



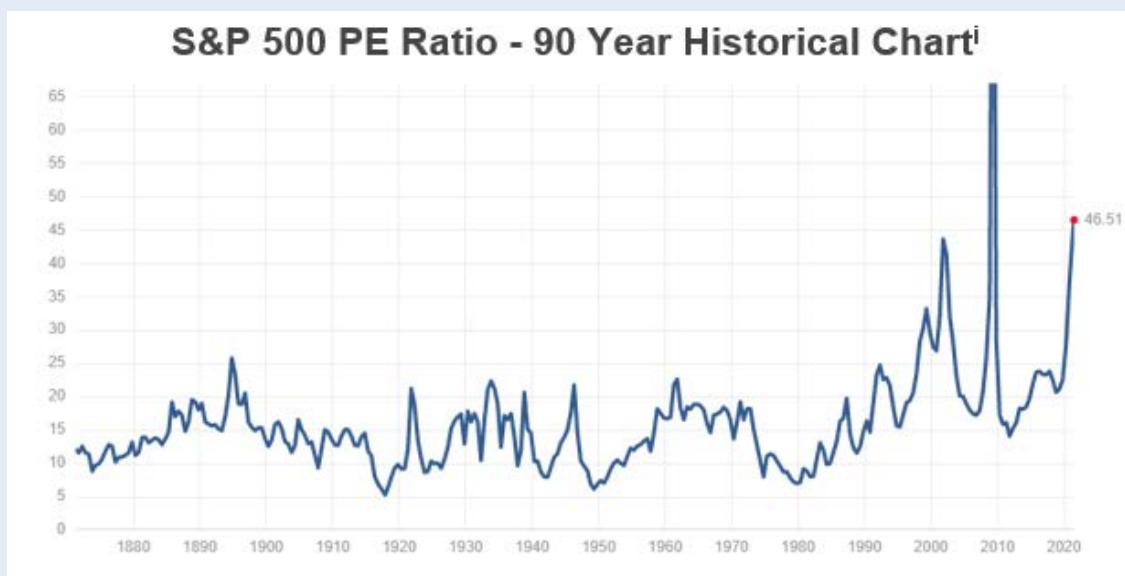
Dot.com 2.0?

-J. Kevin Meaders, J.D. *, CFP®, ChFC, CLU

July 2021 — Welcome to the second half of 2021. Can you believe we are halfway to 2022? It will be here soon, so start your Thanksgiving plans.

Despite myriad new variants of Covid being announced everyday it seems, the nation and the economy continue to get back on track. The question is: “on track for what?”

In my last letter I discussed the importance of the price/earnings ratio and how today we are facing a higher ratio than ever—save the 2008 Great Recession. We are now higher than we were just before the dot.com boom and subsequent bust.



If you believe, as I do, that history can be a good indicator of the future, this must make you nervous—it does me. Admittedly, corporate earnings are great, people are going back to work, pent-up would-be travelers are venturing back to the airports, even cruise lines are booking up again. If you're like me, you've been bombarded with offers.

While people were home during the pandemic, they discovered all kinds of renovations that were needed. If you have tried contacting a bathroom tile installer or a flooring professional, you may have been surprised to discover that they are booked up for at least a year.

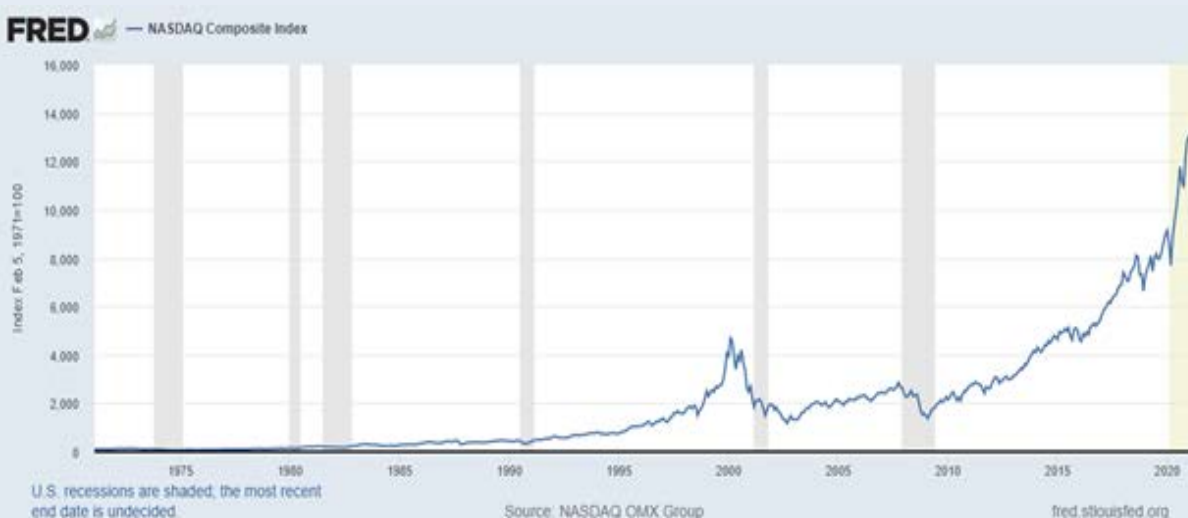
These are all signs of strong consumer demand, which happens in a busting, thriving, booming economy. Perhaps you can remember 2007 or 1999, or even 1986. This is not the first time we've been down this road.

Remember the crash in 2008? It was sparked by the mortgage resets and the subsequent defaults. Remember the subprime loans were repackaged into default swaps and then miraculously became AAA-rated? We essentially watched as millions of mortgages reset at higher rates and then defaulted in lock step.

This put major pressure on the financial sector and ultimately led to the demise of two of Wall Street's titans—Lehman Brothers and Bear Sterns. Remember them? What about the guy who when he speaks everybody listens?

Today, unlike then, banks are flush with cash—what we economists call liquidity. The Fed essentially forced it on them with the passage of TARP in 2009. The next market correction—in our opinion—is shaping up to look more like the dot.com bust of 2000. Sometimes a chart can really help. Here is the NASDAQ since the beginning of 1970. Take a look at the blip that was the dot.com boom/bust and compare it to where we are today.

You can't tell me we are not in for a major correction here. Danger, Danger Will Robinson!



Granted, the NASDAQ is heavily tech laden, and the pandemic has certainly sent some companies in the tech sector to meteoric highs. In just over a decade the index has soared from 1900 to just under 15,000! It looks like the dot.com boom on steroids. And you know what that means, right? Exactly. It means the subsequent crash will be just as dramatic.

The more I look at that chart the more I am convinced we are in for something disastrous in the NASDAQ, just as in 2000. A 50% drop? Probably. And it will drag the Dow and the S&P down along with it—retail investors don't differentiate much when they're dumping equities in a panic.

Obviously, we are facing a conundrum—the market is at an all time high and there is no reason to believe that corporate earnings will significantly drop any time soon. In fact, there are many good reasons to believe that it will continue its bull run as more Americans get back to work.

One has to ask oneself: “what could crash this market?”

The Austrian School of Economics has proven (to me at least) that these market cycles are often exacerbated (if not created) by the easing and tightening of the money supply. I have written about this extensively and will not belabor it here again except to say that fundamentally this time around it is no different than it was in the 1920's, the numbers are just a lot larger.

Today, in a digital world, where money can simply be created with a few computer strokes, the tendency for abuse has been too great.

The chart here represents "our money." After the Great Recession of 2008 (which is the grey line running vertically), the money supply was around \$8 trillion. Today, we are well over \$20 trillion.

I know media pundits try to blame inflation on the virus and subsequent supply chain disturbance, and certainly there is some truth to price spikes based on higher demand and limited supply, but one cannot

simply pretend that this is not also due in part to a dramatically increased money supply. This is not a mystery, and has been tried on almost every level, on every continent, in every era of human history.

I ask you to use your own common-sense judgment. When you buy eggs, milk, bread, fruit, cereal, stamps, whatever, do you not see the steadily rising prices? Do you expect those prices to generally drop—ever? Has that been the general experience in your lifetime? Do you think the Fed knows there's inflation? You bet they do. In fact, they'd like to change the inflation formula again. You see, when our government formulas (like the CPI, for instance) tell us what we don't want to hear, we simply change the formulas.

The Bureau of Labor and Statistics (BLS) had what I thought to be a pretty honest measure of inflation (CPI) back in the 1970's, but it started showing inflation, so we changed the formula. But then that formula too started showing inflation, so we had to change it again.



You can go back and see those 1980 and 1990 based charts at http://www.shadowstats.com/alternate_data/inflation-charts

We appreciate the job John Williams and his team are doing at ShadowStats.

The chart here compares the CPI formula today, in red, with the 1980-based formula, in blue.

You can clearly see the divergence in the late 90's and of course today the difference is significant.

It has probably been a source of surprise for some Americans to discover that their government, or portions thereof, might try to intentionally mislead them. Unfortunately, I have come to discover that this is par for the course when it comes to the Fed, and independent research often uncovers "discrepancies."

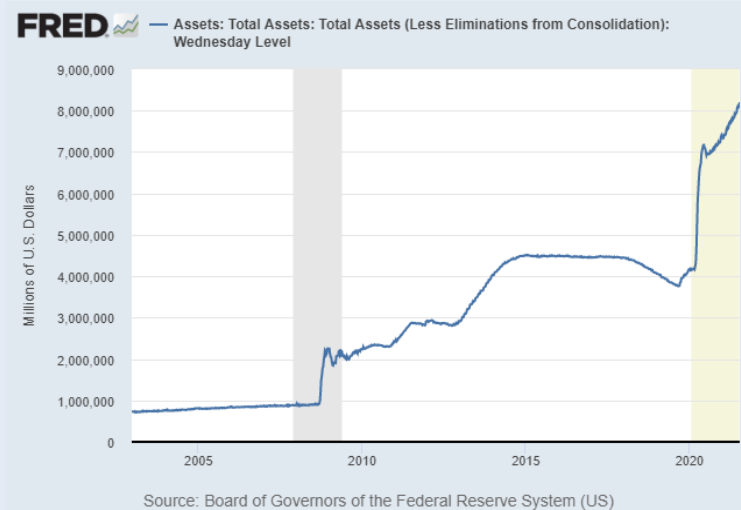
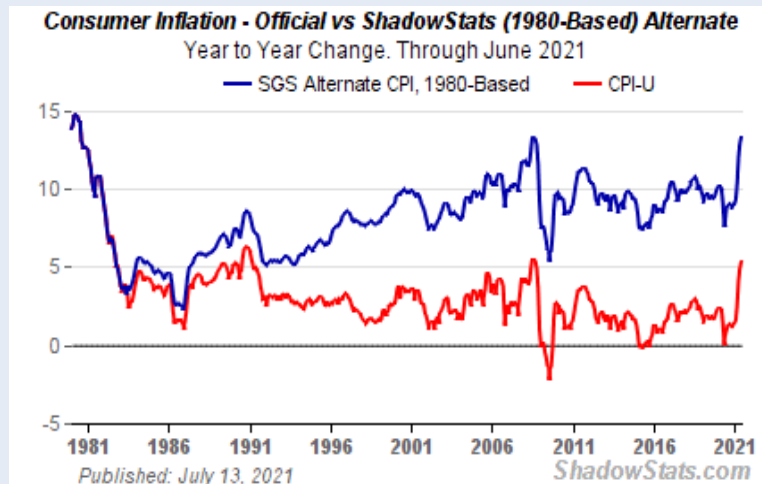
Remember back in 2009 when Ben Bernanke told us they would "not monetize the debt?"¹ Well, that is exactly what they have done.

In fact, almost as soon as Bernanke made that remark, the Fed bought a trillion dollars of treasuries.

Since then, they have added another \$7 trillion to their balance sheet.

Out of our \$20 plus trillion in debt, more than a third is owned by the Fed, paid for by electronic money that didn't exist, but that is now out in the system competing with money that you had to work for, pay taxes on, and risk in the market or allow to languish in cash.

The worst of it all is that inflation hits the most vulnerable the hardest: the elderly, the unemployed, retirees on fixed income, savers, renters, and those dependent on government benefits. But I digress.



With all these facts in our face, what is *our* call to action? What are *we* to do?

Number 1 we need to expect a major market correction, and allocate accordingly; BUT...

Number 2, we may need to be patient, and suffer some FOLO, the Fear of Losing Out;

Number 3, get more conservative as the market becomes more overvalued;

Number 4, 5, 6, have an action plan ready for a 10% drop, a 20% drop, and a 30% plus drop.

Finally, more patience, with an eye on the long term, and buying quality assets at a discount. Obviously, if you are already a client and we are managing your assets, you can be assured plans are already in place for a major drop. All that's needed on your part is an effort on the patience part. This can be one of the most trying times for investors as more conservative portfolios lag more aggressive ones. An education on market history and market forces can be a great antidote to FOLO, and I hope that is what we have accomplished here.

As always, we are only a call or email away. If you have questions or concerns, please do not hesitate to get in touch with me at kevin@magellanplanning.com or 404-257-8811.

We miss seeing you and can't wait to start our in-person seminars again. At present, we are scheduled for September 2.

My very best to you and yours,

J. Kevin Meaders, J.D. CFP, ChFC, CLU

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