March 2020 Volume 4, Issue 3

# THE "YOU MAY NOT KNOW REPORT"

A PUBLICATION OF RETIREMENT LIFESTYLE ADVOCATES

## Is This It for Stocks?

Stock bloodbath. That about sums it up after the worst week for stocks since the financial crisis recently.

We have been writing about the volatility of stocks of late in this publication and have been publishing our long-term forecast for the Dow to Gold ratio for many years. For new readers the Dow to Gold ratio is calculated by taking the value of the Dow Jones Industrials and dividing by the price of gold per ounce. That ratio now stands at about 16.

Our long-term forecast for this ratio is 2, more likely 1. Granted, it may take a while to get there, but given all the artificial stimulus that has been used to prop up the stock market, we expect the ultimate bust to be 1929 like.

For those readers who believe that we have free markets, let this piece serve as a quick primer and a wake-up call to taking steps to protect your assets if you've not already done so. A word to the wise, no matter what your relationship is with your broker or advisor, no one cares as much about your money as you do.

Back in 1988, after the 'flash crash' in the stock market, President Reagan put in place a group known as the Working Group on Financial Markets. In 1997, "The Washington Post" coined the

term "Plunge Protection Team" to describe the group. The group was created by the president's executive order (Executive Order 12631) and was charged with "enhancing the integrity, efficiency, orderliness, and competitiveness of our Nation's financial markets and maintaining investor confidence."

The original purpose of the group was to report on the market events of October 19, 1987 or "Black Monday". It was during that time that the Dow Jones Industrial Average fell 22.6%, rattling the confidence of investors and creating panic in the markets.

Yes, the Plunge Protection Team does exist. This from "Seeking Alpha" in December of 2018[1]:

> *In plain English, monetary sovereign currency creation powers are being used to make the markets maintain stability. Treasury funds are made available, but the WGFM is not accountable to Congress and can act from behind closed doors.*
>
> *This illustrates how central banks can create money electronically without causing consumer price inflation, rather than taxing populations to pay for government budget deficits.*
>
> *The PPT is meeting at this very moment.*
>
> *The main reason we have a stock market plunge at the moment is the general withdrawal of world Central Bank liquidity support.*
>
> *The same thing happened in 2015-2016 and the world stock market response was the same.*
>
> *A withdrawal of central bank liquidity that began in 2014-15 resulted in a stock market and GDP slump twelve months later.*

So let's look at this. What does 'monetary sovereign currency creation powers are being used to make the markets maintain stability' really mean?

Money is/was being created to stabilize the markets. Need a stock rally?

In comes the Plunge Protection Team to save the day. On the committee is the Chair of the Federal Reserve, the nation's central bank. A stock rally can be fueled by throwing newly created currency in the markets.

Skeptical? We don't blame you, but here is a quote from an interview with Richard Fisher, former member of the Federal Open Market Committee[2] (emphasis added):

> *"I spent 10 years (through last March) as a participant in the deliberations of the Federal Open Market Committee, setting monetary policy for the U.S. The purpose of zero interest rates engineered by the FOMC, together with the massive asset purchases of Treasuries and agency securities known as quantitative easing, **was to create a wealth effect for the real economy by jump-starting the bond and equity markets**.*
>
> *The impact we had expected for the economy and for the markets was achieved. By February of 2009, the Fed had purchased **over $1 trillion in securities**. With interest rates throughout the yield curve moving in the direction of eventually resting at the lowest levels in 239 years of history, the stock market reacted: It bottomed in the first week of March of 2009 and then rose dramatically through 2014. The addition of a third round of QE, **which had the Fed buying $85 billion per month of securities to ultimately expand its balance sheet to over $4.5 trillion, juiced the markets**."*

Translation?

The Fed printed $1 trillion and dumped it into the financial markets. As Mr. Fisher so plainly stated, the Fed "juiced the markets".

Quietly and unbeknownst to the average IRA or 401(k) investor, the Fed manipulates markets. Stock markets and bond markets are being artificially influenced to attempt to achieve a desired outcome.

So if that's the case, what happened this week?

Is the coronavirus to blame? Mostly not in our view.

The market fundamentals have been screaming correction for a long time as we've often written here. Significant market corrections typically begin when stocks are overvalued and margin debt levels are high. Then a "black swan' event occurs, and the market correction begins. That's how we view the current situation (we are not attempting to trivialize or minimize the coronavirus situation, only look at it from the perspective of the massive market correction that occurred this week).

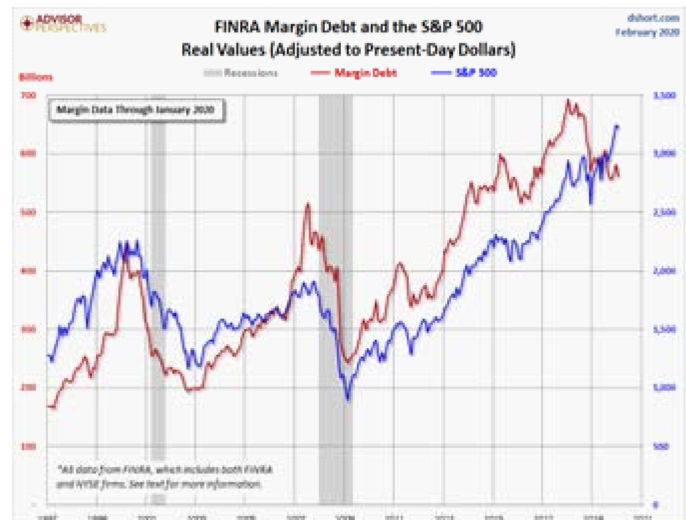
One of the most common methods used to value stocks is price-to-earnings ratio. This ratio is calculated by taking the price of stocks and dividing by earnings. The higher the number, the more overvalued that stocks are.

Notice from the chart on this page that the current 10-year P/E ratio average was slightly higher than in 1929. Only once have stocks been more overvalued and that was prior to the tech stock bubble collapsing.

To muddy the water up a bit when it comes to calculating P/E ratios, as we have reported here in "Portfolio Watch", many publicly traded companies have been buying back shares of their stock. This once illegal practice increases earnings per share but not by increasing company earnings. Higher earnings per share is accomplished by having fewer shares outstanding.

Margin debt is also high. Margin debt is debt an investor acquires to buy securities, often stocks.

This chart illustrates the level of margin debt that exists according to FINRA. Notice how margin debt pulled back prior to the stock market corrections of 2000 and 2007. Then observe how margin debt has recently pulled back perhaps forecasting the correction that begin this past week.




So, what's next?

We expect the Plunge Protection Team and the Federal Reserve to pull out all the stops. Look for interest rate cuts for sure in our opinion.

But the reality is still reality. Stocks have long been artificially manipulated. Basic laws of economics tell us that cannot go on forever.

Can the Fed and the PPT squeeze some more juice out of this market?

Perhaps, but given the market activity of last week, it's looking less likely.

So what should you do?

As we stated above, make sure you're protected, at least on some of your investments. Especially those that you might need for retirement. Given market action last week, we think there is a strong possibility that this correction will continue long term although we do expect markets could rally some first. We would view any rally at this point as a bear trap.

For that reason, you may also want to think long and hard about taking the traditional broker and advisor advice about staying in the stock market for the long haul, 'keeping your eyes on the horizon'. At some point here in the relatively near future, we are of the mind it will fail many investors miserably and cost them their dream of a comfortable, stress-free retirement.

> *"Stock prices have reached what looks like a permanently high plateau. I do not feel there will be soon if ever a 50 or 60 point break from present levels, such as (bears) have predicted. I expect to see the stock market a good deal higher within a few months."*
>
> — Irving Fisher, Ph.D. in economics
> October 17, 1929
>
> *"Stocks look pretty cheap to me"*
>
> — Larry Kudlow, National Economic Council Director, February 28, 2020

## Comparing Stock Declines

While there is certainly no guarantee that history will repeat itself, when it comes to stock market declines, it's helpful to look at chart formations of past declines and compare them. In the piece above, we discussed two fundamental factors that indicate stocks are overvalued.

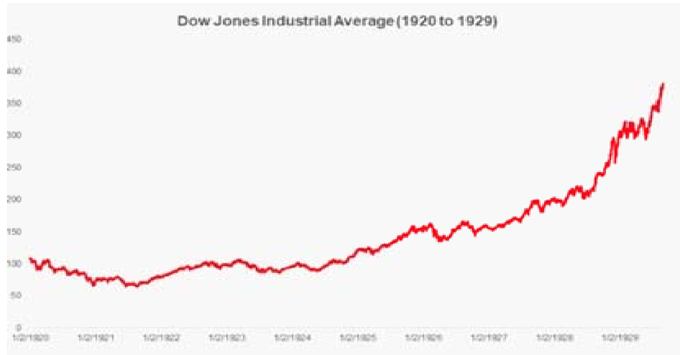
In this piece, we'll take a look at technical evidence.

Let's begin with the infamous of all stock crashes, the crash of 1929.

The run up to the crash was the period of time historically referred to as the "Roaring Twenties". It, like the present, was a time of easy money.

Today's Federal Reserve was founded in 1913 and almost immediately the bankers in charge reduced the gold backing of the US Dollar. Prior to the Federal Reserve Act taking effect in December of 1913 just as congress was headed home for a holiday break, the US Dollar was gold. An ounce of gold was $20. Some of you reading this issue of "The You May Not Know Report" undoubtedly own some of these $20 gold pieces. The last of these to circulate through 1933 when Franklin Roosevelt made it illegal for American citizens to own gold was the Saint-Gaudens Gold Piece, named for the architect that designed the coin.

The bankers now in charge of the money supply decided to reduce the backing of the US Dollar by gold from 100% to 40%. Any mathematician will tell you that expanded the money supply by 250%. A period of prosperity illusion followed as noted by this stock chart plotting the performance of stocks from 1920 – 1929.




Compare that stock chart to the ten-year time frame ending in December 2019.

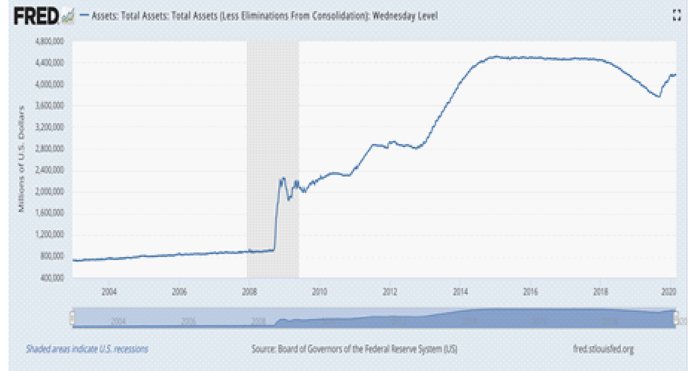
Although the two charts are not mirror images of each other, there is a great deal of similarity.

The run up in the Dow Jones Industrial Average in the 1920's was 250%.

The run up over the last 10 years was about 170%. Since the time of the financial crisis, the Fed has expanded its balance sheet (printed money) to the tune of nearly $4 trillion as the chart from the St. Louis Federal Reserve illustrates.

No coincidence that both bull markets were fueled by easy money.

Notice on the FRED chart that when the Fed started to tighten in 2018, stocks fell.



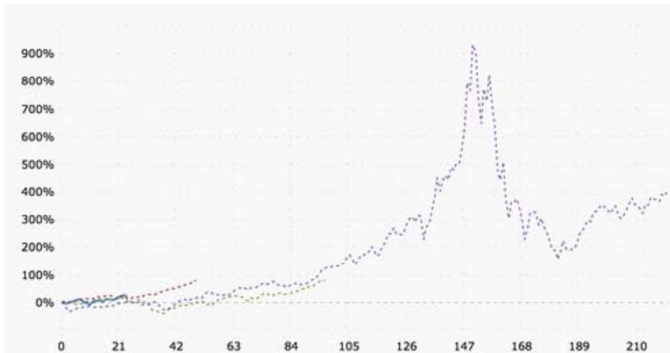

When one analyzes the tech stock crash of 2000 – 2002, a similar correlation is unearthed.

Alan Greenspan began serving as Federal Reserve Chairman in 1987. At the time Mr. Greenspan took the helm, the Fed Funds rate was about 7%. After raising the interest rate to about 9% by 1989, he began to reduce interest rates. By 1992, just three years later, Mr. Greenspan and his colleagues at the Federal Reserve had reduced interest rates to approximately 3%. Since money in our monetary system is loaned into existence now that there is ZERO gold backing of the US Dollar, as interest rates fell, borrowing increased and money was created.

As is typical when money is created, a stock bubble formed, this time in tech stocks. In an attempt to slow things down and keep things from "overcooking", Mr. Greenspan began to increase interest rates. It was too little too late. The bubble had already formed. The inevitable bust followed as seen on this chart of the Dow Jones Industrial Average.

Notice from the chart that the Dow fell from about 12,000 to just over 7,000.

The NASDAQ composite fell even more as noted by this chart that illustrates the performance of the NASDAQ while Mr. Greenspan served as Federal Reserve Board Chair.




What was Greenspan's response?

More easy money. He and his Federal Reserve colleagues decide to reduce interest rates to spur lending and get more money loaned into existence. It worked.

By May of 2004, the Fed Funds rate was reduced to less than 1%. Money was created and, predictably, another stock bubble formed. Mr. Greenspan left his position at the Fed before the next bubble burst. On February 1, 2006, Greenspan's successor, Ben Bernanke took over.

This chart is a price chart of the Dow Jones Industrial Average during Mr. Bernanke's tenure as Fed Chair. He presided over the next bust which began in 2007 and continued through March of 2009.

We now know that during that decline, according to Mr. Richard Fisher that the Fed was busy behind the scenes doing what they could to "juice the markets" (see prior piece for quote from Mr. Fisher). In addition to these efforts, Mr. Bernanke and company reduced interest rates, this time to zero.

This time though, the desired response was not achieved.

As Mr. Richard Fisher noted in the quote above, the Fed engaged in a program of quantitative easing (more money printing) and the desired result was achieved in the equity markets.

Since that time about ten years ago, the Fed's balance sheet has expanded by about $4 trillion (the Fed has created that much money). The result has been a long bull market in stocks. As we've noted in this month's issue of "The You May Not Know Report", if the market appeared to be lagging, artificial outside stimulus was used to keep the bull running.

Is the bull run over?

Maybe. Kind of depends on what the policy response might be this time. As noted above, look for the Fed and the PPT to do everything they can to keep it going. If they succeed again (which is far from certain), the next bust will be even bigger and more dramatic.

## Gerald Celente – Three Questions

Gerald Celente is the publisher of "Trends Journal". He is a well-known and highly respected trends forecaster. His track record of successful trend forecasting goes back more than 3 decades. Mr. Celente was recently gracious enough to appear on the Retirement Lifestyle Advocates radio program where he shared some of his forecasts and perspectives.

**Dennis:** *Gerald, the economic picture, if you listen to mainstream media, is good. The labor force participation rate is up. Give me your view as to the health of both the US and the world economy.*

**Gerald:** *Well, we'll tie this into the Corona virus. This thing is going to hit China's economy. You know it happened just at the start of their lunar new year and that's a time to celebrate, party, go out and spend and travel, and that closed down. So it's going to be a hit on their economy, and their economy's already facing stagflation. In other words, their growth isn't accelerating and inflation is going up. So it's going to have a negative impact. On the global economy there's already a slowdown. Look at the facts. Oh, they had a great last quarter over there in Europe. Yeah, it grew the grand total of 0.1%?*

*Look what's going on in Mexico. Recession. Go around the world, take a look at the markets, take a look at the numbers. The markets are in total, total contradiction of what the rest of the global economy IS doing. They just had an election in Ireland, the party that won was totally unexpected to win. Why did they win? Well, according to the polls, people aren't making any money. They can't afford rent, they can't afford health care, homeless issues. And then you go around the world and it's the same thing. Hey, lovely time going on in Chile. Oh, yeah, the protests are still going on and they're still shooting people. And what are they protesting about? The same thing.*

*All the money's at the top, government corruption, and the people have nothing. When*

*people have nothing left to lose, they lose it. So, looking at the global economy, there's a slowdown. It's been artificially propped up with monetary methadone, that they call quantitative easing. And what they're also doing now, of course, is in the repo market, injecting more dough into the market. So the traders, the Wall Street traders could gamble, and it's going on around the world as they lower interest rates, making money cheap, so the addicted gamblers can keep gambling.*

*So what's going on in the equity markets has absolutely no correlation to what's going on in the general public. So when the numbers that you mentioned about the job numbers and on and on, the job numbers, where's the growth? Oh, in health care? Oh, in warehouse work? That's where the biggest growth is. Hospitality sector? Isn't that a nice name, hospitality sector? Working as waiters, waitresses, you know, and in hotels making beds and things. Not that I'm degrading that at all. Not at all. I was a bartender for a lot of years as a young man. However, if you can't make a real earning, life's earnings, on a lot of those jobs.*

*So that's why when you see what's going on in the real world and you look at the real numbers, it's not a good show. And we're looking now, for example, at people, they can't pay their bills. You're looking at credit card debt in the United States just escalated a couple of hundred billion dollars, a couple of hundred billion dollars, and now Americans are what? Some over $14 trillion in debt. One in three American workers run out of money before pay day. So that's what's going on.*

**Dennis:** *Gerald, you said something that I think maybe shocked some of our listeners that, the Fed is engaging in QE, although we're not supposed to call it that, to prop up the repo market, which you know, most people understand is the overnight lending market between banks. And you said this is just giving the gamblers more money to gamble. Can you explain to the listeners exactly what you mean by that?*

**Gerald:** *Yeah. They borrow the money overnight at virtually no interest rates, 1.55 in percent interest rate, while we the stupid little ignorant people, the workers of Slavelandia when we get credit cards, what do they charge us, 17% and above. But the in crowd, they get the money for free. They're gamblers, they're overnight traders that do this, that get this money, and that's what they're doing with it. So the repo markets have already since September 17th of last year to the middle of January, they've pumped in $7 trillion dollars.*

**Dennis:** *So Gerald, does it stop? I mean we're seeing, the real inflation rate obviously is reflective of all this money creation, or this monetary methadone as you call it. Where does it stop? I mean it seems like the Fed has painted in a corner. They've got no choice but to keep printing money. And what's the end game here?*

**Gerald:** *The end game is it's going to collapse, just like it did in 2007, and they're running out of the drug to, you know, it's just like an addict. And addict keeps taking the drug, keeps taking the drug, keeps taking the drug. And then finally there's, they OD. And that's what's going on now. And you made the point that they won't, how dare you call quantitative easing, quantitative easing?*

# Federal Reserve to Create Government Cryptocurrency?

Recently, while testifying before the Senate Committee on Banking, Housing and Urban Affairs, Jay Powell, the Federal Reserve Chairman, confirmed that the Fed was exploring the possibility of creating a government cryptocurrency[3].

Another member of the Federal Reserve Board, Lael Brainard, confirmed the Fed's research on the topic according to a Reuters report[4]. This from the report (emphasis added):

> *The Federal Reserve is looking at a broad range of issues around digital payments and currencies, including policy, design and legal considerations **around potentially issuing its own digital currency**, Governor Lael Brainard said on Wednesday.*
>
> *Brainard's remarks suggest more openness to the possibility of a Fed-issued digital coin than in the past.*
>
> *"By transforming payments, digitalization has the potential to deliver greater value and convenience at lower cost," Brainard said at a conference on payments at the Stanford Graduate School of Business. She did not touch on interest rates or the current economic outlook.*
>
> *"But there are risks," Brainard said, in a partial reprisal of her own and other global central bankers' worries about the rise of private digital payment systems and currencies, including Facebook's Libra digital currency project.*
>
> *"**Some of the new players are outside the financial system's regulatory guardrails, and their new currencies could pose challenges in areas such as illicit finance, privacy, financial stability and monetary policy transmission**," she said.*

Translation of "outside the financial system's regulatory guardrails" is outside the control of the Fed.

So these comments by the Federal Reserve Chair and one of the board members of the Federal Reserve Board seem to indicate that the Fed is

considering developing a cryptocurrency and replacing all private cryptocurrencies. Or, at least it seems that's what they hope to do.

Ultimately, eliminating cash and using only a cryptocurrency developed and controlled by the Federal Reserve would allow the government to track EVERY expenditure. Every transaction would be able to be tracked or prohibited for ANY reason. In our view, this development should it occur would totally eliminate individual freedoms.

Of course, that fact won't be discussed. Instead it will be sold to the public as greater value and lower cost. It would also make it easy to implement negative interest rates at some future point since hypothetically speaking, we would be living in a cashless society.

https://www.flickr.com/photos/cornfarmer/12843567884

## Lefty: Moving for Tax Reasons

Professional golfer, Phil Mickelson is moving from California to Florida. The motivating factor behind the move?

Taxes.

Here is a quote from Mickelson[5]:

> *"There are going to be some drastic changes for me because I happen to be in that zone that has been targeted both federally and by the state, and it doesn't work for me right now. So I'm going to have to make some changes."*

Florida has no state income tax. California is among the states with the highest income taxes.

Mickelson is planning to move next year after his youngest son graduates from high school.

# SECURE Act

## Do You Know How You Will Be Affected by the SECURE Act?

**The SECURE Act is now law. Your IRA or 401(k) will be affected as the rules have changed**. While some parts of the SECURE Act can benefit some taxpayers, there are other parts of the new law that will require taxes be paid more quickly. And, there are opportunities for many IRA and 401(k) investors to actually divorce themselves from the IRS in their IRA and 401(k). Don't miss out on your opportunity to save money on taxes.

The details of this just-passed, new law will be revealed at a free, informational meeting to be held at Boulder Creek Golf Club in Belmont on April 21,2020. The meeting will begin at 6:00 PM and conclude at 7:30 PM with a complimentary dinner. Tickets to the event are free but required. (Please limit your ticket requests to no more than 4 tickets.) If you have an IRA or 401(k) and will be eligible to collect Social Security during retirement, you should attend.

This free meeting will show you:

- How to potentially, **significantly reduce taxes on your IRA or 401(k) plan**
- How, under the law, planning strategies **exist that may allow you to pay zero taxes during retirement**. These planning strategies are potentially favorable for only a **limited time**
- Why maximizing Social Security benefits will not work **unless you address the ultimate tax liability on your retirement account**
- Why the tax deduction you get for contributing to an IRA or 401(k) can be a bad thing. **This tax deduction may ultimately end up costing you more than you benefit.**

Tickets for the event are required but available by visiting www.TaxFreeInRetirement.com.

Or, you may call **1-866-879-0137 ext. 1207** anytime, 24 hours per day, 7 days per week with your ticket requests.

**IMPORTANT: There will be no presentation to buy financial products at this meeting. The meeting is informational only in nature.**

## Communication Note Reminder

To provide you with the best possible service and best response time, please remember to call the office rather than communicating via e-mail. Just let the receptionist know what we can do to help, and you'll be put in touch with the right person or have a call scheduled with you and the right person at a mutually convenient time.

The office phone number is:

1-866-921-3613

Our office hours:

**Monday to Thursday**
8:00 AM to 5:00 PM

**Fridays**
8:00 AM until Noon.

## Sources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