FINANCIAL PREPAREDNESS

"One of life's most painful moments comes when we must admit that we didn't do our homework, that we are not prepared." ~ Merlin Olsen

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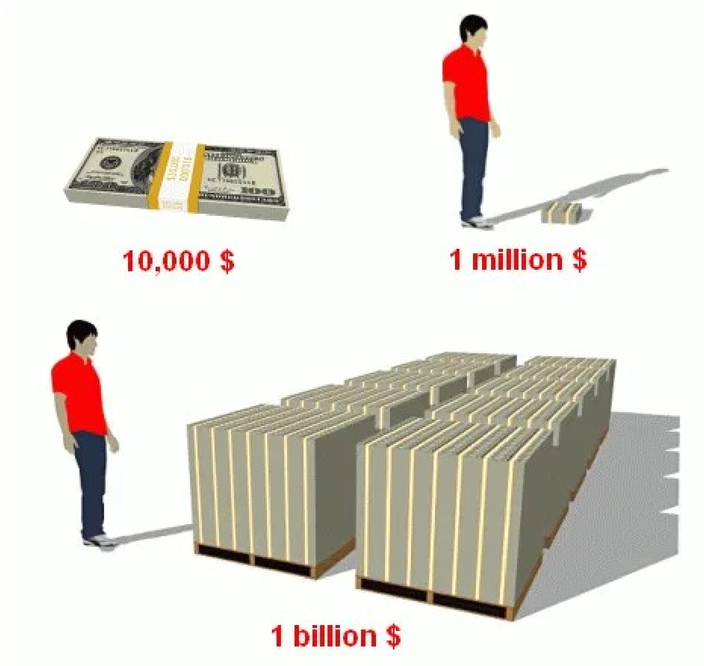
How Much Is $40 Trillion?

This week "the national debt" (i.e., the outstanding debt of the U.S. federal government) exceeded $40 trillion. How much is that? Well, it's very difficult to visualize because the human brain has a hard time grasping very large (and very small) numbers, probably because for millennia, it never came across those numbers in real life.

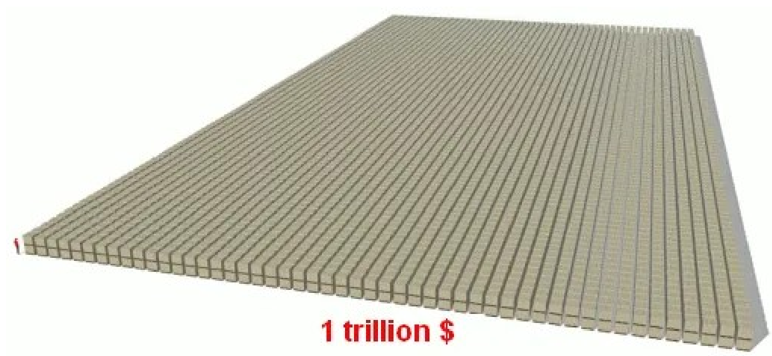
So let's make it easy and try to visualize just $1 trillion. This video shows that if you laid a stack of $100 bills alongside a road and drove alongside it at 60 MPH, you would pass the $1 trillion mark after 16 hours.

Here's another visual representation:

A bundle of $100 bills is equal to $10,000, which could easily fit in your pocket. One million dollars would probably fit inside a shopping bag, while one billion dollars would fill a small room.



One trillion (1,000,000,000,000) is 1,000 times larger than one billion and would take up an entire football field (see the man standing in the bottom-left corner).



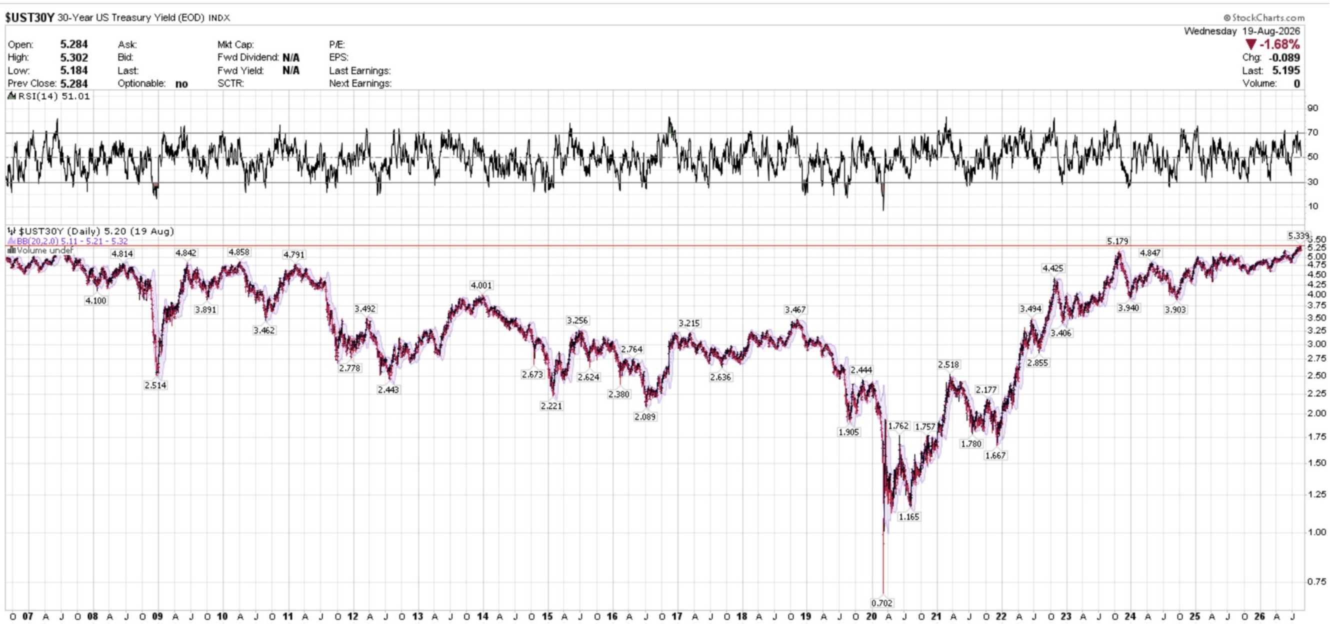
One mathematician put it this way: “1 million seconds is about 11.5 days, 1 billion seconds is about 32 years while a trillion seconds is equal to 31,546 years.”

OK, but that's just $1 trillion, so we need to 40X that to get to the current national debt of $40 trillion.

But wait, that's just the debt that's on the federal government's books. We still need to add in the unfunded liabilities for Social Security and the military and civil service pension systems, all of which are totally unfunded (which would be illegal in the private sector). According to Grok AI, the present value (i.e., how much money is needed *right now*) of such unfunded liabilities over the next 75 years is between $97 trillion and $101 trillion, depending on the assumptions used.

So take the last image above, 100X it, and that's about how much the federal government owes currently, *before any additional future spending or benefits*.

The market is finally starting to wake up to this reality, sending the yield on the 30-year U.S. Treasury bond to 5.34%, the highest since the Summer of 2007 (which of course preceded the Great Financial Crisis of 2008).



As the federal government's cost to borrow increases, its ability to *service* its existing debt (forget about paying any of it down) becomes more difficult, which increases the risk of its debt, which increases its cost to borrow, etc. in a doom loop to oblivion.

Meanwhile, the government's ravenous appetite for funding crowds out borrowing by corporations, small businesses, consumers and state and local governments, increasing interest rates across the board, which makes almost everything more expensive.

At the same time, rising interest rates cause the value of nearly all assets (including stocks and bonds) to decline since the interest rate used to discount their future cash flows back to the present is now higher. Corporations whose primary asset consists of a portfolio of bonds/debt (especially U.S. Treasury bonds) suffer the largest losses. Now you see why I don't invest in insurance companies or banks.

But wait, it gets better! For decades, the U.S. Treasury (at the behest of the President) has been penny-wise and pound-foolish by issuing shorter-term notes to fund the federal government's deficits instead of longer-term bonds that usually have a somewhat higher interest rate. As a result, about a third of the federal government's existing debt has to be rolled over (refinanced) every year at then-prevailing interest rates (however high they may be). I call this the Mother of All Adjustable-Rate Mortgages. It's the same situation that caused Lehman Brothers and the Greek government to go bankrupt.

OK, let's have an adult conversation. If interest rates remain elevated (which I think is extremely likely), how do you think this movie will end? Will politicians come to their senses and realize and admit that the federal government is severely overextended, and reduce spending (and maybe raise taxes) and start to pay down its debt?

Or will it have the so-called Federal Reserve Bank monetize its debt by buying its bonds with dollars that the Fed creates out of thin air (such inflation would of course result in rising prices)?

Will politicians make tough choices or take the path of least political resistance? Can you guess?

If you think goods and services are expensive now, wait until interest rates and inflation is higher and the value of investments is lower. The final risk is that such economic and financial conditions will increase the popularity of populist, leftist politicians who promise a lot of free stuff, which of course would make things even worse, probably for at least a generation.

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