

Hello Everyone,

***“Once you eliminate the impossible, whatever remains, no matter how improbable, must be the truth.”*** Sherlock Holmes

Today we will look at the improbable. How can a stock market soar as our cities burn---- and our economy tries to recover from being jerked to a complete stop?

There is an explanation. And our job is to see how that explanation will affect your investments. I believe we are on the right track. :>)

I hope today's missive relieves some confusion.

Signed, Your So-Do-I-Need-A-Mask-Or-A-Brick-To-Go-Shopping? Financial Advisor,

Greg

## **KKOB 06.08.2020 Wall Street-Main Street**

### **Disconnect**

**Bob:** So, Greg, I know there is some confusion about how over the past few months the economy could go through such difficult times, yet the stock market has done great. It doesn't make sense.

**Greg:** I get that. So, let's look at some possible explanations.

First, the Federal Reserve has been pumping trillions into the financial system. And let's distinguish the financial system from the real economy.

- Regular Joes are getting \$1200 checks.
- Banks and large corporations are getting trillions.
- Some part of those trillions are going into stocks.
- And finally, Bob, some part of those trillions are being used by companies to buy their own shares back.

**Bob:** So, banks and big companies are getting free money----and using that money to buy back their own shares?!

**Greg:** Yes. And that old trick helps prop up stocks. It also gives insiders, large institutions, and “wired in” hedge fund managers a chance to sell at higher prices.

Meanwhile, the little guys are saying, *“Buy! Buy! Buy! We’re going back to normal soon. I don’t want to miss out!”*

Anyway, for every \$1 going to Main Street about \$3 is going to Wall Street.

But wait, there’s more.

By law, the Federal Reserve cannot buy stocks. The Fed can, however, do something called “open swap lines” to other Central Banks. Swap lines are like money portals to the European Central Bank, Bank of Japan, Bank of Switzerland, and so on.

Here’s how it works. The Fed (without any oversight) can “push” trillions of dollars to foreign banks to “ease global dollar shortages.”

Well guess what? The Fed opened massive global swap lines in March. Then, in April, guess who the largest buyer of US stocks was? The Swiss National Bank. And, Bob, they must have found some money in the couch cushions, because they deployed \$90 billion to buy stock in only five companies.

**Bob:** I think I can guess which ones. Facebook, Apple, Amazon, Netflix, & Google.

**Greg:** Replace Netflix with Microsoft and you are exactly right. Those five stocks, are up 30% in the last two months. The other 495 stocks are down 12% for the year. In short, five (!) stocks are pulling the stock market wagon.

This tells you the big guys have figured out you need only concentrate billions in a few companies and you can give the impression of an overall healthy market.

That's why unless your listeners disproportionately own those favored few, they aren't keeping up.

**Bob:** I can totally see the danger in this for regular investors. Some are thinking, *"Whew, the worst must be over. Look the stock market is rising. I don't want to miss out. I'd better buy."* But, this may be what you guys call a suckers rally.

**Greg:** Maybe. Others say, *"Hold on. The Federal Reserve has our back. They can print limitless money. And if they can convince foreign banks to direct billions into our stock market, they can keep this market elevated through the election... and even beyond."*

Regardless, the old fashioned metrics like, ohhh, profits, growth, book value are now meaningless. This is why some people say, *"We don't have markets anymore. We only have interventions."*

**Bob:** And, you and I have talked about this kind of thing in the past. But back then it concerned Japan.

I know that for years the Bank of Japan has been printing money to buy Japanese stocks. That means their market can't go down, because there is always a buyer.

**Greg:** Exactly. It also means the BoJ owns so much stock they should sit on the board of every Japanese company from Toyota, to Mitsubishi, to Sony. It's pretty artificial. But, many Japanese investors say, *"So what? I don't care if they're propping it up. Just keep my retirement plan solvent."*

**Bob:** But what happens when they stop? Wouldn't it all come crashing down?

**Greg:** Probably. But, until then, who knows how high it can go on limitless money? Anyway, Bob, this is the Wall Street game right now. Very little matters, except the Fed.

**Bob:** Thanks for the explanation. I don't like it. This sits wrong. But at least I understand. How do people reach you?

**Greg:** My number is 250-3754. Or, go to my website at [zanettifinancial.com](http://zanettifinancial.com).

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