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CMEFS WEEKLY INVESTMENT NEWS

25-09-2020

Hello and welcome to this week's edition of Investment News.

Before we go into this week's discussion, let's see how the CMEFS Flexible fund has done for the year thus far as compared to the All Share Index (ALSI)

Fund	Last week Thursday	This week Thursday
ALSI	-1.97%	-6.69%
CMEFS Flexible Fund	+0.79%	+0.71%

So where is all the money coming from when so many jobs have been lost due to Covid-19?

Firstly, what we need to understand is that what we are experiencing now is unprecedented in modern history.

Economies world-wide are either entirely or partially shut down because of the virus, and there is no clear or immediate end in sight.

And yet we need to live somewhere, as well as cloth and feed ourselves in the midst of all of this.

And of course, to do so requires that we be able to continue to pay for all of this, and more.

So let's go back to basics and look at where money itself comes from, starting from scratch once again, but without going into too much detail.

When we provide goods or services to someone else, wealth (money) is created.

This wealth (money) can then be used to purchase goods and services from someone else for our own consumption.

So as long as we can continue to work, we can continue to fund our consumptive needs.

And so long as others can continue to work, they can continue to fund their consumptive needs.

This exchange of goods and services between one another is the ONE AND ONLY means of creating wealth (money).

There is no other means of creating wealth (money).

Gold, Silver, Platinum, Diamonds, Works of Art, Bitcoin, and so on do not create wealth, rather, they are repositories where wealth, once created, is stored.

This then begs the question; "This being the case, just how were goods and services paid for during the period of the lockdown, and just how will goods and services be paid for going forward whilst we wait for the job market to recover fully?"

Firstly, thankfully, not everyone is without a job, so for these people, continuing to pay for goods and services both during the period of the lockdown and at least into the immediately foreseeable future, did not and will not present any problem.

However, for those who were without a job during the period of the lockdown, and for those who will be without a job into the immediately foreseeable future, the money can come from one of two sources only.

Note that no matter from whom the money is "sourced", your own resources, employer, government, UIF, charity, family, friends etc., the ACTUAL source of the money will not have been through the creation of new wealth.

Rather the ACTUAL source of the money will be either accumulated SAVINGS and/or NEW DEBT being created.

Let's first talk about savings, otherwise known as stored wealth.

When savings are used, these savings will deplete over time and if drawn on without end, will ultimately find their way down to zero.

When these savings have reached zero, they can naturally no longer be drawn upon.

You would thus have consumed all the wealth you would have stored whilst you were in employment. (Or, if you were a squirrel, you would have eaten all the nuts you stored for winter)

These savings can only be replenished through new wealth being created out of holding a job at some point in the future and setting aside some of what is yet to be earned to replenish this savings pool.

This applies to individuals, governments, company's, institutions, you name it. And when this happens, less goods and services are consumed as would have otherwise been the case, meaning fewer jobs would have been created.

So as individuals, governments, company's, institutions, you name it, start the dis-savings process, what they are doing at the same time is negatively compromising the number of future jobs that will be created

OK, so your savings have been consumed and you are still without a job, what now?

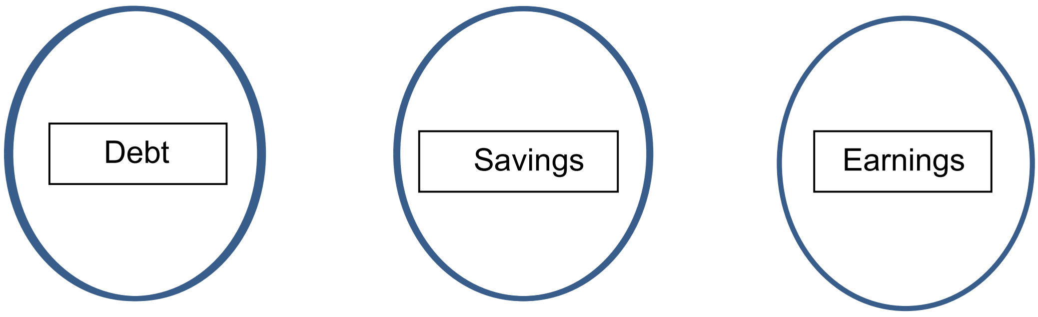
Well, if you have a pre-approved credit line (access bond, credit card, over-draft facility) you start borrowing from (hoped for) future earnings, otherwise known as getting yourself into debt.

Again, however, once you have maxed out all of your credit lines available, which should not take too long given that you are not earning anything and have no savings, you now find yourself in a fine pickle having to fall on the goodwill of others in order to meet your basic needs for food, clothing and shelter.

Of course, this goodwill that is being dispensed is also going to be sourced from current earnings, savings or debt.

And so the cycle continues.

Let's look at this in pictures, assuming all three funding possibilities start off equally in size, with the sum total of the three being equal to the total money in circulation at the beginning of the pandemic.

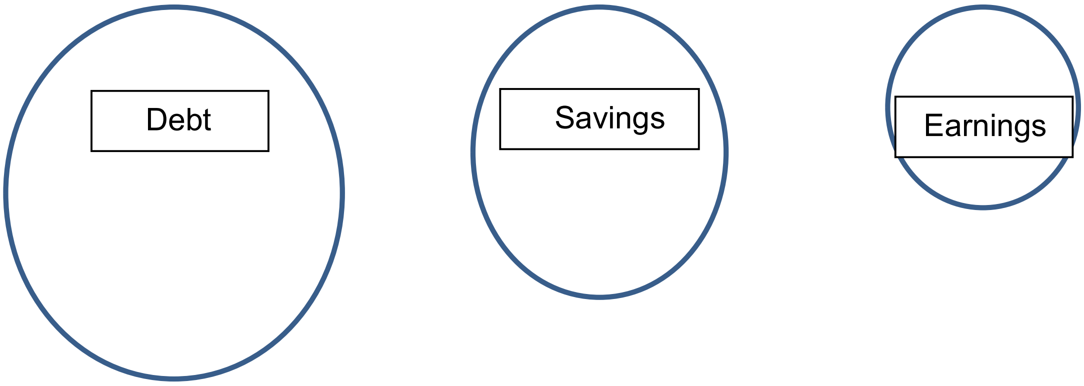


Now, if earnings are halved, then the size of the circle showing earnings will halve.

However, as we need to keep total money in circulation at the very least at pre-pandemic levels, to compensate, either the savings circle needs to increase in size, or the debt circle needs to increase in size.

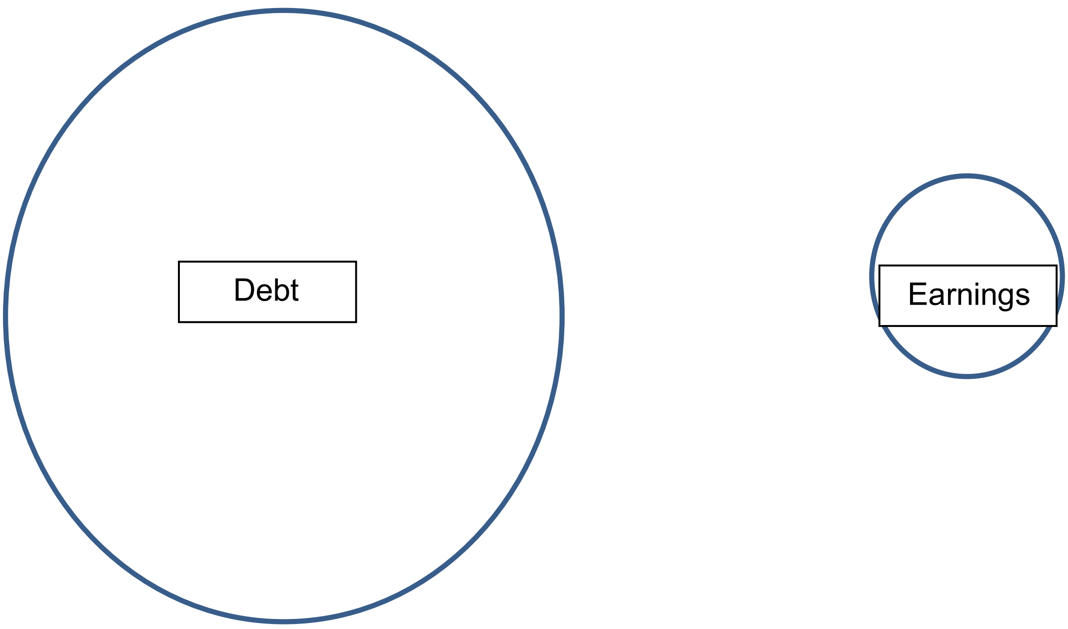
As it is not possible to increase the size of the savings circle given the loss of jobs, this leaves us with only one other option, that being to increase the size of the debt circle.

In so doing, this is what the current situation would have morphed to globally.



Now imagine that we somehow consumed all of our savings, which could happen if the pandemic lasted long enough, what would the world look like then in pictures, assuming once again that we want to keep total money in circulation at the very least at pre-pandemic levels.

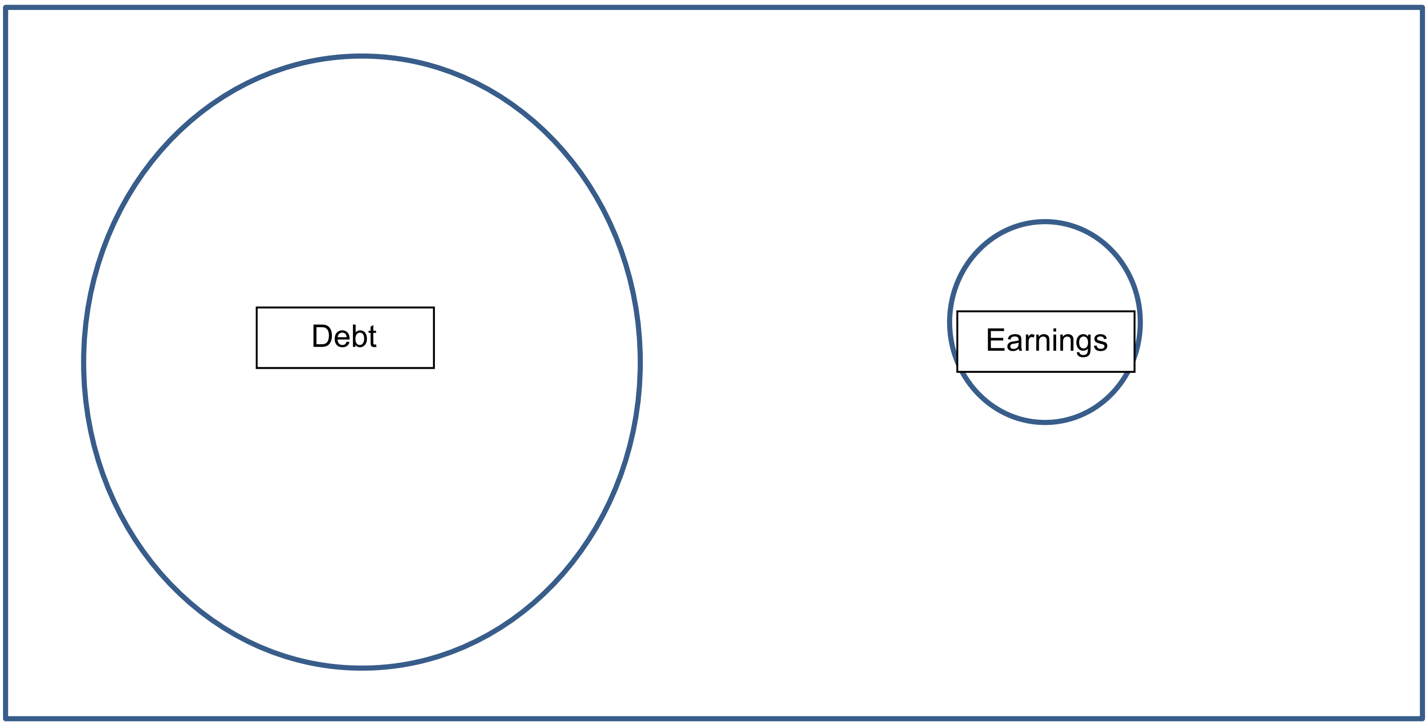
It would look something like this.



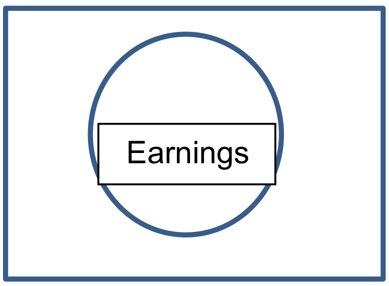
Not a pretty sight.

And as bubbles grow in size, they reach a point where they can grow no further, and they burst, like all bubbles ultimately do.

And when they burst, the total size of the economy moves from this



To this



And this is pretty much what happened back in 2008, except that the world's economy (the debt balloon) was re-inflated by way of central banks world-wide buying up newly created government debt, thus flooding their individual economies with money borrowed from far, far into the very distant future.

And now they are being forced to borrow even more money from the now very very distant and far away future in order to meet the basic income needs of those who have found themselves newly unemployed as a result of this pandemic.

And as they borrow more and more from this future, the debt bubble continues to grow in size.

This is why governments world-wide simply cannot afford to continue with lockdowns that prevent people from returning to work, no matter the risks they face.

And no matter the human cost in lives this might cause, as tragic as this might be for you and I on a personal level, the loss of life that will be caused by a complete economic melt-down will make the death rate from Covid-19 pale into insignificance.

Governments and most certainly central banks know as well as I do that there is a finite limit to borrowing, that the bubble can only get so big, and that savings will only last so long.

People need to get back to work, savings needs to be rebuilt and debt needs to start being repaid.

And economies need to grow despite the braking effect that the re-building of savings and the debt repayment regimes will have on the creation of new jobs.

It’s kind of like putting your foot on the accelerator and brake at the same time whilst trying to get the car to move forward.

But it can be done, but it does require that we are all singing from the same hymn sheet and that we all understand that sacrifices will have to be made along the way.

It’s not going to be easy, but again, it can be done, and indeed must be done. And we can do it.

Together, ANYTHING is possible, and it really is.

I look forward to interesting and exciting times!

I trust you enjoyed the read. Until next time then, do take good care of yourselves.

Kind regards, Nine, Charles, and all of us at CMEFS.