

Is It Different This Time?



The Top 10 Money Managers of the 20th Century:



1. Warren Buffett

2. Peter Lynch

3. Sir John Templeton

4. Benjamin Graham

5. George Soros

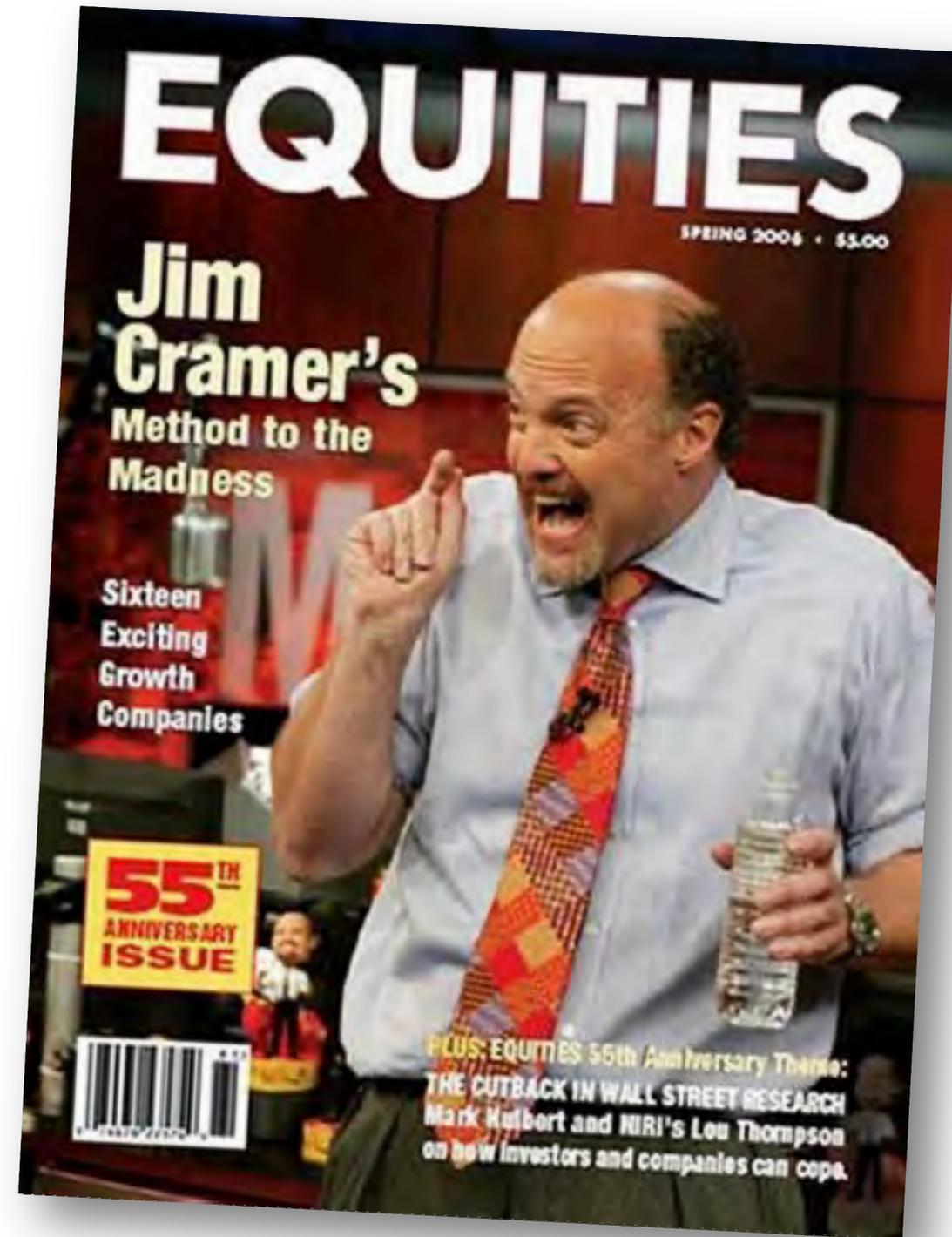
6. John Neff

7. John Bogle

8. Michael Price

9. Julian Robertson

10. Dr. Mark Mobius





EQUITIES JUNE 2009

In 1972, he created up the Templeton Prize for Progress in Religion. He gives away a million dollars each year to one winner. I have known two of them personally. Based on their achievements, they both deserved the money, and they both proved this by giving the award money away.

Templeton was the perfect investor for his era, which began in the Great Depression. He is very smart. He graduated at the top of his class at Yale University and won a Rhodes Scholarship to Oxford. He looked around him in 1937, and he saw enormous pessimism. He bought low, and later sold high. Here's how, according to his Web site:

When war began in Europe in 1939, he borrowed money to buy 100 shares in each of 104 companies selling at \$1 a share or less, including 54 companies that were in bankruptcy. Only four turned out to be worthless, and he named large profits on the others after holding each for an average four years.

He continued to do this. Here were the results:

Templeton launched his flagship fund, Templeton Growth, Ltd., in 1954. Each \$100,000 invested then with distribution reinvested grew to total \$55 million in 1999. He is now a bear. To say that he is a bear burly does him justice.

of the U.S. That is unprecedented in a major nation. No nation has ever had such a big debt as America has, and it's bigger than it was at the peak of the stock market boom. Think of the dangers involved. Almost everyone has a home mortgage, and some are 89% of the value of the home (and yes, some are more). If home prices start down, there will be bankruptcies, and in bankruptcy, houses are sold at lower prices, pushing home prices down further." On that note, he has a word of advice: "After home prices go down to one-tenth of the highest price homeowners paid, then buy."

A scary 20% of US home mortgage debt could be in danger of default, Sir John warns. Naturally, the stock market will not be rising robustly while a consumer crisis is taking place. Imagine the effect on Fannie Mae and Freddie Mac, the government agencies that ensure a large portion of home mortgages. The margin of safety in Freddie Mac is only 2% so if the value of the mortgages bought declines only 2% it will be bankrupt because the government does not guarantee their debt. No doubt government would be forced to take some sort of rescue action, but the psychological impact would be fearsome. The result will be inflation as the government

on the upside and downside. Sir John has been seriously wrong only once in 22 years. In early 1999, he was positive the overpriced US stock market would quickly crash, but was a year too early.

On the upside and downside, Sir John has been seriously wrong only once in 22 years. In early 1999, he was positive the overpriced US stock market would quickly crash, but he was a year early.

“...Sir John has been seriously wrong only once in 22 years.”

Sir John also had a few words about debt — a four-letter word that folks seem not to care about: “Emphasize in your magazine how big the debt is. . . . The total debt of America is now \$31 trillion. That is three times the GDP

guge-paying debtors. Is Sir John always right? Not at all. He himself believes that he is usually 40% wrong on his individual stock selections, but for EQUITIES where he has had scores of uncanny calls both

keep his opinions to himself and concentrate on public relations, how could he lose: “Rich man gives away a fortune!” That’s always good public relations. He would go down in history as a giant.

In 1962, Sir John invested in an emerging market called Japan





**The four most costly
words in the English
language are...**

“It’s different this time.”

So, is it *different* this time?

Let's discuss **3** things:

- **What happened**
- **What's currently happening**
- **What happens next**

Let's discuss 3 things:

- **What happened – The Fed**
- What's currently happening
- What happens next

Why was the Federal Reserve Bank created?



The San Francisco earthquake in 1906



The Fed has been
“experimenting” with
new tools

The market bottomed on March 23rd, 2020

**On March 26th, the Dow, the
NASDAQ, and the S&P 500 all rose by
6% with the DOW capping its largest
3-day upswing since 1931!**

**From the low on March 23, 2020
to March 23, 2022, the S&P 500 was
up 99%, the strongest two-year rally
since 1937!**

On March 15, 2020, the Federal Reserve announced they would do something **totally unprecedented!**

What did they do?

To understand some of the
changes, we must understand
these **3** terms

1. Fractional Reserve Requirements

2. The Money Multiplier

3. The Velocity of Money

10%

12%

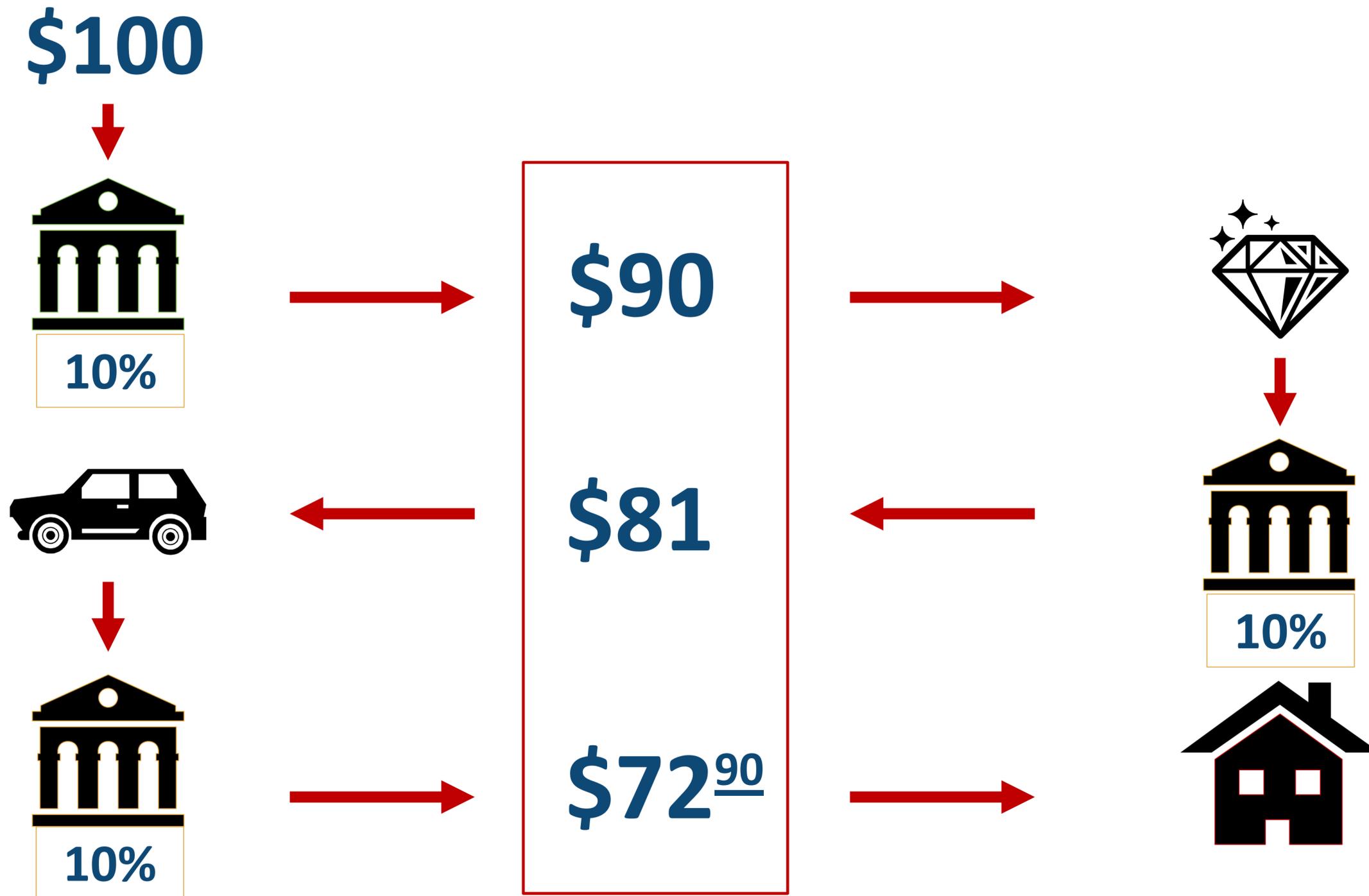
13%

1. Fractional Reserve Requirements

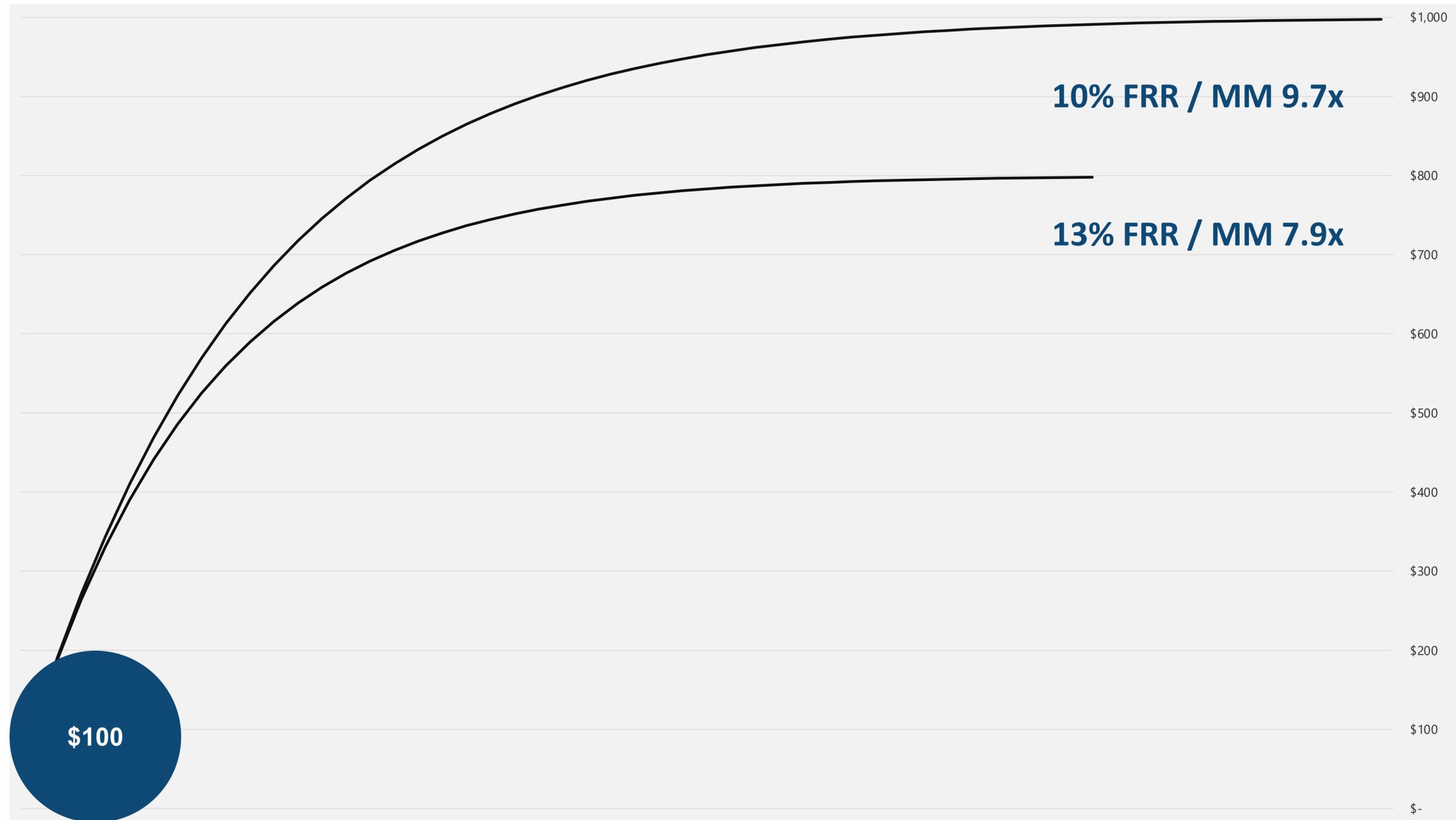
2. The Money Multiplier

3. The Velocity of Money

Money Creation



Money Creation



1. Fractional Reserve Requirements

2. The Money Multiplier

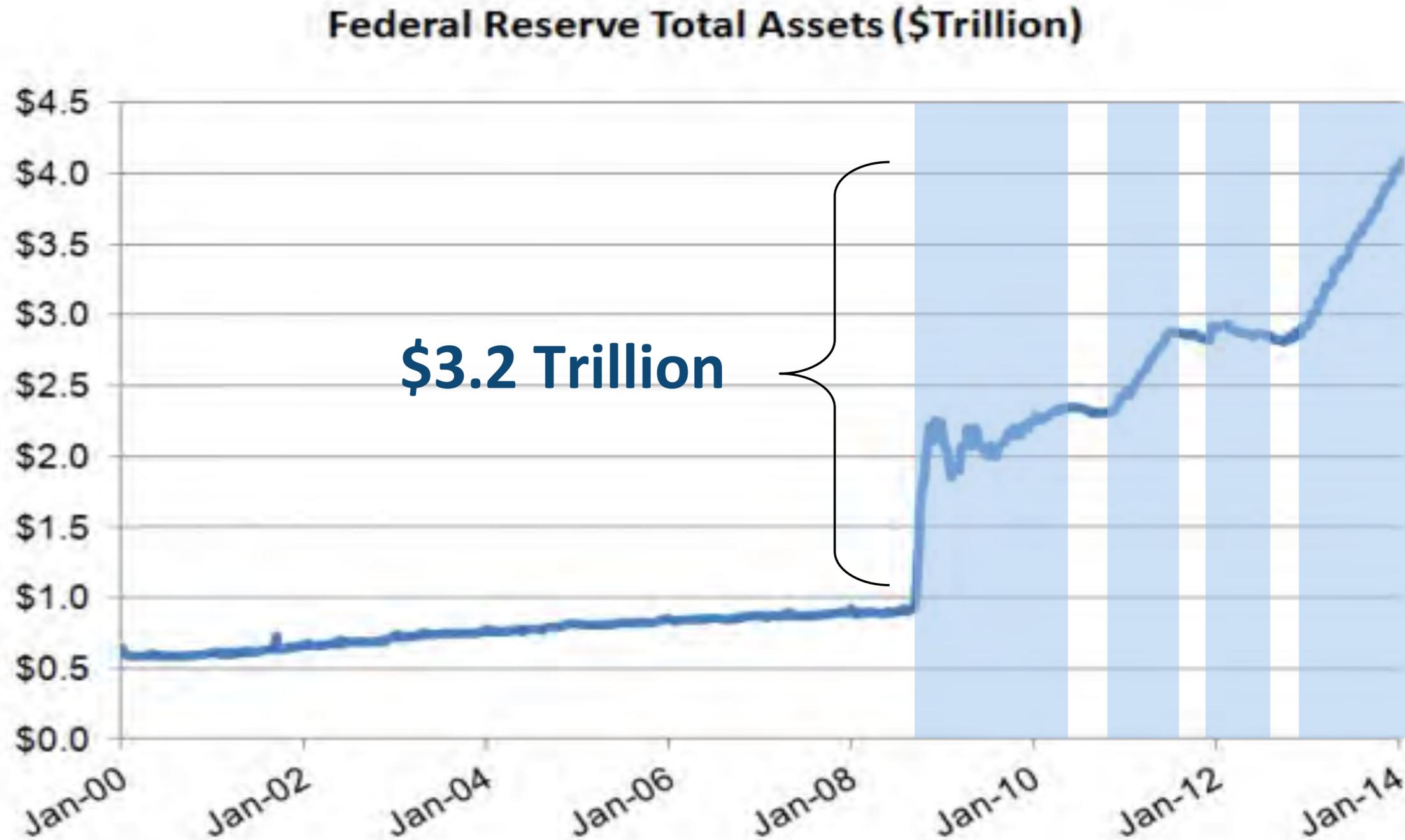
3. The Velocity of Money

The Velocity of Money 2008 - 2010



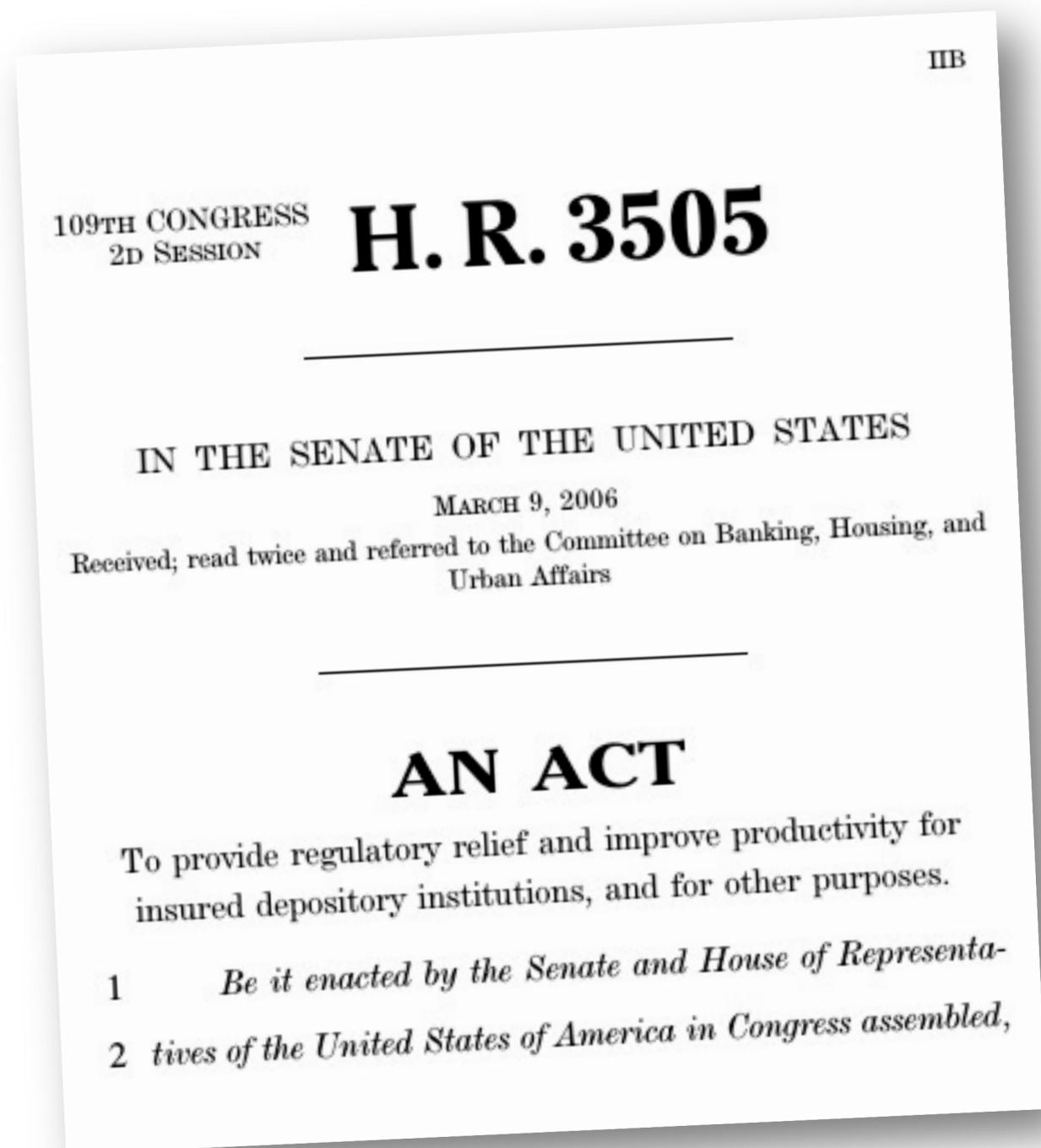
Why?

The Great Recession – quantitative easing



Where did all that money go?

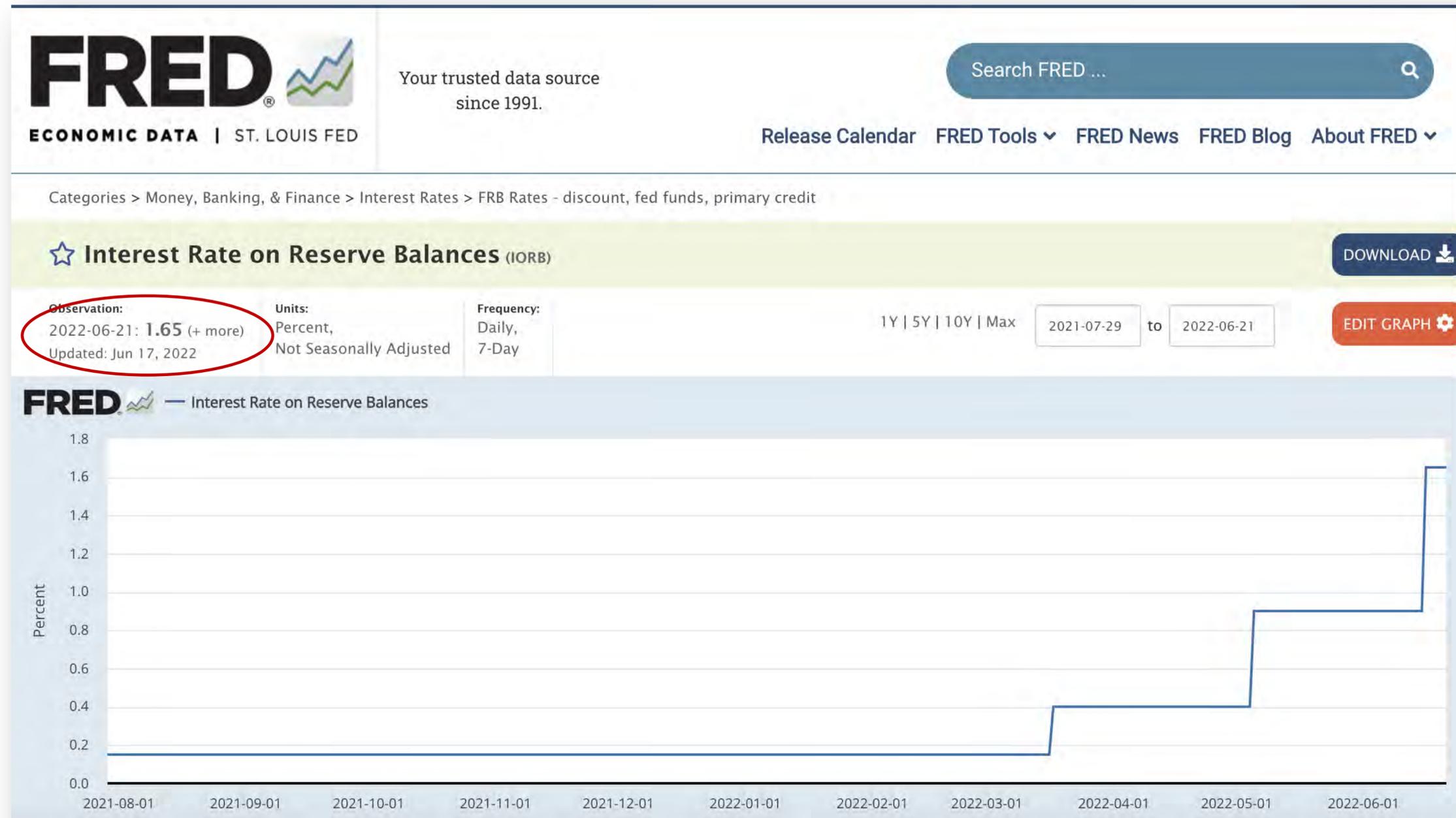




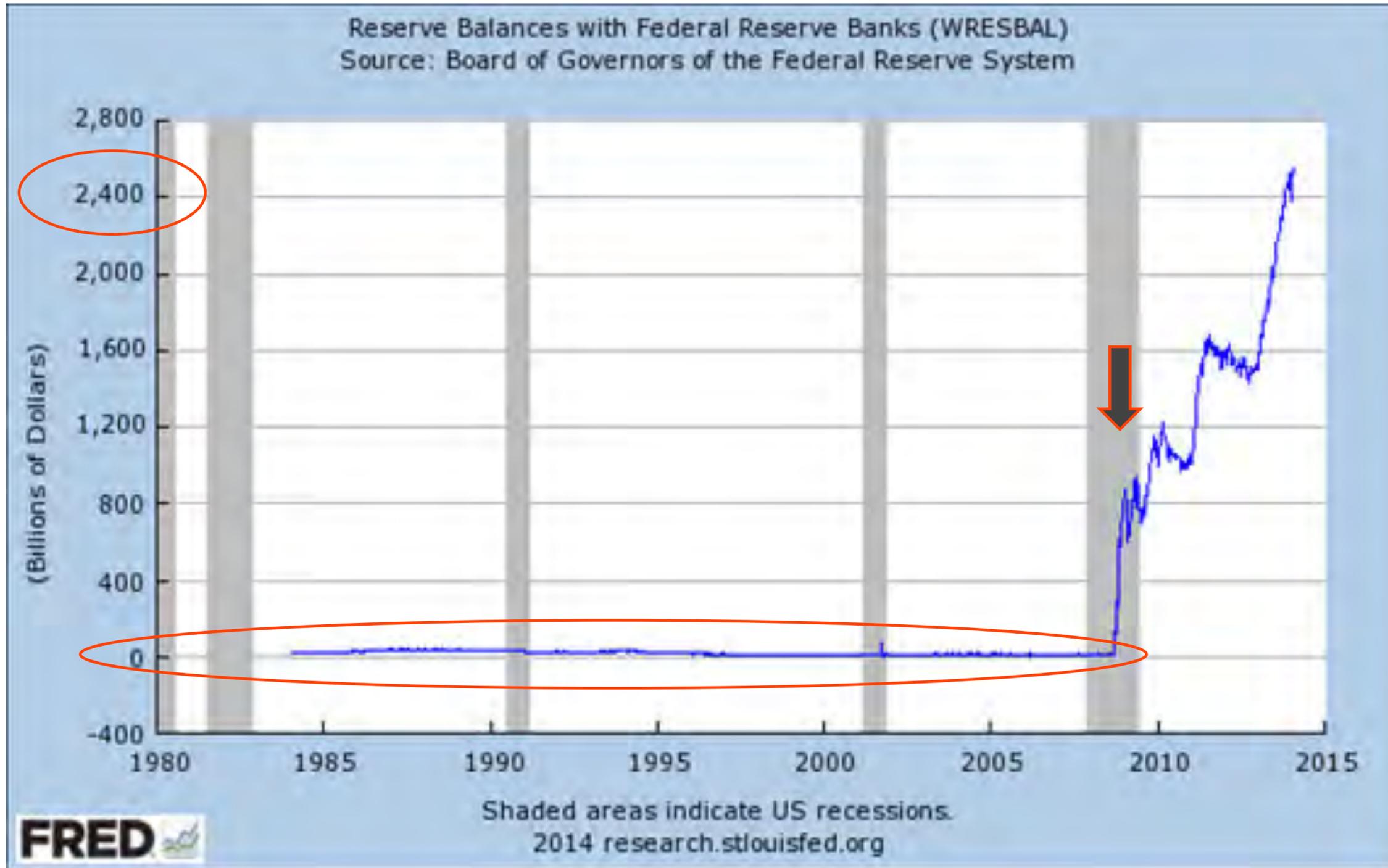
Financial Services Regulatory Relief Act goes into effect

Congress allows the Fed to pay interest on required reserves **AND excess reserves**

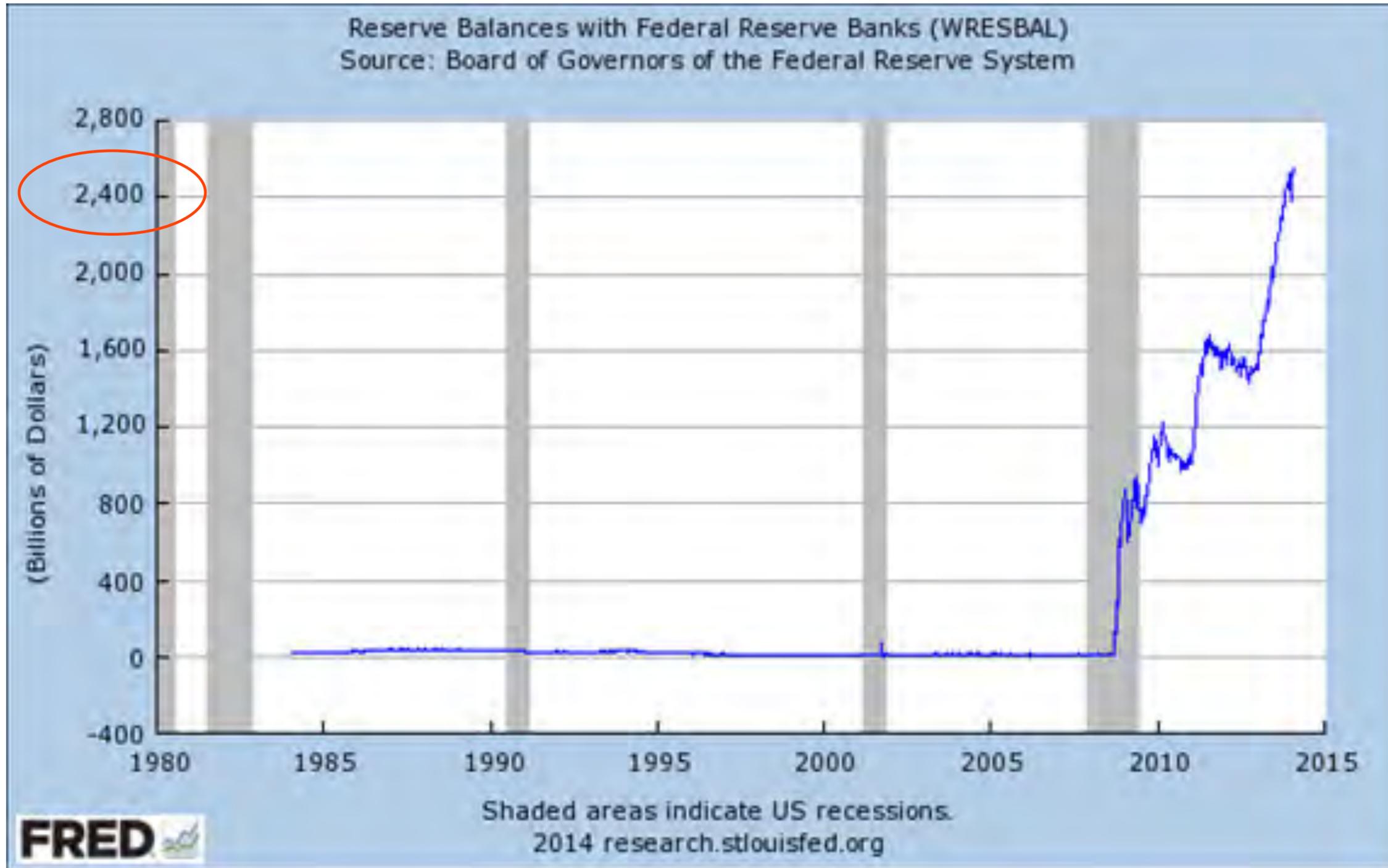
Interest on Reserves: 1.65%



Excess Reserves - 2014

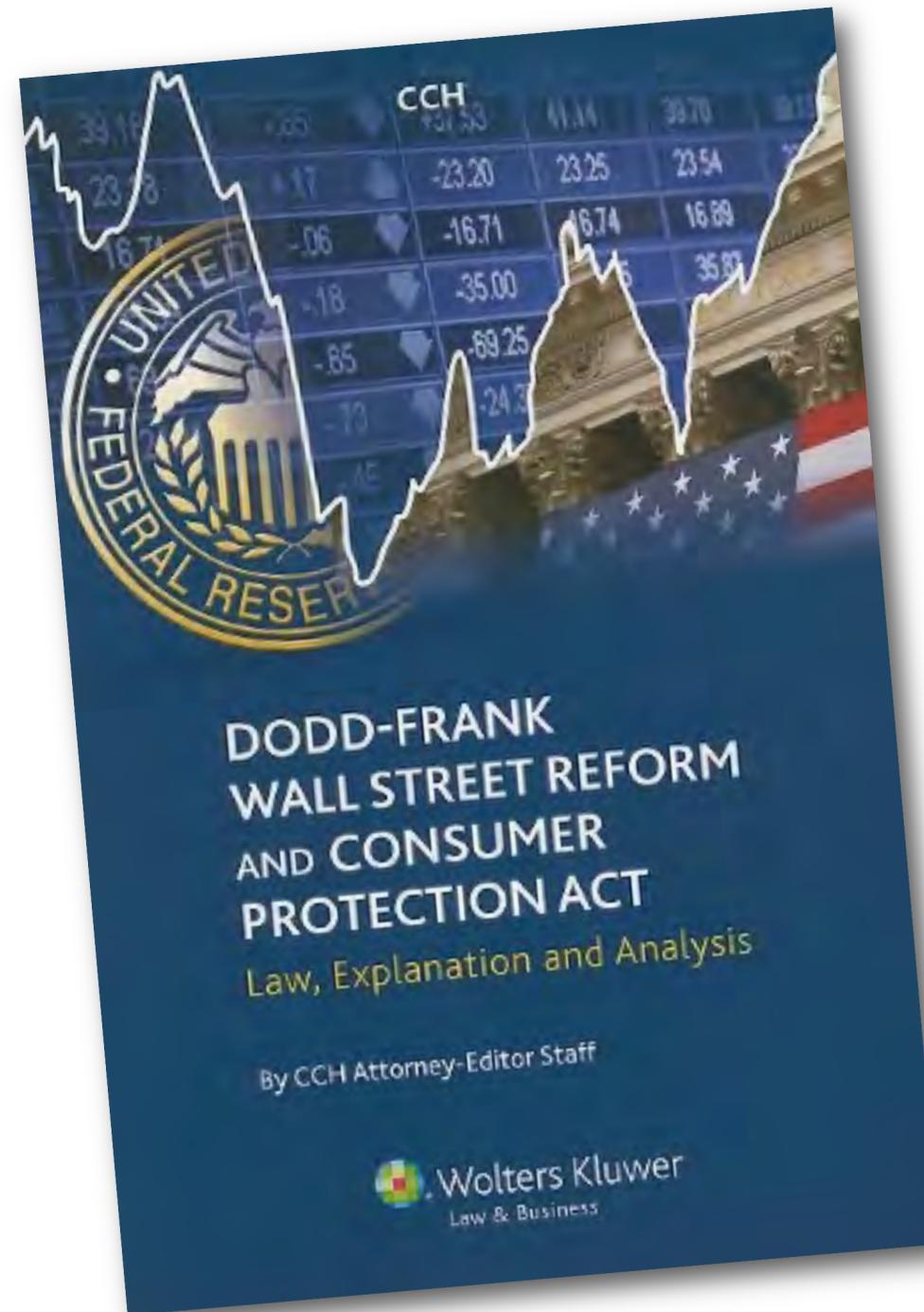


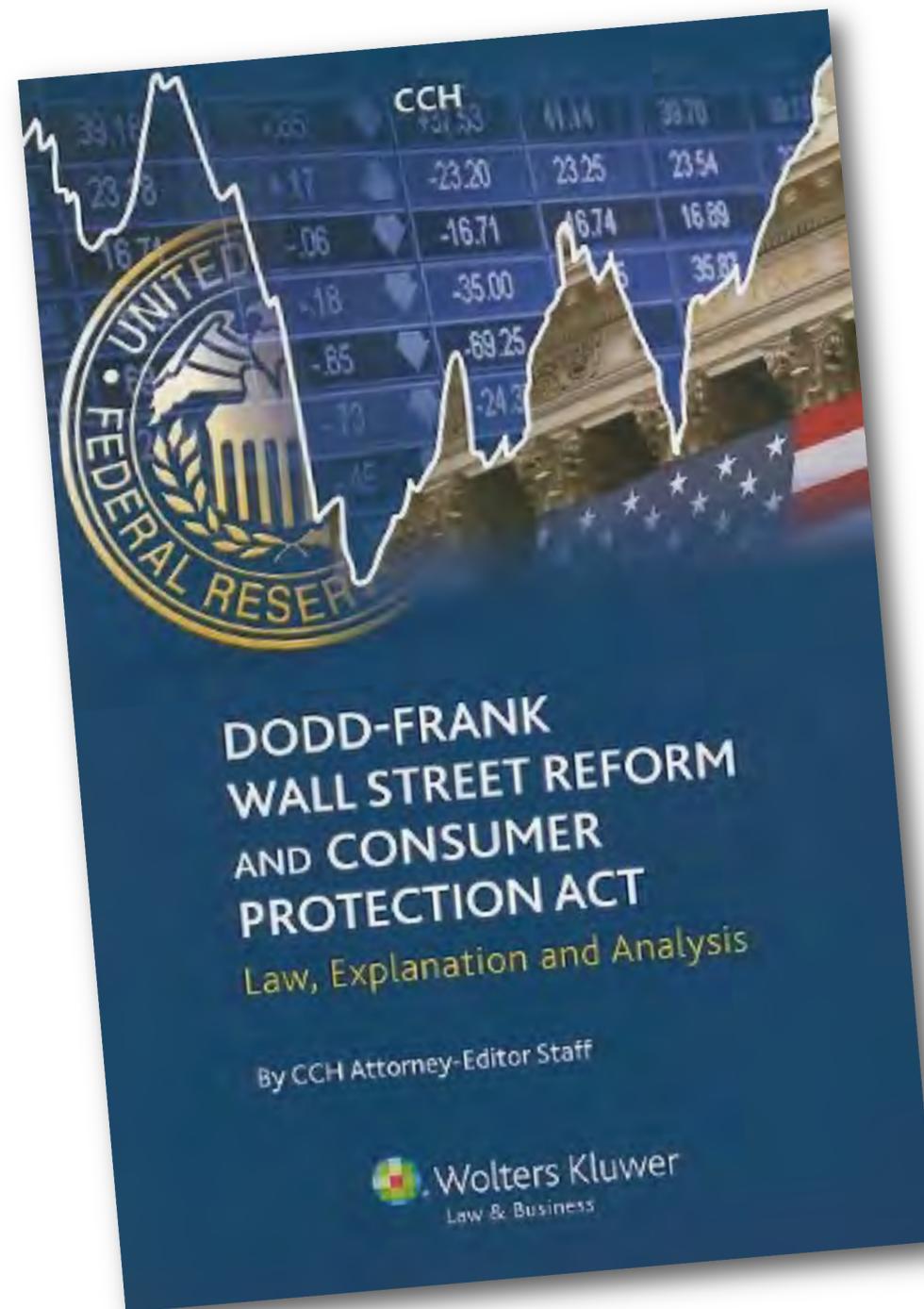
Excess Reserves - 2014



Of the **\$3.2 trillion** that was
created, **\$2.8 trillion** went
back to the Federal Reserve
in excess reserves!

Why wasn't it loaned out?





The 2010 Dodd-Frank law is one of the **most complex** pieces of legislation **ever written**. At more than **22,200** pages of rules, it is **equivalent to roughly 15 copies of “War and Peace.”**

Wall Street Journal 5/30/2016

The Velocity of Money 2008 - 2010



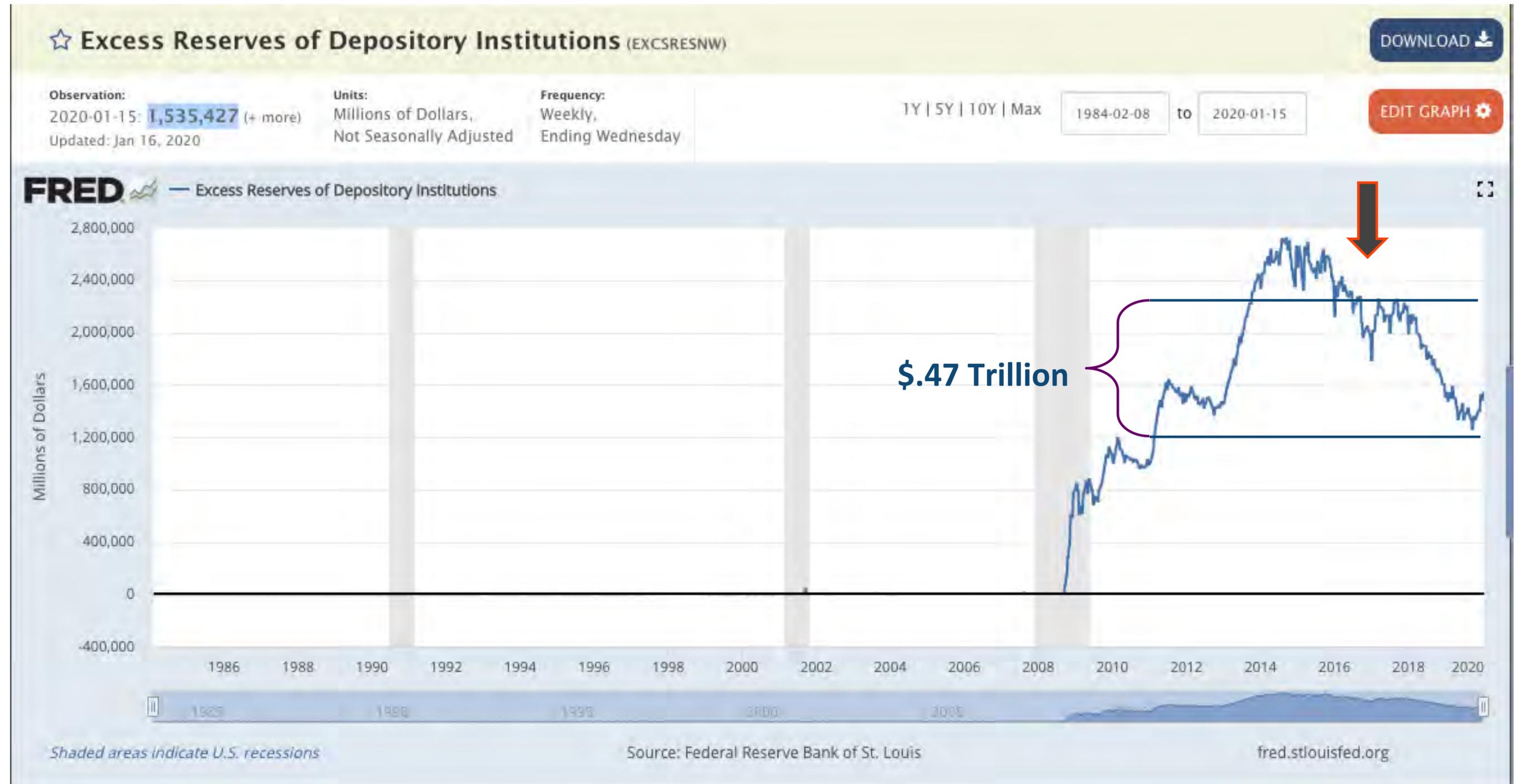
What Happened Next?

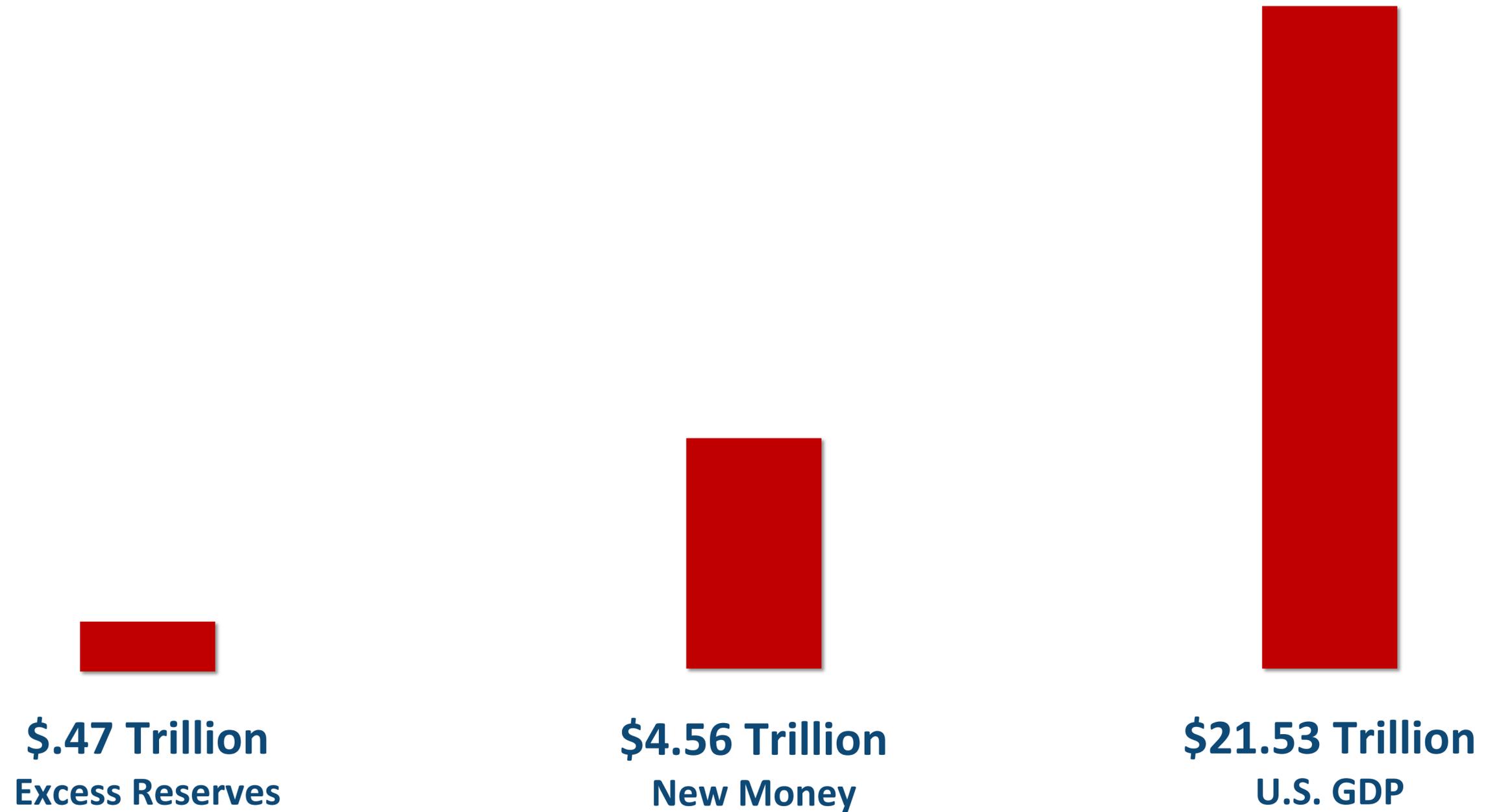


June 9, 2017



Excess Reserves





**From March 23, 2020
to March 23, 2022, the S&P 500 was
up 99%, the strongest two-year rally
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On March 15, 2020, the Federal Reserve announced something
totally unprecedented

**The Federal Reserve took fractional
reserve requirements to...**

0

Central Bank Resources
Frequently Asked Questions

Reserves Administration Frequently Asked Questions

If your question is not answered by the information provided within these frequently asked questions or the [Reserves Central](#) page, please contact your [Reserves Central District Contact](#) or the Federal Reserve's [Customer Contact Center](#). For specific information on the functionality within the Reserves Central application, please refer to the User Guide which is available in the FedLine® Training Center. Log in to FedLine Home and select the link to "Training" in the upper right-hand corner of the screen. The User Guide is available under the Central Bank, Reserves Central menu.

Elimination of Reserve Requirements — Effective March 26, 2020

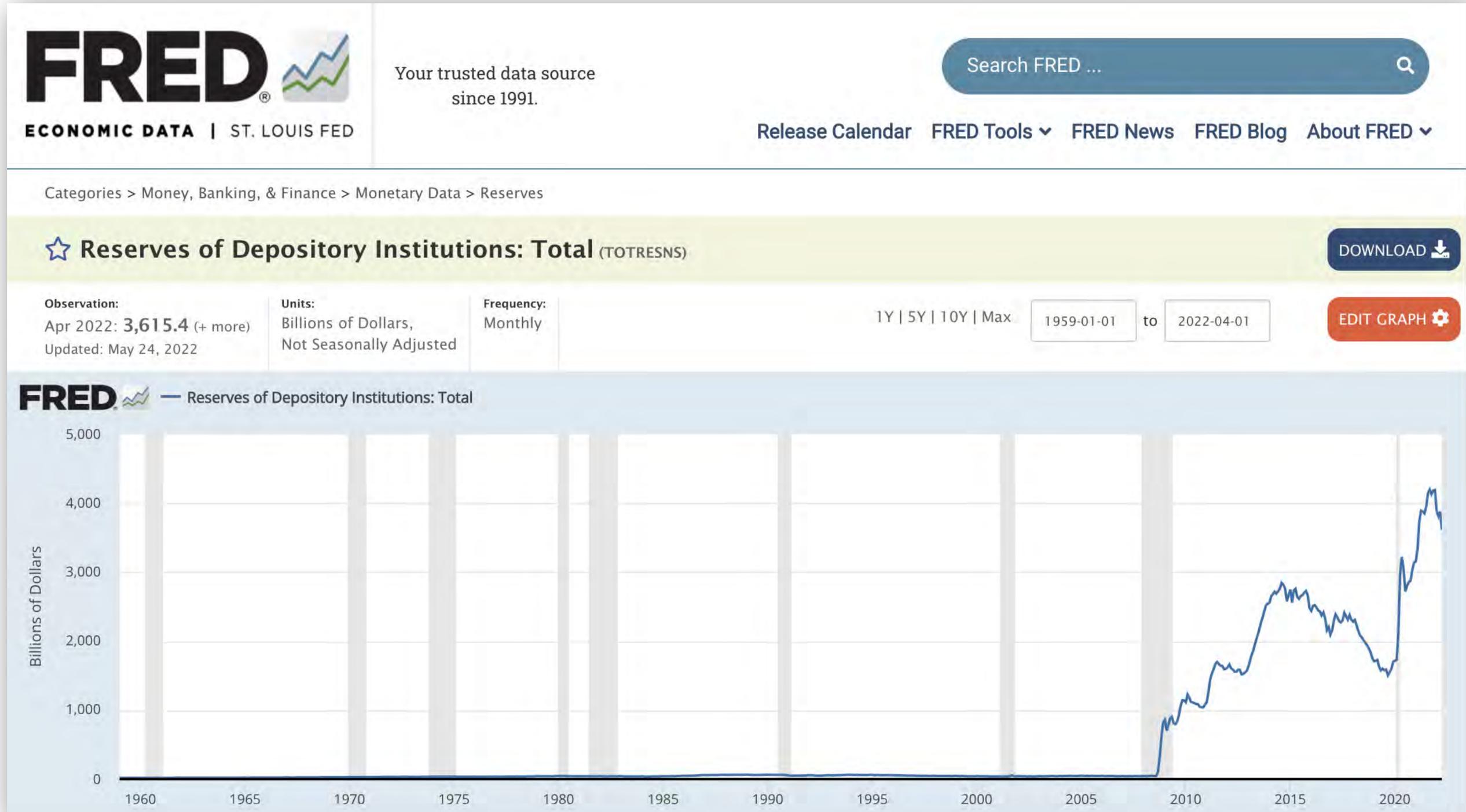
1. Why did the Federal Reserve reduce reserve requirement ratios to zero percent?
2. What reserve requirement ratios did the Board reduce to zero percent?
3. When did the change in reserve requirement ratios on net transaction accounts take effect?
4. What was a reserve balance requirement?
5. Do depository institutions' balances in accounts at Reserve Banks continue to receive interest when reserve requirement ratios are set to zero percent?
6. Is the elimination of reserve requirements permanent?

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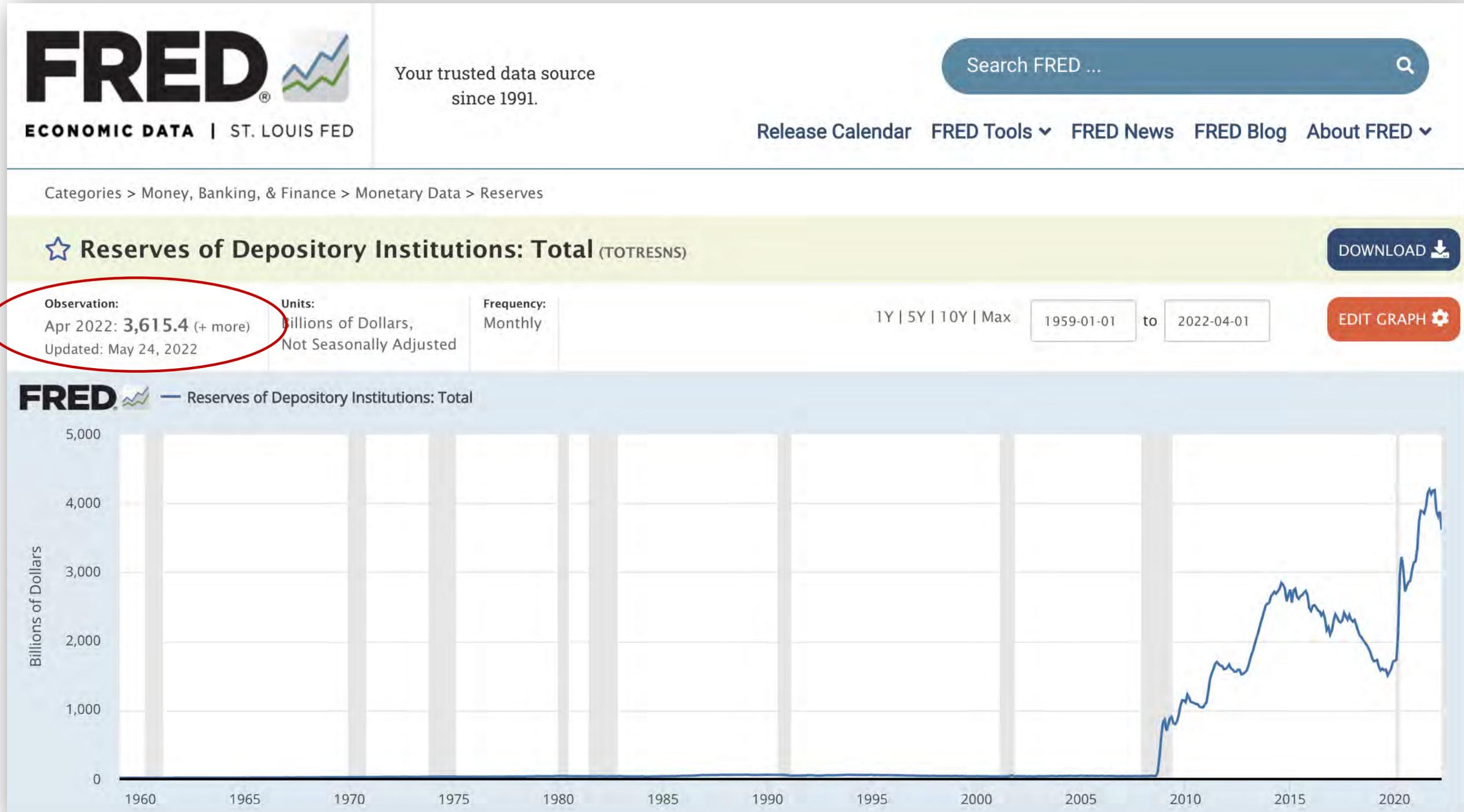
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6. Is the elimination of reserve requirements permanent?

Currently, the Board has no plans to re-impose reserve requirements. However, the Board may adjust reserve requirement ratios in the future if conditions warrant.

Reserves of Depository Institutions, May 24, 2022



Reserves of Depository Institutions, \$3,615.4



Let's discuss 3 things:

- What happened
- **What's currently happening**
- What happens next

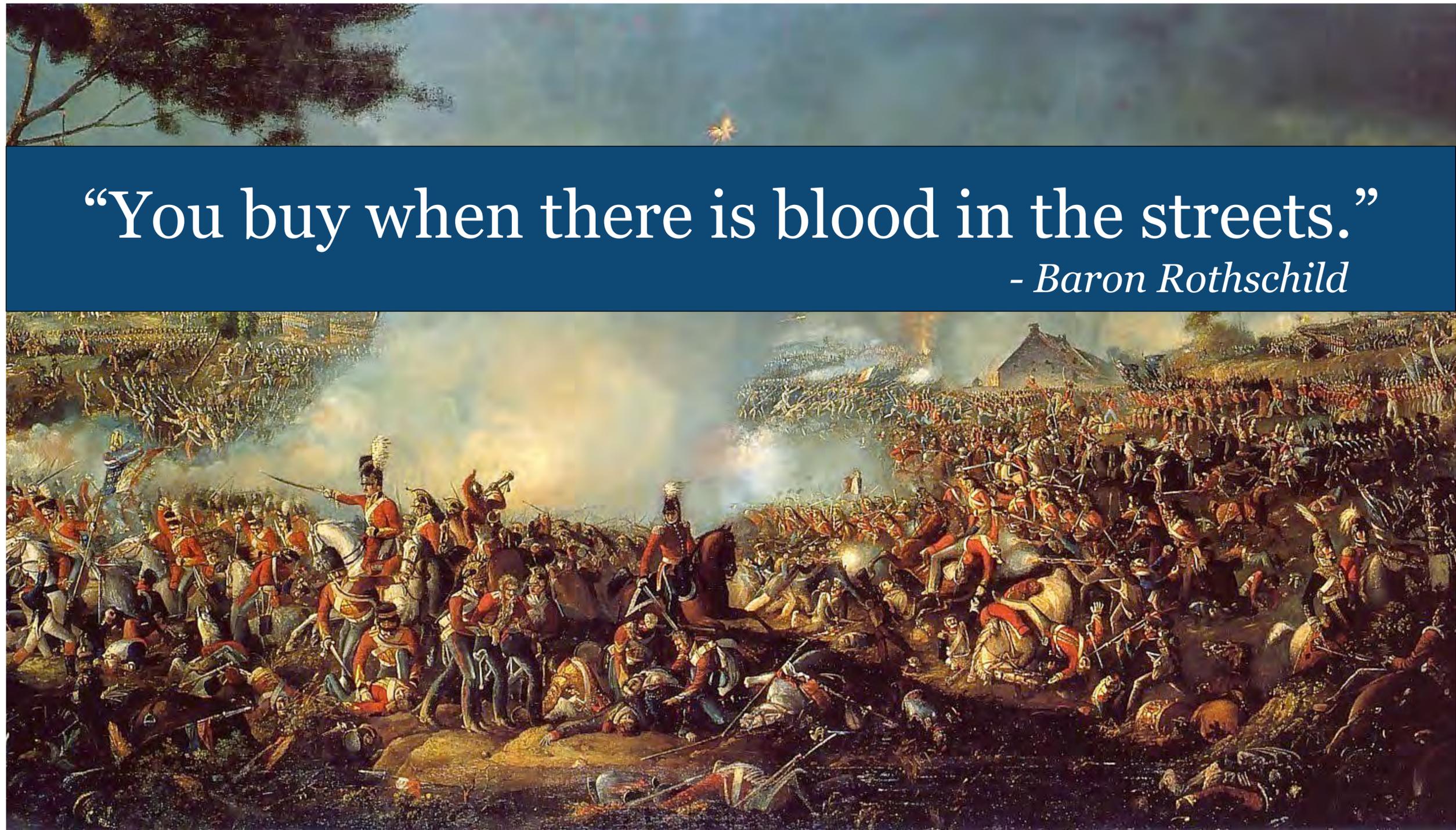
Let's discuss 3 things:

- What happened
- **What's currently happening – the stock market**
- What happens next

June 18, 1815



“You buy when there is blood in the streets.”
- *Baron Rothschild*





“Bull markets are born on pessimism, they grow on scepticism, they mature on optimism, and they die on euphoria.”

Historical Returns

Since inception thru the end of 2021



	OPEN	HIGH	LOW	SETTLE	CHG	HIGH	LOW	OPEN INT		OPEN	HIGH	LOW	SETTLE	CHG	HIGH	LOW	OPEN INT
Island of Manhattan																	
Hogs-Lean (CME)-40,000 lbs.; cents per lb.	Dec 61.500	61.750	61.050	61.675	.425	65.900	50.350	14.846		Jan 1153.00	1182.00	1153.00	1176.70	24.30	1310.00	1053.00	7,589
	Feb 64.775	65.600	64.700	65.175	.475	68.750	54.025	97.996		Apr 1169.80	1190.00	1169.80	1186.70	27.30	1274.50	1080.00	656
Pork Bellies (CME)-40,000 lbs.; cents per lb.	Feb 91.500	91.950	91.600	91.525	.575	94.800	83.000	347		Dec 1376.0	1419.0	1372.5	1411.5	35.5	1490.0	727.0	67,585
	Mar 91.500	91.950	90.900	91.300	.400	94.250	83.200	69		Mar 1376.0	1419.0	1372.5	1411.5	35.5	1490.0	727.0	67,585
Lumber (CME)-110,000 bd. ft., \$ per 1,000 bd. ft.	Jan 262.50	267.90	262.50	266.60	3.10	329.00	245.10	7,886		Jan 62.32	63.77	62.20	63.13	0.67	81.14	39.54	515,390
	Mar 287.50	289.90	285.00	288.70	1.20	337.00	256.60	1,227		Feb 63.69	65.30	63.40	64.62	0.80	81.24	38.15	108,277
Min. (CME)-40,000 lbs.; cents per lb.	Nov ...	...	...	12.85	...	13.05	11.50	3,365		Mar 64.63	66.06	64.29	65.56	0.75	81.03	31.15	79,543
	Dec 13.55	13.55	13.50	13.53	-.06	14.07	11.39	4,197		June 66.85	67.75	66.83	67.41	0.75	81.03	31.15	72,428
Coc. (NYBOT)-30 metric tons, \$ per ton.	Dec ...	...	...	1.483	...	1.767	1.396	7,334		Dec 68.77	69.70	68.64	69.34	0.46	80.28	39.50	132,917
	Mar 1.532	1.560	1.531	1.557	.34	1.792	1.433	74,638		Dr08 69.37	70.00	69.37	69.92	0.26	77.67	19.75	60,368
Coff. (NYBOT)-50,000 lbs.; cents per lb.	Dec 118.75	119.70	118.75	119.70	1.15	147.40	98.00	87,848		Dec 1.7949	1.8260	1.7880	1.8133	.0180	2.3186	1.6239	8,408
	Mar 123.30	125.40	123.30	124.30	1.00	143.50	101.90	87,848		Ja07 1.8355	1.8725	1.8250	1.8500	-.0147	2.3471	1.6870	96,557
Sugar-World (NYBOT)-112,000 lbs.; cents per lb.	Mar 12.40	12.57	12.35	12.37	.01	18.54	8.27	260,490		Dec 1.7000	1.7150	1.6750	1.7024	-.0060	2.1500	1.4425	5,279
	May 12.34	12.39	12.25	12.26	-.01	18.40	8.56	79,554		Ja07 1.6950	1.7120	1.6825	1.7008	.0024	2.1125	1.4950	59,607
Sug. (NYBOT)-112,000 lbs.; cents per lb.	Jan 19.60	19.75	19.60	19.85	.09	23.05	19.39	745		Dec 1.6700	2.2000	1.6550	1.8191	1.485	2.2000	1.4110	624
	Mar 19.62	19.75	19.63	19.75	.05	23.05	19.45	3,226		Ja07 1.6601	1.6950	1.6450	1.6685	.0029	2.0100	1.4565	5,531
Cotton (NYBOT)-50,000 lbs.; cents per lb.	Dec 52.50	53.70	52.56	53.50	1.11	50.81	111,955	940		Jan 8.980	9.050	8.600	8.844	-.022	12.600	4.823	103,281
	Mar 52.50	53.70	52.56	53.50	1.11	50.81	111,955	940		Feb 8.950	9.060	8.647	8.894	-.006	12.500	4.800	44,327
Orange Juice (NYBOT)-15,000 lbs.; cents per lb.	Dec 201.20	203.25	200.00	202.85	3.15	205.35	98.05	19,249		Mar 8.950	9.060	8.647	8.894	-.006	12.500	4.800	107,572
	Mar 200.60	203.50	200.60	203.20	2.90	205.50	106.00	7,744		Apr 8.540	8.630	8.540	8.641	.052	10.140	4.891	39,297
										Mr08 9.450	9.494	9.450	9.530	.056	11.650	5.000	37,124
Interest Rate Futures																	

1626 **\$24**

DOW **1896**

S&P **1926**

NASDAQ **1971**

Sunflowers **\$50**

\$1.5T **6.40%**

10.14%

10.17%

9.63%

\$44M **14.81%**

With dividends reinvested – S&P 500 market returns



Year	S&P 500 annual return
2012	16%
2013	32.4%
2014	13.7%
2015	1.4%
2016	12%
2017	21.8%
2018	-4.4%
2019	31.5%
2020	18.4%
2021	28.7

14.8%



**Reversion to
the mean is
the “iron rule
of financial
markets.”**

-Jack Bogle

Let's discuss 3 things:

- What happened
- **What's currently happening - inflation**
- What happens next



Let's discuss 2 different types of inflation:



Shrinkflation

Inflation

Let's discuss 2 different types of inflation:



Shrinkflation

Inflation

We pay attention to
the **price**, but we pay
less attention to
the **weight**.

19.3 OZ

18.8 OZ



Shrinkflation examples:



Ragu spaghetti sauce	Was: 28 oz.;	Now: 24 oz.
Powerade	Was: 32 oz.;	Now: 28 oz.
Chicken of the Sea tuna	Was: 6 oz.;	Now: 5 oz.
Anthony egg noodles	Was: 16 oz.;	Now: 12 oz.
Lay's Potato Chips, party bag	Was: 15.25 oz.;	Now: 13 oz.
Scott toilet paper	Was: 115.2 sq. ft.;	Now: 104.8 sq. ft.
Nutella	Was: 14.1 oz.;	Now: 12.3 oz.
Haagen Dazs ice cream	Was: 16 oz.;	Now: 14 oz.
Puffs tissue	Was: 56 count;	Now: 48 count
Skippy peanut butter	Was: 18 oz.;	Now 16.3 oz
Kirkland Signature paper towels	Was: 96.2 sq. ft.;	Now: 85 sq. ft.
Dawn dish soap, small	Was: 8 oz.;	Now: 7 oz.
Ivory dish soap	Was: 30 oz.;	Now: 24 oz.
Hillshire Farms Polska Kielbasa	Was: 16 oz.;	Now: 14 oz.
Nathan's Hot Dogs, skinless:	Was: 16 count;	Now: 14 count
Country Crock margarine	Was: 48 oz.;	Now: 45 oz.
Keebler Club Crackers	Was: 13.7 oz.;	Now 12.5 oz.

Shrinkflation examples:



Ragu spaghetti sauce

Powerade

Chicken of the Sea tuna

Anthony egg noodles

Lay's Potato Chips, party bag

Scott toilet paper

Nutella

Haagen Dazs ice cream

Puffs tissue

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Now: 24 oz.

Now: 28 oz.

Now: 5 oz.

Now: 12 oz.

Now: 13 oz.

Now: 104.8 sq. ft.

Now: 12.3 oz.

Now: 14 oz.

Now: 48 count

Now 16.3 oz

Now: 85 sq. ft.

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Now: 14 count

Now: 45 oz.

Now 12.5 oz.

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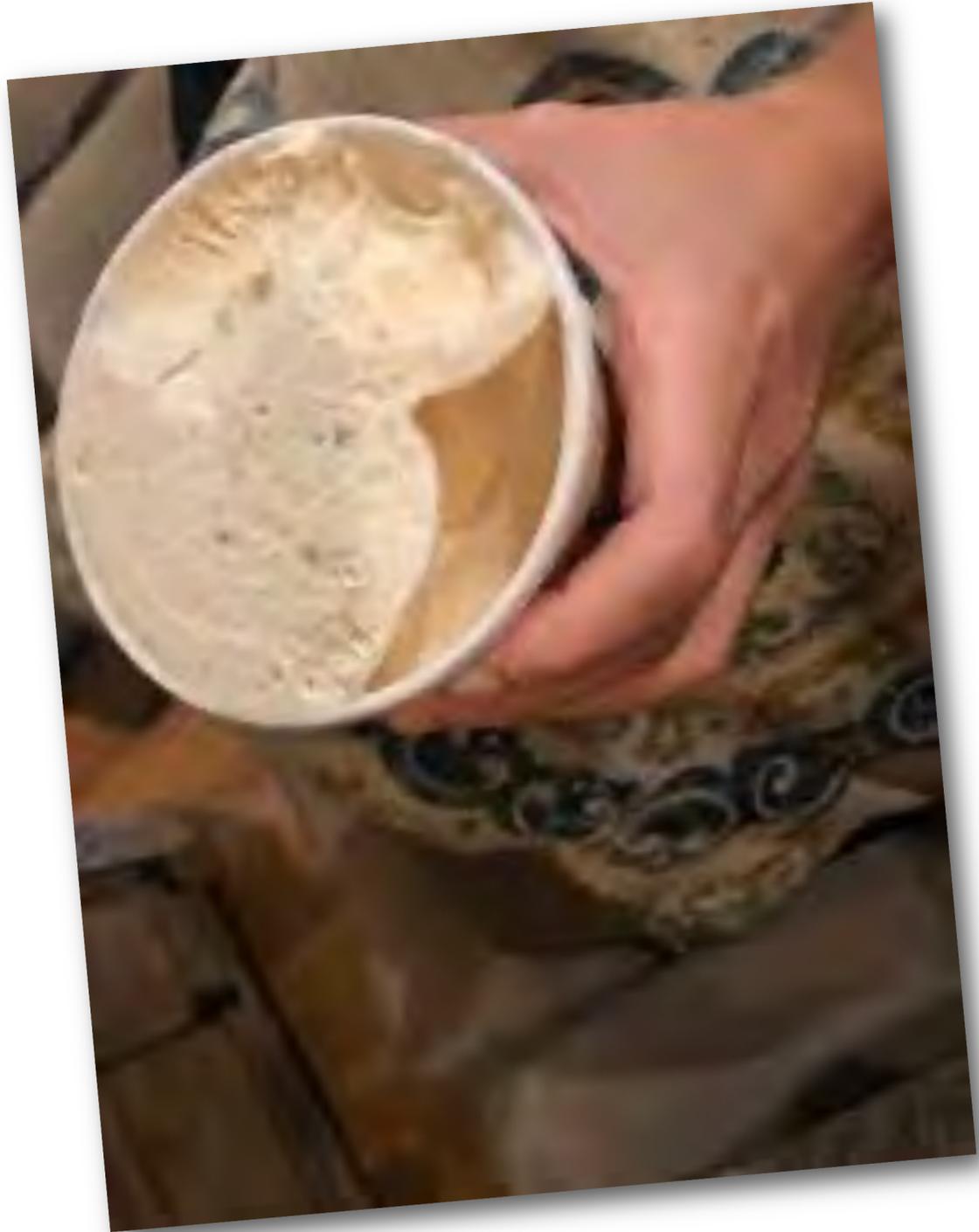


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What's that air pocket doing in my ice cream?

So, what do they do?



Let's discuss 2 different types of inflation:



Shrinkflation

Inflation

What is inflation?



More money chasing after
the same number
of goods



When was the first period of recorded inflation?



“You can teach a parrot to become an economist.”



Teach it to always answer, "Supply and Demand."



Logistics

Long Beach, CA Oct 10, 2021



27 in Berths, 60 waiting offshore



Port of Shanghai, April 14, 2022



Port of Ningbo, April 14, 2022

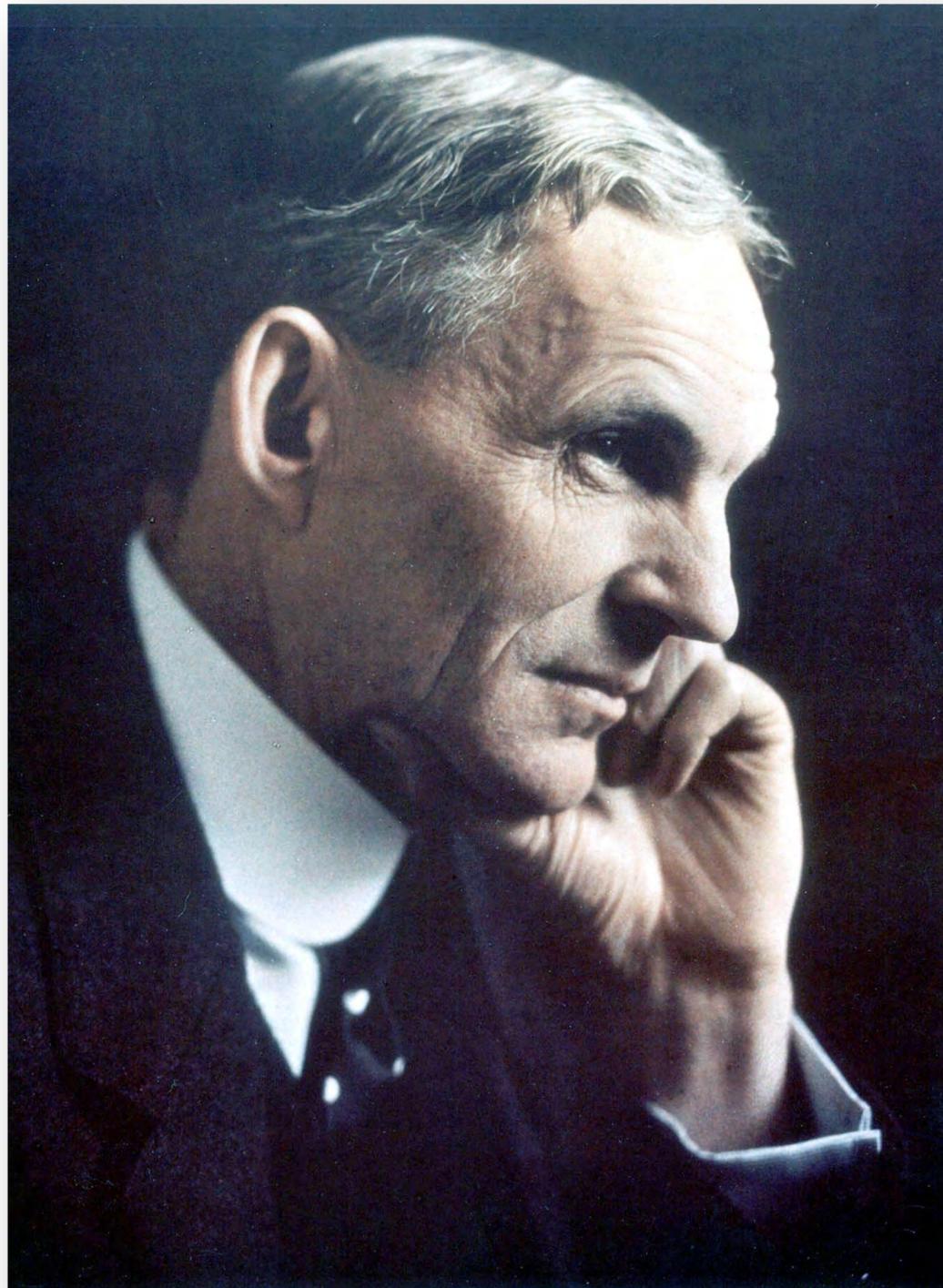


470 waiting offshore



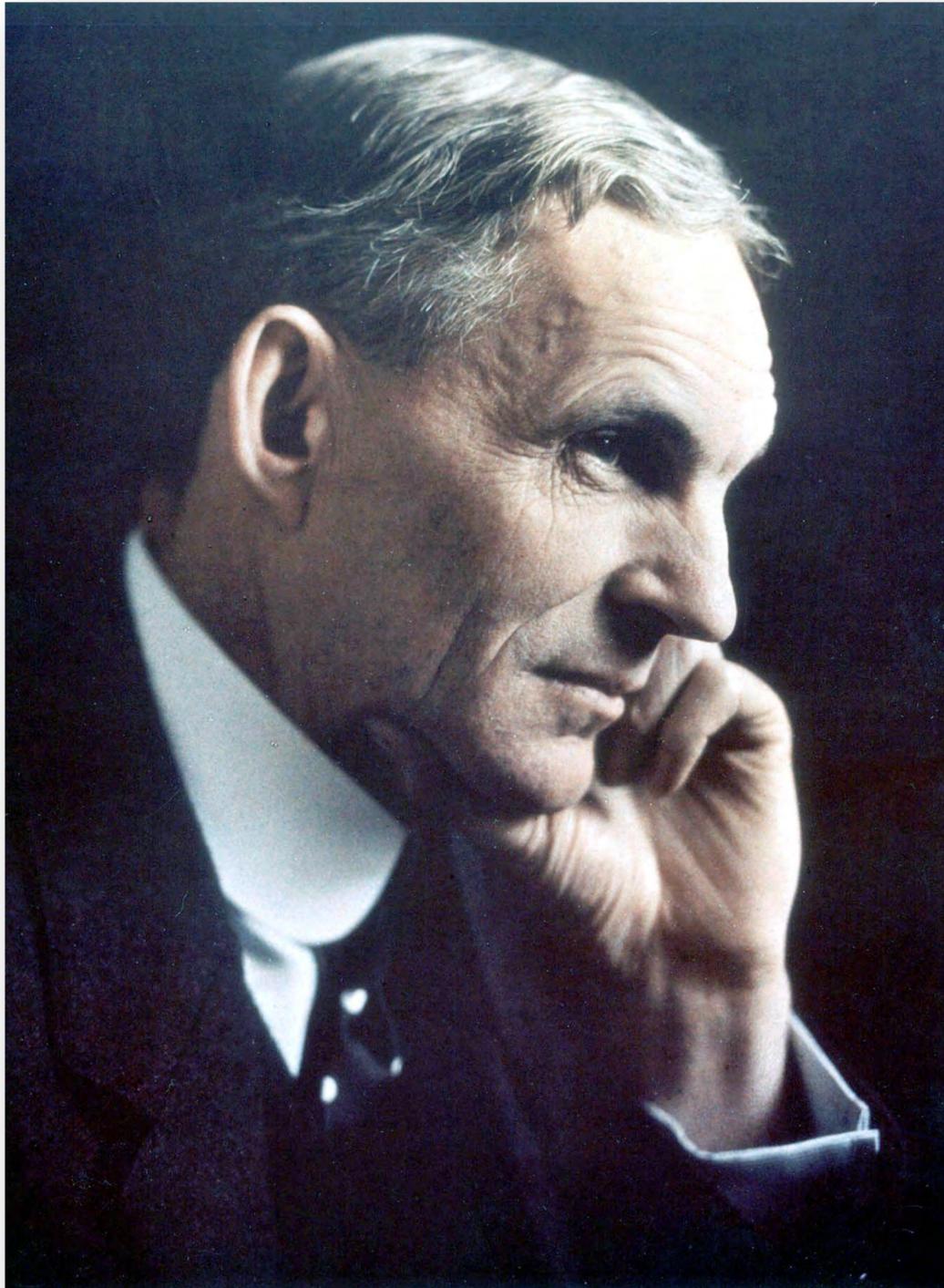
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Commodities



“The biggest problems with my customers is they can only extrapolate the present. If I had asked my customers what they wanted from Ford Motor Company, they would have said a faster horse.”

Henry Ford, 1913



“The biggest problems with my customers is they can only extrapolate the present. If I had asked my customers what they wanted from Ford Motor Company, they would have said a faster horse.”

Henry Ford, 1913

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Markets

Oil Traders Bet Prices Will Pass \$200 a Barrel This Month

- Prices for Brent crude call options surge on rising futures
- Traders assessing potential for Russian supply to be cut off

By [Serene Cheong](#) [+Follow](#)

March 6, 2022, 11:17 PM CST

Updated on March 7, 2022, 4:15 AM CST

Traders piled into options that oil could surge even further after rising to the highest since 2008, with some even placing low-cost bets that futures surpass \$200 before the end of March.



“When everyone is saying the same thing, a different outcome is likely to occur.”

\$100.28

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Blue Barrel or bbl



The Base Effect

ECONOMY

Inflation rose 8.6% in May, highest since 1981

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Jeff Cox
@JEFF.COX.7528
@JEFFCOXCNBCCOM

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KEY POINTS

- The consumer price index rose 8.6% in May from a year ago, the highest increase since December 1981. Core inflation excluding food and energy rose 6%. Both were higher than expected.
- Surging food, gas and energy prices all contributed to the gain, with fuel oil up 106.7% over the past year.
- Shelter costs, which comprise about one-third of the CPI, rose at the fastest 12-month pace in 31 years.



Shark Tank

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TRENDING NOW



Here's why this housing downturn is nothing like the last one

**Consumer prices rose 4/10's of 1% in December of 1981, bringing its annual rise to 8.9%
the lowest annual increase since 1977.**

Oil price crashes into negative territory for the first time in history. *April 20, 2020*



\$0.91

\$4.99



The true record high for U.S. gas prices was in June of 2008, when, adjusted for inflation, the record high would be...

\$5.37

Labor Costs

Labor costs



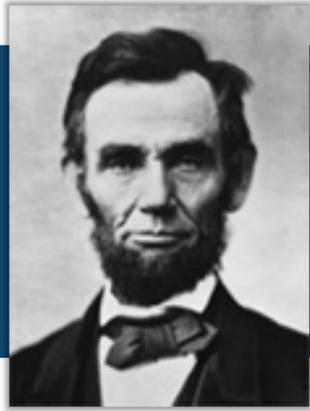
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Let's discuss 3 things:

- What happened
- What's currently happening
- **What happens next**

Does history *repeat* itself?

Does history repeat itself?



Abraham
Lincoln



John F.
Kennedy

7

1863

Johnson

1808

J. W. B.

35

Ford Theatre

7

1963

Johnson

1908

L. H. O.

35

Ford Lincoln

Does history repeat itself?



Ronald
Reagan

Ronald

Time's "Man of the Year"

First divorced President

Democrat/Republican

"Tear down that wall."

Campaign Slogan



Donald
Trump

Donald

Time's "Person of the Year"

Second divorced President

Democrat/Republican

"I'm going to build a wall."

Campaign Slogan

Does history repeat itself?



Campaign '80

Jimmy Carter



**"Let's Talk
Better
Mileage"**

Which Message Will Resonate with Voters?

Campaign '80

Jimmy Carter



**"Let's Talk
Better
Mileage"**

Ronald Reagan



**"Kill the
Bastards"**

Which Message Will Resonate with Voters?

So, *will* history *repeat* itself?

Let's discuss 3 things:

- What happened
- What's currently happening
- **What happens next – the pandemic**

The Bubonic Plague

1347-1352

Half the population perished



The Bubonic Plague

**What happened after the plague?
(from 1352 to 1440)**

The Golden Age of Labor

**Human
Capital**

VS

**Physical
Capital**

The Ordinance of Labourers, 1349



The Ordinance of Labourers, is often considered to be the very beginning of English labor laws. The law was issued by King Edward III on June 18, 1349. It fixed wages at their pre-plague levels.



Yesterday



Today



**From 1352 to 1440,
there was a **reduction** in
wealth inequality**

So, is it *different* this time?

**I hope you have learned
something today!**

TALKING POINTS

BY MARK ZINDER

Here are this week's talking points: the right thing to say when trying to make a point.

A recent survey of 500 delivery drivers found that 4 in 5 admitted to sometimes eating part of the customers' order.
-CarandDriver.com

Today, an average worker can compete in 1 hour the same amount of work that it took them 2 hours to finish in 1977.
-Department of Labor

"Markets take the stairs up but the elevator down."
-Anonymous

Consumer debt jumped \$52 billion in March of 2022, the largest increase on record.
-CNN.com

"It's true hard work never killed anybody, but I figure, why take the chance."
-Ronald Reagan

For a copy of the slides & to receive Talking Points





MARK ZINDER
— AND —
A S S O C I A T E S

Thank You