

Hello Everyone,

“Men, it has been well said, think in herds; it will be seen that they go mad in herds, while they only recover their senses slowly, one by one.”

— Charles MacKay, Extraordinary Popular Delusions and the Madness of Crowds

So, we started with toilet paper and hand sanitizer. Next came the anti-viral run on Vitamin C and other natural immunity boosters. (I was happy to see that one.). Now we are at the “get canned vegetables and bags of rice” stage.

Bank runs may be next. It started in mid-town Manhattan this weekend. ATMs getting overrun. Bank lines for cash.

Like the virus, this too will run its course.

Signed, Your Could-Probably-Get-Great-Seats-At-The-Movies-If-Only-There-Were-Something-I-Wanted-To-See Financial Advisor,

Greg

KKOB 03.16.2020 The Fed Has A Problem

Bob: I’m not sure what to make of what is happening. But if the markets are reflective of the real world, it feels like the world is changing way too fast.

Greg: I agree. So, our job is to keep our collective heads and make decisions accordingly. Yesterday afternoon, yes, Sunday afternoon, the Federal Reserve announced (among other things) the following:

- They cut interest rates to 0%-.25%. So, yes, we are back to ZIRP, which is for short...Zero Percent Interest Rate Policy.
- Next, QE—or Quantitative Easing---is back. \$700 billion to start. Oh, and the International Monetary Fund announced another trillion stimulus this morning.

In short, Bob, the \$1.5 trillion of new money ---plus the \$5 trillion in new swap lines--- which they injected into banking system last week, wasn’t enough.

Bob: So, wait. Why not? I mean, with all this stimulus, why is the market heading south again this morning? It doesn’t make

sense. Usually Wall Street cheers at lower rates and more money printing.

Greg: You're right. So....

- Did the JP Morgan headline saying a \$12 trillion margin call was underway scare them? (Remember a margin call means traders need to come up with \$12 trillion cash real fast.)
- Or, did the run on a Manhattan bank this weekend freak them out?
- Perhaps it was it Goldman Sachs saying a 5% drop in GDP was inevitable. This came just as former Goldman Sachs-er - --and current Treasury Secretary, Steven Mnuchin--- was saying the US would avoid recession.

Anyway, I'm going to guess all that mattered, but I think it was also something else. I think something big is broken in the commercial paper market...and they are afraid to fix it.

Bob: Wait, again. Three quick clarifying questions:

- What is the commercial paper market?
- Why does the Federal Reserve care?
- And, why are they afraid of fixing a problem?

Greg: Great questions. Commercial paper is defined as short term, unsecured (!), promissory notes issued by corporations. Bob, think of them as handshake loans issued by corporate America. Yes, issued by the same corporate America that, over the past several years, used up its cash to buy back its own shares.

Of course, this artificially boosted stock prices. Oh, and that substantially boosted the bonuses executives and board members received. Now, these guys now need cash, but it's gone.

And you know why they need cash. Coronavirus is hurting business. So paying back those handshake loans is getting tough. Oh, and Wall Street levered those loans way up, so you really need to pay back multiples of what was really loaned.

So, hedge funds, banks, and corporations are all hoping the Fed will print money to bail them out.

Bob: But middle-class America is still angry about the bank bailouts of 12 years ago. I can't imagine how a bank **and a corporate bailout** will go over today. Politically, this could be a disaster for both parties.

So, why bail these guys out? I mean, why not let them die? That's how capitalism is supposed to work. Foolish old banks and companies would die -----and new banks and companies would have chance to grow.

Greg: I agree. But the real world will prevent this. It's an election year. If the Powers-That-Be allow wide spread failures, the unemployment rates rises. We'd see major financial dislocations. Banks might close. Even the supposedly super-safe money markets could break. If that happens all heck breaks loose.

So, here are the Greg-from-Albuquerque predictions:

- Since the Fed used all its interest rate bullets yesterday, and the markets are still sinking, you can expect negative rates in the future.
- President Trump may call for Fed Chair, Jerome Powell's, resignation.
- The Fed will coordinate with every Central Bank across the globe to turn on the money spigots.
- Convulsions in the stock, bond, precious metals, and currency markets will amplify.

- And finally, the good news, those who keep their heads and see the opportunities in what lies ahead will do very well financially. They may even create generational wealth.

Bob: Wow. That was an action packed report. Great stuff that we never hear elsewhere. How do people reach you?

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

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