

Hello Everyone

“Continued inflation inevitably leads to catastrophe.” **Ludwig von Mises**

Inflation. Deflation. Stagflation. Disinflation. Hyperinflation. All those “tions” (shuns). Which will it be? The answer is yes...and you are already seeing it. Covid19 was not the cause of this. It was only the spark.

Today’s missive links cows, earrings, “flyover country”, and “lumpy” currencies. Only here can you get this kind of in-depth reporting. : >)

I hope today’s transcript gives you a good story to tell at a summer BBQ or party. And, yes, those are coming.

Signed, Your Even-The-NY-Times-Opinion-Writers-Are-Advocating-Opening-Up Financial Advisor,

Greg

KKOB 05.11.2020 Inflation Part 3 “Even the Cows Have Earrings.”

Bob: So, Greg, we’re on the topic of the “phases of inflation cycles”.

So far, we have said that inflation starts out rather quietly. Prices gently rise...maybe for years...and everyone just gets used to it. That’s Phase One.

Phase Two, though, sees accelerated price movements. The rich-and-connected see it first. They then start moving money to tangible assets.

And, Greg, you believe we are at the front edge of that now.

But before we get to Phase Three, you want to set the stage by talking about cows and earrings. Is that right?

Greg: It is. So, Bob, have you ever heard the saying, *“Even the cows have earrings?”*

Bob: No. I can’t say as I have. I’ve learned a lot of things over the years doing this show, but that’s not one of them.

Greg: That’s understandable. It’s a saying we’ve never used in America. It comes from 1920’s Germany...and it reflects a lesson we never want to learn here in the good ol’ US of A.

Let me explain.

Between 1918 and 1922, the Germans experienced the first two phases of the inflation cycle. It seemed they would avoid Phase Three. But, they didn’t. Despite all kinds of interventions and international conferences, confidence in the Reich Mark was lost. Inflation erupted into hyperinflation.

What the rich saw coming in Phase Two was now apparent to everyone on the street. Prices were doubling at an astounding rate. Bob, some companies were paying their employees twice a day so they could go buy food before prices rose again.

Bob: Right. We have all seen the pictures of wheelbarrows full of money to buy a loaf of bread.

Greg: Right. And in that situation, poverty moves up the food chain fast.

Soon upper-middle class (and even wealthy) people in the cities couldn’t afford food. Now you have to realize, these were the sophisticated urbanites. And, they had the reputation of looking down on the rural country folk. The parallel today would be those on the coasts sniffing at us in supposed “flyover country.”

Well, now the German city folk were hungry.

Thus, they put on their fine clothes and expensive jewelry and walked (!) on the dirt roads out to the farmland. There, they would approach farmers and offer them their gold watches, cufflinks, bracelets, and earrings in exchange for meat, eggs, butter, flour, and so on.

Soon the farmers had so much jewelry, they didn't know what to do with it. So, as the city folk trudged back to their homes with their groceries, they would mutter to themselves, "*Even the cows have earrings.*"

And, Bob, that is the kind of thing you see in Phase Three of an inflation cycle. And that is what must be avoided at all costs.

Bob: Even the cows have earrings. Great story.

But, shifting gears a little, we said on Friday we would address a situation where -----what if everyone on the planet printed trillions at the same time? I mean, isn't it all relative? If we print trillions, but the Chinese print tens of trillions, wouldn't the dollar get stronger and we could avoid Phase 3?

Greg: Way to go, Bob. Great point. And it is one even Federal Reserve Board Governors are making.

I guess I would say this. Inflation tends to be lumpy. Not just with respect to goods and services, but also with respect to currencies. Inflation will hit the weakest first. And, if you look at where gold demand is highest, I'd say the Euro is the weakest currency right now.

After Europe, I'd look at Asia. Japanese finances are a basket case. China isn't much better. If we get to Phase 3, I believe the dollar will be the last to go.

But ultimately, ***all currencies will fall against things that can't be printed.***

Our advantage will be seeing other currencies fall first; but don't think that makes us immune. That's not reasonable. We'll just have more time to prepare. Does that make sense?

Bob: It does. And, you're right. The last thing we want to see are very stylish cows. How do people reach you?

Greg: That's funny. My number is 250-3754. Or, go to my website at zanettifinancial.com.

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