

## The Outlook: Sept. 10, 2021

*Thinking with a finger to the wind.*

Why do we make bad decisions?

We'll answer that question with authority, here at Outlook, having made a pretty big pile of bad decisions over the years. We might not be alone in that. The question matters a lot to us as investors and in every other part of our lives. We were reminded of it this afternoon, when this piece of information came out:

### ***August Producer Price Inflation Soars, Up 8.7%.***



Mr. Jerome Powell, Chairman of the Federal Reserve Bank, leads the organization whose job is to control inflation in the USA. His decision-making, as we've noted pretty often this past year, has been looking, well . . . *bad*. More than a year ago Mr. Powell painted himself into a corner, promising with great confidence that his Fed would take no action against inflation for the foreseeable future. He even used the term, "beyond the horizon." For those of us whose scars still ache, on cold mornings, from our own piles of bad decisions, Mr. Powell's confidence and promises were just plain mind-boggling. He was talking about a phenomenon—inflation—which is economically deadly and hard to fully understand and predict, no matter how many distinguished degrees and years of experience any economist may have. But he talked as if predicting and controlling inflation were like peeling an apple or scrambling an egg: pretty simple, no worries about getting it wrong.

Why?

The reasons we make bad decisions is pretty long, probably; but for public people—politicians especially, and the Chairman of the Fed is certainly a kind of politician—the overwhelming reason is because they do

their thinking with one finger to the wind. And while we've been blessed with a few outstanding leaders able to make very hard decisions the right way, while holding a finger to the political wind as a piece of information (Abraham Lincoln heads the list), most of us mere mortals can't do it. Instead of just "a piece of information," what the finger-to-the-wind whispers in our ears about the polls, or the party, or maybe just a circle of friends and admirers, controls our thoughts themselves.

We can't think straight that way; and we sure can't make awful decisions the best way.

At Outlook we guess that's how Mr. Powell and his Board have been thinking for a long time. The right decision—the "awful" one—would have been for them to throttle the 37% explosion in the money supply early, before it really began rolling through the economy. That would have hiked interest rates and put the "Virus and Lockdown Recovery" at some risk . . . and would have triggered a firestorm of criticism from Congress, accusing the Fed of failing in its "other" job: creating full employment. Mr. Powell's "right" decision was to tell Congress: "We must choose. Inflation is the worst evil—and it's the only goal the Fed can actually do something about. So while I'm Chairman, we'll be fighting inflation, first."

It didn't take a very sensitive finger-to-the-wind to whisper to Mr. Powell that life would turn miserable in a hurry, if he said such things. So he convinced himself that a 37% money-supply explosion was no big problem; and that near-zero interest rates (very popular among almost all politicians) would do no harm to the inflation problem "for the foreseeable future." Each passing month has been like the pounding of a giant gong, bringing another round of inflation numbers telling Mr. Powell: "You got it wrong. You're getting into big trouble." But like most people who do their hard thinking with a finger to the wind, he's not going to "get it right" until the problem is much bigger than it should have been.

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