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Planning Group, Inc.

Who is John Galt?

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

June, 2023 — There's a lot of conflicts of interest these days when it comes to information. I guess that's always been so to an extent. Media outlets don't want to report negative news about their advertisers, in fear that they will no longer be advertisers. Universities don't want to publish negative information about their sponsors, in fear that they will no longer be sponsors.

Even financial advisors will repeat the mantras from Wall Street and the big investment firms: "Buy and hold" "Invest for the long term" "Asset allocate and forget about it" "Whatever you do, don't sell." "Buy the dips" "Everything will be fine."

But have you ever noticed that's not what they do? They sell, they short, they hedge, they sell puts, they sell calls, and everything else. Why do you think they're called broker/dealers?

Because they're brokering for their clients, but they're also dealing to them. When a company goes public, one or more of the large investment bankers whose name you would certainly know, buys all the shares from the company, and distributes them around to other broker/dealers. They then put them on their "shelf" as a product they want to sell to their clients, at a markup.

Currently, my financial planner colleagues and I are getting the usual, "tell your clients to stay put" rigamarole. It's lengthy and tedious so I won't bore you with it here, but you get my drift.

We also sometimes get pushback from clients who simply don't want to hear bad news, especially when there are so many other outlets pumping out optimistic news—generally to sell you something—or at least not anger their advertisers.

But we have to overcome all that noise because our duty lies directly to our clients and to no one else. That's why my last few letters have been cautionary. We definitely see strong headwinds ahead. In fact, many of you have asked how this will all play out.

First off, the debt ceiling crisis is just a joke. They're screaming over a few pennies that will do nothing to save our currency. Stop and think about this sentence for a moment: "Over the last two years, the US Federal Reserve has printed 80% of all US dollars in existence."[i]

I believe the existence of our beloved dollar as we have always known it is in for a dramatic change. At this point, it seems inevitable, now it is just about the timing.

In March of 2022, Biden signed an executive order to promote the development of digital assets and cryptocurrencies. Essentially the order launched an analysis of a Central Bank Digital Currency (CBDC):[ii]

> (i) the potential implications of a United States CBDC, based on the possible design choices, for national interests, including implications for economic growth and stability;
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> (ii) the potential implications a United States CBDC might have on financial inclusion;
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> (iii) the potential relationship between a CBDC and private sector-administered digital assets;
>
> (iv) the future of sovereign and privately produced money globally and implications for our financial system and democracy;
>
> (v) the extent to which foreign CBDCs could displace existing currencies and alter the payment system in ways that could undermine United States financial centrality;
>
> (vi) the potential implications for national security and financial crime, including an analysis of illicit financing risks, sanctions risks, other law enforcement and national security interests, and implications for human rights; and
>
> (vii) an assessment of the effects that the growth of foreign CBDCs may have on United States interests generally.

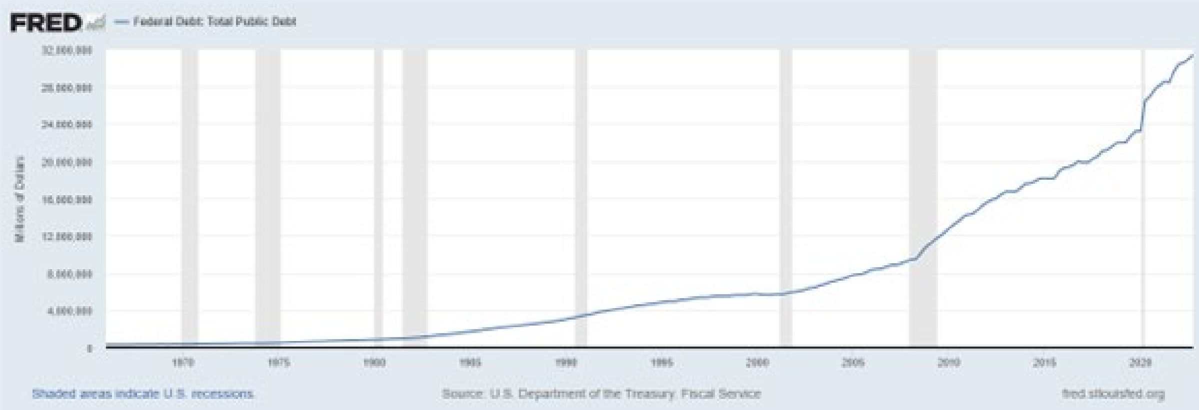
In furtherance of that effort, last November, members of the banking community launched a ""proof of concept (PoC) project that will explore the feasibility of an interoperable digital money platform known as the regulated liability network (RLN). Using distributed ledger technology, the proposed platform would create innovation opportunities to improve financial settlements and would include participation from central banks, commercial banks of various sizes and regulated non-banks."[iii]

Though the project is simulated and limited to a test environment, I've seen the list of banks included and it probably includes yours if it's one of the big ones. I know mine's on the list.

Now don't panic, this is not happening today or tomorrow. These are just feeler trials, to determine the practicability of such a system. It could take ten to twenty years for a true digital currency to come to fruition. And then there's the problem of conversion.

But here's the thing. Are we just talking about dollars in digital form, which basically we already have, or is this something completely different? Not dollars, some other currency?

I believe it is the latter: a complete replacement of the dollar. And why not? Look at our debt:



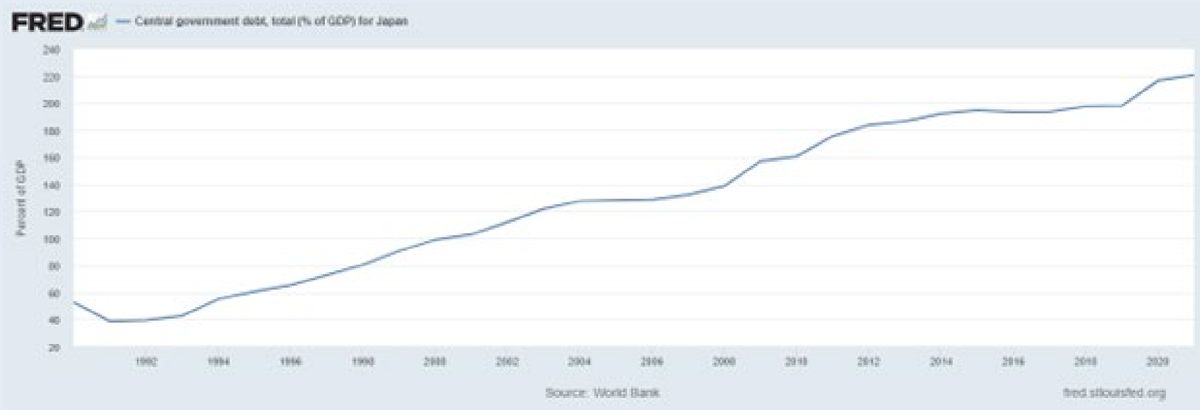
We are now almost to $32 trillion, and of course we need more. Where does it end? The truth is, it doesn't. How can we ever pay that off when we can't even balance the budget? Even during the Clinton years, when we actually ran a surplus, the debt still grew. Today, when we have to borrow money to pay the interest on our borrowed money, I don't see a way out.

And I certainly don't see the political will (or even understanding) to do what is necessary. I fear the drastic measures that are truly needed will give way to drastic measures that are more popular, a la Atlas Shrugged. If you have not read this book, you would be amazed to find that this is the world we live in now. If you have read it, you know exactly what I mean.

To my mind this brings up the next question, "How long can we go like this?"

Well, another way to look at debt is in comparison to Gross Domestic Product. One thing about America—we are a powerhouse. Even with skyrocketing debt, our debt to GDP is 120%, down from its peak of 140% during the pandemic when obviously production slowed considerably. Today, with most of the economy back to work, we are still seeing all-time highs in the debt/GDP ratio.

To answer the question of “how much longer can we go like this,” it helps to look at other countries similarly situated. One that has always astounded me is Japan.



Japan’s debt to GDP is a whopping 220%! And they haven’t gone into default yet. Somebody—Japanese institutions mainly—keep buying their debt and they continue to be solvent—somehow. So, judging from this, it could be inferred that the US, an even larger economy, could potentially double our debt before a dead reckoning. But surely it is not infinite. Only an academic like Paul Krugman would believe that.

Another academic, John Maynard Keynes, the intellectual British economist that represented Great Britain at Breton Woods, said “the best way to destroy the capitalist system [is] to debauch the currency." If you don’t think our currency is being debauched, google “M3 Chart.”

Remember, every new dollar that is created reduces the value of the dollars in your pocket. It’s just that simple. This hurts the impoverished and those on fixed incomes the most, the very people they claim to be helping.

Some will say “If Japan can go to 220%, why can’t we? Let’s just make up a $50 trillion coin and start spending it.”[iv] Even common-sense bums on the street can see how ridiculous that is.

No, we are doing the next generations terrible harm. Just like we did with their education.

For our clients, you can see that we have greatly reduced our exposure to equities and positioned the majority in 2-mo T-bills in two different tranches so that we have maturity every month. We believe the Fed (despite whatever else you may hear) is not done raising rates.

We believe inflation will continue to be sticky and it may be some time before the Fed pauses, even though the market seems to be betting on interest rate cuts soon. Why? Because the institutional money believes a correction in imminent—as do we.

This is the reasoning for explaining the inverted rate curve. The Fed can control the short-term rates, but the long-term rates still answer to the market.   This is why the 1-month T-bill is paying a whopping 160 basis points over the 10-year bond! Definitely not normal.

Once the Fed pauses, we will consider going out on a longer-term treasury bond, depending on circumstances. Remember, there's what we know we know, what we know we don't know, and what we don't know we don't know. So, we've got to remain flexible and attentive.

Your job is to not worry about it. Try to reduce your news exposure. Try to read your news rather than watch it. Get some fresh air and take a walk outside. Spend some time with your (less stressful) family and good old friends. And laugh as much as you can—it does wonders for your physical and mental health.

And as always, contact us with any questions or concerns. There is no silly question or worry too small.

Our very best,

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

The Nasdaq Composite is a stock market index that includes almost all stocks listed on the Nasdaq stock exchange.

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[i] https://seekingalpha.com/article/4498214-inflation-is-just-beginning

[ii] https://www.federalregister.gov/documents/2022/03/14/2022-05471/ensuring-responsible-development-of-digital-assets

[iii] https://www.businesswire.com/news/home/20221115005936/en/Members-of-the-U.S.-Banking-Community-Launch-Proof-of-Concept-For-A-Regulated-Digital-Asset-Settlement-Platform

[iv] https://fortune.com/2023/05/03/paul-krugman-biden-mint-trillion-dollar-coin-other-option-national-debt-ceiling/