

## Hitting on All 8

As the pandemic recedes and the country reopens, the US economy is hitting on all eight cylinders as strong as a 5.0 Mustang GT. The three components of GDP: The Consumer (C), the Business sector (I), and the Government (G) are all spending beaucoup amounts of money.

The Consumer (C) is spending on goods and services at a clip rarely seen since the end of WWII. The business sector (I) is heavily investing in new plant and equipment as well as on research and development devoted to innovative technologies that drive the upgrade of all this new stuff. And the Government is financing the spending spree with major investment in infrastructure and social programs. All three (C + I + G) combine to give GDP a real shot in the arm (excuse the obvious metaphor) pushing a very strong demand for more goods and services in the US that reverberates throughout the world.

Still, this happy state of economic well-being has certain detractors, the main one being potential Inflation. But that threat will always be present no matter what. Inflation is a byproduct of the capitalistic system. When the private sector is not spending sufficiently to keep unemployment low, the government steps in with debt financing in order to fill the gap. This Keynesian formula has worked well in the past and will continue working well in the future as long as the growth in wages exceeds the interest rate Government must pay on borrowed funds, a solid bet I believe. At any point in time, however, debt financing can cause inflation as we saw in the 1970s. Policy makers have no answer to this problem without adopting a planned economy (socialism), a system I don't see the US pursuing. In a socialist economy, all jobs are under the control of political authorities, something I do not think independent-minded Americans would buy.

My point is that inflation, or I should say, the risk of inflation, will always be present. If it does occur, the good news is that the stock market is the best long-term hedge investors have. It is better than real estate or gold or any other commodity. If you have the nerve to stay with the market during turbulent times, and we know such times will occur, it will pay off by beating inflation hands-down over time. This is why an unwavering commitment to a thoughtful strategy is so important to a successful investment program.

Today, inflation is not a problem. Today, the US economy is hitting on all eight cylinders. It's strong and it's vibrant. Today, the future looks extremely bright. If you have any question about how strong the economy is, go by any shopping mall and look at the parking lot. What do you see? Lots and lots of cars. Step inside the mall and enter one of the stores, and what do you see? Lots and lots of people. And what are these people doing? They are spending, spending, spending! Is this good for the economy? Absolutely! Very good! Expand that one experience in the mall to the entire country and you have an economy that is on the move.

Nothing on the road compares a 5.0 Mustang GT. It is a highly sophisticated, awesome machine. The US economy is also quite sophisticated, but infinitely more-so. You don't need to know how the 5.0 works and neither do you need to know how the US economy works (in all truth, nobody knows how the economy works\*). All you really need to know is that they both

work very well. When you step on the gas of a 5.0 GT, you know you will go down the road and the more you step on the gas the faster it will go. Same thing for the economy. This is a unique time for the US economy. It looks really strong. Enjoy it while it lasts.

\* If you are serious about understanding this apparent flippant comment, I suggest you read the following three books:

1. *The General Theory of Employment, Interest, and Money* by John Maynard Keynes
2. *Capitalism and Freedom*, by Milton Friedman
3. *The Road to Serfdom*, by F.A. Hayek

Once done, which will take you a little time, you will likely conclude with more questions that lead to more reading that leads to more questions. Eventually, you will conclude that nobody knows what makes the economy work. It's like a dog chasing its tail, which reminds me of the story of when Keynes visited President Roosevelt during the depths of the Great Depression. The President would ask Keynes a question and Keynes would respond, ",,,well, Mr. President, on one hand, so and so would occur; on the other hand, so and so would occur." Frustrated, Roosevelt said, ",,what I need is a one-armed economist." And my favorite Keynes comment regarding what makes the economy work is, "animal spirits".

Here is a brief sample of the circular logic to which I am referring: Q: Consumer spending drives the economy, but where does the consumer get the funds to spend? A: from wages. Q: Where do wages come from? A: Corporate revenue. Q: Where does corporate revenue come from: A: Consumer spending. Get the picture!

All the best,,,,REC