

Financial Wanderings

June 2021

A masterful examination of the previous month's financial events, written by Brad Blackburn, CFP®
(and made even awesomer by Andrea Dickerson)



Will there ever be too much stimulus?



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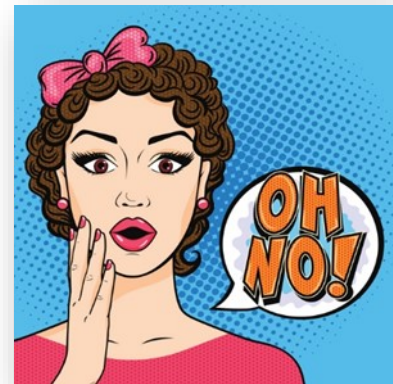
Although the commentary in this newsletter has been thoroughly researched, well-reasoned and contains many impressive multi-syllabled words, please enjoy it responsibly. There are many economic minds that are far smarter than mine—and even they can't agree on even the simplest economic questions. In other words, please enjoy this newsletter with the full understanding that it may be entirely wrong.

The short term, from an economic standpoint, looks really good. Vaccines are here, lockdowns are ending, American manufacturing is enjoying its best run in decades, consumers are spending lots of money, and we're still creating lots of new jobs. However, even if the economy does begin to slow, we've become so comfortable writing big checks that any slowdown will likely be met with yet another gigantic stimulus bill – problem solved!



But it just can't be THAT easy, can it? My biggest worry, and I'm far from alone in this, is the risk of inflation and rising interest rates. The world had a lot of debt even before the 2008 financial crisis and the pandemic, but now we have a LOT more. The natural thing that happens as you rack up more and more debt is that the lender charges you a

higher interest rate. We've been able to escape that fate because the Fed has kept rates so low. However, the Fed can only keep interest rates low because inflation has been so low. But that might be changing.



Recent reports have shown a strong uptick in inflation. That's not surprising given the trillions of dollars we recently injected into the economy combined with a lot of pent-up demand from the pandemic. The big question is whether it will continue. In recent years, we've had several short bursts of higher inflation, but they didn't last... If this one does, the markets will have to adjust to that reality – and it may not be pretty.

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If we do start to see real inflation, interest rates will have to rise, which means all that debt we've accrued over the last 15 years becomes much harder to deal with, which probably means bankruptcies – and now you have a big economic problem. Even worse, it's not a problem we can solve by borrowing a lot more money. So, I hope we can avoid that fate.



A silver lining to higher taxes?

One of the Biden administration's key goals is to raise taxes. Typically, that would spook the stock market, as higher taxes have the potential to slow the economy. However, if the near-record-high stock market is any indication, the financial world isn't too concerned.

One reason might be that the proposed tax increases will impact a relatively small portion of Americans. Another reason is that there is a very big economic picture, and higher taxes are only one part of it. Finally, since the year 2000, our national debt has grown from \$5 trillion to \$27 trillion. At some point, taxes will have to rise. I think the markets understand that reality.



If tax increases do slow the economy, there might be a silver lining. One major fear for the financial world is that our economy will overheat – with the result being runaway inflation, much higher inter-

est rates, and the potential for a major recession. Perhaps a tax increase could help slow the economy enough so that overheating won't be as big of a risk.

A similar thing may have happened with Trump's tax cuts. The economy was good before the tax cuts, so there was concern that a big tax cut could overheat the economy. However, Trump complimented that tax cut with a chaotic, destructive trade war with China (and also Europe, Canada, Mexico, and more...).



So, the negative effect of the trade wars may have significantly offset the positive effect of the tax cuts. In the same way, Biden's tax increase may offset the trillions in stimulus spending we've pumped into the economy over the last year. It feels strange to root for a slow and steady economy rather than a booming one. But then again, we all know what often happens after a boom...

Cryptocurrencies are wild speculation

As the cryptocurrency craze has grown into a frenzy, I've shied away from writing about it – primarily because I can't make sense of it. I'd like to think that's because it doesn't make sense... However, a

lot of smart people believe in it, and it's made them a lot of money.



One problem for crypto's is their complexity. It's relatively easy to wrap your head around a stock. If a business grows, the stock tends to grow. But with crypto's, it's not that easy. How do you determine the proper value of a crypto? It doesn't produce any income, and it holds little (if any) inherent value. It's a lot like gold in that way. However, unlike gold, which has been traded for centuries, crypto's have no historical precedent to study. For those reasons, anyone who thinks they know the proper value of a crypto is too confident to be trusted.



Crypto currencies are billed as an alternate to governmental controlled currencies, but they certainly aren't close to that yet. Further, if they ever come close to delivering on that promise – I don't think governments will allow it, as policymakers aren't typically eager to give up control (China has effectively outlawed them already). Also, because of the confidential nature of crypto's, they are seen as a haven for crime and money laundering. The first time a major terrorist attack is funded through crypto's, the entire crypto could implode. The last regulatory worry for crypto's is

their massive energy usage, which just begs for a government crackdown.



Even if I am wrong, and cryptocurrencies are here to stay, there are thousands of them, with more coming every day. The most special part of any crypto isn't the currency itself, it's the underlying technology called Blockchain. So there's not much to stop a new crypto from using Blockchain in an even better way. Most of these crypto's will end up like Myspace (gone), and only a few, if any, will turn into Facebook. Are you confident you can choose wisely?

I do think Blockchain technology is valuable and will be around for a long time. But that doesn't make the underlying cryptocurrencies a good investment. Clearly, I wish I would have invested all my client's money into crypto's years ago. That regret has kept me up at night. But crypto's are NOT an investment – they are speculation. If you've been fortunate enough to ride the rising crypto tide, this might be a good time to get out of the water.



Probably a mountain or a lake

At the end of February, I tore up my knee (full ACL and some other stuff). So I won't be getting many photos of alpine mountains or lakes until next year. Thankfully, we live in a great area for "car hiking."



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