The Chance Financial Quarterly

Two bad things happened this morning: my power went off and the inflation numbers came out. Not sure which was worse. The power came back on, but inflation, a central theme of Bidenomics, isn't going away. I was pretty sure they were going to fix it in time for the election and there's still time, but they're cutting it close. Of course, no one in the White House, The Treasury, or the Fed has a clue about what to do about it. And while I am blaming Biden for this, I don't see any signs the Republicans know what to do either. Heaven help us. But let's review the quarter and see if anything looks good.

Making Sense of Markets and the Economy

Well, like I said, inflation is still with us. The Consumer Price Index rose in March 0.4%, which is 4.8% on an annual basis. That was the third straight month that prices rose. That's the highest it has been since April of 2023. All the progress some people thought we were making is gone. Yeah, it's not 9%, like it was, but it's still beyond the level considered tolerable (around 2%).

But you probably knew that because you gotta buy stuff to live.

And this stubborn inflation keeps interest rates high. The Fed had suggested it would cut rates maybe three times in 2024. Not gonna happen now. Mortgages are still running at a little under 7%, but make sure you aren't lending banks money for zero interest with big checking account balances. CDs and Money Market fund yields are still well above 4%, so take advantage of that.

I told you how worthless GDP is as an economic measure (and see below for a related explanation of what a recession is), but economists do follow it. The latest number we have is Q4-2023, and it's a reasonably healthy 3.4%, though a dip down from the nearly 5% of Q3. Do you feel good about this? You shouldn't, at least not until inflation gets under control. Unemployment is at about 3.5%, only a bit higher than its long run average. Plenty of jobs available, however, but too many people not taking them.

But …, for no logical reason, your money did well. After a 26% gain last year, the market went up another 10% in the first quarter of 2024. That sounds great, except,…, it doesn't make a lot of sense. And on the day they announced the March inflation figure, the stock market fell about 1%, which is a lot for a single day. Stocks don't like inflation. Who does? (hint: big borrowers like the government).

We've made enough money in the stock market for the last 15 months to make performance normal if the market falls 12% over the remainder of the year. That is kind of what I think it will do … unless inflation cools.

A Teaching Moment: What is this Thing the Fed Does?

In this quarter's Teaching Moment, I'm going to explain what a recession is. There is an official definition, and it doesn't mean much, and there is Ronald Reagan's definition, "A recession is when your neighbor lost his job. A depression is when you lost your job."

All in all, a recession is a nonsensical concept that economists have thrust on us, and in doing so, they, the politicians, and the media make the situation much worse. REPEAT: MUCH WORSE. They treat economic times as if they are binary, meaning we're either in a recession or not. That is insane. And it makes the problem worse.

In last quarter's newsletter, I explained what GDP is. Recall (ok, I know you really don't recall, but that's the phrase I'm supposed to use here) that GDP is a rough measure of economic activity. As I explained, it's a poor measure, failing to capture the fact that our economy is very service and high-tech oriented. GDP focuses mostly on manufacturing, and, I'm sure you know, we've been outsourcing manufacturing for decades. But GDP is about 2/3 correct, fora bout 2/3 of GDP is what we call personal consumption, that is, how much we spend. That's a valid measure of economic activity.

Economists define a recession as two consecutive quarters of negative economic growth. This means that for two straight quarters, we produced less than in the previous quarter. In effect, GDP is expected to get larger. So, for example, if we had produced 100 zillion dollars of stuff in one quarter and in the next, we produce 96 zillion, there's negative economic growth. If that happens two straight quarters, economists call it a recession. Then all hell breaks loose in the form of fearmongering. We're all going to hell in an economic handbag, they more or less tell us. Here is where it gets really dicey.

If they succeed in scaring the crap out of us, and they usually do, we then start saving more and spending less. And things get worse. Because when we spend less, we make it worse. Then they tell us it's gotten worse. And we spend less. And so on. I always find it amusing that idiot journalists write articles with titles like "10 Tips for Saving Money in Tough Economic Times." Those bozos have no idea that saving money is why we're having tough economic times.

And now we're in a recession. Everyone is afraid to spend which makes the situation worse and the economists think they were right. Sometimes these recessions are dips of only a few percent. Unemployment almost always rises but even in recessions, unemployment rarely gets to 10%. Since it's around 3% even when we're in full throttle, that means only 7 more unemployed people out of every 100 who are looking for work. It's not good, but no reason for everyone to panic. But panic they sometimes do because they're told they are supposed to be worried.

But eventually the endless cycle breaks when people realize that they're not nearly as bad off as the economists and media folks told them. And they start spending more. And we pull out of this artificial thing economists call a recession. The Fed and the White House brag about how they caused the economic recovery. Ha.

As a clear indication that economists and the media are among the least respected segment of society, economists were absolutely sure that Covid would lead to a recession. GDP did fall in Q1-2020 and in Q2-2020. So we were officially in a recession by July 2020. Given that we were all going to die of Covid, the apocalypse was surely near. But what did we do: we spent like crazy and no recession occurred. GDP picked up in 3Q-2020 and has moved right along since that time, albeit fighting a tough battle with inflation.

So, never believe economists. Since I count myself as one, you're permitted one exception. It doesn't have to be me, but I hope it will. If it's me, here's my final piece of advice on this subject for this letter: make your own consumption decisions and completely – repeat, COMPLETELY – ignore economist and the media! You are the best judge of your economic situation, so don't let them tell you where they think you are. And as for your investments: put your money in low cost, broadly diversified index funds.

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