

Hello Everyone,

Is this the real life? Is this just fantasy?

Caught in a landslide, no escape from reality

Open your eyes, look up to the skies and see...

Rock Group Queen, Bohemian Rhapsody

I know I keep harping on the Coronavirus, but **Queen** kind of sums it up. I'd love to look up to the skies and see what is really going on. But getting any accurate information out of China is clearly a fantasy at this point.

And, yes, the Coronavirus has the potential to affect everyone's investments. Even Fed Chair, Jerome Powell mentioned the virus and said he's prepared to open the money spigots to combat the effects of the disease.

Of course that led to jokes about fighting the disease with printed money.

Despite this introduction, today's missive does not focus on China. Today we turn our attention to Germany. Can success lead to failure? We'll make a case.

Signed, Your Was-Bernie-Sanders-Really-Caught-Flying-First-Class? Financial Advisor,

Greg

KKOB 02.14.2020 Germany's Dilemma

Bob: So, Greg, over the past few shows we exposed some of the flaws in China's economy----and political system. But today you want to turn your attention to Germany. Right?

Greg: I do. As you know, our economy does not operate in a bubble. And, I hope understanding what is happening in Germany will make your listeners better investors.

So, here's my premise about Europe's biggest economy. The Germans have been so successful---and for so long---it has hurt them.

Let me explain.

When the Euro was launched in 1999, there was no country in Europe better positioned to take advantage of the new common

currency. The Germans were already an export powerhouse---- and for good reason. The Germans make quality products. Their engineers are second to none. They are a prudent, disciplined, and resourceful people. And these attributes manifested in economic success and wealth.

In fact, Germany was so economically superior to Greece, Denmark, Italy, Spain, France, and the rest---Bob, it was kind of like watching an NBA team play UNM or the Aggies each week.

Bob: That wouldn't be very entertaining. But I think I see where you are going with this. Obviously, the Germans ended up selling a lot more product to their neighbors than their neighbors sold to them. The money must have poured in. But, sometimes when you get rich, you can also get complacent.

Greg: Exactly. For Germany, it was easy to dominate the little guys in Europe. The unintended consequence was they lost some of their competitive edge against the rest of the world.

So, yes, the Germans make great cars, machine parts, electronics and plastics. But, when was the last time you saw a German computer? What about German software? Where are the leaps in German nanotechnology? Quantum computing? Artificial Intelligence? Bob, they're not there.

Bob: So, it was like the Lakers playing the Lobos. Sure, the Lakers would beat us. But then, if they had to play the Rockets or Celtics, they were overmatched---or sloppy.

Greg: Right. The reality is, the Germans missed the digital revolution...and in a big way. They were happy to dominate in sectors where they traditionally excelled. Thus, they had no

incentive to push the envelope in the new technologies. And those are the drivers of the new economy.

So, yes, to your point, they got sloppy...or lazy.

Meanwhile, what has been going on here in the US? For decades, we have been in a pitched battle with Korea, Japan, & China to come up with the next new thing. Thus, we have been like the Lakers playing the Rockets. We may not win every game, but we didn't play down to the competition the way the Germans did.

Bob: I can see that. And it's easy to point to where we could have done better. That's natural. But, we've also won our fair share of the global economic pie...especially in high tech.

Greg: Exactly. So, why bring up the Germans?

Well, our economy is still growing. The world economy, however, has been slowing for some time. Car sales fell by over 3 million last year. That was the first annual decline since 2009.

Oh, and China's Coronavirus isn't helping.

Meanwhile, there is something called the Baltic Dry Index. That index tracks those huge shipping vessels that haul those metal containers you see stacked on the decks. So, with Baltic, don't think oil tankers. Think tracking bulk commodities and finished goods. Well, the Baltic Dry is touching 5-year lows--- and is off to its worst yearly start since 1984.

Well, when cars and finished goods are slowing down, that disproportionately affects the Germans.

So, my point is this. Two of our biggest trading partners—China & Germany--have very different, but very structural, negative economic issues right now.

Now, what that means for us is subject to debate. Will we be considered the safe haven for international money? Or, will their weakness make it tougher for us to pull the overall global economic wagon?

Bob: I think I could make both cases. Oh, and thanks for making me aware of the German situation. As usual, I learned something new. How do people reach you?

Greg: My number is 505-250-3754. Or, go to my website at zanettifinancial.com

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