

Hello Everyone,

It is not often the Federal Reserve changes its strategy.

The Fed may adjust policies. We hear about that all the time. But, changing strategy is much different...and much bigger. The last time this happened was immediately after the 2008 financial meltdown.

Thus, today's missive will start a series explaining what is likely coming-- and why. I believe if you understand this (and it's not that complicated), you will be much better investors.

Signed, Your I-Believe-Your-Portfolios-Are-Positioned-Right-For-What-They-Are-Hinting-Is-Coming Financial Advisor,

Greg

## **KKOB 04.08.2019 Brake and Accelerator**

**Bob:** So, Greg, I confess I get confused. Some advisors say buy. Some say sell. I get that. People have varying opinions. But regarding facts, there shouldn't been debate. For example, the facts should tell us if we have inflation or deflation? But people in your world debate even that.

**Greg:** Wow. And You've just hit on one of the defining arguments in my world...and getting that answer right will matter a lot to your listeners.

So, let's talk about what's happened...

After the financial-crisis of 2008--- three entities----the Federal Reserve, our Treasury Department, and our politicians embarked on an experiment. It involved printing and spending lots of money...while simultaneously pushing interest rates down to zero. This was....let's say...unconventional.

Without going deep into the mechanics of all this, these three groups were essentially ***creating both money and debt simultaneously.***

Now, the creating debt part should have been deflationary.

Think of this on a personal level. If you have too much debt, eventually you get scared. You stop eating out so much. You skip vacations. You don't buy a new car. Now, if that happens across an economy, things slow down...sometimes big time. This is what happened during the

Great Depression....both individuals, and the government, had too much debt.

Meanwhile, the printing & spending money part should have been inflationary.

We all know, if you print too much paper-money you'll eventually debase your currency. Prices will rise...and if you don't get that under control, well soon, you'll be Venezuela.

So, to repeat, after 2008, we did both...we ramped up printing--- and ramped up debt.

Think of it this way, it was as if we got into a car and pushed the accelerator to the floor as hard as we could while simultaneously smashing down on the brake. Spending was the accelerator. Debt was the brake.

**Bob:** So, that's why we get all these conflicting signals. Some parts of the economy have gotten the gas. Look at stocks and real estate... they've had a great run. Meanwhile, lots of people are falling behind. They must feel like there's brake on everything they do.

**Greg:** Right. The whole strategy was based on something they called the "wealth affect." They thought if **assets** went up in price, people would feel richer. Thus, they'd spend more----and the greater economy would benefit. But what happened was the rich got super-rich---while large groups of Americans became economic orphans.

**Bob:** OK. I can see that. But still, this accelerator-brake method has helped the economy grow. This may not be the optimal way, but you have to admit it is kind of working.

Unemployment and inflation are low. GDP is growing. Stocks are still doing well. Why not just keep going?

**Greg:** Another great question. First, there are limits. I mean you can't create trillions of debt forever. Eventually, you hit a wall. Same with printing and spending. Eventually your currency gets called into question.

And maybe most importantly, society can't take it. Resentments grow and the pitchforks come out when the rich get out of their Lamborghinis

and carelessly step over the homeless.

All, of which leads me to a speech Fed Chair Jerome Powell gave exactly a month ago. I think he knows things must change...and he has begun laying out a strategy-shift that will flip the switch. In short, he said he wants a Fed policy that will directly help the American people.

Now, before you cheer, I'll just say there's a lot to this---and it will change a lot of things.

And I know I'm out of time, so let's pick it up next week and discuss in more detail why it will matter to you.

**Bob:** Well, OK. That's some teaser. I wish we could do it sooner.

**Greg:** Me, too. A week is long time to maintain continuity of thought. So, if your listeners want transcripts of what you and I talk about, they can just email me at [gregradiotranscripts@gmail.com](mailto:gregradiotranscripts@gmail.com). I don't spam people. I don't sell lists. But you'll need to read the next several in a row to grasp the bigger picture. Again, that email is [gregradiotranscripts@gmail.com](mailto:gregradiotranscripts@gmail.com).

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