Sound Money, Part II- The Great Printing Press in the Sky

In my last newsletter, the focus was on the soundness of money, or rather, the lack thereof. The integrity of the U.S. Dollar and of all fiat currency remain under attack. With each passing day your dollar buys less and less, while the Great Printing Press of Central Banks continues to feed those most closely connected to wealth, lobby interests and pure power. The most prominent feature of today's stock market is that it is not really a market at all; rather, it is a system of propped up asset values through this money printing. There is clear proof of this. This is happening not only in the US, but across the globe. The longer the money-printing game goes on, the greater the distortions are. Most importantly, THIS HAS MAJOR INVESTMENT IMPLICATIONS.

Nearly 40% of all the money ever created has been printed in the last 18 months. That is not a recipe for success. Instead, we are face with the following:

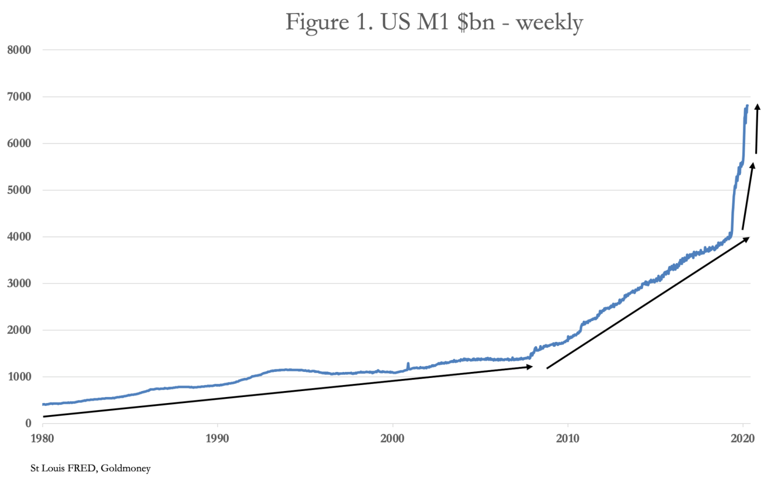
- The young person trying to afford a home, or even rent an apartment, finds that prospect more and more elusive;
- Retirees trying to secure a stable source of income are afraid of outliving their assets;
- The pension fund manager trying to achieve an assumed rate of return has to take on much more risk than in the past;
- According to author Gabrielle Olya, THREE people- Jeff Bezos, Warren Buffet' and Bill Gates, have a combined worth that is substantially greater than more than half the U.S. population. Most people know this intuitively, but the absurdity has accelerated and has extended its reach well into the middle class. No society can thrive that way.
- The yield spreads on things like Junk Bonds vs. Treasuries are at their lowest level ever. It is as though the whole world has decided to ignore risk (money printing will do that).
- Inflationary pressures are building. There is a direct link between trillions of money printing and extreme inflation. You may have heard this: Inflation is always and everywhere a monetary phenomenon (Milton Friedman). Money printing is simply *Inflation Under Construction*.
- The Chinese stock market has come under great pressure. The country's second largest real-estate developer, Evergrande, is in the process of defaulting on much of its debt. This could well have a cascading effect on global markets, perhaps serving as a catalyst.

- Stimulus checks (i.e. more printed money) are set to expire. This will likely mean reduced consumer spending, and more difficult comparisons for companies going into 2022. Tougher comps can make stock prices look too high rather quickly.

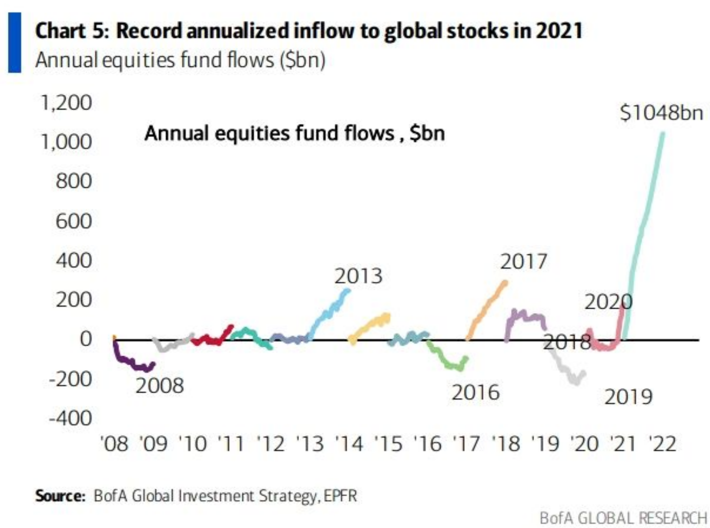
Put it all together and you can see why I have been, and remain, quite cautious. There have been pockets of strength, and there will continue to be areas ripe for investment. Mostly, though, I think of the following: Should we prepare for a Black Swan event or a 50%+ market decline? If so, how? Or what if stocks go down only in real terms, where nominal stock prices remain elevated but inflation is the monster that erodes their true value? How much upside would we forgo if we're wrong? Not easy questions to answer, or even ask.

I would argue that the world is SCREAMING for sound money, for a reversal of the insanity we are all caught up in. This would explain, in part, the rise of Bitcoin. If we all had remained fiscally smart from day one, then the relative value of Bitcoin (and other forms of crypto) would be negligible compared to fiat (the Dollar). But fiscally, we have been reckless. Despite recent weakness, gold should remain as a portfolio hedge. Too much history there to ignore.

The pendulum will likely swing soon away from fiat currency, though the form it will take is less clear. This pendulum swing feels close at hand. And it can happen very quickly and sharply. There is much discussion about a digital form of money, a/k/a Fedcoin. But Fedcoin alone will not change anything, except that it will give the government more direct control of your money. We are seeing early signs of the inevitable fiat debasement in the form of inflationary spikes, which are being disguised using terms like 'transitory' and 'supply chain disruptions'. The Federal Reserve likes to use words as weapons designed to manipulate the truth. They have printed trillions since the 2008 Great Financial Crisis. In 2020, we saw an exponential lift-off of money printing. Does this look right to you?



Commensurate with that chart is this one below, showing money flows into different asset classes. Well what'ya know- a fresh trillion poured into stocks. This is ARTIFICIAL, folks- without the printing press evidenced in M1, there would be no new money to invest:



It is crucial to understand that, in a truly sound system of money, there should be ZERO money printing- except, some would argue, in times of war or natural disaster. The Fed sees its role as offering stability, but in the end it will lead to maximum IN-stability, if not a total revaluation of the Dollar. Jerome Powell talks about "Tools" at his disposal. I've yet to hear one that addresses the debt and deficit problem. In fact, his 'tools' are *becoming* the problem! At this rate, there will not be a stock market by 2035/2040, because Central Banks will be compelled to own EVERYTHING to avert a collapse. That is certainly the trend. The only alternative may be to experience a credit contraction, which will place great pressure asset values.

The Fed’s Balance sheet has exploded to a level well north of $8 trillion, which is (get this) about the same as the *entire market value of Apple, Microsoft, Google, and Amazon COMBINED*!!! How far behind can the next 496 stocks in the S&P 500 be? The assets on the Fed Balance sheet represent assets that the market could not bear. They see it as a rescue mission; I see it as anti-capitalism.

Now, the Fed could try to reverse the trend and sell assets on their balance sheet back into the market. The problem is, they tried that in 2018 and the result was a “Taper Tantrum” in the market. The Fed had to reverse course immediately and go back to money printing. Now, instead, they are allowing Inflation to run hot, while keeping rates suppressed. The term for that is Stagflation. We lived through Stagflation in the late 1970s. Today, the stage is set for more. In one scenario, we could even experience what many societies have in the past: hyperinflation.

These trends have a long history going back over 50 years, and even longer if we consider the qualitative conditions that made them possible. Going off the Gold standard in 1971, we then began to let the Dollar float freely against all currencies. Borrowing became a lot easier. The world followed, borrowing to ‘keep up’. The “full faith and credit” of the U.S. Government meant more then, because our debt was so manageable. Today it is more than $28 trillion. Full faith and credit is losing its lustre- quickly. Many are beginning to believe the debt will never be repaid. Thus the seeking of alternative forms of money.

Investing today is now less about analysis, or ‘price discovery’, and more about anticipating the money flows from the Fed and the weekly macro headlines. At the very least, it implies a great deal more risk, even if that risk has not yet made itself known. It lurks below the surface, ticking.

There are actually places to invest in this new order of things- just not in the same places as before. There are themes that have been building for a long time, themes which trillions of printed dollars can and should bid higher. For example, consider the concept of electric vehicles and the implication for the price of copper. Or alternative forms of energy. Or technological innovation generally- the Cloud, AI, Genomics, etc. Given that there is no other asset class for all this printed money to call home, it is likely to find a home in these newer areas. Through all the market gyrations, the Innovation tends to be a winner.

Some might ask “Paul, if the market was going to tank, wouldn’t it have done so already?” Great question. The answer to me lies in the Fed’s ability to keep those plates spinning in the air for a very long time. Tell me when they remove the punchbowl or when they just can’t keep those plates spinning, and I’ll tell you when it’s time to take cover. Meanwhile, in portfolios, the Defense is on the field. It has to be. If I knew for a fact that the Fed was out to save the dollar and print no more, I would be reluctant to own ANY stocks. But they have shown no sign of that. Instead, they appear intent on supporting *nominal* asset prices.

Many experts agree with the notion that the Western world will *either default on its debt or default on its currency*. The Central Banks’ goal appears to be to inflate the debt away, which means that, in real terms, they are willing to default on the currency. So asset prices like stocks can remain elevated, but their ‘real’ value relative to costs will go down. For bondholders, this contrast is even more stark. In fact, bonds offer very little reward today.

Given the unenviable position our global economy is in, asset support by the Fed (currently at $120 BILLION per month) may be the lesser of two evils, as outright debt default would likely pressure markets like never before. But think about it: why does the Fed need to increase its balance sheet by $120 billion each month? It is pure financial morphine. My term is *ledger-demain* (magic) Think of money printing as money going to one person at another person’s expense. And if you’re not on the receiving end, then you are the one footing the bill.

When one really digs into the weeds, it becomes clear that society as a whole is paying a very significant price for this system, what I call Extractionism. It is not Capitalism. The wealth gap referenced above (Bezos, Buffett and Gates) is not a reflection of any success or virtue of our system. On the contrary, it is the condition of growing poverty we should all recognize. The concentration of wealth, the surge in poverty, and the shrinking middle class are all inseparably linked.

The information contained is derived from sources believed to be accurate. However we do not guarantee its accuracy. The information contained is for general use and it is not intended to cover all aspects of a particular matter. Neither the information presented nor any opinion expressed constitutes a representation by us or a solicitation of the purchase or sale of any securities. The information contained is not appropriate, by itself, to guide investment decisions. This material does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual recipients. Strategies, financial instruments, or securities mentioned herein may not be suitable for all investors. The Investment Center, Inc. strongly recommends that potential investors meet with a financial professional to evaluate their circumstances, financial goals and risk tolerance prior to making any investment decision.

The Investment Center, Inc. does not forecast future economic environments and cannot comment on how it might do in any future economic scenario. There may be economic times where all investments are unfavorable and depreciate in value. The Investment Center, Inc. makes no predictions, representations, or warranties herein as to future performance. Future performance is difficult to predict and such predictions are beyond the control of The Investment Center, Inc. Current performance may be lower or higher than the performance data quoted. Past performance is not a guarantee of future results.

Although all investments may be adversely affected by currency fluctuations or global economic, political or social instability, investments issued by entities based outside the United States, particularly in countries with developing economies and/ or markets, may be affected to a greater extent.

The opinions stated are that of the author and not that of The Investment Center, Inc. All Securities Offered Through The Investment Center, Inc. Bedminster, NJ Member FINRA/SIPC. Advisory Services Provided Through IC Advisory Services, Inc. - A Registered Investment Advisor. Paul Lobosco is a registered representative of The Investment Center, Inc. – Forward Capital Management, LLC is not affiliated with the Investment Center, Inc.. Paul Lobosco is not a research analyst and the information contained herein does not constitute a research report.