Hello Everyone,

"The law of unintended consequences is the only real law of history." Niall Ferguson, Scottish-American Historian and Senior Fellow at the Hoover Institute.

I wish we could change that law.

Today's missive links Murphy's Law, California wildfires, and the Fed's Zero Percent Interest Rate Policy (ZIRP). Yup. This one is kind of out there. Still I hope you find it interesting and edifying.

Signed, Your Still-Thinks-Truth-Or-Consequences-Is-A-Great-Name-For-A-City-:>) Financial Advisor,

Greg

KKOB 2020.09.10 Murphy's Law, Wildfires, & ZIRP

Bob: So, Greg, on Friday, your story about how Murphy's Law originated changed my whole view of the saying, "*Anything that can go wrong, will go wrong."* I thought it was pessimistic and fatalistic.

Instead, Murphy's Law was meant to look ahead and anticipate problems. Then you could fix them in advance.

Greg: Right. Murphy's Law was predicated on the belief that if you were thoughtful and resourceful, you could avoid failures and increase your chances of success. So, how can we relate this to investments?

Key to Murphy's Law was the idea of branches and sequels. Meaning one decision affected another. So, imagine the "big decision" being the trunk of a tree. Well, from that trunk, we know all kinds of branches grow. Some in predictable ways. Some not.

Anyway, in my world, that "tree-trunk" decision affecting everything in money-land is the Fed's Zero Interest Rate Policy…or ZIRP. And I know why the Fed dropped rates so low. They believed low interest rates stimulate an economy.

Bob: And haven't they been right? I mean, with super-low rates, people have been able to buy homes. Plus, businesses have been able to borrow money to stay afloat. And it's also pretty clear, the stock market loves ZIRP.

Greg: That's all true. But I don't think Captain Murphy would approve. I think he would say the Fed did not anticipate the negative along with the positive. And worse, as ZIRP's negative effects are manifesting, they aren't adjusting. For example, under zero rates:

• Savers have been crushed. Retirees who counted on CDs-- or government bonds-- to get monthly income have been forced into riskier investments to get some income.

• Next, the wealth-disparity between the rich and the poor has become a canyon. ZIRP benefits billionaires far more than thousand-aires. And I believe much of the civil unrest we are seeing is rooted in economics vs. race or culture.

• Oh, and zero percent interest rates have distorted "normal" markets beyond all recognition. Trying to evaluate stocks or bonds using old-fashioned metrics like saaaaay profits or cash flow are all out the window. All Wall Street cares about now is more stimulus.

Bob: I see that every day. Our "national-feed business reports" consistently focus on the Treasury Secretary and the Fed Chairman. It's not like the old days when we got excited about a new I-phone coming out.

Greg: Right. Our authorities have become so afraid of recessions and downturns, they intervene at any hint of a slowdown. But capitalism needs recessions. During slowdowns, inefficient companies get washed away. And new, more innovative, companies spring up.

We're not seeing this now. The big companies are so entrenched, they are essentially partnering with the government---and the Federal Reserve. They aren't allowed to fail. So, not only does innovation recede, but the economy calcifies. And those on the wrong side of the economic canyon fall further behind.

Bob: So, this might be a stretch…but I see a Murphy's Law similarity with the wildfire problems in California. Many people believe decades of environmental mismanagement created a tinderbox of dead trees and thick underbrush. That's been the fuel for these recent fires. Which all circles back to Murphy's Law. Some in the environmental crowd didn't anticipate what could go wrong before implementing the policies.

And to bring this back to your point, you're saying both governmental and Federal Reserve policies are creating the fuel for future market disruptions.

Greg: Wow. That's pretty good. And, yes, I believe we are advancing economic policies with little consideration of what "fires" could start. And, Bob, you know my view, the easiest fire to anticipate is inflation getting out of control. Printing trillions is akin to allowing the thick underbrush to pile up. It's the fuel.

Next, because of massive debts, you should anticipate more bond defaults. Covid was a spark no one saw coming. And the Fed can't bail everyone out. Watch the banks. Smoke will appear there first.

Anyway, the point is, Murphy's Law would say we can now see our mistakes. Therefore, we should stop. Reevaluate. Adjust. Yes, there is some pain to fixing things. But fix them.

Bob: But if they don't fix them, then it's up to investors to adjust instead…so they don't get burned. How do people reach you?

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

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