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THE "YOU MAY NOT KNOW REPORT"

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Are We Rocketing Toward a Reset?

By Dennis Tubbergen

UNSUSTAINABLE

Adjective

Not sustainable; not able to be maintained

RESET

Verb

To set again; to return to a proper position

The word **'unsustainable'** probably comes closer than any other word to describing the current state of:

- monetary policy; specifically money creation
- debt levels; in both the public sector and private sector
- valuations in many, if not most financial markets

The word **'reset'** describes the process of returning to an original or more sustainable position. When a broken bone is reset, it is returned to its original, normal position. Twice each year in most states, clocks are reset or returned to the proper time.

Some resets are planned and intentional. Othe resets are reactions to the situation at hand.

The more unsustainable a situation becomes,

the more likely it is that a reset will have to occur. The reset returns the situation to something that is more sustainable or closer to a normal position.

This is especially true when it comes to economies, monetary policies and financial markets.

In this month's report, we will look at monetary policy, specifically money creation as well as debt levels and asset prices and compare their current positions to what might be considered a more normal position.

We will then estimate the likelihood of a reset.

Monetary Policy

Despite those academics who are spewing faux monetary theories to the contrary, deficits, debt levels and excess fiat currency creation DO matter and when they reach unsustainable levels, a reset WILL occur.

The most recent monetary theory to be adopted by some academics is the concept of Modern Monetary Theory. An article[1] published by "US News and World Report" explains the monetary model (emphasis added):

> *Modern Monetary Theory was pioneered by American economist and theorist Warren Mosler in 1992, along with Bill Mitchell, a university professor based in Australia and a key developer of the theory.*
>
> *MMT argues that nations with the ability to produce their fiat currency* ***can issue as much money as they need, and as a result, they have no pressures when it comes to financing****. In other words,* ***the government cannot run out of money and it essentially has no financial constraints****. While the government should have a budget,* ***under this theory, the government doesn't necessarily have to worry about the deficit because it can fund projects by printing new money from its central bank.***
>
> ***"The idea is that under MMT, because the U.S. has the dollar, it would no longer have to borrow money; it could just print it****," says Andy Snyder, founder of Manward Digest, a column that discusses macroeconomics in Baltimore.*
>
> *If the economy is shrinking, Snyder continues, that printed money would go into the econo-*

my to stimulate it; otherwise, if the economy is booming, the government would not print as much money and "pull back via taxes," if the economy gets overheated, Snyder says.

*Supporters of the theory say **printing fresh money and government spending won't be a problem unless it's not managed properly**, leading to high inflation as a result. However, MMT proponents say inflation and consumer demand can be managed by cutting back on spending and raising taxes.*

*Tax revenues are not used for government funding under MMT, similar to when a business uses its revenues to pay for its expenses. Rather, **taxes are used to control inflation**. A widely disliked tax policy among many is increasing taxes, which is why Snyder says the bearish case for MMT is "taxes never go up because they're unpopular and inflation runs rampant." But this is a fundamental principle of MMT: **When there is too much demand in the economy, taxes must be raised to subdue demand.***

There are a couple of important points to make. Supporters of Modern Monetary Theory state that money printing won't be a problem as long as it is properly managed.

That begs a question. Do we want to trust the politicians and the central bankers to properly manage anything?

History teaches us that would be misplaced trust.

History also teaches us that excess money creation has never been properly managed. At a certain point, the citizenry ceases to trust the currency and they begin to look for alternatives. To a certain extent, we are already witnessing this search for other viable substitutes for the world's current existing fiat currencies.

Cryptocurrencies continue to get attention and central banks and government officials are now openly discussing alternatives to existing fiat currencies.

Federal Reserve Chairman, Jerome Powell recently stated that the development of a Digital Dollar was something the Fed was looking at closely. This[2] from "Forbes":

As institutional interest in cryptocurrencies grows following bitcoin's blistering rally at the beginning of the year, Federal Reserve Chair Jerome Powell said the central bank is looking closely at the prospect of issuing a "digital dollar."

"We are looking carefully, very carefully, at the question of whether we should issue a digital dollar," Powell said Tuesday.

I expect that as the Federal Reserve continues to pursue what the central bank describes as "accommodative monetary policy", that this search for alternative ways to conduct commerce by those using fiat currencies will continue and intensify.

Money creation is currently occurring at what can only be described as an unsustainable

It's entirely possible that the United States' government operating deficit could reach $4.5 trillion this year funded almost entirely by money creation.

pace. Last year, the Fed created more than $3 trillion out of thin air, a truly astounding number. This year, remarkably, that number could be dwarfed by comparison. It's entirely possible that the United States' government operating deficit could reach $4.5 trillion this year funded almost entirely by money creation.

This will have to lead to a reset at some future point. My estimation is sooner rather than later given that we are already seeing evidence of significant inflation occurring. If you've purchased food, fuel or lumber of late, you've also seen these signs first-hand.

So what does this currency reset look like?

Will the reset be proactive or reactive?

The World Economic Forum, which hosts a meeting in Davos, Switzerland each year is advancing the idea of the great reset. Among their radical ideas are the abolishment of private property by the year 2030. For context, here is an excerpt from a piece authored by Anthony P. Mueller and published on "Mises Wire":

> *According to the projections of the WEF's "Global Future Councils," private property and privacy will be abolished during the next decade. The coming expropriation would go further than even the communist demand to abolish the property of production goods but leave space for private possessions. The WEF projection says that consumer goods, too, would be no longer private property.*
>
> *If the WEF projection should come true, people would have to rent and borrow their necessities from the state, which would be the sole proprietor of all goods. The supply of goods would be rationed in line with a social credit points system. Shopping in the traditional sense would disappear along with the private purchases of goods. Every personal move would be tracked electronically, and all production would be subject to the requirements of clean energy and a sustainable environment.*
>
> *In order to attain "sustainable agriculture," the food supply will be mainly vegetarian. In the new totalitarian service economy, the government will provide basic accommodation, food, and transport, while the rest must be lent from the state. The use of natural resources will be brought down to its minimum. In cooperation with the few key countries, a global agency would set the price of CO_2 emissions at an extremely high level to disincentivize its use.*
>
> *In a promotional video, the World Economic Forum summarizes the eight predictions in the following statements:*
>
> 1. *People will own nothing. Goods are either free of charge or must be lent from the state.*
> 2. *The United States will no longer be the leading superpower, but a handful of countries will dominate.*
> 3. *Organs will not be transplanted but printed.*
> 4. *Meat consumption will be minimized.*
> 5. *Massive displacement of people will take place with billions of refugees.*

6. *To limit the emission of carbon dioxide, a global price will be set at an exorbitant level.*
7. *People can prepare to go to Mars and start a journey to find alien life.*
8. *Western values will be tested to the breaking point.*

As an initial step toward accomplishing these outcomes, the WEF is advancing the notion of a global digital currency.

Janet Yellen, the US Treasury Secretary, is also suggesting that a digital currency might be a good idea. She recently suggested that it would make sense for governments and central banks to be looking at central bank issued digital currencies.[3]

All this talk about digital currencies and great resets may be unsettling to many, but it's important to remember that none of these things can occur without the consent of the people.

When it comes to currency, both consent and confidence are required. At this point, these discussions are focused on transitioning from a paper fiat currency to a digital fiat currency. BOTH are fiat currencies and can only be viable as long as there is confidence in the currencies by those who are using them to store wealth.

The reality is that currency is a means by which to store your economic energy until you are ready to deploy it. If you go to work and earn a paycheck that you cash, you have two choices.

Choice one, keep the cash and spend it later. When you make this choice, you are choosing to deploy your economic energy at a later date. This is the choice you are making when you save money (economic energy) for retirement in an IRA or 401(k).

Choice Two is to spend the cash or choose to store the economic energy another way. Perhaps instead of storing your economic energy in cash, you choose to store it in precious metals, real estate or canned goods.

History teaches us that when confidence in a currency is lost, those using the currency opt for choice two. That is why, time and time again throughout history, gold and silver or a currency linked to them have been the money of choice when a reset occurs.

I expect this will be the case again. While we may see a Digital Dollar, the fact remains that massive money creation leads to loss of confidence in a currency no matter the form of the currency. Should Digital Dollars be created in the same quantity as we are presently seeing, ultimately, confidence will only be restored by implementing a currency system based on gold and silver.

When discussing debt, there are two types to consider – government debt and private sector debt.

Debt accumulation is not infinite. In other words, debt accumulation can only occur as long as there is enough income to service the debt.

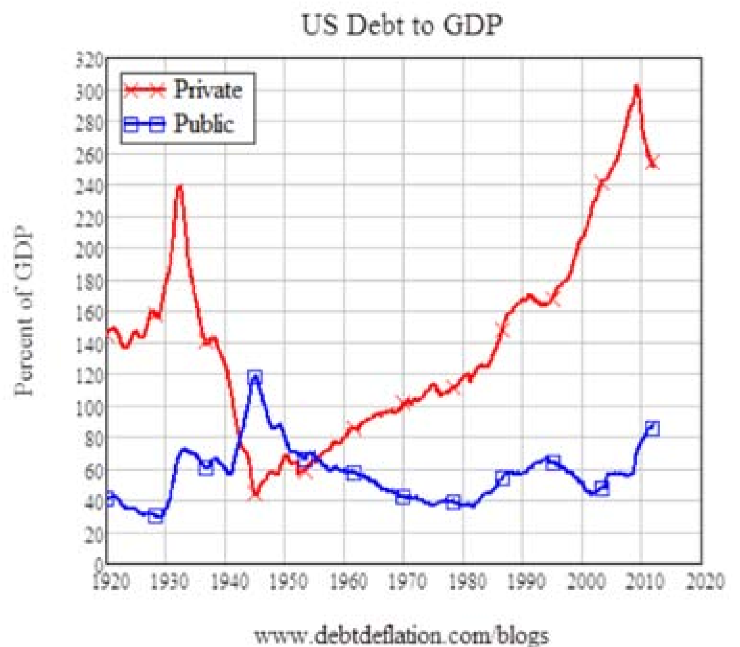
Long-time readers of this publication have heard this explanation previously, but it bears repeating. Debt consumes future production. Because future production is limited, debt accumulation has to be limited.

Here is a quick example to make the point. You go to the car dealership and pay cash for a car. You are spending prior production. In order to have the cash to pay for the car, you had to go to work, earn money and save that money (economic energy) in order to have the cash available to pay for the car.

Now, let's say someone you know sees your new car, really likes it and decides to get one just like it. The only difference is that they decide to finance the car. In order to make the car payments, they have to go to work and earn money. They are spending future production to buy the car. There is a limited amount of future production, so debt accumulation has to be limited as well

The Great Depression was caused by debt excesses.

The chart shows the level of private sector debt as a percentage of economic output or Gross Domestic Product.



Notice at the time of the Great Depression, Private Sector debt reached 240% of economic output or GDP. It was at that point the private sector had accumulated more debt than could be managed. The result was an extreme period of deflation as debt had to be purged from the financial system.

Debt purging is an ugly, painful process. Banks fail, asset prices (stocks and real estate) crater and employment falls.

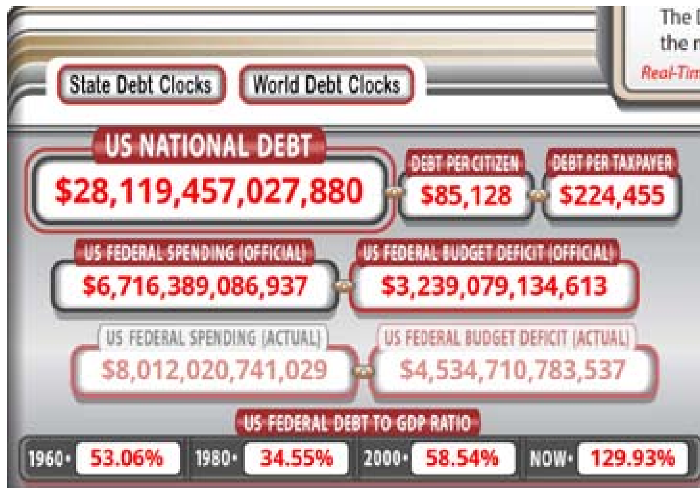
It's important to note that US Government debt at the onset of The Great Depression stood at about 30% of Gross Domestic Product; in 1929, the government wasn't broke.

At the present time, private sector debt to GDP is about where it was at the beginning of The

Great Depression standing presently at about 230%.[4]

However, US Government debt is far higher today as a percentage of economic output.

Notice from the screenshot taken of the US debt clock that the official US National debt now stands at more than$28 trillion which, as also seen on the screenshot, is about 130% of economic output or GDP.



While we are once again approaching the level of private sector debt where a deflationary debt purge occurred, there is one significant difference, government debt is much higher.

But that is only part of the story. In 1929, government unfunded liabilities were non-existent, that is not the case today.

According to the most recent Social Security program trustee report, the Social Security program is underfunded by $43 trillion.[5] Medicare is underfunded by about $85 trillion.[6]

There are additional underfunded liabilities as well, but let's stop there.

Adding private sector debt, the official government debt and the unfunded liabilities of Social Security and Medicare together, one gets a total of about $206 trillion. That's more than 950% of GDP.

Compare that to the 270% total from 1929. The difference is simply eye-popping.

If there was a debt reset in 1929 with a total debt and unfunded liability level of 270% of the economy and the present total is nearly 1000% of the economy, can we expect anything other than a more significant, severe debt reset?

Given the massive levels of money creation which are inflationary and the extreme levels of debt and unfunded liabilities, which comes first the money reset or the debt reset?

One of the founding fathers, Thomas Jefferson, clearly knew the ultimate outcome of these policies. He cautioned:

"If the American people ever allow private banks to control the issue of their currency, first by inflation then by deflation the banks and corporations that will grow up around them will deprive the people of all property until their children wake up homeless on the very continent their fathers conquered."

"I believe that banking institutions are more dangerous to our liberties than standing armies. The issuing power should be taken from the banks and restored to the people where it properly belongs."

This inflation followed by deflation scenario has repeated itself many times throughout history. It's about to repeat itself again.

The question is how long and how severe will the inflation be before it gives way to deflation.

Keeping in mind that during deflation, there is a reset of asset prices, an examination of current asset prices might lend a clue.

Current Asset Prices

Let's begin with US Government bonds. Bonds are nothing more than loans made from an investor to a government or corporation.

In the case of US Government bonds, an investor loans money to the US Government to fund deficit spending by the government.

As noted from the chart from the St. Louis Fed, the Federal Reserve has been a large purchaser of US Government bonds of late.

Over the last year or so, the Fed's US Government bond holdings have about doubled.

The Fed now owns far more US Government debt than any country, besting China's holdings of US Treasury's by more than 350%.

As the US Government continues to spend recklessly, owners of US Treasury's are taking note. There has been a sharp selloff of US Government debt this year as interest rates have risen significantly.

In August of 2020, the yield on the 10-Year US Treasury was about .5%. Now it is more than 1.7% demonstrating that foreign investors are not as eager to buy US Government bonds now versus just few months ago.

Given that interest rates are still near the lower end of the spectrum, over the long-term, we expect there will be more downside for bonds. Remember as interest rates rise, bond prices decline.

In the shorter-term, there is one scenario under which US Treasuries might rally for a time. Should stock prices decline, stock investors may look to move to the relative safety of US Government bonds.

Ironically, an increase in interest rates could be a catalyst for a stock market decline. As interest rates declined, many more conservative investors ended up looking to stocks to invest their retirement funds since there was little yield in safer bond investments. Now, with interest rates increasing, some of those investors may end up moving back to bonds. That movement could affect demand for stocks.

As far as stocks are concerned, they are more

overvalued than at any time previously when using the "Buffet Indicator" as the measure. This indicator takes the total value or total market capitalization of stocks and divides that total by Gross Domestic Product.

The chart illustrates the Buffet indicator presently and historically going back to 1990.

The solid line drawn horizontally across the chart, demonstrates the historical mean of this indicator. Historically speaking, that is the level at which stocks are fairly valued.

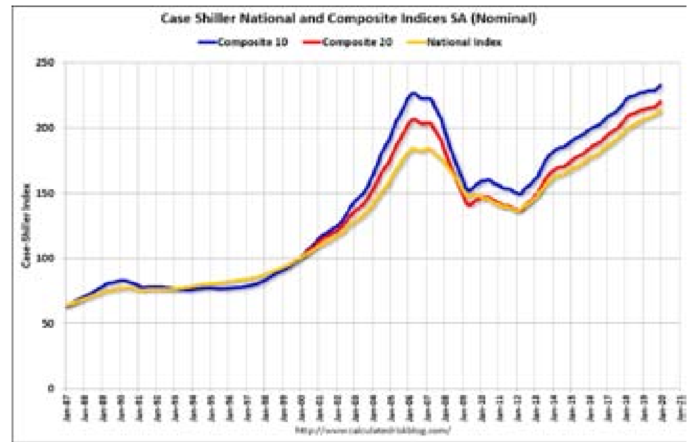
Notice that stocks are now more overvalued than at anytime over the past 30 years including at the tech stock bubble peak.

While valuations at these levels don't automatically mean that a correction has to occur, at the very least one should proceed with caution.

Real estate prices are also at historic highs. Artificially low interest rates have made mortgages more affordable for many potential home buyers and have created demand for homes that would not have been there had interest rates been more 'normal'.

Additionally, banks like they did 15 years ago prior to the real estate bubble building and bursting, have loosened lending standards and eased down payment requirements.

As a result, home prices are now at record highs and, like stocks, could be due for a correction.



The chart illustrates the value of the most commonly used home price measure, the Case-Shiller Housing Index.

Notice on the chart that the National Index as well as the Composite 10 and Composite 20 levels are at all-time highs.

As with stocks, record high valuation levels don't mean a correction is imminent but it should make one cautious moving ahead.

Money creation, debt levels in the private and public sectors, US Government Bonds, stocks and real estate are all at or near extremes.

It is from extreme levels that resets begin.

Excess, arguably reckless levels of money creation distributed to banks and as 'helicopter' money to the general public have postponed the deflationary debt reset and allowed US Government bond prices, stock prices and real estate prices to reach levels likely unreachable

without the boost of easy money.

At this juncture, it seems that Thomas Jefferson's words of more than 200 years ago will be our fate. We will have inflation, perhaps even hyperinflation, followed by a deflationary event as debt is purged from the system.

If you are a client of our company, you know that we have long advocated that you have some assets that are invested in stable assets that won't be adversely affected should the price of more traditional investments like stocks and bonds decline. You should also have some assets that will perform well in an inflationary or highly inflationary environment.

Given current conditions as they've been outlined for you here, a reset is inevitable even if it is not imminent.

The late economist Herbert Stein said that "If something cannot go on forever, it will stop."

That statement is as simple as it is profound.

The Federal Reserve will likely continue it's easy money policies. When they fail, as they will, there may be some attempt to reset with a fiat digital currency.

That attempt will also fail unless the digital currency is backed by gold or gold and silver. History shows us that currency failures always eventually result in gold and silver being used as currency.

Once a stable currency is in place or the currency is stabilized, a deflationary period will emerge during which time debt will be purged from the system.

During this time frame, not only will there be a significant asset pricing reset, but government debt and liabilities will have to be restructured.

That means some of the promises that government made to its citizens will have to be broken. Government benefits will have to be cut back.

The simple reality is this – if there is too much debt to be paid, some of the debt will go unpaid.

The day of the reset or financial reckoning is approaching.

If you are using the approach that we advocate for managing assets, we believe you are positioned as well as you can be for what will likely be some difficult economic times ahead.

If you aren't using this approach, you may want to educate yourself further. No one cares as much about your money and financial future as you do.

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At the time of publication, these rates were valid:

1-Year	1.25%
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Best wishes for a great spring!!

Sources

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