ZANETTI FINANCIAL, LLC

Zanetti Monday Missive 2022.09.26
The Party's Over

“We printed up too much money, and just thought the party would never end. The party’s over.”
~ Carl Icahn (Investor and corporate raider)

“A nickel ain’t worth a dime anymore.”
~ Yogi Berra

Happy Monday everyone!

It seems every time I pick up the paper or watch the news the world’s biggest names in finance and economics are now saying what you’ve been reading in these missives for a while.

The party’s over!

Here in the US we are still struggling with the highest inflation in 40 years and now with the Fed raising rates, everything is falling - from the stock market to real estate.

Meanwhile, the world continues to struggle with the war in Ukraine, the energy crisis barreling down on Europe, and China's Covid-Zero policies.

An interview with MarketWatch this past week caught my attention. Carl Icahn, the billionaire investor and corporate raider, said "The worst is yet to come." And that's after the S&P has already fallen 21% this year!

We agree, Carl. We agree.

Then, to my surprise he said something that made me think he's been reading our Monday Missives… So, Carl if you're reading this, Happy Monday to you as well!

What was it that Carl said? He said "Inflation is a terrible thing. You can't cure it." Then he explained that inflation was one of the factors that brought down the Roman Empire.

In ancient Rome, after becoming the largest super power up to that point in history, the Roman economy started to become bloated. The Roman government started paying for more things that they really couldn't afford - like free daily bread for all Roman Citizens.

To cover these growing expenses, the Roman Emperors started to lower the silver content in their coinage (the Denarius). This was the equivalent of today's practice of printing more money.

This made the Roman coins worth less.

Finally, Emperor Diocletian instituted price controls and a new coin called the Argenteus – which was equal in value to 50 Denarii. Thinking that more coins could pay for more stuff. Sounds familiar, right?

(The Emperor Diocletian)

Some historians have estimated the inflation rate due to these “Government Interventions” by the Roman Emperors was around 15,000% between 200 and 300 AD. Now that’s hyperinflation!

That’s what worries me right now about the United States. That the cows have been let out of the barn and it’s not so easy to get them back in.

The thing with inflation is that currency becomes devalued, in so far as that one currency unit no longer buys what it used to.

Today, the dollar buys less than it used to. We expected to see that in this inflationary environment - and we have not been disappointed. But gold has languished during the same period – and that’s not quite what we expected.

But I’m curious about some events that have been happening around the world. As I’ve written before, central banks around the world have been stockpiling gold and silver.

Why? Are they misguided? No, I don’t think so. In fact, I think it’s the opposite.

In fact, back in March of 2019, the Bank for International Settlements (BIS) promoted gold from a Tier 3 asset (for banks, that’s a low quality or "risky" asset) to a Tier 1 asset (the highest quality asset a bank can hold – as safe as the US dollar for borrowing and lending purposes).

To review, the BIS is the Central Bank’s Central Bank. The BIS is OWNED by the world’s central banks. Now it’s starting to make sense why the Central Banks started buying up gold after stating gold was as safe as the US dollar.

And guess what they're not selling now? Gold!

In fact, it's the opposite, they're continuing to buy – when prices dip, you see them buying more.

I think they're preparing for what we, and now Carl, have been expecting: An inflation induced recession that sinks assets around the world (including global stock markets).

And here's the thing. Gold is currently down compared to the US dollar, but not to any other global currency. If you had invested in gold in Europe, you'd have seen a great return this year.

The only reason that hasn't happened here in the US is because the Federal Reserve (the Central Bank for the U.S.) has increased interest rates. To investors, an asset that pays interest is attractive. But attractive for how long?

Even though US Treasuries (the dollar) are paying interest, that interest it's paying isn't high enough to beat the inflation rate that it's up against. Which is why I don't think the dollar will keep winning the fight against gold.

Kind of like the current inflation we could see coming for obvious reasons, we can see why gold will do well against the U.S. dollar in the future. It might take some time to see the dollar/gold relationship reverse, but it will. It's just a matter of time.

Your I'm-Guessing-With-Harry-Back-In-London-He-Is-Called-The-Artist-Formally-Known-As-Prince Financial Advisor,

Walt

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