March Madness

"Chance favors the prepared mind" - Louis Pasteur

Why is the market up so much today? I think of these four main reasons:

1) **An severely oversold market (it had discounted a lot of bad);**
2) **Some progress in the Covid-19 fight (though it's still very early);**
3) **The Federal Reserve and its money printing, a/k/a monetary policy;**
4) **A likely Senate/House resolution on stimulus.**

As investors, we can be encouraged by these actions. Policy makers have taken drastic measures to shore up credit markets. That is crucial for stocks in the short run. Peering through today's bullish tape action, though, we know it comes with a price. This piece will attempt to explore that price.

March madness has come to financial markets. We have come face-to-face with just how fragile our economy is, thanks to Covid-19. The entire western world has relied so much on credit that, far from a responsible household that saves money for a rainy day, there is no *tangible* solution to what would appear to be a looming national bankruptcy, or something close. The *non-tangible* solution is 'unlimited QE', as Minneapolis Fed President Neil Kashkari put it. Perhaps the very wealthiest Americans are going to 'Cash Carry' their wealth right into an offshore currency before the dollar collapses? Well, that's one theory.

Consider that the Fed has had THREE emergency meetings this month. Yesterday was the coup-de-gras. The solution to the problem is the problem itself! Here is an excerpt from Magnifying Money.com, a division of Lending Tree:

The FOMC gathered on Monday (3/23) for a third emergency meeting amid the coronavirus outbreak to add to and amend its emergency measures. Per the committee's statement, they are now moving toward "aggressive efforts" to continue battling what will certainly be "severe disruptions" to the U.S. economy due to the coronavirus pandemic.

The Fed has now committed to purchasing Treasury securities and agency mortgage-backed securities (MBS) "in the amounts needed" — a change from its previous purchase goal of at least $500 billion of Treasury securities and $200 billion of MBS. Purchases of agency commercial MBS are also included moving forward. These purchases are meant to refuel market liquidity and aid market functioning, which have been hampered by the effects of COVID-19. Now without any cap, the Fed is prepared to aid these markets as much as possible to stimulate the economy. (cont'd..)

The Fed is also launching three new loan facilities designed to provide up to [$300 billion in new financing] and the Department of the Treasury, through the Exchange Stabilization Fund (ESF), will absorb up to $30 billion in losses for these facilities.

So there you have it. As Peter Schiff says: "Who needs Bernie Sanders when we've got the current government?" He's right. Turns out Capitalism and Socialism may be destined to meet again, after coming full circle, thanks to human greed and lack of perspective (*To illustrate the concept of perspective, think of Bedford Falls in 'It's a Wonderful Life', compared to Pottersville. Once we went off the gold standard, Pottersville began to take over. And here we are, one generation later, in need of a Socialist solution to Capitalism run amok.)* Our current system is faced with a choice: financial collapse followed by total rebuild, or government intervention. Of course, we choose the latter. It's politically simple.

Let's think in terms of math, i.e., reality. Ask yourself: Is the market's rebound today, supported by newly printed Fed dollars, real? Most investors would rather not seriously ponder that question, choosing to trust the system and believe that all will work out in the end. What *is* real, in my view, is the significant gain being shown by gold, silver, and platinum. That makes sense.

Certainly the market was oversold, and in some cases, historically so. Just look at the energy, homebuilder, entertainment, and financial sectors. Holy cow! A hefty bounce was in order. There was certainly a Covid-induced selling climax over the last few days. Is today just a relief rally? Hard to say- we'll know soon.

So let's be grateful for what we have, including today's rally. If you were one of those people who were close to pushing the panic button over the last week or two, this may be an opportunity to SCALE out of some of your stock or mutual fund holdings. As always, do not make binary investment decisions. Some folks, I'm sure, bailed out of the market in full during the last couple of days. Imagine how doubly-foolish they feel. Markets can do that if we don't bring discipline to our investment lives.

Putting aside the black hole of earnings we are about to see, the simple truth is that the Fed is moving aggressively in the direction of trashing the dollar. At this rate, we are going to become like the Weimar republic of 100 years ago. In that vital history lesson we seem to have forgotten, it did not matter how many dollars (marks for them) one had. No one wanted them! That was the result of reckless and irresponsible actions on the part of an entire nation, culminated by a central bank which catered to political expediency. In the end, the Germans had to endure ungodly suffering from hyperinflation.This was a huge factor in the rise to the Nazi movement. And so, I leave you with this:

Call me directly to discuss your investments: 732-450-1212. And invest carefully!

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