last week in LA was the "Predators Ball." The Milken Institute (yes, of Michael Milken fame---the junk bond king turned insider trader, turned two years in prison, turned big-time philanthropist) sponsors an annual conference where it is said "***billionaires tell millionaires what ordinary people think.***"

Anyway, this year's conference had a puppy petting park...because petting puppies, "***reduces blood pressure, promotes focused inter-actions, and stimulates problem solving.***" You can't make this stuff up.

I'm not sure what this has to do with this week's missive about the Bank of Japan, but I thought you'd find it---uhhhh--- interesting.

Signed, Your Likes-Puppies-But-Won't-Bring-Them-To-Work Financial Advisor,

Greg

## **KKOB 05.06.2019 Bank of Japan Goes Stock Shopping**

**Bob:** So, Greg, the market is down 340 points, but you think if things got really bad, backstops could be put in place to shore up the markets.

So, to make your point, you want to role-play. I am going to be the Chairman of the Bank of Japan--- and you're are going to be Japan's Prime Minister. And you've given me a script here.

So, let's see, it's the year 2010, and the scene opens with me entering your office and bowing.

**Greg:** Right. And, remember 340 points doesn't feel good, but it's still less than 1.5%. China was down 7% for the day.

Anyway, go ahead with your first line.

**Bob:** Mr. Prime Minister, you called for me?

**Greg:** I did Robert-san. 21 years ago, our stock market was trading near 39,000. Today, we are at 9,000. I want you to start buying stocks.

**Bob:** Well OK, Mr. Prime Minister, but I'll have to check with my wife first.

**Greg:** No. Not you personally. I mean the Bank of Japan. I want you to print money and start buying stocks to prop up the stock market. If stocks start to fall, buy more.

**Bob:** But, sir, I don't have authority to do that.

**Greg:** Leave that to me. I've already spoken to members of Parliament and they're on-board. Last year we saw how the Americans changed their laws to allow the Federal Reserve to buy home mortgages. We're just doing the same---except for stocks.

**Bob:** But, sir, what stocks should I buy? I am a banker not a financial advisor.

**Greg:** Don't discriminate. Buy all the stocks—from biggest to smallest. That way we won't be accused of showing favoritism.

**Bob:** Well, OK, sir. Are there any limits? How much should I buy?

**Greg:** Use your judgment, my friend. In fact, feel free to buy American and European stocks too. If our trading partners weaken, that is bad for us here as well. The checkbook is wide open.

**Bob:** Yes sir. I'll get right on it.

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**Greg:** OK, that 's the end of our script. Let's just talk now.

**Bob:** So, did that really happen? Did they meet like that?

**Greg:** Well, probably not exactly like that, but that policy started nine years ago and continues to today. And here are the results. As you might suspect, the Japanese stock market has climbed from 9,000 to 22,000. Not bad.

Japanese pension fund managers ---who had lots of investments in Japanese stocks---were thrilled with the gains. Also, foreigner investors weren't stupid. They knew the BoJ would backstop any major corrections, so foreigners bought Japanese stocks knowing they couldn't lose.

**Bob:** But, it's so unnatural....artificial. No one can say that's a free market.

**Greg:** You're right. And here's another consequence. The Bank of Japan is now a top 10 shareholder in over 50% of all Japanese companies. And since stocks represent ownership, the Bank of Japan---with printed money!---now owns large stakes in Japan's major firms.

Bob, in reality, the BoJ should sit on the board of Sony, Toyota, Mitsubishi, and all the rest.

**Bob:** This is crazy. Aren't people upset? I mean, if this goes on, the bank will eventually own controlling interest in the entire Japanese market.

**Greg:** Right. To us it seems extreme. But Bob, again, let's pretend it's

2010 and you're a regular Joe stock investor in Japan. Your mutual funds have languished for two decades. Now, suddenly everything changes. Stocks are going straight up(!) with no corrections in sight. Naturally, you think, "Woo, hoo! I might get to retire after all."

Oh, and the politicians take the credit, so they get reelected.

**Bob:** I think I see where you are going with this. You have been talking about the Federal Reserve using helicopter-money to directly help the American people. And if our markets corrected, what better way to help the people than to shore up their 401Ks and pension funds?

**Greg:** Ah, my friend, you are a wise radio host. And, look, I know we're out to time, but next week let's look at this possibility...and the mechanics...of making that happen.

**Bob:** Sounds good. How do people reach you?

**Greg:** My number is 508-5550. 508 triple-5-zero. Or, go to my website at [zanettifinancial.com](http://zanettifinancial.com).

Then Bob sang Happy Birthday....and sang it very well!

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