

## Finance in Montana

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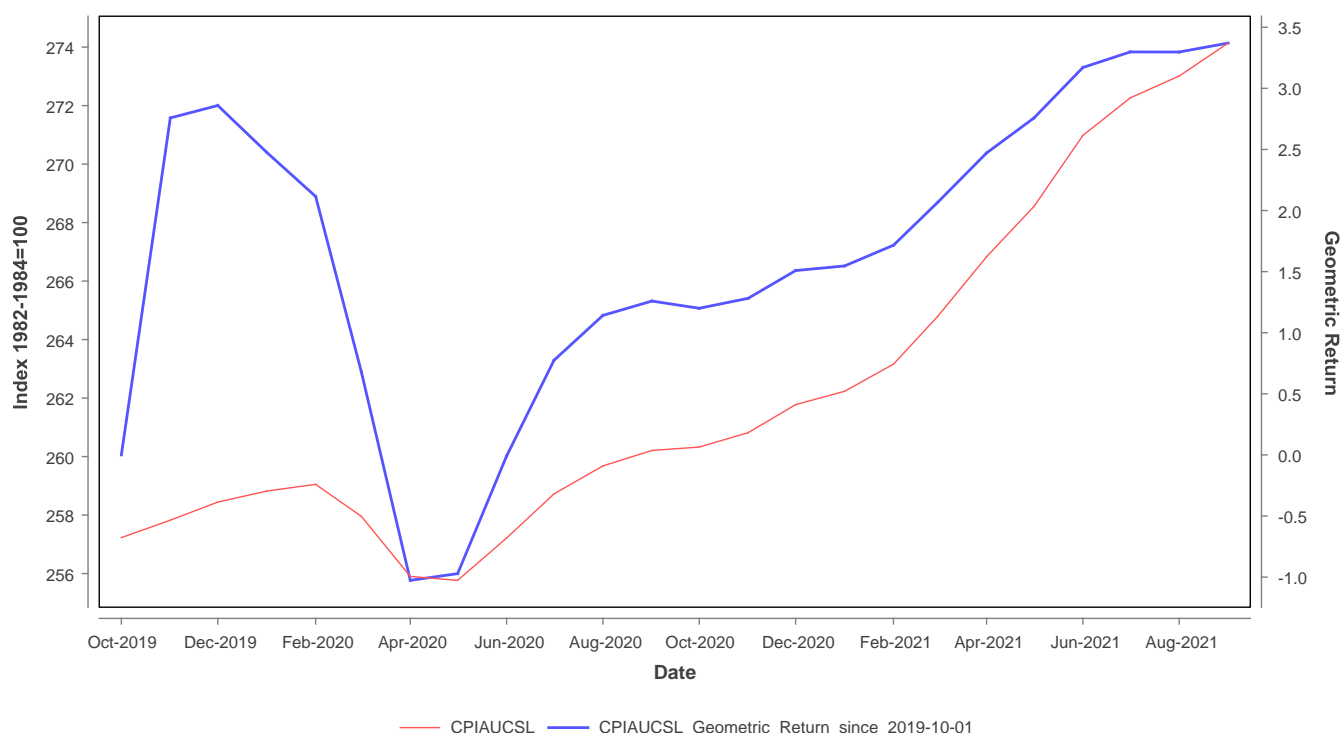


On Sep 27, 2019 Federal reserve Chairman Powell announced the new policy of targeting long term inflation at 2 percent. I [blogged](#) that the Federal Reserve inadvertently trapped itself in bad policy as markets are made on the margin and not on the average. This November we will see whether or not the Federal Reserve continues to believe that this inflationary period is 'transitory'. With that backdrop, I offer a set of data series graphs on the [geometric mean](#) since that date.

### Consumer Price Index for All Urban Consumers: All Items in U.S. City Average

Chairman Powell had the misfortune of setting such a policy months before the COVID-19 virus entered the worldwide lexicon. On the left axis, (blue line) we see that actual CPI index. On the right axis (red line) we see the annualized geometric mean since Sep 27, 2019. The currently geometric mean for the CPI is 3.37%. The Federal Reserve needs to make a painful decision.

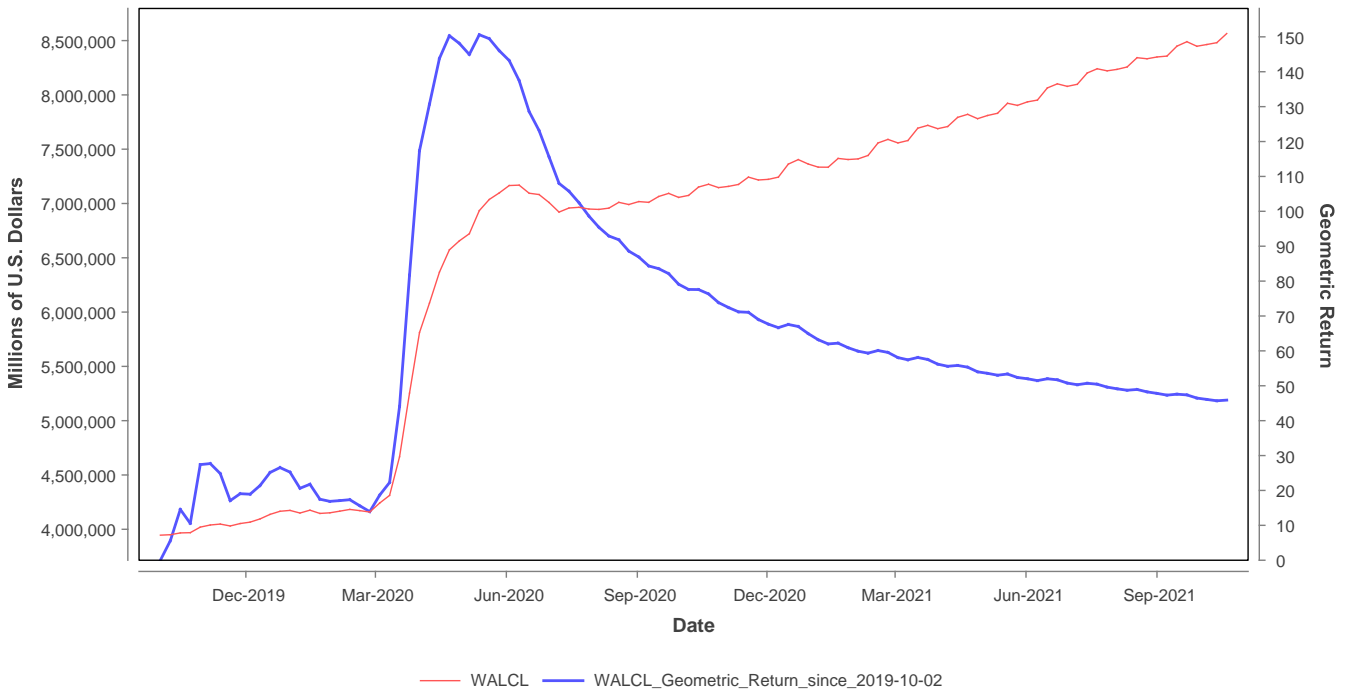
#### Consumer Price Index for All Urban Consumers: All Items in U.S. City Average vs. Consumer Price Index for All Urban Consumers: All Items in U.S. City Average Geometric Return since 2019-10-01



### Assets: Total Assets: Total Assets (Less Eliminations from Consolidation): Wednesday Level

To mitigate the social consequences of shutting down the world's largest economy, total asset of the Federal Reserve increased an alarming 45.889%. In my Milton Friedman trained mind, the Federal Reserve must absolutely and unambiguously begin to not only taper but must also shrink its balance sheet. The distortion to the economy are enormous and will bring misery to nation.

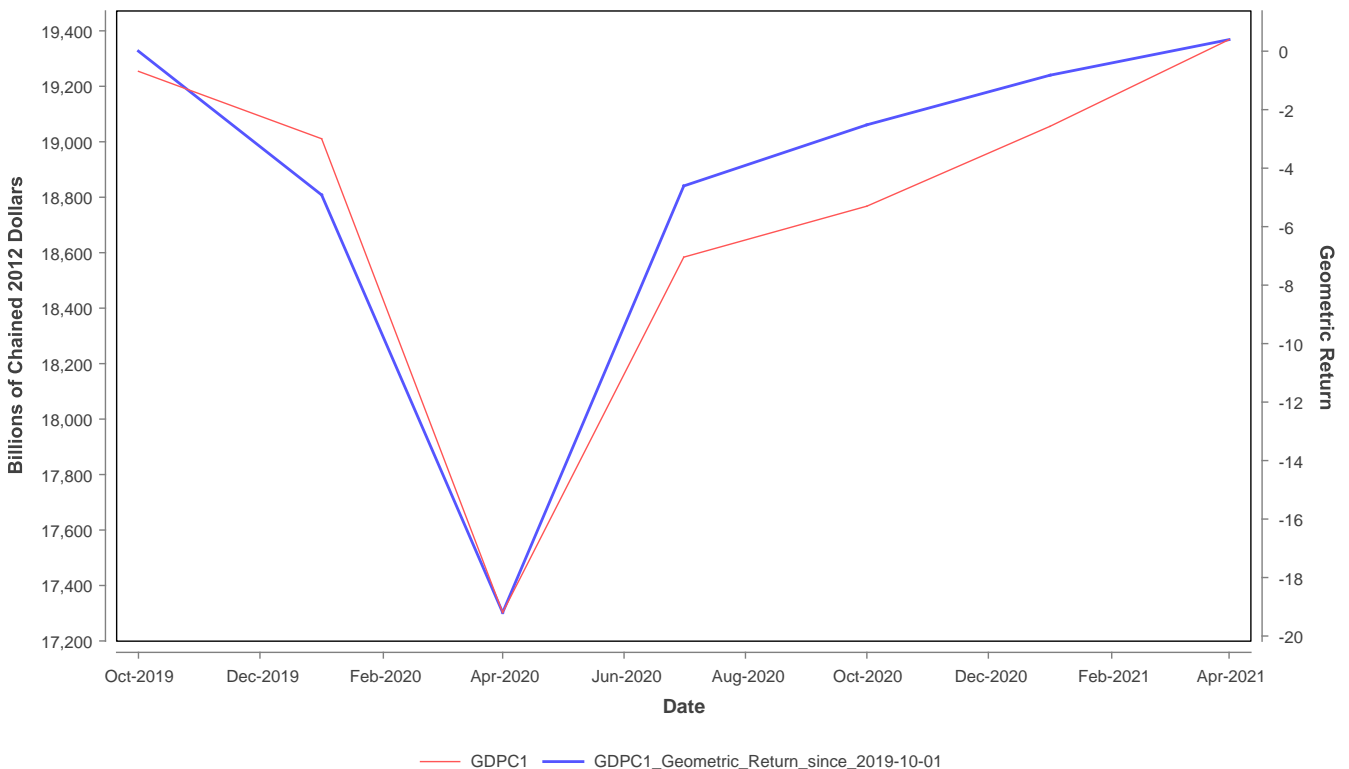
**Assets: Total Assets: Total Assets (Less Eliminations from Consolidation): Wednesday Level vs. Assets: Total Assets: Total Assets (Less Eliminations from Consolidation): Wednesday Level Geometric Return since 2019-10-02**



**Real Gross Domestic Product**

In total, what did our nation achieve for this massive monetary stimulus? Thus far, not much. Real GDP recovered from depths of the self induced recession and increased an anemic 0.395%. Emergency Federal outlays did offset the potential for great social harm. Now that the COVID situation is under control, the question now becomes how to bring the economy back to normalcy?

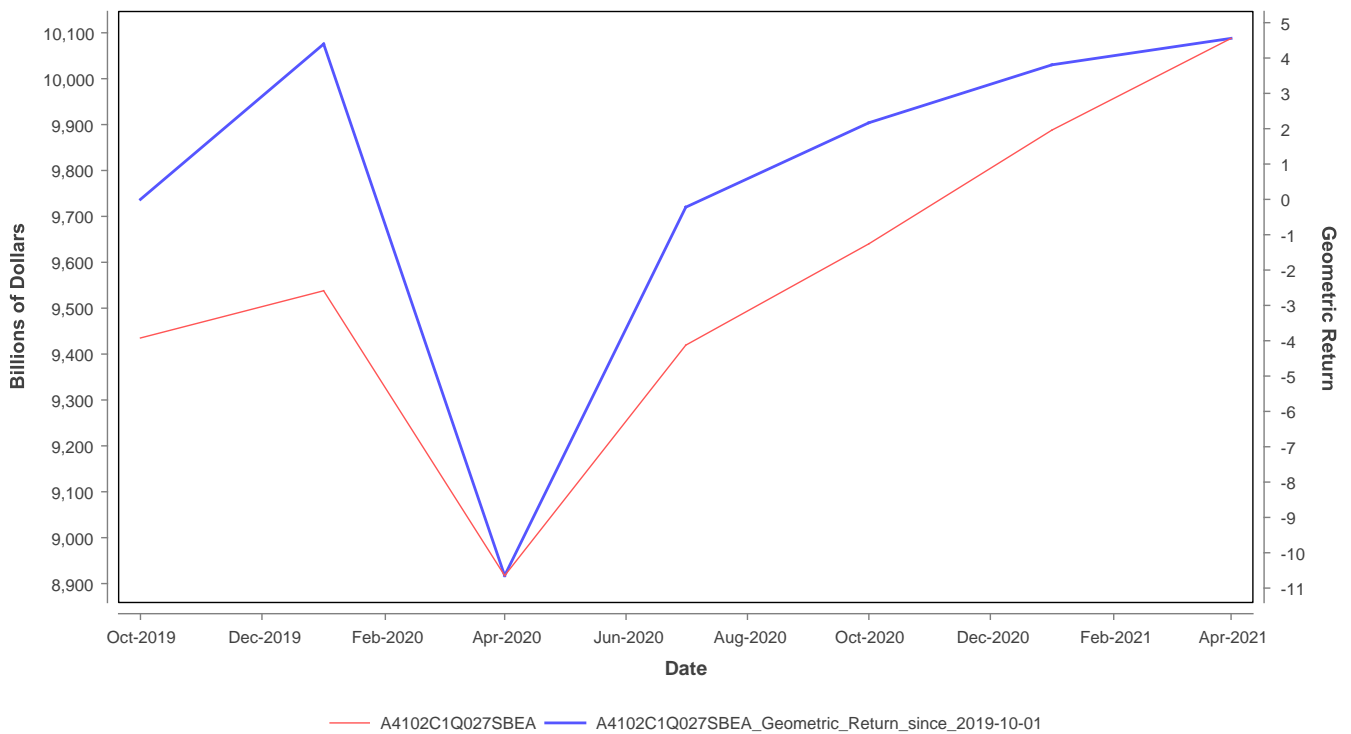
**Real Gross Domestic Product vs. Real Gross Domestic Product Geometric Return since 2019-10-01**



**Gross domestic income: Compensation of employees, paid: Wages and salaries**

Median Income on a nominal basis increased 4.556% more than offsetting the 3.37% rise in CPI. Ok, workers will take a margin increase in income in the face of rising prices. Still where did the rest of the monetary stimulus go?

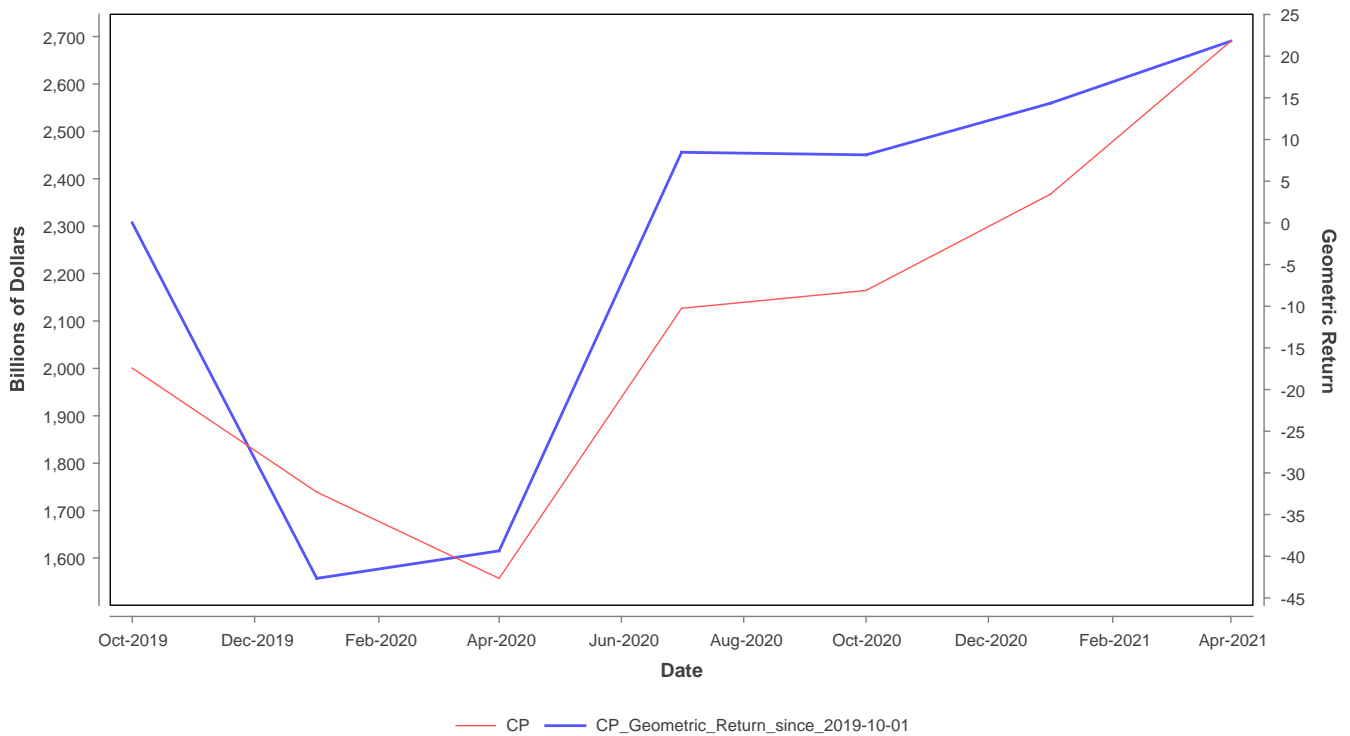
**Gross domestic income: Compensation of employees, paid: Wages and salaries vs. Gross domestic income: Compensation of employees, paid: Wages and salaries Geometric Return since 2019-10-01**



### Corporate Profits After Tax (without IVA and CCAdj)

Somewhat following my [the marginal propensity to consume](#), when people are force to lock down, work from home and receive government assistance, our trained (like seals) consumers will consume. Consume they did, corporate profits rose 21.807%.

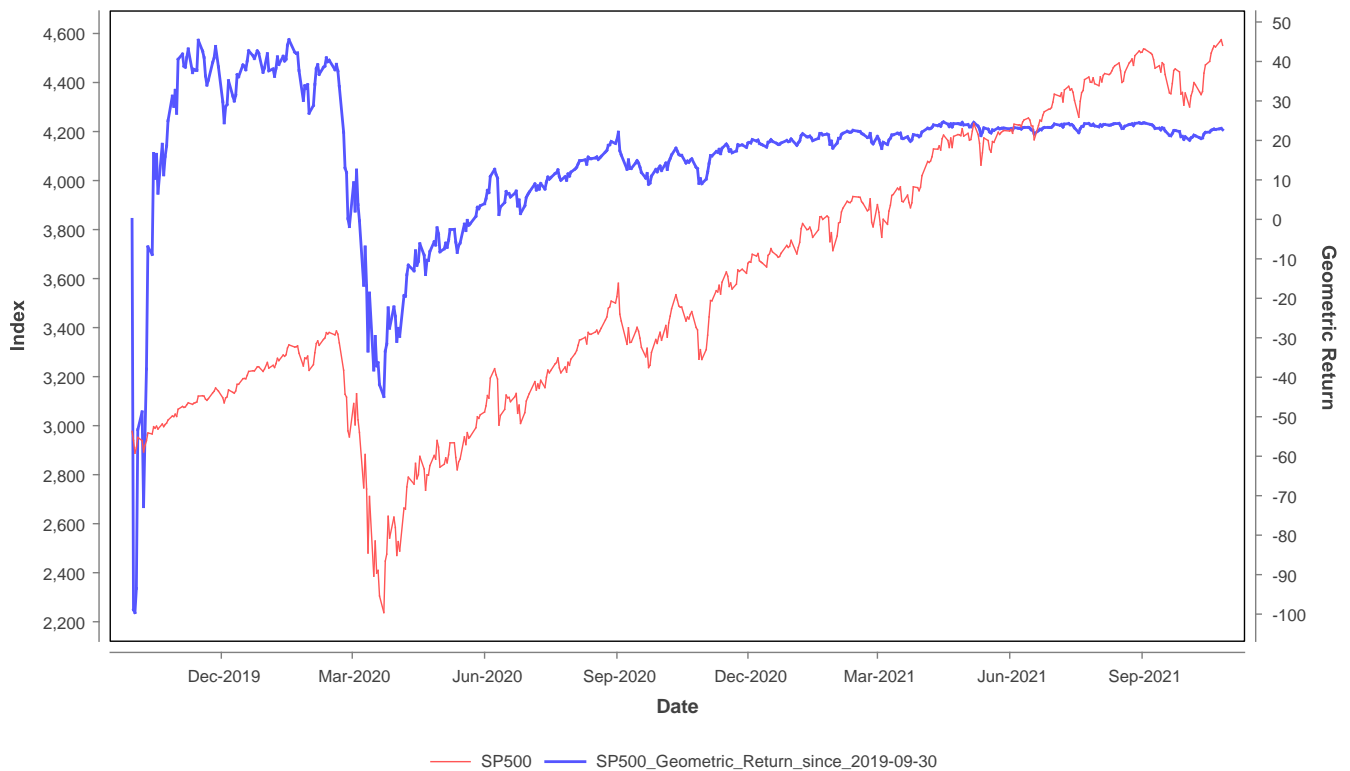
## Corporate Profits After Tax (without IVA and CCAdj) vs. Corporate Profits After Tax (without IVA and ) Tj



## S&P 500

Not surprising the S&P 500 index also rose 22.69% again following the markov process stated the the linked post above. Follow the cash flows!

S&P 500 vs. S&P 500 Geometric Return since 2019-09-30

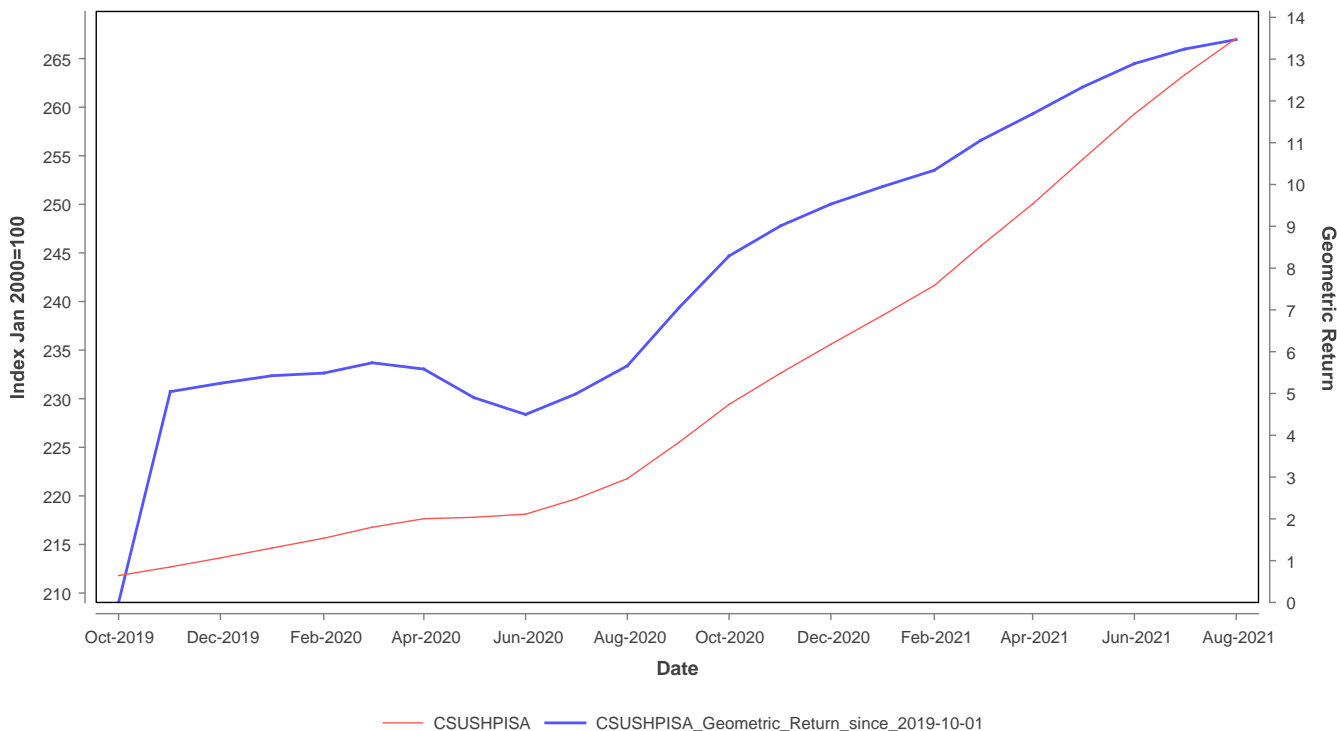


## S&P/Case-Shiller U.S. National Home Price Index

The flood of cash lowered interest rates(this will be temporary) and current homeowners bailed out

at extraordinary price gains. New owners obtained shelter at extraordinary prices. We hope that those owners who did not sell refinanced with the intention of reducing home ownership cost. Refinancing for a loan balance for current consumption, is akin to buying that same home again at higher prices -- not smart at all. Our Fed officials set the stage for a repeat of the 2008 crisis.

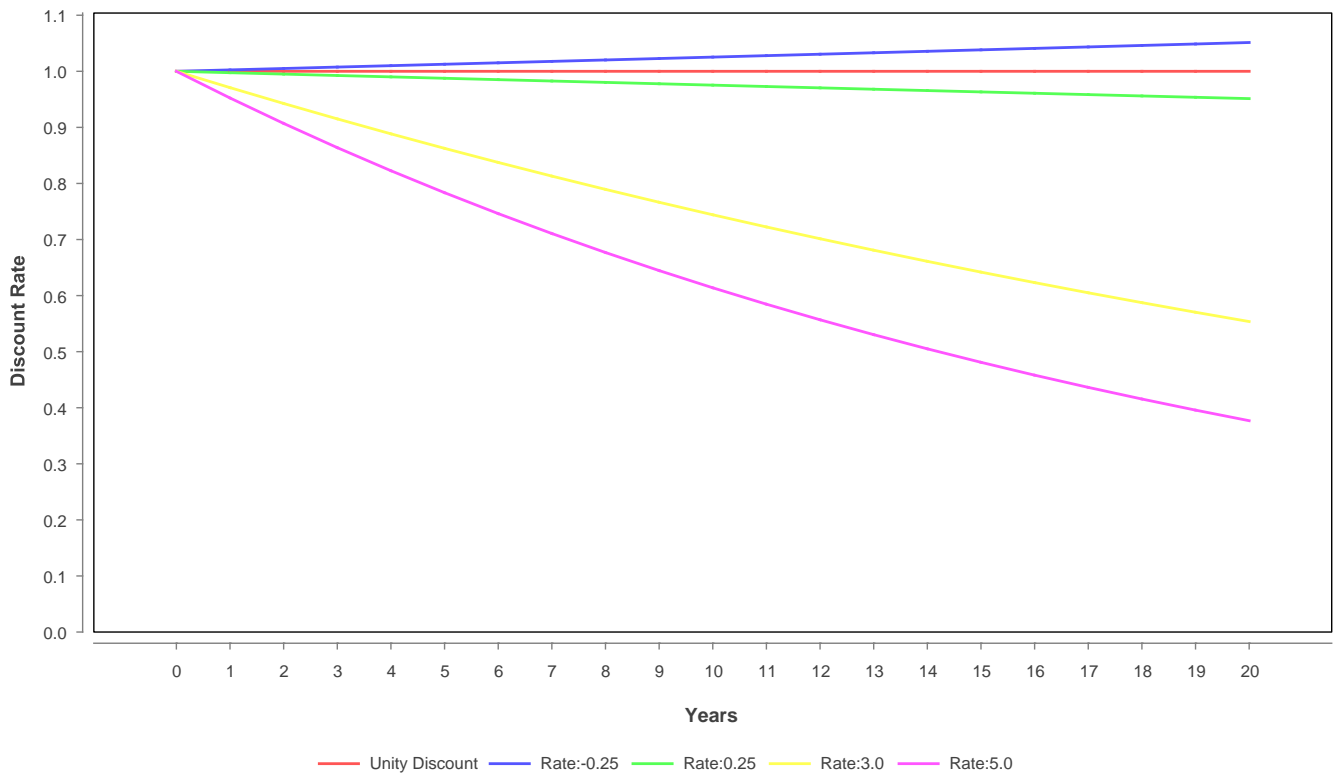
**S&P/Case-Shiller U.S. National Home Price Index vs. S&P/Case-Shiller U.S. National Home Price Index Geometric Return since 2019-10-01**



**The Time Value of Money**

It is difficult to see how the Federal Reserve can maintain asset prices at these levels. Consider the well known Fisher Equation, where the Nominal Rate equals the Inflation Rate plus the Real Rate plus some risk factor. At such low rates, the duration effect of normalizing interest rates is highly non-linear. We consider the graph below. At the 10 year period a return to 3 percent rates is ominous -- at 5 percent ruinous. The value of cash at that period implies a discount of 0.744 and 0.614 respectively.

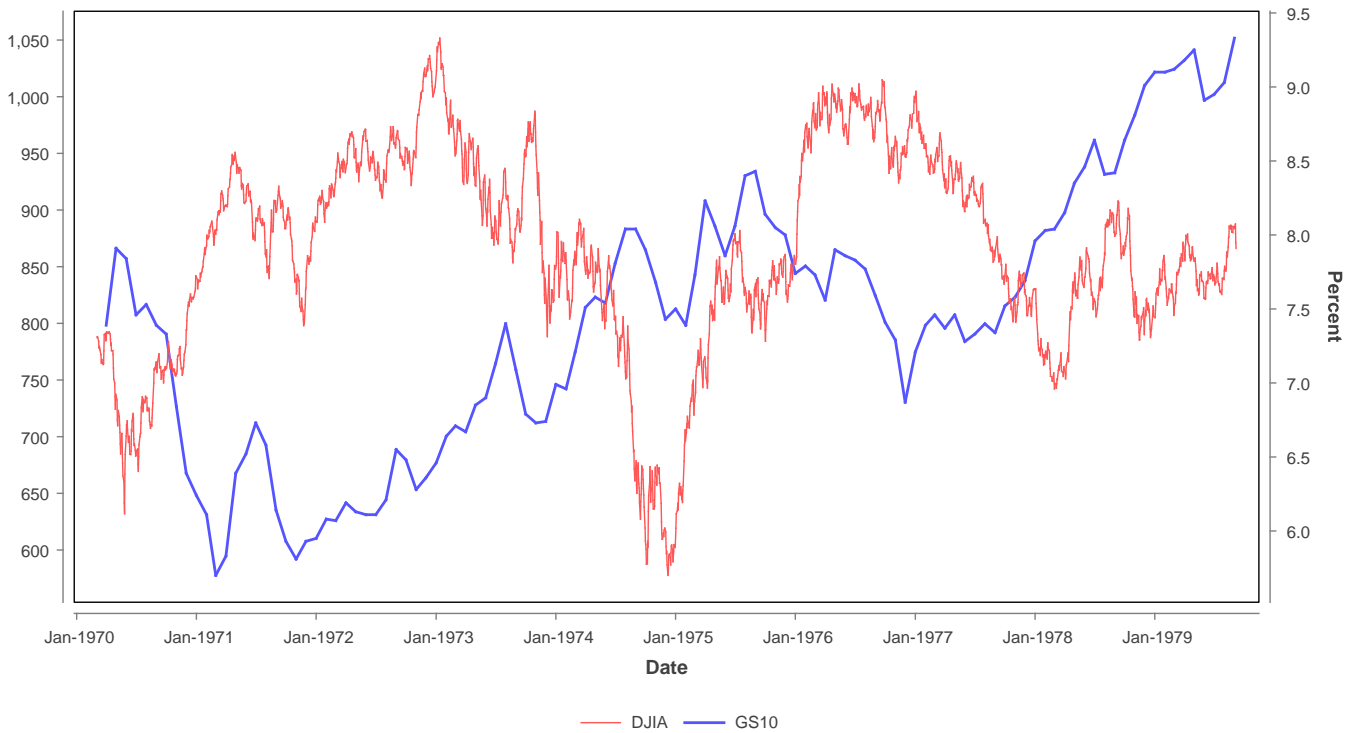
### Discount Sensitivity at Different Rates



Real GDP growth is essentially flat. Monetary growth is absurdly high. Fed officials are busy trading and Congress creates industrial and tax policy based on a whim and a prayer. The next three years will be volatile and new highs in the market will be far less frequent. I always state that humans are minnows in the stream of history, external and internal forces will guide investors and workers down a path that the wisest cannot foresee: ['The Proud Tower'](#) comes to mind.

In fact, a decade of instability for the SPX is much more likely. On Mar 3, 1970, [Arthur Burns](#) was appointed Chairman to the Federal Reserve. President Nixon, facing a weak Democratic challenger, intimidated Mr. Burns to increase the money supply to ensure election victory. Also during that decade the West experienced two oil embargos, wage-price controls and other bad policy decisions. Treasury yields slowly climbed in response. Who remembers the buttons "'WIN' whip inflation now!" or 'old/new' oil pricing? My discount factor graph suggest that the Dow-Jones could lose as much as 40 percent of its value. All of these events are vaguely familiar when looking at recent events.

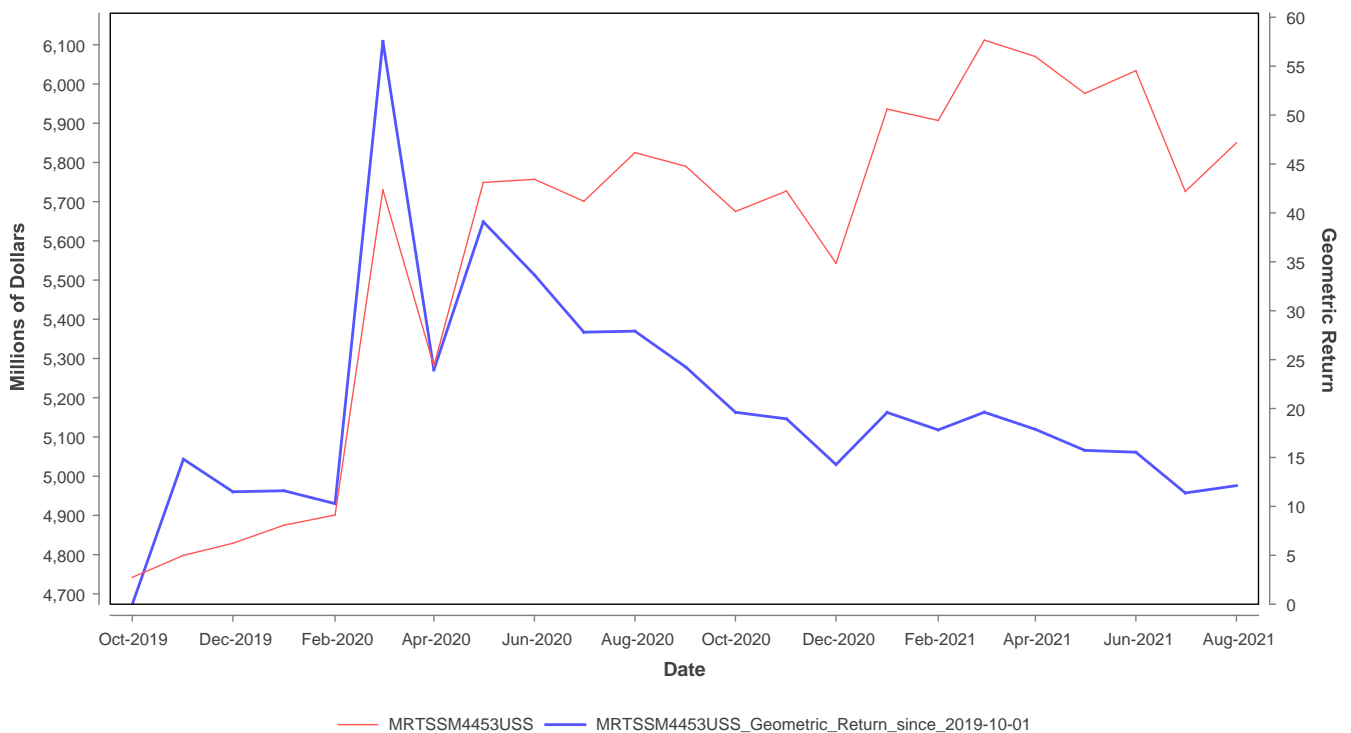
## Dow Jones Industrial Average vs. Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity



## The Value of Liquor

Well enough of the dismal science for now, I offer one final graph of Retail Sales: Beer, Wine, and Liquor Stores. After reaching a staggering increase of 57.533% Americans are sobering up( 12.119%) and looking at the path ahead. Will our leadership do the same?

**Retail Sales: Beer, Wine, and Liquor Stores vs. Retail Sales: Beer, Wine, and Liquor Stores Geometric Return since 2019-10-01**



Stay healthy and invest well.