



2018 Year in Review

Views From Inside My Matrix



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“Dave: You are roundly tolerated.”

~Danielle Dimartino Booth, former Fed advisor and founder of Quill Intelligence

Introduction

Every December, I write a Year in Review^{ref 1} that's first posted on Chris Martenson's website Peak Prosperity^{ref 2} and later at ZeroHedge.^{ref 3} This is my tenth, although informal versions go back further. It always presents a host of challenging questions like, “Why the hell do I do this?” Is it because I am deeply conflicted for being a misogynist with sexual contempt—both products of the systemic normalization of toxic masculinity perpetuated by an oppressively patriarchal societal structure? No. That's just crazy talk. More likely, narcissism and need for e-permanence deeply buried in my lizard brain demands surges of dopamine, the neurotransmitter that drives kings to conquer new lands, Jeff Bezos to make even more

money, and Harvey Weinstein to do whatever that perv does. The readership has held up so far. Larry Summers said he “finished the first half.” Even as a fib that’s a dopamine cha-ching.

“If you think you are too small to make an impact, try spending the night in a room with a mosquito.”

~African proverb

A non-pejorative justification for writing this beast is that life, with the aid of the digital world, hurls information at us so fast we cannot process it. Who could forget when Knight Capital Group launched an algorithm that sent them into bankruptcy within 45 minutes? What ever came of the Vegas shootings? Will David Hogg's 10 minutes of fame as a world-class douche be forgotten? (If not, please euthanize me.) It seems a shame to simply let these fragments of life drift into the void without trying to find an underlying meaning to the human folly. I mostly ponder broken markets and the antics of bankers looking for signs of unintelligent life. The markets have been well over the historical fair value marks for 15 years. I have been a bear long enough to earn my permabear merit badge. The always-chipper Mark Dow called me a “bunker monkey.” John Hussman referred to some of my ideas as “bloodthirsty,” although I prefer the term “ghoulish.” The odds that I understand what has already happened are vanishingly small. I don't know if markets are going up or down, only that they will move from left to right. None of what I say should be taken as investment advice; channel George Costanza and do the opposite.

“I would have written a shorter letter, but I did not have the time.”

~Blaise Pascal, French mathematician, 1656

What's with the trite “matrix” metaphor? (I swear I will not refer to naked swimmers, rhyming history, or kicking cans.) I'm not even sure the puzzle pieces are real, fake, or as Ben Hunt calls them, “counterfeit.” It is deeper than that. I have like-minded friends sharing seemingly common interests who look at events—think Brett Kavanaugh, for example—and extract from them unrecognizably different messages because *our perspectives are not similar; they are profoundly different*. If you shuffle a deck of cards, the odds that the resulting order has ever before been created is zero ($52! = 8 \times 10^{67}$). What are the odds all of us share common websites, read the same articles or blogs, or have the same Twitter feed? Zero. It is preposterous to think that we are looking at the same world through similar lenses. The viral audio in which some hear “Yanny” and others hear “Laurel” is metaphorical.^{ref 4} This document is what / saw and heard described as fact-based hyperbole. It is the Year According to Dave.

“I want to thank everybody who made this day necessary.”

~Yogi Berra

Background: The Author

When reading Dave's Year In Review
You'll note one conclusion rings true
His odd observations
And strange contemplations
Have proven he's missing a screw

@TheLimerickKing

By way of introduction—despite a knowledge and understanding of economics, finance, and politics that one would expect from a lifetime of studying organic chemistry—I am 1/1,024th economist. There is absolutely no substitute for a genuine lack of preparation. I've managed to get cameos in the most improbable of venues including the *Wall Street Journal*, Russia Today (RT), the *Guardian*, and even *Rolling Stone* (but not “on the cover”). With some regularity and little forethought, I routinely manage to risk career and what's left of my tattered reputation by getting embroiled in international incidents, which included brawling publicly with the American Federation of Teachers in 2017^{ref 5} and locking arms with Nassim Taleb in defense of Nobel Prize winner Tim Hunt in 2015.^{ref 6} This year was no exception. I risked an international incident by being the only chemist in the world calling bullshit on the Sergei and Yulia Skripal Novichok poisoning story. That gets its own section.

Aristotle noted that an educated man can entertain an idea without endorsing it. I also have a penchant for entertaining *any* idea until it dies of SIDS or gets legs, and I have to chase it down. I am, in short, a conspiracy theorist. We all should be conspiracy theorists because men and women of wealth and power conspire. If some ideas make you uneasy, just shut up. Pejoratively denouncing the rest of us as “conspiracy theorists” is intentionally shutting down uncomfortable discussions. If you do this in the current political climate, I get to smack you to get you to agree with me. If you wish to discuss dicey topics, quit apologizing by saying, “I am not a conspiracy theorist but . . .” because you are one.

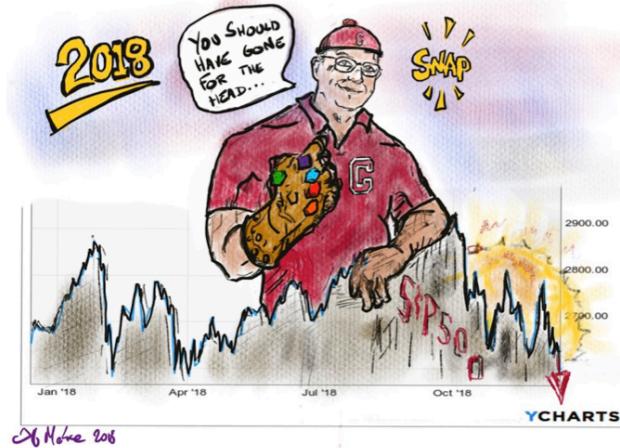
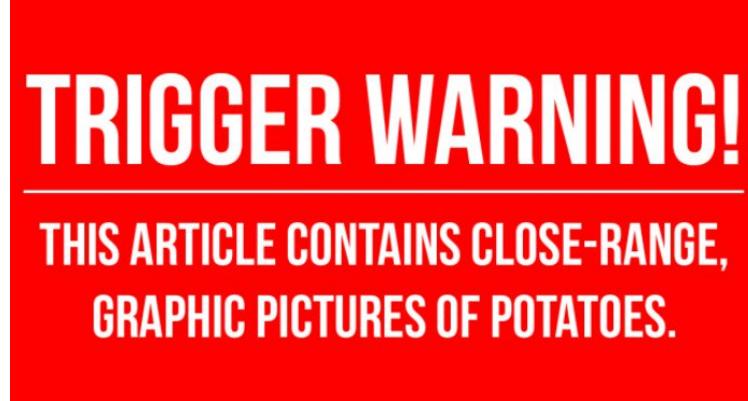


Figure 1. Jeff Macke (@JeffMacke) original. CNBC's *Fast Money* and chartist-artist extraordinaire.

I can't control what topics go on and off my radar; they just do it. Hardly a shot was fired this year in the War on Cash. Some issues are huge but change on geologic timescales. We're all doomed to burn in eternal hell, but I can only say that so many years in a row before it starts getting old. I got the most email complaints for not discussing the opioid crisis. I still haven't gone there, but I'm about to read Beth Macy's *Dopesick*. Energy has been a hot topic and had moments of hilarity this year, but my bandwidth limitations and lack of investment exposure left me bored.

There is a tractor beam that pulls economic blogs into the political realm. I have saved more notes and links and destroyed more gray matter than I thought possible trying to understand Russian collusion, the politics of Trump and Trump haters, and criminal behavior inside the FBI and CIA. I could write a book, but I just can't do these topics justice in this forum. I'm letting them go for now, concluding that we desperately need a wall . . . around the Beltway.

If I have offended you already—I guarantee that at least a few readers are—it's time to stop reading. Although no puppies were killed writing this blog, trust me: I am just warming up.



Sources

I sit in front of a computer 16 hours a day gerrymandering my brain, at least three of which are dedicated to non-chemistry pursuits. I'm a huge fan of Adam Taggart and Chris Martenson (*Peak Prosperity*), Tony Greer (TG Macro), Doug Noland (*Credit Bubble Bulletin*), *The Automatic Earth*, Grant Williams (Real Vision and *Things That Make You Go Hmm*), Raoul Pal (Real Vision), Bill Fleckenstein (*Fleckenstein Capital*), Mike Krieger (*Liberty Blitzkrieg*), Demetri Kofinas (*Hidden Forces*), James Grant (*Grant's Interest Rate Observer*), Campus Reform, and any nonsense spewed by Twitter legend @RudyHavenstein. There are so many others, many of whom I consider friends that I am simply waiting to meet. ZeroHedge is by far my preferred consolidator of news; it's an acquired taste and requires a filter, but I think those rogues are great. Twitter is a window to the world if managed correctly—especially for a chemist attempting to connect with the finance world. Warning: the Holy Grail of maximizing follower counts is an illusion; it produces a counterproductive hyperconnectivity that makes extracting signal from noise difficult. So much flow, so little time.

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My Personal Year

My emergent role as a Roosky apologist (pronounced “Roo-ski”) brought in a wave of interviews including two each with British provocateur George Galloway, RT,^{ref 7,8,9} Lee Stranahan and Garland Nixon on *Fault Lines*,^{ref 10} and Scott Horton.^{ref 12} Other interviews focusing on economics, markets, and the absurdity we call “college” included *Crush the Street*,^{ref 11} Jason Burack (*Wall St. for Main Street*),^{ref 13} Chris Martenson (Peak Prosperity),^{ref 14} several with Lance Roberts,^{ref 15,16} and several on local radio.^{ref 17} Last year’s write-up on pensions was reproduced verbatim in the Solari Report on pensions.^{ref 18}

A three-hour dinner with Jonah Goldberg. I’ll remember vividly. I also played a role in coaxing one of my favorite economists, Stephen Roach, and one of my readers and friend, Tony Deden, to do RealVision interviews purely out of self-interest: I wanted to hear what they had to say. This much heralded two-part Deden interview was his first interview ever.^{ref 19} In return, I got to spend 10 hours sitting on my deck chatting with Tony about the meaning of everything. Y’all are now free to eat your hearts out.

On the chemistry front. Somebody recorded a chemistry lecture I gave in Portugal in which you can hear my Yankee-dog jokes bomb.^{ref 20} Halfway through dinner that night, I remembered that one of my three compatriots had won the Nobel Prize in chemistry six months earlier. Another was six months shy of winning *this* year’s prize. (Congrats, Frances) In 2017 I had two NIH grants hit the same study section. Any academic will tell you that was guaranteed to be a “Sophie’s choice” moment at best. I only needed a few stitches—I got one of them funded—and it looks like the other is coming back in the spring. (Phew!)

Investing

My investing acumen has been pretty lucky, with one notable bad streak. From 1980 to 1987, I was all long-dated bonds. Those suffering acute equityphilia may not realize that bonds were great. The '87 dip prompted me to switch to equities, which I held until mid-1999. Here's a dark secret that I've never told anybody: I had tech stocks on leverage. Ding! Ding! Ding! They ring bells at the top! I woke up in time, sold *everything*, and held only cash, gold, and a token short position from late 1999 forward, dumping the short position during the '02-'03 recession. From around 2003 through 2010 it was gold, cash, and energy-based equities with a pinch of tobacco. That was my best decade, relatively speaking, cranking out >10% annually compounded returns like a boss in an otherwise brutal environment. Yahtzee! Then we get to 2010 through the present, and Mr. Smarty Pants got a 'tude adjustment. Energy, gold, and cash hoisted me by my own petard and put me headfirst through a wood chipper. As explained last year, my employer booted me out of my entire (15%) energy position *after* the beatings. Thanks. I've been sitting on gold and cash witnessing an epic equity 'roid rage accumulating skid marks in my boxers.

Precious metals, etc.: 28%
Energy: 0%
Cash equivalent (short term): 63%
Standard equities: 9%

For me, however, investing is *all* about valuations. The section on "Valuations" will explain why I didn't buy equities when they were dirt cheap—hint: they were *never* dirt cheap—and where I think it all goes from here. I have one overarching goal: don't fuck up. If I hit this goal, I will retire in comfort. The one variable I have no control over, however, is *time*, and that is why the chronostrictesis of sitting on the sidelines for nearly a decade caused me to start cutting myself again. Let me show you a foreshadowing chart that should give you pause (Figure 2):

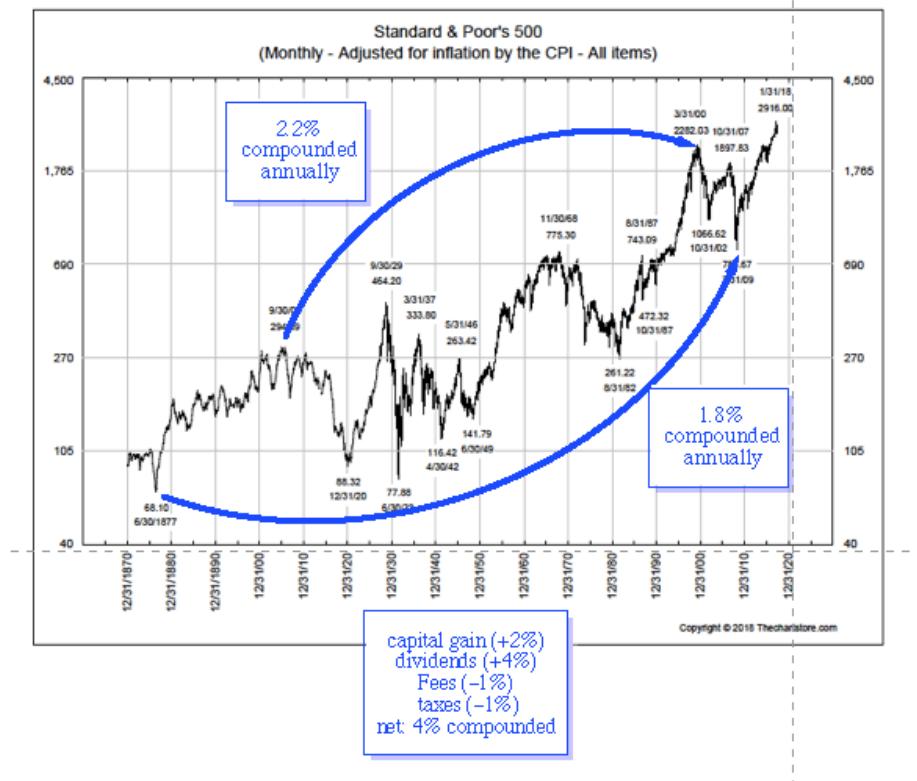


Figure 2. Peak-to-peak or trough-to-trough (full cycle) inflation-adjusted capital gains of 1.8–2.2% per annum since 1870.

If you negate timing—if you measure peak-to-peak or trough-to-trough—your inflation-adjusted capital gains will average about 2%. If you get caught holding your life savings in equities at the wrong *time*, you will not recover in your lifetime. Hold that thought until “Valuations.”

"But there is one course of action – one classic mistake – that I most strongly feel is wrong: reaching for return."

- Howard Marks, founder of Oaktree Capital

How'd I do in 2018? Large physical gold and much smaller silver investments went moderately down (−5% and −15%, respectively). Fixed income finally offered returns without a zero preceding the decimal point, but they're still pyrrhic gains at best. My TIAA retirement account returns 3.6% per year *guaranteed* (unless the zombie apocalypse arrives). I am also laddering 2-year treasuries and CDs; reaching any further for yield makes sense only if you're a diehard deflationist because the yield curve is dangerously flat. To my joy, my former energy position would have cost me another −10% loss had it not been liquidated by my employer. I will get it back when I'm ready—when the next recession is making headlines. All this compares with a −10% return on an S&P index fund.

Here is my maxim: *Save to retire, and invest to combat inflation.* I have prided myself on saving 20–30% of my gross salary per year, but for the first time ever (including the college tuition years!), my spending exceeded earnings. Adult children are expensive as hell, especially when the youngest spawn is trying to be a non-starving musician and starting a new venture—buying and selling violins.^{ref 21} (You wanna buy a violin?) You could call the money loans, but that means you've never loaned money to your children. Also, being married to a grandmother of three who is armed to the teeth with credit cards and digitally linked to point-and-click purchases of toys and kid's clothing (Amazon) is quite the experience. I bought her a Jacuzzi for our deck overlooking Cayuga Lake (Figure 3) knowing that she can't order toys and clothes while while in the tub. I plunged into the antique furniture bear market after a multi-decade hiatus by buying some nice pieces at seriously low prices; those in Figure 4 are emblematic. They will be in my estate, but I'm still hoping they don't get seriously cheaper. Did I mention the dental implant, which seems almost metaphorical? To top it all off, I got an altogether unexpected 30% hit on annual gross income, which appears to be a one-off event. I see a return to profitability in Q1 2019—the ol' first-half recovery story.

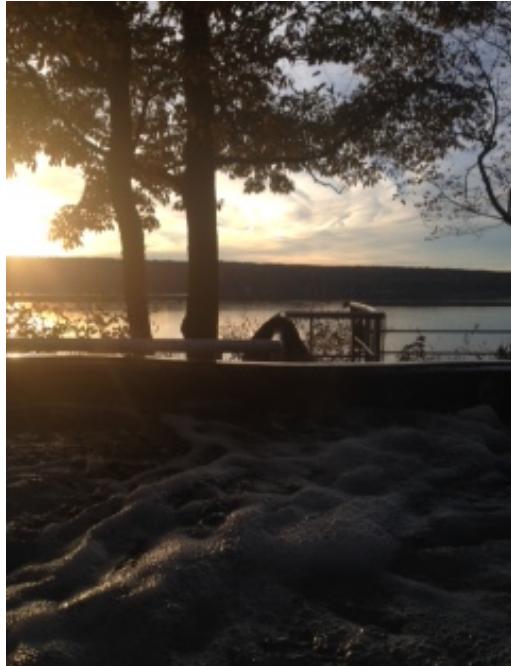


Figure 3. Hot tub city, and I am the mayor.



Figure 4. (a) Mid-19th century tiger maple drop-leaf dining room table; (b) Circa 1770 century Boston highboy.

The Economy

"In our current framework the economy is singularly brittle."

~Larry Summers (@LHSummers), former secretary of the Treasury

"Absolute blowout number for ISM Manufacturing Index in August. 61.3 is a 14-year high. While many keep pointing to threats, this economy is Kevlar."

~Brian Wesbury (@wesbury), chief economist, First Trust Portfolios

"I am not playing this down at all. I think we have a very serious global synchronized downturn."

~Lakshman Achuthan (@businesscycle), Economic Cycle Research Institute (ECRI)

It is instructive to ponder the meaning of wealth creation. It's about making our collective lives better. The U.S. built an empire founded on strong property rights, a growing populace with a gritty work ethic, a resource-rich continent with seemingly limitless room for expansion, and global European competitors hobbled by relentless tribal fighting. How many of these factors are still intact? The first industrial revolution was about converting enthalpy (heat) obtained from fossil fuels into negative entropy (order we call civilization). I keep wondering what will

drive the gains over the next 100 years. We are told FAANGs are replacing the smokestack industrial juggernauts. We'll see.

Heady questions aside, how about this year? This time last year I was writing about downturns in housing and autos, and now I'm hearing about downturns in housing,^{ref 22} autos,^{ref 23} lumber,^{ref 24} retail,^{ref 25} trucking,^{ref 26} energy,^{ref 27} and semiconductors (chips 'n' dips).^{ref 28} Did we have a boom I missed? Yes and no. Assuming inflation corrections using "substitution" and "hedonic improvements" are accurate—I don't—and assuming GDP corrections using these inflation numbers are accurate—I don't—then the GDP grew a paltry 2% off the '09 bottom, quite literally tracking the Great Depression from 1931 to 1939.^{ref 29} BLS employment numbers are generated by a trend-cycle statistical model^{ref 30} (read: making shit up). Nonetheless, even Helen Keller could've seen the help wanted signs on the lowest economic rung (retail). Personal consumption expenditures (PCEs) are said to be soaring relative to GDP despite stagnant wages and no personal savings.^{ref 31}

"It doesn't take even 10 minutes' worth of investigation to show that the BLS tightness gauge—the U-3 unemployment rate—is not worth the paper it's printed on."

~David Stockman (@DA_Stockman), former Reagan economic advisor and former Blackstone group partner

In 2018 we somehow witnessed a couple quarters of 3–4% GDP growth. I am so dark that I wonder whether the numbers have been jiggered explicitly to provide cover for the Fed to raise rates. Even so, more balanced individuals than I wonder whether we are creating real wealth or witnessing economic activity stimulated by yet another credit bubble. Luke Gromen (FFTT, LLC) notes that the 4% GDP print was suspicious in light of a 6.5% year-over-year drop in tax receipts and a 1.8% drop in gasoline demand.^{ref 32} (Fuel consumption and economic activity go together like Starsky and Hutch.) Something is amiss. David Stockman says that "these goal-seeked numbers are notoriously unreliable at cyclical turning points like late 2007 and early 2018." He also notes that S&P profits haven't grown for over three years.^{ref 33} In a really engaging interview,^{ref 34} economist Mariana Mazzucato seems to contradict Stockman, noting that "this is the sharpest post-recession rise in reported EPS in history." She goes on to say that the "sharp increase in earnings did not come from revenue." Stephen Roach, former executive director at Morgan Stanley asks, "Are the fundamentals really that sound? For a U.S. economy that has a razor-thin cushion of saving, nothing could be further from the truth."^{ref 35} He notes the anemic personal savings rate of 2.4%—the lowest in a dozen years and one-fourth of the historical norm—cannot support a strong economy. The scholarly market historian and market maven Lacy Hunt calls the economy "very weak." Let us not forget the obvious: The views are always the best from the summit.

“Today’s economic boom is driven not by any great burst of innovation or growth in productivity. . . . The global economy is now awash in debt.”

~Steven Pearlstein, Washington Post

“If it’s debt financed, you cannot increase GDP. You can only increase components of GDP.”

~Lacy Hunt, economist

The main problem is that growth, whether tepid or strong, was driven largely by a doubling of global debt over the decade,^{ref 36} which I am tempted to call 7% annualized inflation. The debt-to-GDP ratio in the third world—called “emerging markets” on Wall Street and “shitholes” inside the Oval Office—created a mania of mergers and share buybacks while the real economy sputtered. Debt is consumption pulled forward. The bill for that hamburger you eat today is coming due on Tuesday, Wimpy.

Pre-pubescent Paul Volcker: "Why can't we have a boat like those people?"
Momma Volcker: "They have mortgages; we don't."

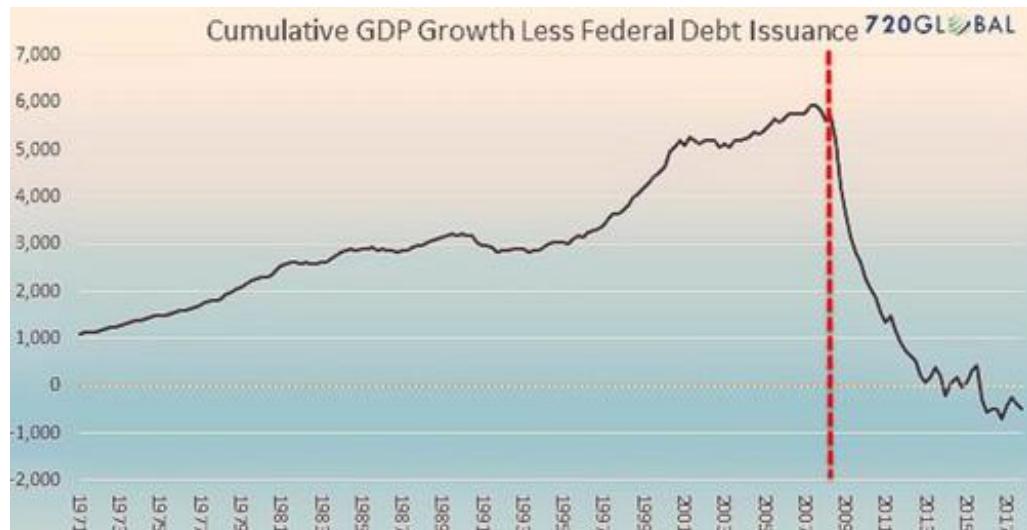


Figure 5. Popular plot *asserting* that federal debt is losing its stimulatory effect.

The real story of the 2018 economy appears to be that it was juiced by several large, one-time stimuli. Hurricane repairs holding over from the 2017 carnage lifted GDP while creating no additional net wealth.^{ref 37} (One could argue trashing the old and replacing with new brings minor benefits.) The 14% Trump tax cuts and massive one-time tax repatriation of overseas earnings—one time since the last one in 2004^{ref 38}—is said to have contributed significantly to the economy. The bulk was preordained to go to share buybacks despite blathering by

corporate chieftains. Even so, that is said to represent a new slug of coin pulsing through the economy somewhere—but maybe not. That money wasn't just parked in a vault in Zurich; it was in the multinational banking system already juicing economies worldwide.

"For now, we estimate that the U.S. economy has peaked—the powerful expansionary cocktail of unfinanced tax cuts, repatriation of capital, and fiscal spending ramped up growth in the U.S., but these one-off effects will peter out as the year ends."

~Steen Jakobsen (@Steen_Jacobsen), chief economist and CIO at Saxo Bank

Meanwhile, corporate debt grew way faster than GDP.^{ref 39} Of course, some debt for pump 'n' dump schemes (share buybacks) was offset by cash waiting for repatriation, but debt is the lifeblood of a leveraged system (Ponzi finance), and it grew. The IMF suggests that the benefits of the one-time boluses should wear off soon, leaving a 2.5% growth rate by 2019.^{ref 40} (I'm looking for contraction, but that's just me.) Before moving to the last one-off stimulus, let me add that these routine overseas tax repatriations rot the system by giving advantage to slow-growing multinationals while providing no benefit to rapidly growing smaller companies. Look at it this way: If you can make money overseas and then get a tax jubilee every decade or so to "make America great," where will you build your plants? Where will wily corporate bean counters declare *all* their earnings? Of course, the share buybacks don't stimulate the economy at all because these monetary 'roids never left the system, so they can't return to it. Shares and money just change hands. The *real* point is that since taxpayers will have to fill the void left by the tax jubilee, then what we just witnessed were taxpayer-funded corporate share buybacks.

The third one-time bolus for the economy this year was the looming trade war with China. *Scrrrrratch!* Come again? Are you nuts? Stay with me here as I digressively peel back a few layers of this onion. First, some claim that there has been a trade war on slow burn for decades and that the U.S. is finally starting to fight back. Obama fired the first shot with a tariff on rolled steel in 2014^{ref 41} to garner union support while, according to Roach (personal communication), it merely shifted business to higher cost producers. Trump then took the tariff debate to 11 on the dial. (He had been talking about doing this years before the election.)^{ref 42} One can squeal that this is a tariffying repeat of the Smoot–Hawley tariffs. The Smoot–Hawley Tariff Act was a political football for Roosevelt during the 1928 election, causing the putative damage from the bugger-thy-neighbor tariffs to be overplayed in the history books. The tariffs also conveniently take the blame off central bankers for creating a ginormous credit bubble in the '20s as promulgated by the 500+ economists on the Fed's payroll. Hoover's failure to get authority to change the tariffs without Congressional approval may have left a destructive rigidity—an unresponsiveness—in the Smoot–Hawley Act (see "Books"). Through the auspices of the "United States Fair and Reciprocal Tariff Act"—yes, the U.S. FART Act—Trump requested the same authority.^{ref 43} Somehow giving the Donald discretionary power to do anything important makes people nervous. He is rumored to be a little volatile.

Do you have a point here, Onion Boy? Sure, but drop the 'tude, ya punk. Tariffs were GDP positive in 2018 as industry scrambled to make hay while the pre-tariff sun was still shining. The Atlanta Fed claimed that up to 60% of U.S. economic growth stemmed directly or indirectly from industry front-running the tariffs by stockpiling and accelerating exports.^{ref 44} Of course, billions of dollars of subsidies are already budgeted to offset the negative effects on farmers with presumably more to come.^{ref 45} The savvy reader will notice that the consumer will pay more for imported goods *and* higher taxes for the subsidies—a one-two punch to the groin. In the short run, the tariffs generated a little wiggle in the economy this year and may even be a powerful bargaining chip to get concessions during a period of Chinese vulnerability, but they will be a problem if they linger.

“What does it say about productivity when the retail sector reportedly hires 50k in the same month when sales dip 0.1%. Or maybe the payroll number was completely bogus.”

~David “Rosie” Rosenberg (@EconguyRosie), chief economist and strategist at Gluskin Sheff

We hear how employment is tight^{ref 46}—said by Alan Greenspan to be the tightest labor market ever—while 100 million working-age Americans are not working *and* while inflation-adjusted wages have been stagnant since the 1980s. The law of supply and demand says there’s something wrong with this picture. Indeed, we have a system in which 100 million are incented not to work even if jobs are aplenty. The other problem is that rising wages (oh thank the Lord. Finally!) will create what economists call “negative externalities” or, as the rest of us say, “shit happens.” What comes next is predictable. First, the wage pressures will cut into corporate profits—real wage growth conflicts with bubble-level corporate profit margins—driving equity valuations skyward or equity prices earthward. Second, the rising wages will be labeled “inflation,” which will cause the bean counters to correct for it declaring, “inflation-adjusted wages are stagnant.” Third, the Fed will get their thongs in knots and slay the inflation dragon by stepping on the economy. Just as consumers are trying to pull themselves up from the precipice, our Fed overlords will be stepping on their fingers.

“We have abolished the idea of failure—nature’s cleansing mechanism. As a consequence, we’ve lost real economic vitality. We’ve substituted finance for industry as the locomotive of economic growth. In GDP terms, it looks terrific. But it is neither enduring nor real.”

~Tony Deden, founder of Edelweiss Holdings

That’s a great segue into a chat about wealth inequality, a topic that is causing even the gazillionaires living in modern-era Versailles palaces to get nervous. I submit that a healthy economy naturally distributes wealth with a Machiavellian fairness. As you grow an economy that is firmly founded on wealth creation—making and moving goods and services—it is *not* a zero-sum game; all boats rise, albeit to different levels. (It will never be fair; get over it.) The

natural tension between the cost of labor and the cost of labor-saving technology is dealt with by the supply–demand curve. When you have to *redistribute* wealth at a wholesale level to keep the mobs from charging the Bastille, however, something got out of whack. As you financialize the economy—as the GDP becomes a measure of how much money is being moved around or what economists call “rent seeking”—it is a reverse Robin Hood wealth distribution. The rich accumulate wealth at the expense of the poor because nobody is actually *creating* wealth. It becomes a zero-sum game with winners and losers. Rockefeller, Carnegie, and Vanderbilt got fabulously wealthy building an empire. I remain unconvinced that Zuckerberg, Bezos, and What’s His Name at Apple will be able to make such claims. David Tepper, Ray Dalio, Stevie Cohen, and Warren Buffett create none of the Wealth of Nations. They are wealth aggregators, much to the joy of their adherents.

“The greatest economic recovery the top 0.1% has ever seen.”

~@RudyHavenstein, legend

One more point. Economic models assume dislocated workers will just move, but they don’t. The impacts of “rolling industry recessions” is to leave workers behind and instill social instability owing to epidemic levels of cognitive dysphoria slathered with some serious hysteresis (lingering negative externalities!). The gutting of the middle class is setting up to be emblematic of the gutting of the American empire. What role did the Fed play? Their fake-it-till-you-make-it monetary policies financialized the economy. What do you think?

Valuations

“We’re probably only 10 years into another 50-year bull-market cycle.”

~Andy Sieg, head of Merrill Lynch Wealth Management

Jeepers. How long was Andy floating in the harbor when they found him? I recall sitting in a room with friends when the Nasdaq had just crept over 5,000 for the first time and proclaiming it would be back to triple digits. They laughed. I missed by <200 points. Benjamin Graham, the most legendary investor of the twentieth century and mentor of Warren Buffett, lost 70% in the ’29–’33 bear market. Failing to exit the highway before hitting the traffic jam taught him about risk. Every year I talk about valuations, but I will lay it out in detail so that, in the end, I can sleep knowing that you’ve been warned.

Let’s first illustrate the consequences of buying at secular highs. Many analyses show how long it has taken those fully invested at tops to break even. Of course, you *must* inflation-adjust to even approximate capital gains and losses. I have taken a slightly different tack by asking how long it takes to go from a secular high to that same value *for the last time* (Figure 6).

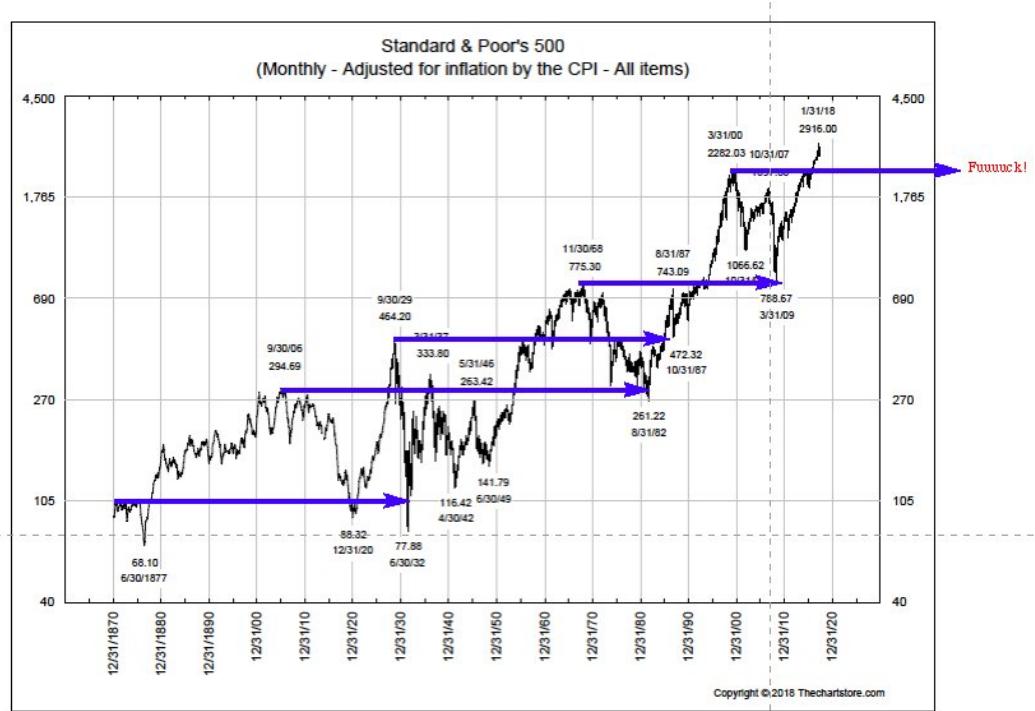


Figure 6: Inflation-adjusted S&P capital gains. Blue arrows show time required to return to the peak valuation for the *last* time (hopefully).

“So imagine valuations never see their norms, or 2009 levels again, and this cycle completes at 2002 levels—the highest level of valuations ever seen at a cycle low. That would still be more than enough to wipe out every bit of S&P 500 total return above T-bills since 2000.”

~John Hussman (@hussmanjp), Hussman Funds

The blue arrows illustrate four instances in which investors caught holding equities at the peaks paid profoundly. In each case, the big dip is followed by a recovery—the break-even point—followed by an extension of the rally that eventually fails. As though pulled by a tractor beam, the price revisits the original peak for the third and final time. Those arrows representing zero capital gains—treading water during the biblical flooding before finding terra firma from which to launch new gains—are 40–75 years! Let me repeat: *on four separate occasions over the last 140 years, investors obtained zero inflation-adjusted capital gains for periods spanning half to three quarters of a century*. The entire gains during those periods came from dividends eroded by a host of taxes and fees (see below). You will, however, get participation trophies too.

Don't be deceived by analyses in which you *start* investing at the peak and invest throughout the ebbs and flows. These are calming words valid for millennials and Gen Zers. If you are a boomer with >80% of your lifetime savings already banked, however, there is little cost

averaging in your future. Full return analyses in which dividends are included are less scary (Figure 7) but *almost never* account for the massive erosional costs discussed below.

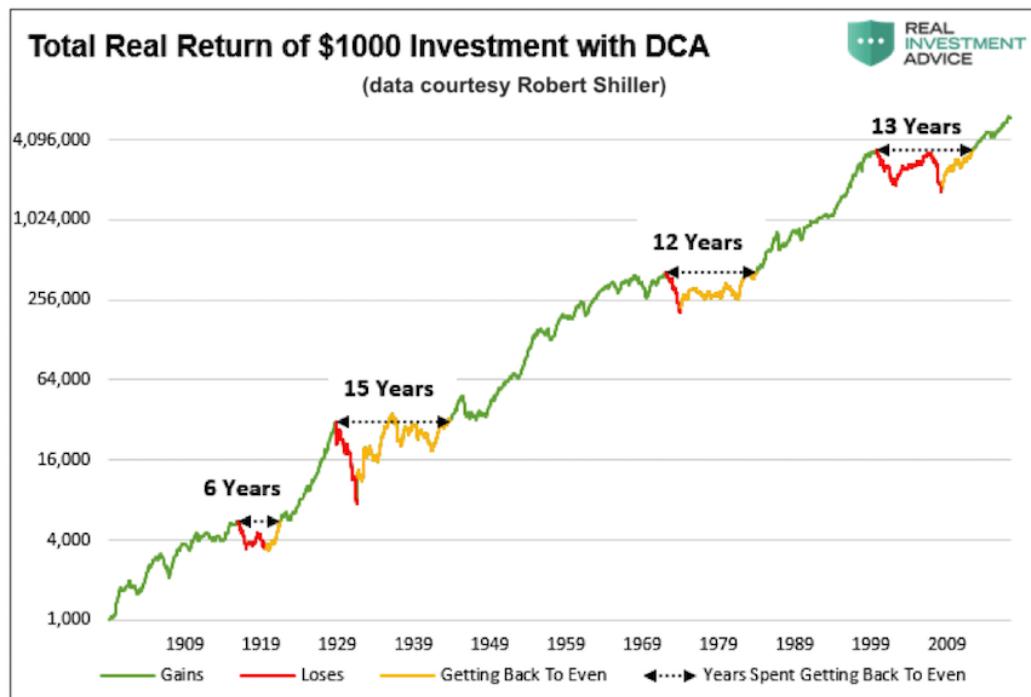


Figure 7. Inflation-adjusted total return with dividend reinvestment by Mike Lebowitz uncorrected for fees and taxes.

"First law of finance: In the long run, returns must revert to the average."

~Jason Zweig (@jasonzweigwsj), columnist at the *Wall Street Journal*, in 1997

You can keep your support lines and technical indicators. You can keep your crash fears too; they are rare technical events. All I care about are valuations. It has been said that "record-high equity valuations don't mean poor returns are imminent, only inevitable." *The big risk is buying poor assets during good times.* Although 2007–09 was painful, the 2007 market wasn't even an equity bubble but rather a real estate and credit bubble caused by the Fed keeping rates too low for too long. The Mullahs of Macro's response to the collapse was to keep rates way lower for way longer. Paradoxically, it seems both moronic and, for now, effective, but is it? Or are we in another bubble? Before answering these questions, let's take a quick peek at what one can expect out of equities *ignoring valuations*.

"Anyone who says stocks are guaranteed to outperform bonds or cash is an ignoramus."

~Benjamin Graham, mentor of Warren Buffett and author of *The Intelligent Investor*

Last year, I obsessed over why stocks persistently return several percent more than U.S. treasuries and concluded it must be the awesome power of the State—rules forcing government debt into portfolios of compliant victims. My back-of-the-envelope calculations suggested that equities would sustainably provide 4–5% inflation-adjusted returns—not 7–8%—over many cycles spanning many decades. Headline-grabbing nominal returns must be corrected for fees, taxes on real and inflated gains, disasters (full-cycle, not partial-cycle, analysis), survivorship bias within indices, and demographics (1.4% growth in pie sharers). With that bug still buzzing, the Baader–Meinhof phenomenon^{ref 47}—the tendency to notice things only after the initial awakening—ushered in some new confirmation bias.

A stupendous paper by retired economist Edward McQuarrie shows how claims of 6.6% inflation-adjusted returns over the long term—100–200 years—are profoundly deceptive because they hide nasty periods of many decades in which returns are disastrous.^{ref 48} McQuarrie does *not* account for taxes, fees, and demographics, all of which will conspire to bring that 6.6% much lower; others have attempted such corrections.^{ref 49} Mark Spitznagle takes 2% more off reported headline indices because of highly “non-ergodic” compounding.^{ref 50} In an article from 1999, Marty Zweig noted that “funds charge annual expenses of 1 percent or so; then it costs them another 1.5 percent to 2 percent to buy and sell their stocks each year.”^{ref 51} I assumed 1% total. He also said the oft-stated 9–11% compounded returns is “guano” and that small caps sustainably beating large caps is “a crock.” Rob Arnott, eight-time Graham and Dodd Award winner managing over \$200 billion and said by Howard Marks to be “one of the real thinkers in our field,” calculates a sustainable 3.1% annual inflation-, tax-, and fee-adjusted return.^{ref 52} Graham-Buffett-Zweig, in the latest *Intelligent Investor* (see “Books”), put the long-term gains at 4% *before taxes and fees*. It would appear, therefore, that folks claiming much higher returns have carried out incomplete analyses or are serving up the surf ‘n’ turf combo platter (fishy analysis slathered with bullshit).

“I love equities, I’m not a weirdo, and I don’t live in a bomb shelter. But in a very real sense, the compounding of stock returns over long periods is a fraud. It really is. No one has ever gotten those returns.”

~Ted Aronson, January 1999, Aronson and Partners

You may have noticed that none of these analyses assume corrections for valuations. Changes in valuations can offer up an additional +4% compounded gains above the norm, providing a tailwind pushing investors up the Wall of Worry to the valuation summit during a secular bull market. Shrinking valuations can hit investors with gale-force –4% compounded losses, representing a headwind as investors take the express elevator to the gates of hell pistol whipping themselves the whole way during the secular bear market. Thus, valuations matter *a lot*. According to Buffett’s iconic 1999 must-read article,^{ref 53} multi-decade periods of collapsing valuations correlate with secular *rises* in interest rates, whereas the coveted valuation expansions are fueled by secular *drops* in interest rates. Thus, interest rates matter *a lot too*. Once rates have plumbed the lows or highs, you are at a turning point. Market

extremes occur when it becomes “too expensive in the short-term to play the long-term.” Cliff Asness seems to contest this model by noting that falling rates do not justify high valuations,^{ref 54} but he notes that “to pay higher prices as a result of lower interest rates to avoid a very painful outcome requires that interest rates remain low indefinitely.” I infer that Asness and Buffett agree.

“Exponentially rapidly rising or falling markets usually go farther than you think, but they do not correct by going sideways.”

~Bob Farrell, former Merrill Lynch legend

Let's ponder what some of the contenders for the Wall Street Fat Bear Championship have to say. Many focus on the awkward evidence suggesting the 'roid rage of '09–present was largely a growth in valuations and profit margins. The market *über-bears* all use essentially the same assumptions: (1) normal growth in GDP and no catastrophic events (no world wars), (2) regression to the mean, a force of nature, will do its thing while largely ignoring the inevitable regression of valuations *through* the mean, and (3) investors will hold for 7 or 10 years. They include corrections for inflation, but *none* include corrections for taxes and fees. Note that using longer durations (up to 20 years) allows assumed 3% GDP growth to cosmetically mask the bad optics of negative compounding while investors consume 50% of the approximately 40-year investing life expectancy.

- Rob Arnott's estimated +3.1% return does *not* include valuation changes. Regression from current valuation to historic norms predicts –3% compounded losses over a decade.^{ref 55}
- Jeremy Grantham sees a precipitous drop of –48% or, if spread over 7 years with standard GDP growth, a drop of –5% compounded losses over the next 7 years (a 30% correction with positive GDP growth overlaid).^{ref 56} His most sanitized version points to small positive annualized returns over the next 20 years.
- John Hussman sees a –57% loss in the Nasdaq, which is somewhat less than his expected losses in the S&P 500 (–64%), Russell 2000 (–68%), and Dow (–69%) over this cycle.^{ref 57} He also sees dead people.
- Robert Shiller cautions that he is not predicting major calamity for the market but rather a much lower level of returns, in the 2.6% annual range over the next 10 years.^{ref 58} But this estimate appears uncorrected for *anything* except mean-regressing valuations. Any correction would be “probably not as bad as 1929, but it could be disruptive.”
- Goldman's “bear market indicator” suggests –3% per annum prospective total returns for 5 years, placing it in the optimistic camp.^{ref 59}
- Mike Lebowitz of 720Global projects a drag of –7% per annum on capital gains over the next 10 years, leaving GDP growth and dividends to mitigate the damage.^{ref 60}

“According to the Buffett yardstick, stocks are currently priced to deliver an annualized return of –3% over the next decade including dividends. Compare this to the 3% yield on the 10-year Treasury note and you’re looking at a –6% differential.”

~Jesse Felder (@jessefelder), former hedge fund manager and author of The Felder Report

“I expect the S&P 500 to lose approximately two-thirds of its value over the completion of this market cycle.”

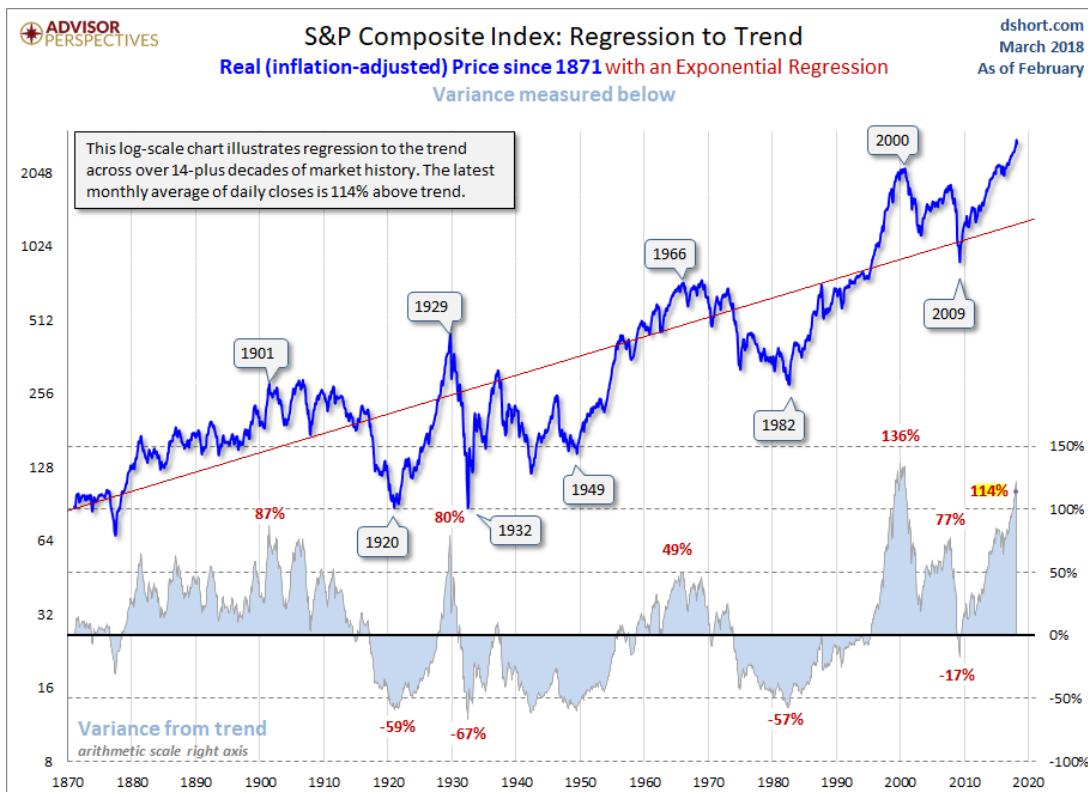
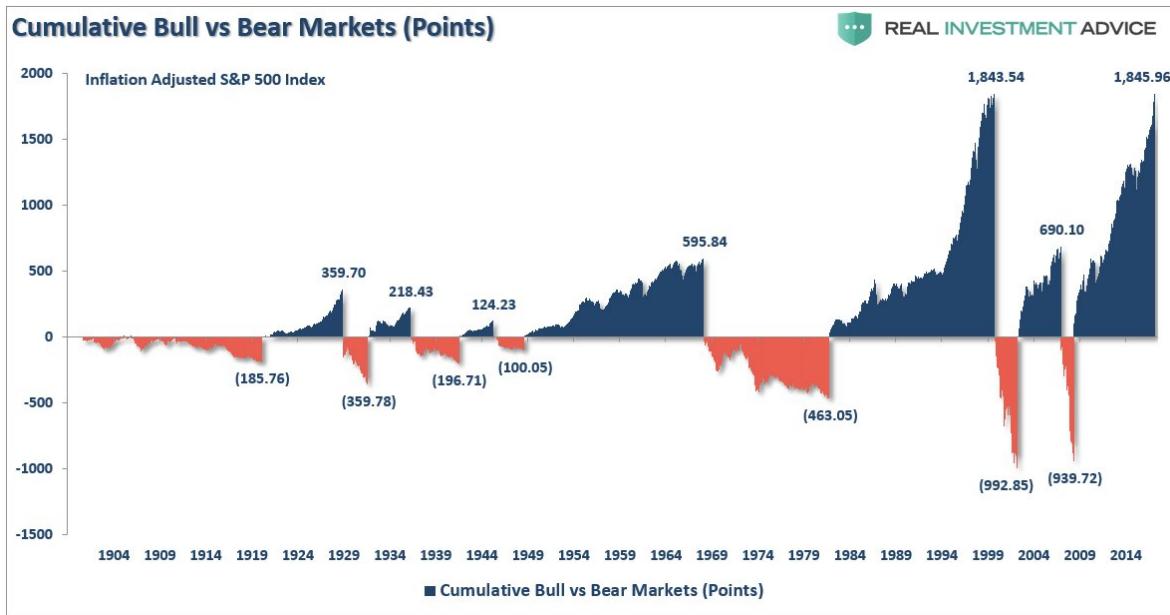
~John Hussman

There are a gazillion valuation metrics. On the optimistic end you have peak idiocy and fibbing when price-to-earnings (P/E) ratios are quoted using non-GAAP forward earnings. Since markets are forward looking, why not five-year forward earnings? Why not *ten*? These are just Wall Streeters and corporate chieftains looking for bonuses. Let’s look at the ones that make the bears so fearful. What you’ll notice is that all metrics are normalized by dividing something (usually price) by something else (a metric of value) to give you a number that, unless you have good reason to think otherwise, should flop around some historic mean without trending up or down. Many will show that the last time we touched the historic mean was in ’09, and it stayed marginally below it for about 15 minutes. The last time we *emerged* from a protracted stay below the historic mean—we should reside below the mean half the time if my sixth grade math hasn’t failed me—was many years earlier (the early 90s). Bear in mind the latest edition of *The Intelligent Investor* confirmed that stocks were still overvalued after the 2000–2003 bear market, suggesting they had more correcting to do. As we shall see, the 2009 low was, by historical standards, near the historical mean, and the run from ’09 to ’18 was largely about elevating valuations. Regression *through* the means will take you into the dark mind of John Hussman. As I bang through some graphical measures of valuation, don’t lose sight of the fact that a 2x overvaluation requires a 50% correction *to the mean* and a 100% gain to recover. A 75% correction requires a 300% rally to recover. If you keep this arithmetic straight, it starts to get a bit ugly.

“The price of the market is ‘highly dubious’ right now . . . the next recession will be frightening.”

~Paul Tudor Jones, former hedge fund legend

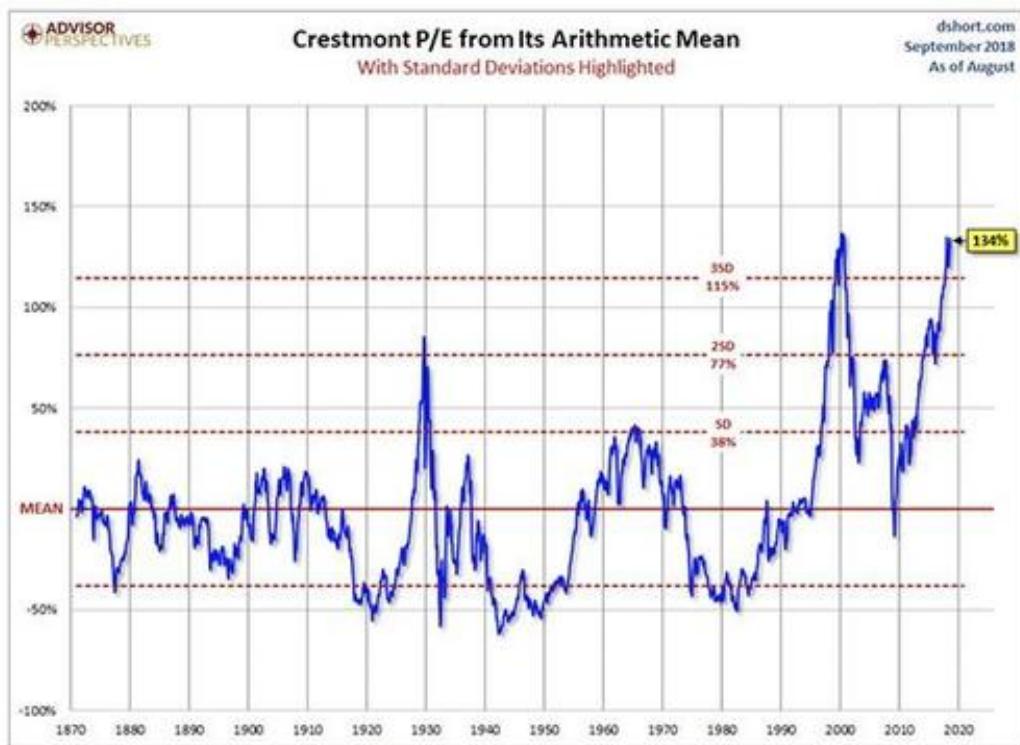
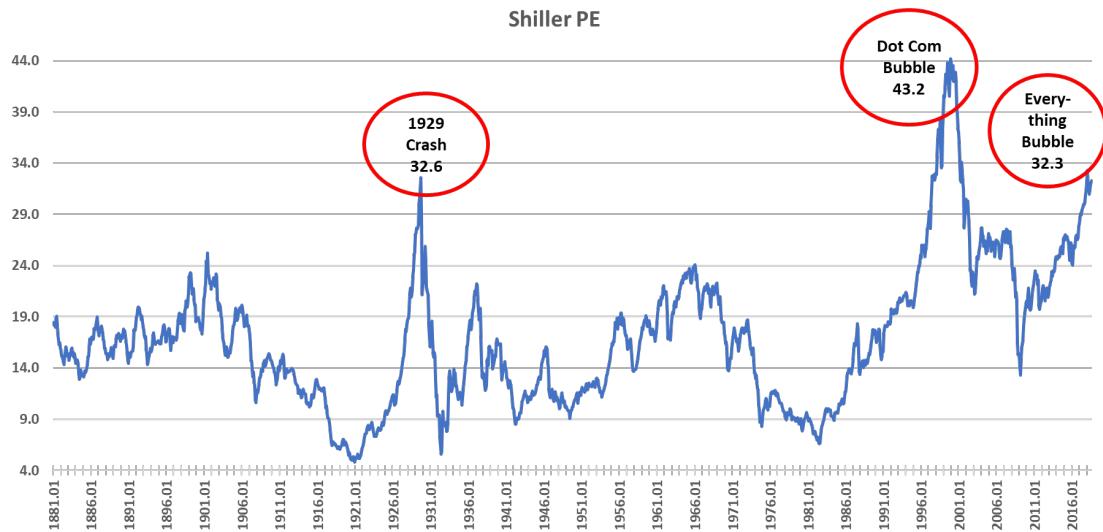
The most deceptive and quite viral plot of the year (below) makes it look like you should never sell. Stocks almost always go up and a lot more than down. This little artifact derives from the non-linearity of the downside—100% down means you’re broke and need infinite returns to get even. The more conventional subsequent plot shows problems, but the normalization to the mean is obscured just like McQuarrie discusses (see above).



"We are at the top of the valuation range by any measure except for interest rates."

~Stan Druckenmiller, former chairman and president of Duquesne Capital,
compounding 30% returns over 34 years

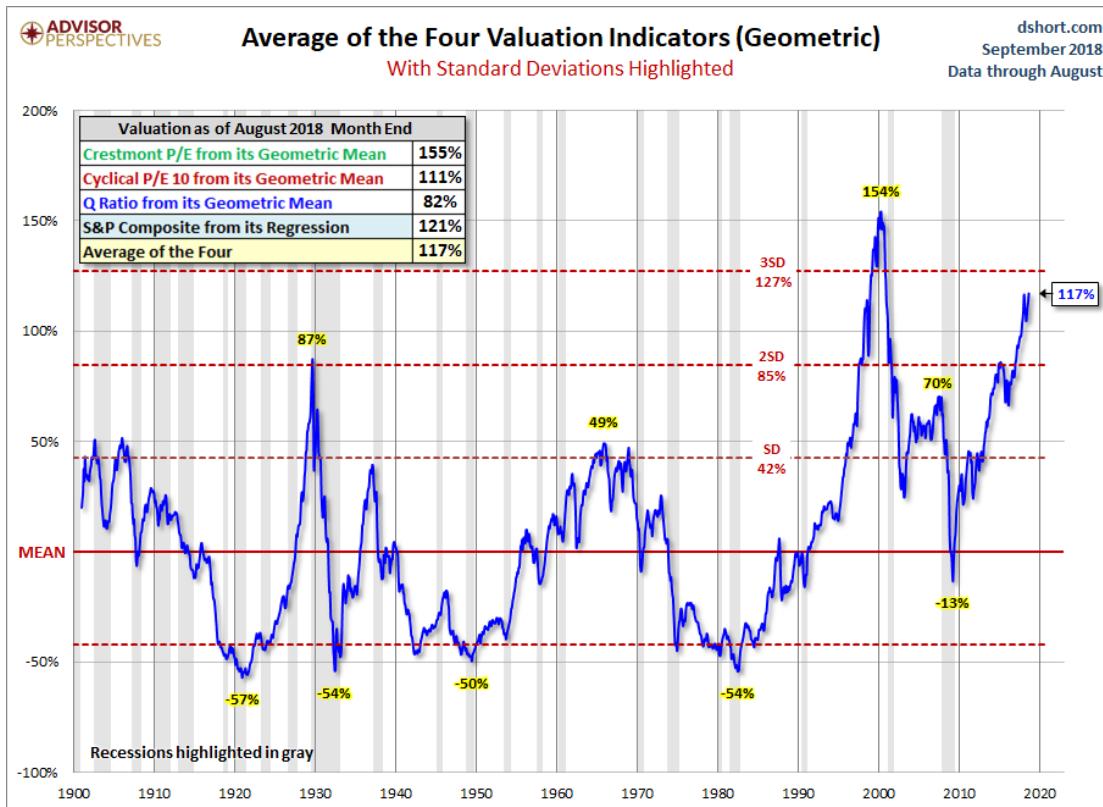
The Shiller P/E with 10-year smoothing of earnings and analogous Crestmont P/E show >2x overvaluation relative to historic norms. Some say these will get tame looking as '08-'09 earnings roll off the back end. Others did the math^{ref 61} and say the effect will be marginal because 10 years is a decent sample size. . . .



"If the Fed keeps on tightening, or if inflation breaks out and bondholders take fright, this latest and perhaps greatest of bubbles will also come to burst."

~Edward Chancellor, author of *Devil Take the Hindmost*^{ref 62}

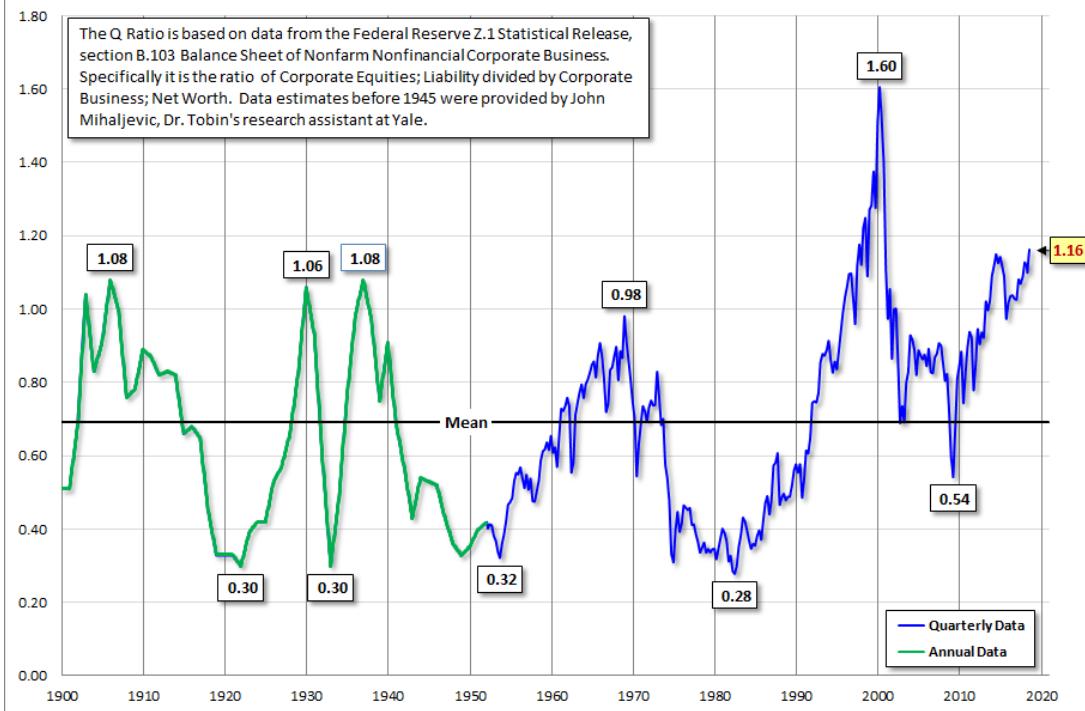
Doug Short's composite valuation metric is parked at >100% overvaluation...



"It is a source of some concern that asset valuations are so high."

~Janet Yellen, former chair of the FOMC, as the door is hitting her in the ass

Tobin's Q, essentially a measure of price-to-book value, is approximately 2x the mean, sitting at a level commensurate with only the highest peaks and exceeded only by the 2000 bubble. The market cap-to-GDP (Buffett) indicator for the Wilshire 5000 is in the 99th percentile and sets a new world record. . . .

Q Ratio Since 1900dshort.com
August 2018
Data through July**A Buffett Indicator Variant: Wilshire 5000 to GNP**dshort.com
June 2018
Q1 Estimate

“Equities are currently more overpriced on dependable valuation measures, such as total market value to GDP and on a replacement cost basis (Tobin’s Q), than at any time save for the 2000 dot-com bubble. American corporations have also been borrowing like there is no tomorrow.”

~Edward Chancellor

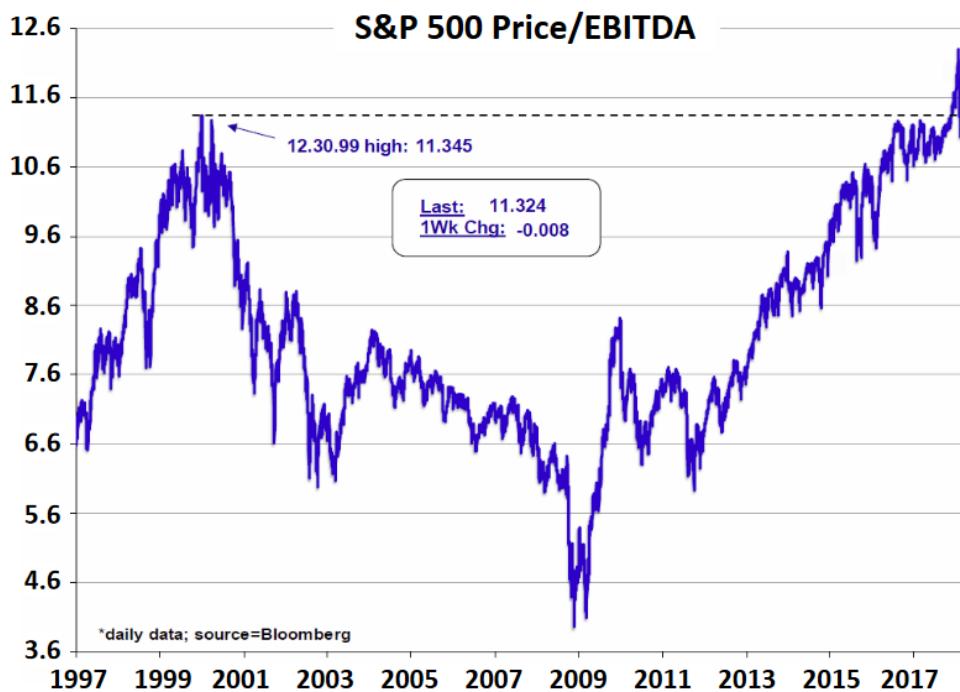
Price-to-revenues and price-to-sales reached all-time highs. . . .



"A 40% crash looks justifiable . . . effectively a retracement to prior technical support levels, the S&P 500 highs of 2007 and 2000."

~Scott Minerd (@ScottMinerd), CIO at Guggenheim Partners

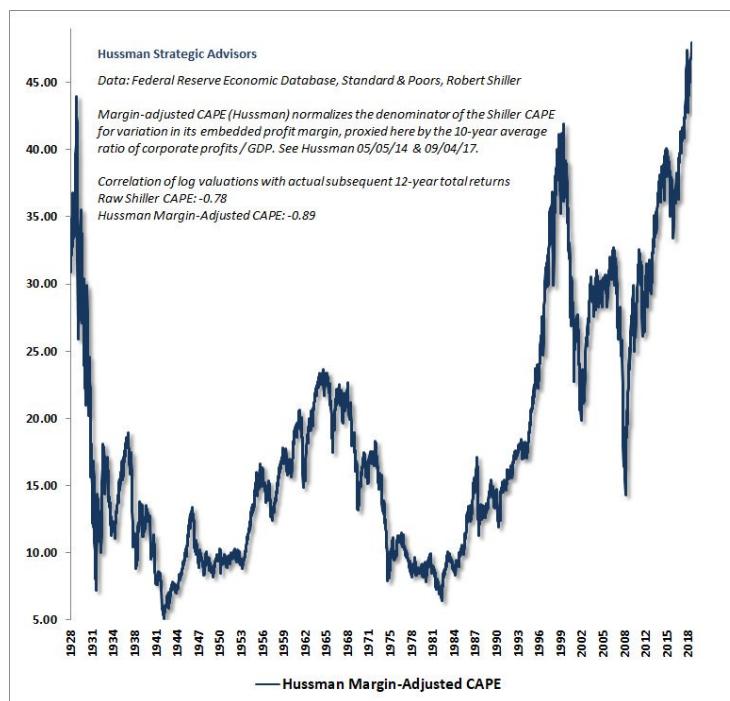
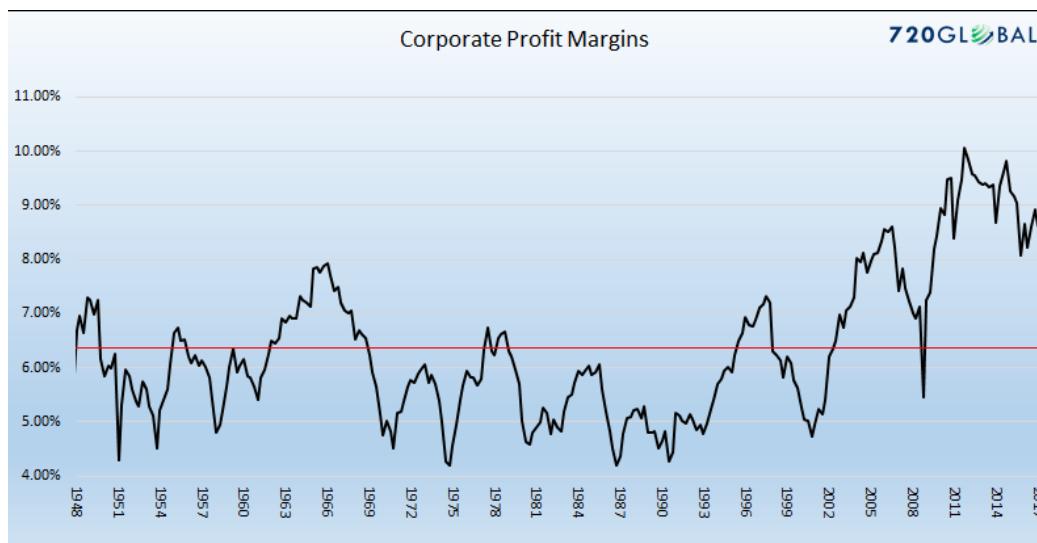
Price-to-PEG and price-to-EBITDA (earnings with all bad stuff excluded) have exceeded the 2000 high-water marks. . . .



“Equity exposure today on U.S. personal balance sheets has only been exceeded once before and that was in the late-1990s tech craze. I just don’t get it. But if you’re still long U.S. equities, please have a different reason than this drivel about this being a hated and under-owned asset class.”

~David “Rosie” Rosenberg

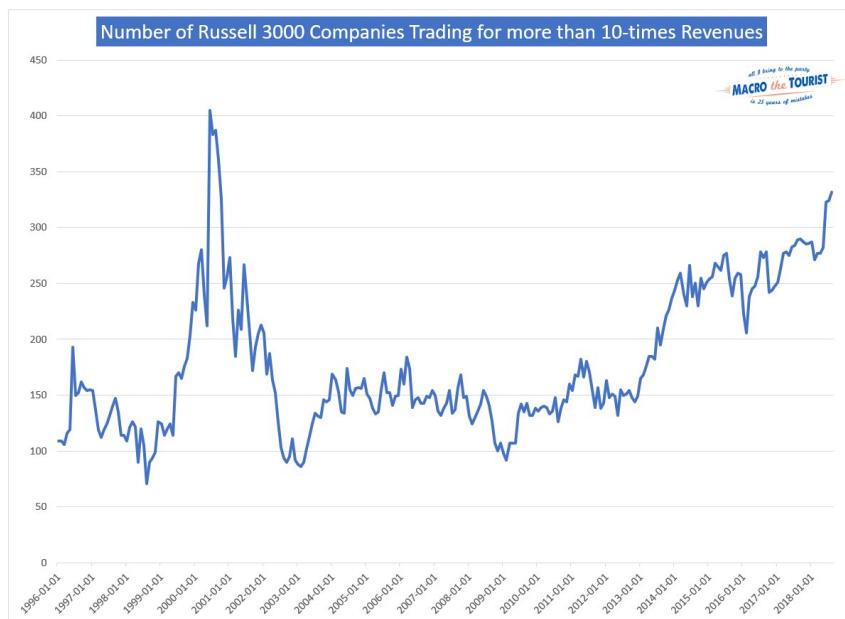
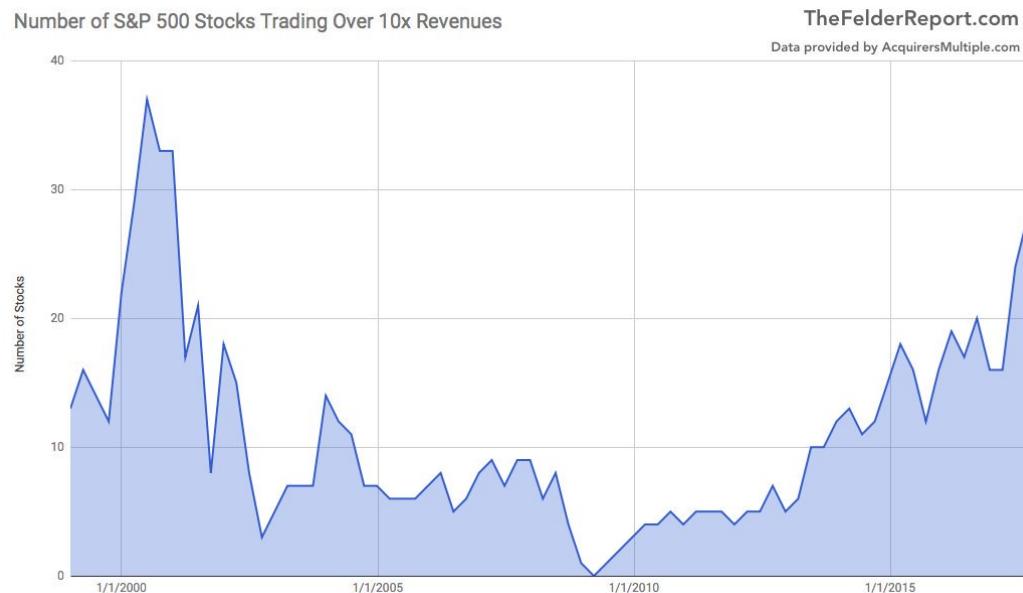
Corporate profit margins are soaring and said to be notoriously mean reversioning. Hussman’s valuation model is a profit-margin-adjusted CAPE. Crudely speaking, if mean reversion occurs for both the profit margins *and* the CAPE, we are looking at a >60% correction. . . .



“Every market cycle in history has taken the most reliable valuation measures we identify (those best correlated with actual subsequent S&P 500 market returns) to less than half of current levels.”

~John Hussman

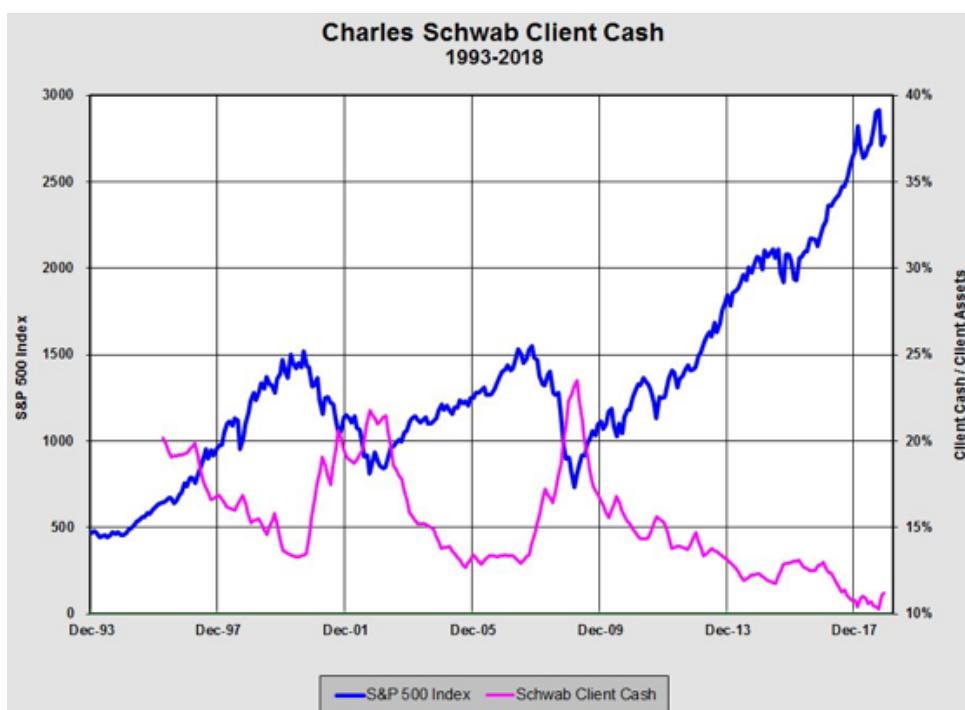
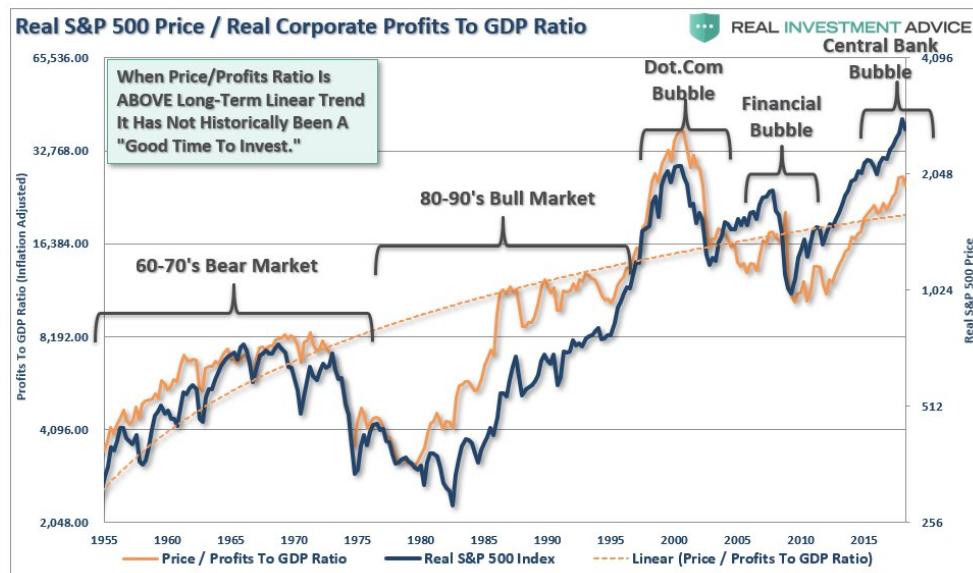
The number of stocks trading above 10x revenues for both the S&P and the Russell 2000 are at extremes. These are the same levels that Sun Microsystem CEO, Scott McNealy, was prompted to say about his investors, "What were they thinking?"



"The biggest market disasters happen when both leverage and securitization get mixed up with the same clever scheme."

~Ben Hunt (@EpsilonTheory), former hedge fund manager and founder of *Epsilon Theory*

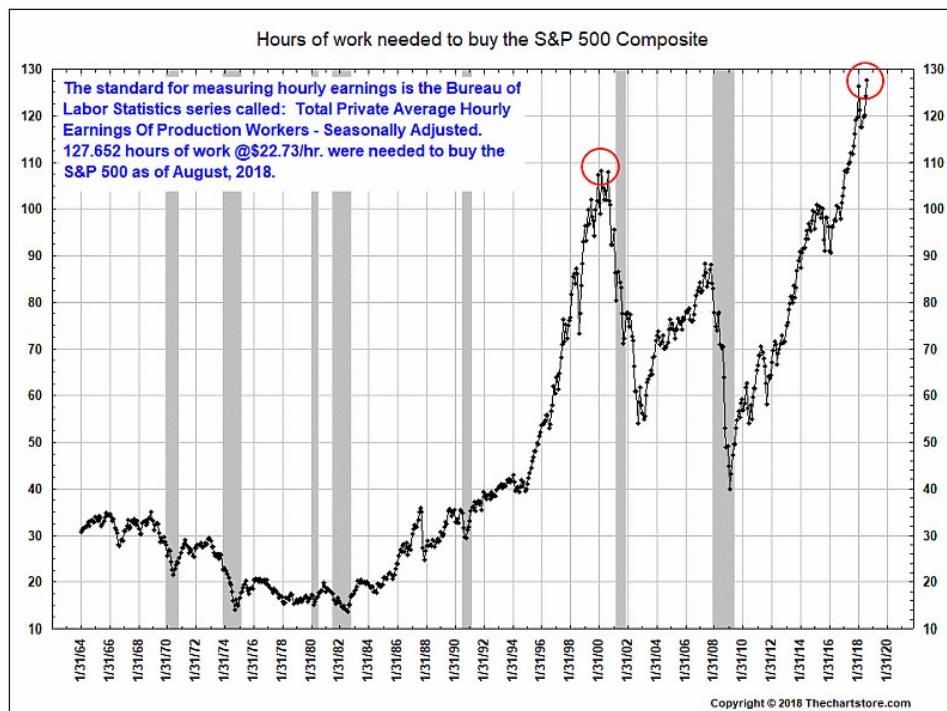
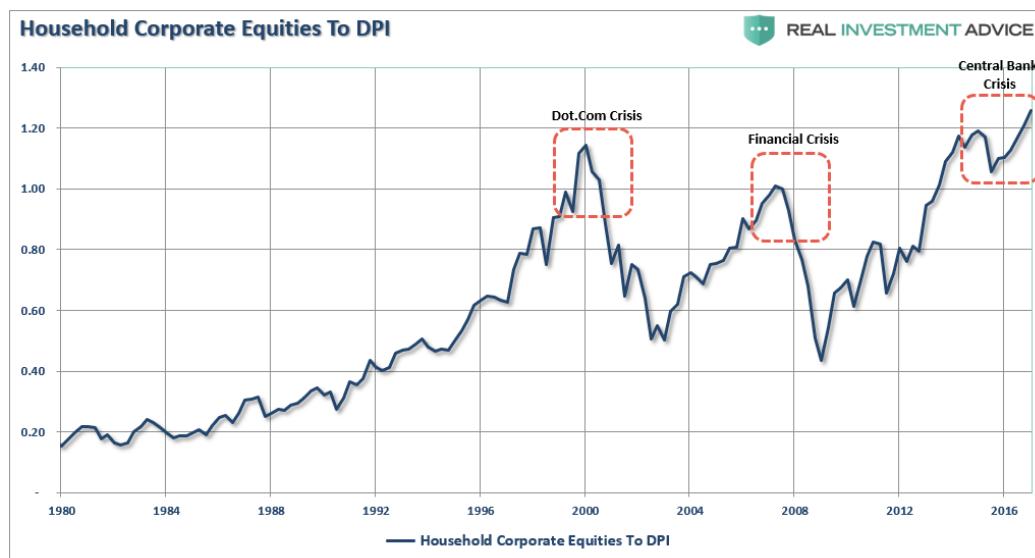
Price-to-corporate profits-GDP ratio (analogous to Hussman) suggests that Hussman is an optimist. The ratio of financial assets to real assets indicates a pronounced financialization of the indices. . . .



"The S&P 500 is trading at about a 93% premium to the long-run median. Falling to median therefore involves a 48% fall."

~Jeremy Grantham, founder of Grantham, Mayo, van Otterloo & Co. (GMO) asset managers

Household equity ownership versus disposable personal income seems like good news until it mean reverts. Hours of work needed to purchase the S&P is also extreme . . .



“Assuming you have the requisite capital and nerve, the big and relatively easy money in investing is made when prices are low, pessimism is widespread, and investors are fleeing from risk . . . this is not such a time.”

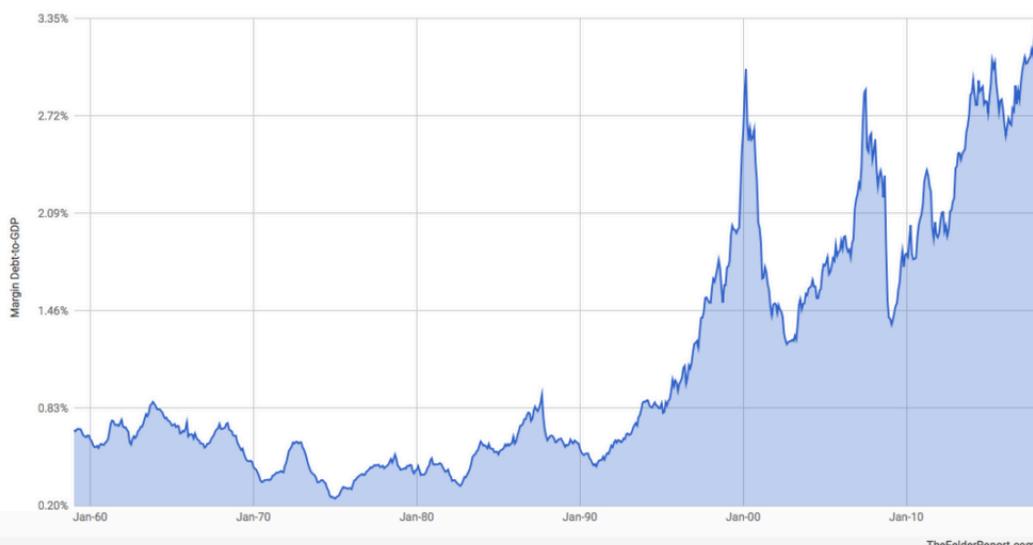
~Howard Marks, Oaktree Capital Management

Financial sector assets as a percent of GDP and margin debt versus GDP illustrate the financialization of the economy and the role of margin debt to achieve it. . . .

Chart 6: US private sector financial assets, % of GDP



Leveraged Financial Speculation In Relation To The Economy



TheFelderReport.com

“There are two bubbles. We have a stock market bubble and a bond market bubble. At the end of the day, the bond bubble will be the big issue.”

~Alan Greenspan, former chair of the FOMC, January 2018

Some of these graphics come from the Big Brokerages who make tons of money marketing stocks and pension accounts. Figure 8 shows a table that nicely summarizes valuation metrics. They look awfully tame—so much so that you should just keep buying the dips.

S&P 500 Historical and Current Valuation					
	March 2000	March 2009	Current	20-Yr Avg	Current Rel Avg
Trailing P/E (S&P)	29.6	13.7	20.8	19.5	1.06
Forward Consensus P/E	24.4	10.1	16.9	16.3	1.04
Trailing Normalized P/E	46.5	11.0	30.8	25.4	1.21
Shiller P/E	43.2	13.3	33.2	26.8	1.24
Price/Book Value	5.1	2.0	3.2	2.9	1.09
EV/EBITDA	15.7	10.1	14.4	12.6	1.14
Trailing PEG *	NA	0.9	1.4	1.5	0.97
Forward PEG *	NA	0.9	1.3	1.3	0.96
P/OCF	20.4	6.6	16.0	13.5	1.18
P/FCF	73.0	11.9	26.0	32.6	0.80
EV/Sales	2.9	1.4	2.5	2.1	1.18
S&P 500 in WTI Terms	54.5	14.4	39.7	32.4	1.22
S&P 500 in Gold Terms	5.4	0.7	2.5	2.3	1.06
ERP (bps)	-262.3	223.1	176.8	169.9	1.04
Normalized ERP (bps)	-390.5	356.8	26.0	54.6	0.48

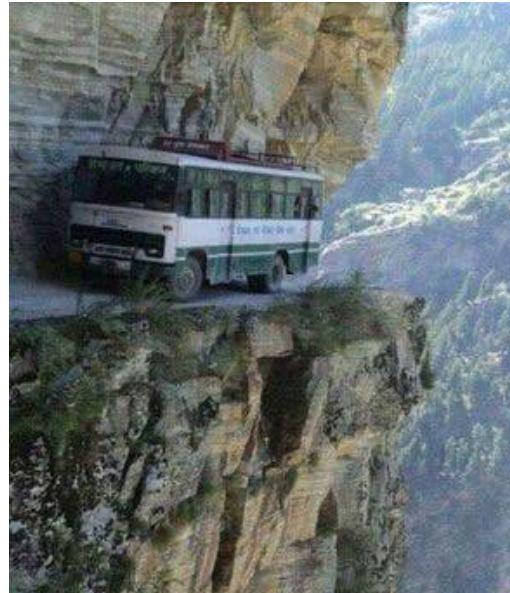
* Uses 10-Year Average, All data as of 9/28/2018

Figure 8. Sanford Bernstein’s valuation models.

“And although I read recently that bull markets don’t die of old age or collapse of their own weight, I think sometimes they do.”

~Howard Marks

David Rosenberg estimates that >13 million worker bees have entered the finance industry since the ’09 bottom.^{ref 63} They have never actually been through a “*bear market*” cycle. The boomers have; the next will be their third. They could get pretty skittish. For now, they are all-in for the ride.



Bloomberg's Alix Steel: "Is there a magic-hedge that would help you if you owned the S&P 500?"

Mark Spitznagel: "Own less of it."

On the off chance there are young 'uns reading this, I have altogether different advice. Save your asses off. Pick an asset allocation that smells right: I would think 60:40 or even 70:30 equities-to-fixed income sounds good. Allocate at that level. At the end of each year, don't try to rebalance your portfolio immediately: Selling winners and buying losers is psychologically too hard. Simply change your allocation to bring it back to your set proportion. If bonds outperform, allocate to stocks. Make allocation changes once a year. The boomers' risks are not your risks.

"The lapse of time during which a given event has not happened is . . . alleged as a reason why the event should never happen, even when the lapse of time is precisely the added condition which makes the event imminent."

~George Eliot in *Silas Marner*

Broken Markets

JP Morgan's top quant warns next crisis to have flash crashes and social unrest not seen in 50 years

~Headline, CNBC

“Stocks could surge 19% this year because investors are the right kind of cautious.”

~Bank of America Merrill Lynch

“When reward is at its pinnacle, risk is near at hand.”

~John Bogle, Vanguard and creator of index funds

“We are in the throes of a burgeoning financial bubble. If I had a choice between holding a U.S. Treasury bond or a hot burning coal in my hand, I would choose the coal.”

~Paul Tudor Jones, founder of Tudor Investment Management

Central banks dumped \$20 trillion of backstop into the markets over the last decade; what do you expect to happen? I honestly can't say because nothing like this has ever happened before. Unlike the mortgage crisis, which many of us saw coming from years back, I don't know *anybody* who knows *anybody* who saw this level of central bank intervention—the Bernanke Put—adopted by *every* central bank. It is instructive to simply look at what *did* happen.

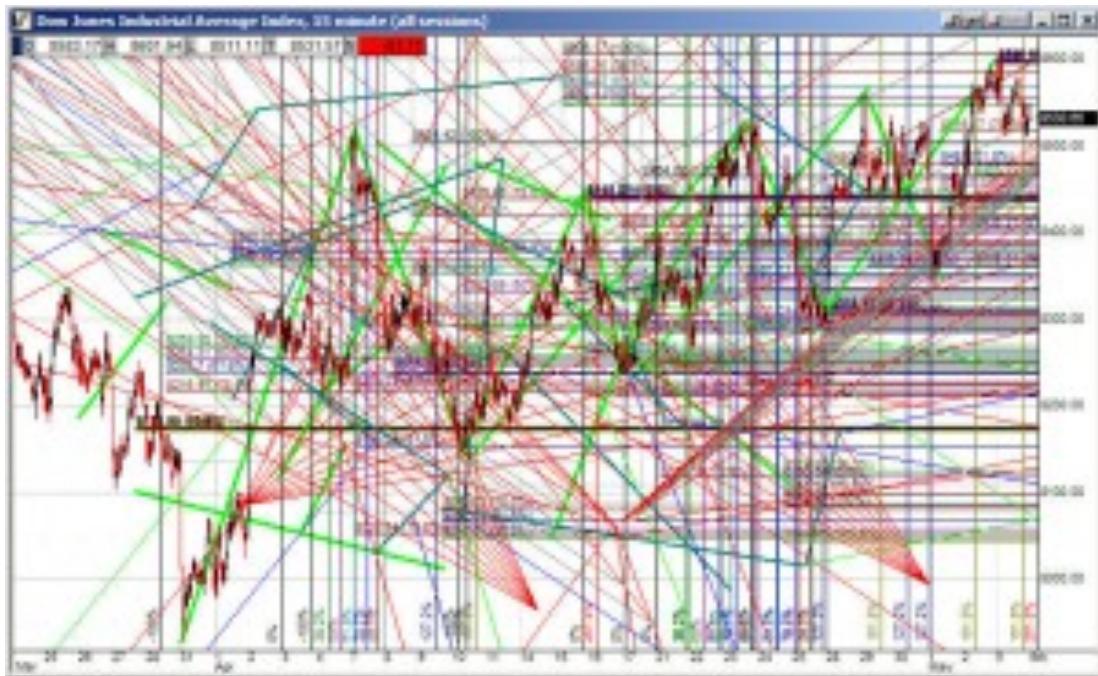
“The recent divergence in the performance of U.S. equities versus the rest of the world is unprecedented in history. . . . This has never happened before . . . this is a market condition that will not persist.”

~Marko Kolanovic, JPM

Not even King Canute will be able to hold back the next bear when it's time. Somebody calls in a bomb scare, panic starts, cashless (cushionless) exchange-traded funds (ETFs) sell *immediately*, and leveraged speculators are right behind. The markets are narrowing, with many domestic equities and most global markets considerably off their highs. As I am typing, tremors are undeniable. When they start shooting the generals—selling the increasingly rare market leaders—which they did in the early spring and again starting in September, it's time to get nervous. We are also in a rate-hiking cycle, and history shows that the Fed will continue pulling on that trigger until they blow somebody's head off.

@StockCats: How do they get these trendlines so perfect?

@RampCapitalLLC: Because we all draw the same ones.



Frothy Markets. The markets have been riding bareback—condom-free—for a decade now, and bull markets do die of old age—platitudes and an interesting and oddly Bayesian analysis by Larry Summers aside.^{ref 64} We went a decade off the '09 lows without a single 20% correction. How could investors not buy into the euphoria? The fact that this run has been supported by an annualized 2% GDP growth doesn't matter when shares are rising. Hedge funds shorting and snorting trying to time the top—good luck with *that* one—keep getting squeezed (like in May). When legends like David Einhorn lose for several years in a row and massively this year (−28% year to date), what is the message? Are these former geniuses now garden-variety idiots for doubting one of the greatest runs in history? They should have watched this hilarious and must-see commercial for “Hindsight Capital.”^{ref 65}

“The market is cyclical, and given the extreme anomaly, reversion to the mean should happen sooner rather than later; we just can’t say when.”

~David Einhorn, founder of Greenlight Capital

“It has been one giant short-squeeze market.”

~Jim Chanos (@WallStCynic), Kynikos Associates (short seller)

The euphoria creates the fear of missing out (FOMO), causing a wave of articles explaining what a dumbass you are for not jumping on board. History shows the big gamblers during the bull—the twenty-somethings—get hurt the most at the inevitable conclusion, but these guys have never read the dusty archives so cannot fathom the chapter about to be written about them. Some random top-calling headlines:

"Stock Market Bears Are the Dumbest Thing on Wall Street"

~TheStreet.com

"Value's for chumps as market puts momentum ETFs into overdrive"

~Bloomberg

"Are you missing out on the great market melt-up?"

~Bloomberg

"The stock market never goes down anymore"

~Bloomberg

"Market trends: bull run could last 20 years, optimists say"

~USA Today

"Stop freaking out about the Dow"

~@CNBC

What about all those corporate profits? Only the old guys remember the 1960s when 71% of IPOs paid a dividend. (Those senile old coots probably don't either.) Some profits reported this year may be legit, albeit floated on huge mean-regressing profit margins and from tech companies that tend to have higher profit margins (for now, at least.) Margins are also riding the wave of cheap capital and stagnant wages. Regression of margins to historic means could stem from rising rates (check) and wage inflation (check). The huge profit repatriations from offshore are also blurring our beer goggles.

"We have intentionally constructed Berkshire in a manner that will allow it to comfortably withstand economic discontinuities, including such extremes as extended market closures."

~Warren Buffett, 2017 annual report

What is stalling this day of reckoning besides recency bias observed at all market tops? Passive investing keeps a wall of money bidding up—not flowing into—markets. (Money doesn't "flow," contrary to what 99% of pundits say.) The Swiss National Bank keeps putting bids under shares with freshly printed Swiss francs, which is insanely anathema to the concept

of free markets.^{ref 66} The numbers don't seem that large, but share prices are determined at the margins and every little bid helps. The storyline behind this particular bull run—central banks and their gargantuan interventions have our backs covered *in perpetuity*—is the most pathetic and insane bubble narrative in history, but it is now deeply ingrained in the market's psyche. The late-cycle tax cuts and repatriations from abroad have probably stalled Armageddon (although to argue this money was sitting dormant, not influencing asset prices, is putty-headed). At the end of November, Jerome Powell blinked. The Powell Put was born when our new Fed chair kowtowed to nervous markets (or Trump).

“Interest rates are already doing damage; people just haven’t noticed. Leverage in the U.S. is grotesque for this stage of the cycle. At the moment, you’ve got peak leverage at peak prices. It’s not like you have to dig deep to find a problem.”

~Andrew Lapthorne, head quant at Société Générale (SocGen)

Buybacks. Share buybacks are hailed as a tax-friendly way to return profits to investors. They broke records this year and were often used to goose share prices the way announced stock splits did in the late 90s. Some say that the share buybacks are hoarding capital from the economy.^{ref 67} In defense of buybacks, Cliff Asness cogently notes that this argument is nuts.^{ref 68} It’s not like the money was sitting dormant. However, the claims that repatriation of overseas profits this year would boost the economy by facilitating construction of factories and jobs in the US are equally nuts. They already had access to capital and weren’t doing that. Some would like to get those repatriated profits as worker compensation. Indeed, that, too, was already possible and not happening. You won’t be getting ponies for Christmas either.

“Market sell-off is about 80 percent over and will be reversed by share buybacks.”

~JPM analyst, October 17, 2018

Buybacks are like stock splits: What they giveth in share reduction, they taketh back in shrunken balance sheets. Efficient markets would recognize the trade-off. The companies are merely pair-trading their diversified investment portfolio for their own shares. This is not irrational, but it certainly depends on which is a better value. They may be making the mistake that employees make by keeping their 401Ks bloated with shares of their employers. Robert Shiller recently called share buybacks “smoke and mirrors.” There is even a legislative push to ban them again. (They were legalized in 1982.)^{ref 69}

Here are *my* gripes about the buybacks.

- The huge tax breaks that facilitated buybacks mean that taxpayers—whether present or future—funded the share buybacks.
- The notion that buybacks “return profits to investors” is a ruse. It’s not like you can reinvest them in better opportunities like beer, hookers, and shares of Netflix.

- The executives are conflicted; they win if share buybacks support option prices and lose if money escapes their containment field as dividends.
- Comparing share counts before and after the buybacks often show a shocking lack of share count reductions because they are being used to offset options issuance to executives. That's not exactly returning capital to investors.^{ref 70}
- Share buybacks maximize at market tops (Figure 9), suggesting that the conflict is causing the buybacks to be dumb money (buying high). Oracle, for example, spent \$15 billion buying back shares at \$18 per share that they had allocated as options at \$3 per share. Steve Eisman says Oracle will be issuing equity in 2019 (sell low).^{ref 71} In 2017, Deutsche Bank authorized buybacks and is now insolvent.

“Do these idiots ever do buybacks during the panic bottoms, when it actually makes more sense? Of course not.”

~Mr. Skin, anonymous market kingpin posting at *Fleckenstein Capital*

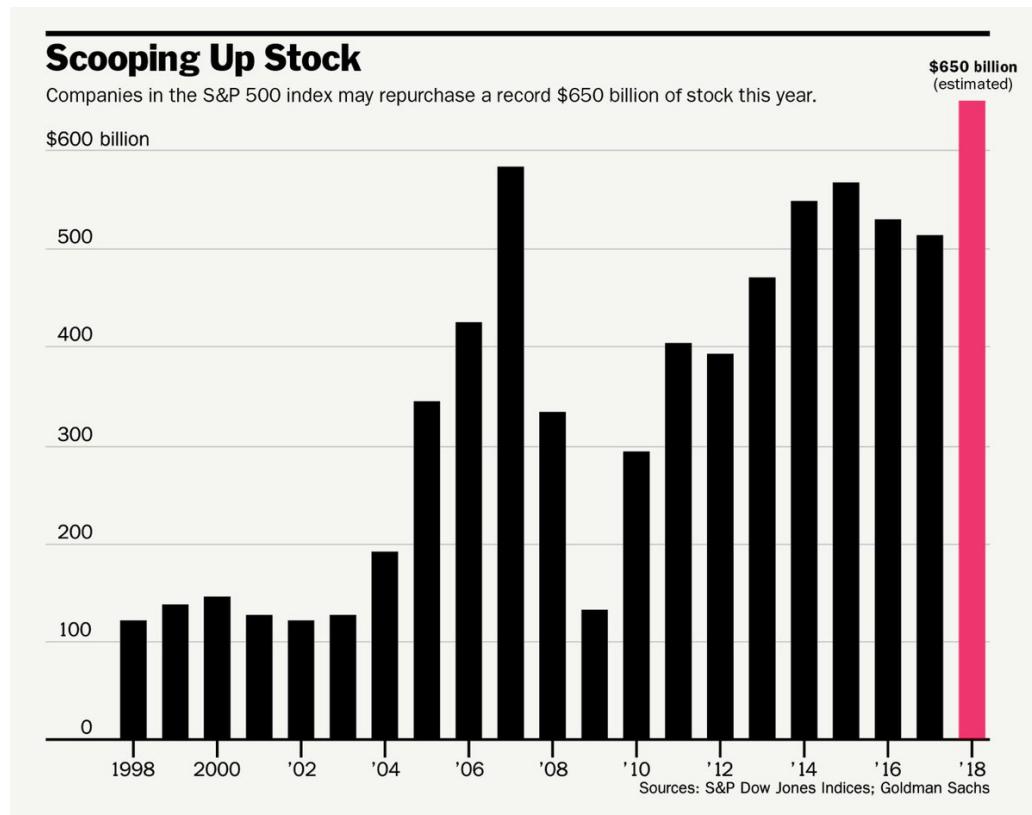


Figure 9. Share buybacks.

And here is the Big Unknown. Even if all share buybacks used only real cash flow and actually reduced share counts, the gains in price owing to share count reduction should be predictable with recourse to 5th-grade math they should be zero. Yeah. That's right: *zero*. (balance sheet weakening aside) and not huge. It is impossible, however, to

know what effects a perpetual bid under corporate shares will have on price, particularly given non-linear amplifications in market-cap-weighted ETFs. When a truck driver in Peoria pays one cent more for a share of Apple than the previous bid, the market cap just rose \$50 million. Price is determined at the margins. Years ago, Kodak jumped \$2 on a 200-share trade—the last trade of the day—prompting the SEC to pretend to care. What is Apple's buyback program doing? You cannot say, but it is surely price positive and could be massively so.

“Whenever we have forced selling to take place, the buyers disappear and the sellers have to sell no matter what. And corporate buybacks are not going to be enough.”

~Matt Maley, Miller Tabak & Co.

How about that wave of debt-based buybacks—not the debt that was incurred waiting for the Great Repatriation, but real debt (leverage)? Analysts at SocGen showed that *all* net debt issuance in the twenty-first century has been used to pay for stock buybacks.^{ref 72} That's just fraud—a covert leveraged buyout by the creditor. But, as Jesse Felder notes, “When you have captive buyers [passive investors] who are entirely price insensitive, there is really nothing to stop you from leveraging your balance sheet.” How do I wrestle with the fact that Warren Buffett says he might buy back shares? As I've said on many occasions, watch what he *does*; The Oracle of Omaha is a hoser of a higher order.

“The fact that something is able to be sold legally, or the fact that there's a market for it, can be very different from the fact that it can always be sold at a price that's intrinsically fair or close to the last price at which it sold.”

~Howard Marks

“The S&P 500 is the only major market to have defied gravity, lifted by the financialization of America's economy, whereby artificially cheap interest rates fueled stock buybacks, and desperate pensions turbocharged a leveraged private equity boom. With the Fed now reversing course, will we not have a chance to buy stocks materially cheaper?”

~Kevin Peters, CIO of One River Asset Management

Let's look at some of the silly, idiosyncratic events that happen when investors lose their minds:

- As noted below (see “Bitcoin”), companies doubled their market caps by adding blockchain to their name or issuing a cryptocurrency.^{ref 73}
- An 18-year-old launched a hedge fund from his bedroom in suburban New Jersey.^{ref 74}

- Equities ran 300+% off the lows while the GDP tracked the Great Depression, compounding at 2% per year.
- Value investing strategies have performed in the bottom 1 percentile since 1990.^{ref 75}
- The S&P ran 14 months in a row without a monthly loss.^{ref 76}
- Boeing rose 250% in two years.
- Blue Apron IPOed at \$10 a little over a year ago; it's now at \$1.23 and nobody has been indicted.
- Tilray, a cannabis company reporting \$28 million in *sales*, doubled in value in three trading days and rose tenfold *in 2 months* to a market cap of \$20 billion before cutting in half.^{ref 77} As Scott McNealy would say, "What were they smoking?"
- Solid Biosciences has no revenues and disclosed that one of its clinical trials was put on hold before its IPO in January.^{ref 78} The company sported a \$1 billion market cap.
- Domino's Pizza added 35% to a 20-fold, 10-year run aided by a debt-funded buyback program.^{ref 79}
- Yulong Eco-Materials, a tiny Chinese manufacturer of eco-friendly building products, rallied 950% in one day after the company acquired a gemstone for \$50 million.^{ref 80} The company claims the 17.9 kilogram Millennium Sapphire is worth up to \$500 million, although the price suggests it's worth . . . \$50 million.
- World Wrestling Entertainment (WWE) tripled in the first 9 months of 2018, sporting a trailing P/E of >100.^{ref 81}
- 60% of corporate debt issued by companies in the Russell 2000 is rated as "junk."^{ref 82}
- GM pays its investors a dividend yield of 4.1% with a negative cash flow.^{ref 83}
- Uber has never turned a profit, but it's about to go public at \$120 billion.^{ref 84}

Nike. Let's take a peek at Nike. What's not to like? Its chart is totally parabolic, rising 20-fold in as many years. It got there, in part, aided by massive share buybacks. It's sitting at a lofty trailing P/E of 100 on increased competition and faltering sales; regress that to 20 and you get an 80% loss. That would sting. Its edgy ads—Colin Kaepernick in particular—got elevated to meme status and prompted one sheriff to make all perps where Nike shirts for their mug shots.^{ref 85} Most disturbing, Nike is part of the "footwear index"—yes, there is a footwear index—which has risen >1300% in <20 years (Figure 10). Did we just discover the merits of shoes in the third millennium? Of course, after the company pioneered the Air Mercury line (Figure 11), the share price never looked back.



Figure 10. Shoe index.



Figure 11. A 2000-year-old Nike Air Mercury dug out of a Roman excavation.

“The market value of Elon Musk’s firm overtook BMW’s even though the profitable Bavarian luxury carmaker produced 30 times as many cars last year as the loss-making Tesla. . . . With so much dumb money about, one of Silicon Valley’s new mantras is ‘spray and pray’.”

~Edward Chancellor

Tesla. The newest entry to the automotive industry has a market cap larger than Honda’s and is headed by Elon Musk, the modern era’s Leonardo da Vinci or Thomas Edison. Why not jump on this can’t-fail opportunity? Again, there are niggling little details. Tesla’s shares took off in 2013 when the company announced the Model S. Musk is burning cash in the billions, except for the most recent and highly suspect quarter when earnings appeared just as new

funding was needed (Figure 12).^{ref 86} Tesla began hemorrhaging senior executives right before the suspect earnings report.^{ref 87} The cash burn prompted Tesla to ask suppliers to give back some of their money,^{ref 88} rendering customer security deposits a little less secure. Tesla is supposedly making state-of-the-art cars in the desert in what are *tents*,^{ref 89} affording them an analyst-pleasing high sales-to-tent ratio. (I hasten to add that P. T. Barnum made some serious coin in tents.) Tesla had a fire at one of its factories.^{ref 90} What? No flame retardant on the tents? The Tesla Model 3 had a first-pass yield—the percent of cars requiring no additional work—of 14% during the last week of June compared with an industry norm of 80%. The tent-constructed cars, after making it through a rigorous inspection, began to spontaneously lose bumpers,^{ref 91} lock owners out of their cars,^{ref 92} and, on bad days, blow up.^{ref 93} Tesla owners are rumored to be fabricating unavailable parts to fix their own cars.^{ref 94} Note to Elon: hire *those* guys. Musk seems to have cut a few corners, like terminating “brake tests.”^{ref 95} The company also forgot to tell investors that the DEA (not the SEC) was investigating alleged meth and cocaine sales running through its Nevada Gigafactory.^{ref 96}

“Tesla is the perfect metaphor for where the U.S. economy is at: a company stuffed with debt plus government subsidies, unable to deliver the wished-for miracle product—affordable electric cars—whirling around the drain into bankruptcy.”

~James Kunstler, *Kunstlercast*

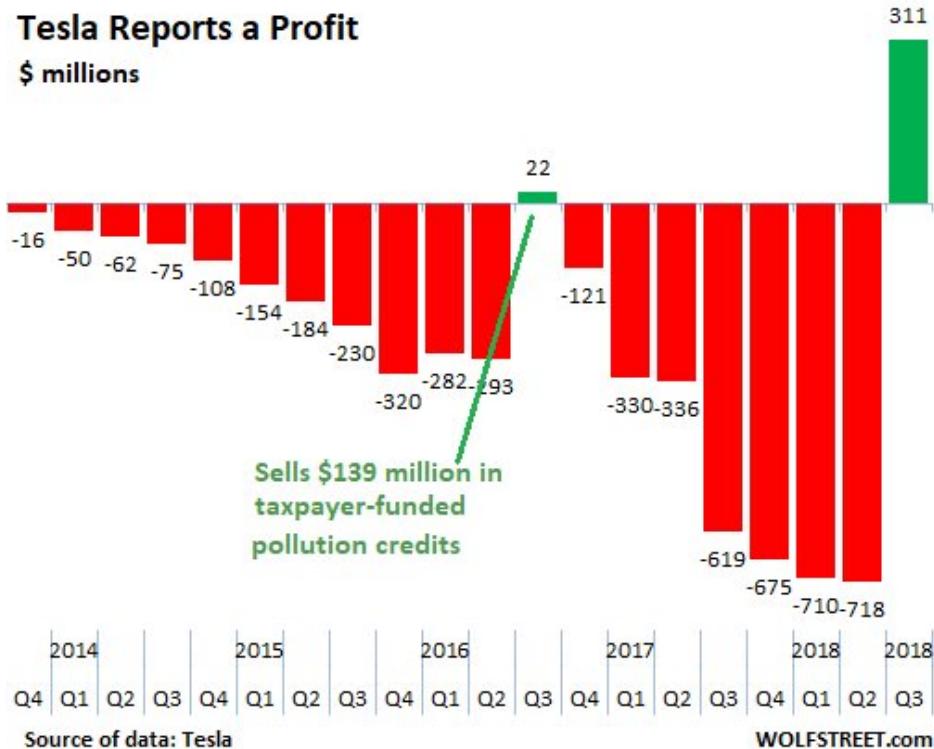


Figure 12. Cash burn.

Musk showed evidence of brain cell burn along the way, causing some to suspect that he was popping too much Ambien, downing too many mushroom pizzas, or going heavy on the poppy seed bagels at the Nevada Gigafactory. Before-and-after videos^{ref 97} make the new-era Musk look more like Dave Chappelle's homeless character with the white stash. He started harassing analysts on conference calls for their "boring, boneheaded questions" about, oh, useless crap like "inventories."^{ref 98} Harassment of the shorts included forcing an insider posting as "Montana Skeptic" (Lawrence Fosse) to shut down his Twitter feed by complaining to Fosse's bosses.^{ref 99} Elon sent one of his detractors, David Einhorn, a pair of "shorts" to mock him. Late night (early morning) Tweets include gems like jokes about being bankrupt and insolvent,^{ref 100} which prompted fast response from the SEC (just kidding). He routinely taunted the SEC's inability to reign him in.^{ref 101}

"Musk is at it again. He's doubling down on his pedophile comment."

~James Chanos, Kynikos Associates

"You don't think it's strange he hasn't sued me?"

~Elon Musk tweet, prompting a lawsuit for the "pedophile" comment

"Despite intense efforts to raise money, including a last-ditch mass sale of Easter Eggs, we are sad to report that Tesla has gone completely and totally bankrupt. So bankrupt, you can't believe it."

~Elon Musk tweet

"When you're massive negative free cash flow, your 7-year bonds are trading \$86 bid, and you need debt capital markets financing . . . you don't joke about bankruptcy."

~David Tamberrino, Goldman Sachs, on his "sell" recommendation

The fateful moment came when Musk announced that he was considering taking Tesla private at \$420 per share, well above the asking price, causing a gargantuan wad of money to change hands in the short squeeze:



Follow



Am considering taking Tesla private at \$420.
Funding secured.

11:48 AM - 7 Aug 2018

"I think the Thomas Edison of our age has come off the rails. 'Funding secured' means he has the money lined up, or he's guilty of market manipulation."

~Scott Galloway, author of *The Four*

"Funding secured" reached meme status, and the SEC *did* wake up this time. Elon and Tesla scrambled to find somebody to pretend like they were the ones tendering the offer (to no avail), eventually settling with the SEC for a \$20 million fine and the requisite temporary demotion of Musk from CEO to CBW (Chief Bottle Washer).^{ref 102} Of course, that triggered *another* massive short squeeze,^{ref 103} yet again hurting those betting against Musk. Charlie Gasparino says Tesla could be bracing for "billions of dollars in potential liability from private lawsuits," from both market longs, shorts, and, of course, cave-dwelling pedophiles. The street hasn't yet figured out how to price Tesla's shares (Figure 13). I think Tesla will eventually be auctioned off for parts on the courthouse steps. Of course, all this chaos has had a huge deleterious effect on its current share price (Figure 14).

"He claimed there is a specific source of funding, so that better be true. He also claimed that there is a specific amount available for funding, so that has to be true; otherwise even if it's not manipulation it would be fraud."

~Harvey Pitt, former SEC chairman



Figure 13. Chick fight over a few decimal points.



Figure 14. Tesla share price.

The VIX. I obsessed about the VIX—the so-called “volatility index”—last year.^{ref 104} It was important as both a reflection of and a *cause* of market frothiness. You could short the VIX at will—a one-decision trade—and make a lot of money, they said. *Everybody extolled* the virtues of shorting the VIX—“selling vol”—using vehicles like the XIV (clever anagram) or SVXY. There was historical precedence: Folks at LTCM *loved* shorting vol.^{ref 105}

“References to exceptionally high ‘risk-adjusted returns’ leave me wondering: How do you adjust for risk on the vol trade?”

David Collum, YIR 2017

“Should I kill myself?”

~Online investor after losing \$4 million on XIV

“People say congratulations, you called the short-vol trade. No, nothing has happened yet. This is just the appetizer for the unwind that is about to come. I think this is what people should be really afraid of . . . it will be quite disorderly and ugly.”

~Chris Cole, getting credit for calling the vol implosion

There were an estimated \$2 trillion vol shorts last year. Seemed like that game had to end, but when? On February 5th, 45 minutes after the markets closed on a 15% one-day loss, the VIX short trade collapsed (Figure 15). We are not talking “crushed” or a “crash ‘n’ burn.” It went to zero in fifteen minutes. Credit Suisse “terminated” the XIV trading vehicle.^{ref 106} TradeStation

clients were sent an email terminating “futures trading” and told that margin accounts were “subject to immediate liquidation.”^{ref 107} Nomura shut its trading down.^{ref 108} A number of funds blew up.^{ref 109} The speculation was that trading firms would collapse, but that did not materialize. Chris Cole had described in lurid detail how the VIX and \$2 trillion of implicit and explicit vol bets could blow up about a week before it blew up.^{ref 110}



Figure 15. Collapse of the XIV, a VIX short ETF.

Who lost? Various pensions proved to be the vol sellers, including University of Hawaii and the Illinois pension funds.^{ref 111} Harvard got out in time. Are they lucky, connected, or just “wicked smaht”? Who won? That’s harder to say because not all wish to take credit. A small hedge fund made 8,600% on a wildly improbable bet the XIV would go to zero.^{ref 112} Discussions of serious market manipulations surfaced,^{ref 113} suggesting that VIX shorts got spread over the five boroughs like Fredo. And when the dust settled, there was Goldman, sitting like the fat bastard at Donner Pass, chewing a toothpick with a \$200 million profit.^{ref 114} Goldman had predicted the problem, almost like they knew something. Oddly enough, soon after vol shorters became full-time gene pool cleaners, the SVXY vol shorting vehicle was resurrected and is attracting a new batch of suckers who can’t resist touching the stove too.

End of Cycle. The free market has caught up to a few hooligans. After 100 years, the iconic Sears is now a carcass being picked over by its creditors. Far more shocking, General Electric, the dominant industrial super power is –80% off its 2016 high and –88% off its 2000 all-time high (requiring a 700% gain to return), hitting levels not seen since 1994. It has been removed from the Dow and replaced with Walgreens,^{ref 115} which is sitting at its all-time high with the same market cap as GE. For those keeping score, GE bought back its own shares all the way down, which probably explains why its pension fund is the third largest holder of GE shares.^{ref 116} The \$170 billion dollars of

GE debt (depends on how you count) could be one of GE's toaster ovens being tossed into the pool and may be what spooked Powell into backing away from an overtly hawkish stance—the birth of the Powell Put.^{ref 117} (which, as of December 19th, is said to have died).

“General Electric is the most admired company for the sixth time in the past decade.”

~*Forbes*, 2006

For the most part, the markets have made conservative investors—what we call Cassandras, Chicken Littles, Grumpy Old Men, and Nouveau impoverished—look like fools. Has the top reared its ugly head this year with the entertainment just beginning? If not, when?

JPM's Kolanovic says that the next meltdown in stock prices could cause the next financial crisis and has coined the name "Great Liquidity Crisis" to describe the phenomenon. Charles Hugh Smith suggests that 10 years of reckless behavior will "unleash a non-linear avalanche of reversions to the mean and rapid unwinding of extremes." I think he's saying it will be fast. Rates are rising, the cycle that was never fundamentally impressive (or even sound) in the first place is getting very long in the tooth, markets seem awfully jumpy, and the algo bus fueled by unprecedentedly easy monetary policy that drove us to the summit may have no brakes for the trip down.

“The bulls don't seem to acknowledge the artificial nature of this bull market in risk assets in general—no other cycle had such interference from central bank incursions and support by their balance sheet expansion. . . . The tax cuts have helped buy the bulls a little bit of time, but history shows that monetary policy is far more powerful and exerts its influence with lags that are typically long, variable, and insidious.”

~David “Rosie” Rosenberg

They say that nobody rings a bell at the top or bottom, but some would argue that is untrue. If you believe that valuations are ridiculous, the journey could be fast and hair-raising. Please do *not* blame hiking rates for a rout. The Fed laid the ground work over decades. And, by the way, if you think that you can hide from a washout by staying in the lower deciles of valuation, dream on. Hussman showed that the pain will be severe in all 10 valuation deciles.^{ref 118} When valuations plumb the lows, half the equities will be valued even lower. How about emerging markets? They seem cheap. Yes, but they will get cheaper. On the bright side, maybe I'm just wrong.



IMF ✅ @IMFNews · 3h

It's been 10 years since the start of the global financial crisis. With the lessons learned since then, do you think the world is better prepared now?

22% Yes

78% No ✓

2,931 votes • 21 hours left

“The complex world financial system has so detached itself from underlying economic reality that it simply cannot continue without a catastrophic discontinuity.”

~Tony Deden

FAANGs

“When wireless is perfectly applied the whole earth will be a huge brain. We shall be able to communicate with one another instantly, irrespective of distance.”

~Nikola Tesla, 1926

One couldn't possibly miss the influence of the five FAANGs—Facebook, Apple, Amazon, Netflix, and Google—on collective global equity markets and, in turn, the perceived Wealth of Nations. The lowest interest rates since the Pharaohs walked the earth juiced world equity markets with hot money drawn to inflating assets. Non-linear gains owing to market-cap-dependent passive investing put the FAANGs on a tear (Figure 16). The euphoria has been palpable; the Bank of Montreal launched a triple-levered FANG ETF.^{ref 119} (Ding! Ding! Ding!) While the S&P rallied >200% off the 2009 lows, the FAANGs put up >600% gains, giving them a market cap greater than the UK's FTSE index. At one point, Amazon alone accounted for >30% of the S&P 500's gains for the year while putting 70% on its market cap in 165 trading days.^{ref 120} Market pundits breathlessly watched Apple and Amazon race to be the first company to reach a trillion-dollar market cap (willfully blind to PetroChina, which reached that high-water mark in '07).^{ref 121} Somebody was bidding them up like they were signed copies of the Bible. A photo finish gave the win to Apple on September 2nd followed by Amazon two days later.^{ref 122} Am I the only one who finds this too coincidental? Does it seem odd that September 4th was also the high-water mark for Amazon?



Figure 16. FAANG index as of mid-2018.

Meanwhile, everything is not perfect in cyberspace. Insiders were locking in profits with record share sales.^{ref 123} I also question whether these five companies are equipped to drive economies of the twenty-first century. Can the FAANGs create wealth like Standard Oil, General Motors, U.S. Steel, and General Electric did in the twentieth century? Will the FAANGs create wealth tangible enough to provide the needs of pensioners, feed millions, and sustain the American Empire? Most have valuation and balance sheet issues that certainly would leave value investors wondering if their IQ tests came back negative.

“If the DOJ had not moved in on Microsoft in the late 90s and warned them to stop killing small firms such as Netscape in the crib, we would not have Google, we would have Bing.”

~Scott Galloway

Meanwhile, all but Netflix are facing political and regulatory pressures that could prove catastrophic. The selective censoring of social media users based on political biases is now epidemic proportions and undeniable. Twitter's algorithms are so dumb that they censored their own CEO, Jack Dorsey (@jack) briefly.^{ref 124} I suspect that it won't be long before First Amendment cases against Facebook, Google, or Twitter will be taken to the Supreme Court.^{ref 125}

“I think that this certain situation is so dire and has become so large that probably some well-crafted regulation is necessary.”

~Tim Cook, Apple CEO, on the Facebook scandals

“God only knows what it’s doing to our children’s brains.”

~Sean Parker, former president of Facebook on the influence of Facebook^{ref 126}

Facebook. Here we have a trailing P/E in the 20s and no debt, making Facebook seem reasonable. My own concern is that it has a trendiness like a teenage clothing chain. Scandals with Cambridge Analytica have given it a serious black eye,^{ref 127–129} starting an anti-Facebook movement endorsed by Jan Koum, billionaire founder of WhatsApp, when he announced, “It is time to #deletefacebook.”^{ref 130} Half of millennials are said to have removed the Facebook app from their phones.^{ref 131} Whether Facebook dropped the millennials’ phones from *Facebook’s* apps is an altogether different question. Its usage has been cut in half from its peak owing to censoring, mounting evidence that it is Deep-State personified, and its triggering of dopamine responses like crack cocaine.



Mark Zuckerberg is being drawn and quartered by those who want to be protected from fake news—news that is not in somebody’s political interest—and those who abhor censorship as a crackdown on free speech. Zuckerberg himself—that *True Blood* “Suckerberg” look—and his antics creepier than a Boston Dynamics robot. Facebook is now positioning to manage data for the healthcare^{ref 132} and banking industries.^{ref 133} If either is allowed, the term Orwellian will elevate to new levels. On the bright side, the

Zuckerberg presidential run has returned to the netherworld from whence it came. Facebook looks like a long-term sell to me.

“Mark doesn’t care about publishers but is giving me a lot of leeway and concessions to make these changes. We will help you revitalize journalism . . . in a few years the reverse looks like I’ll be holding hands with your dying business like in a hospice.”

~Campbell Brown, head of news partnerships at Facebook

“They don’t need to identify suckers anymore; Facebook does it for them.”

~Analyst on Facebook’s program to assist fake product ads

Amazon. Of the five FAANGs, this is the 500-pound gorilla. Amazon has essentially no earnings ($P/E > 200$) and operating margins below 2%, but its business model appears to be (a) pay no taxes, and (b) buy or destroy *all* competitors.^{ref 134} Once brick-and-mortar competitors have taken the caravan to the light, don’t be surprised if Amazon brings back brick-and-mortar under new management.

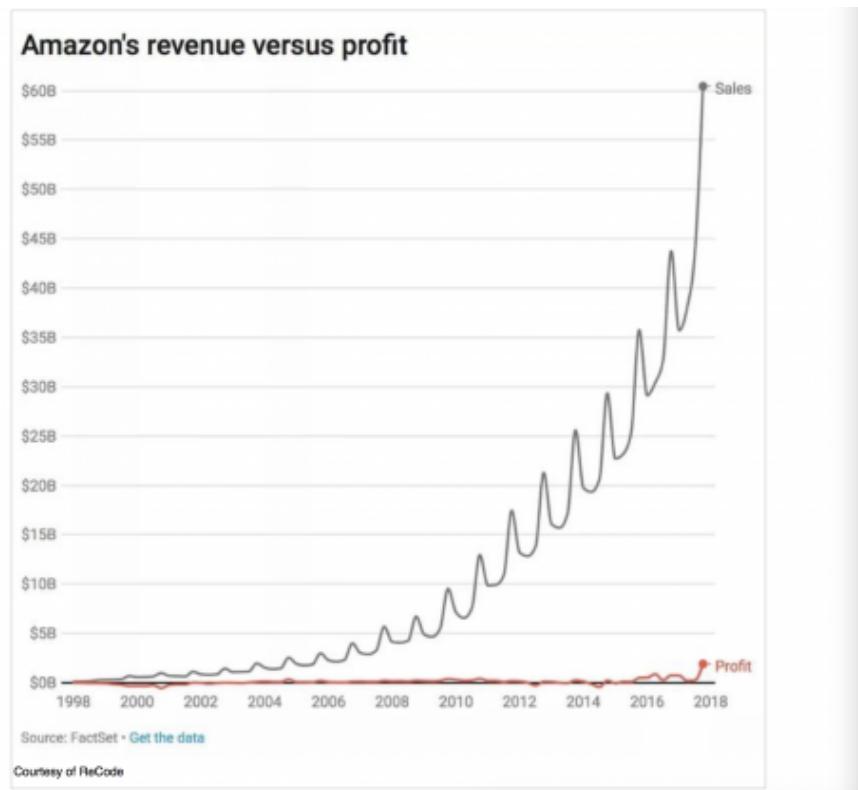


Figure 17. Amazon revenue versus profit.

“I can’t explain the valuation of big tech companies. . . . [T]o justify the multiple that Amazon trades at today, the company would have to be worth 25% of the US economy five years from now.”

~Sam Zell, commercial real estate god

Some would call Sam’s quote a prediction, not a valuation warning. Amazon’s risk is regulatory and antitrust also. It is priced as a monopoly. Should sovereign states (possibly in Europe) decide Amazon is too ruthless and try to break it up, the company will be hobbled for years.^{ref 135} Amazon would become profitless pieces (and some profitable pieces) that do not enjoy monopolistic power. Who decides it is a monopoly? Some politically motivated judge looking over his shoulder at an angry mob that’s given up fighting Walmart and Occupying Wall Street.

“There is nothing conservative about big corporations; they are the backbone of the left.”

~Tucker Carlson, journalist

Amazon’s image got bruised by its deal with the U.S. Postal Service for shipping rates that put the USPS in the red.^{ref 136} Arguments are being made that government subsidies such as food stamps to underpaid employees in general (and Amazon’s employees in particular) are really just government subsidies to defer Amazon’s salary costs.^{ref 137} In an effort to mitigate a backlash about poor treatment of employees, Amazon offered raises and then, rather inexplicably, announced they would be paid for by removing bonuses.^{ref 138} Amazon hastily reintroduced a new cash bonus of \$1,500–\$3,000 for employment milestones of 5, 10, 15, and 20 years. If all 500,000 employees hit all benchmarks, it will cost Amazon a couple billion dollars in total. If higher pay starts shrinking that 2% profit margin, Bezos will automate even more. Of course, an employee may be at risk of being laid off in years 4, 9, 14, and 19.

We went full oligopoly when a triumvirate of three profound monopolists—Berkshire Hathaway, Amazon, and JPMorgan Chase—proposed to partner up to convert the healthcare system into “an independent company that is free from profit-making incentives and constraints.”^{ref 139} No offense, but if you buy that “free” part you’re an imbecile. *The Nation* didn’t and took them to task.^{ref 140} The article also did a nice job of beating Buffett with the ugly stick, which I have tried to do a few times myself.^{ref 141} Amazon is also deeply embroiled in the privacy battles, as their hot new product, Alexa, records conversations within your home and sends the key data to advertisers.^{ref 142} A camera that follows you around the house^{ref 143} is being called “the Eye of Sauron.”

Amazon announced two new corporate headquarters, one in Long Island City.^{ref 144} Whether the deal cut by Cuomo sold NY state’s souls to the devil remains to be

determined. The placement right next to Cornell's new tech campus gets my selfish juices flowing.

Apple. I love Apple products but am getting closer to bailing on them. Scott Galloway, author of *The Four*, says Apple is successfully branding itself as an elite product line like Cartier. Maybe so but only those who bought Apple shares at the bottom can afford the 20–25% price hikes.^{ref 145} Paying \$1,000 for a phone, \$1,500 for a basic MacBook Air, and \$2,000 for a MacBook Pro or iMac seems egregious. The \$400 Apple watch—the Cartier of the digital world—is competing with the \$25 watch that I get at Target. Apple's revenue growth rate has slowed to an average of less than 4% annually over the past 3 years.^{ref 146} Jesse Felder notes that Apple's stock trades at its highest ever price-to-free cash flow ratio while the company's 5-year average revenue growth is the lowest in its history.^{ref}

“So excited for the Apple Watch. For centuries, we've checked the time by looking at our phones. Having it on your wrist? Genius.”

~Ellen DeGeneres, talk show host

At least the company hasn't saturated the marketplace with innovative new products. Bill Fleckenstein reminds us the iPhone 6, the latest product to dazzle the world, just had its sixth birthday! They grow up so fast. Tech analyst Fred Hickey calls Apple's new iPhone rollout “disastrous”. Price cuts in Japan after only a month and collapsing sales in China are ominous. Buybacks are said to be keeping the shares afloat—or were until the swoon of >20% and moving faster than I can type. Apple is selling fewer phones than a few years back,^{ref 147} which is reflected in inventory numbers. What is the company's response to drooping iPhone sales numbers? Stop reporting sales numbers!^{ref 148} Seems like those 20–25% price hikes on all products are working their magic on demand. Maybe Apple's cloud presence will save it, but the cloud also offers arbitrage opportunities (narrowing profit margins). Apple seems like a money-printing machine now, but the law of large sizes alone puts it at risk of, at best, going nowhere. In a wonderful video, Steve Jobs explains how once you have a monopoly, new products don't help you, only better marketing. Soon, marketing people are running the company and what made it great is gone.^{ref 149} Indeed, what made it great *is* gone. They miss you, Steve.

Netflix. A trailing P/E of >200, a price-to-revenue ratio of 10, a high cash burn rate for its new content,^{ref 150} a commitment of another \$18 billion for more new content (some parked off balance sheet) earning the moniker “Debtflix (Figure 18),”^{ref 151} and a share price that reached 70% above its 200-day moving average put Netflix at risk. Disney is pulling its content from Netflix in 2019.^{ref 152} A Netflix spokesperson noted, “we expect to be free-cash-flow negative for several more years (Figure 18).”^{ref 153} Fixed income investors had auto-callable debt with a huge 20% yield, but the notes were recalled,

leaving investors with a net loss owing to 2.7% in fees.^{ref 154} Well, the bankers did OK. Future debt issuance could get dicey.

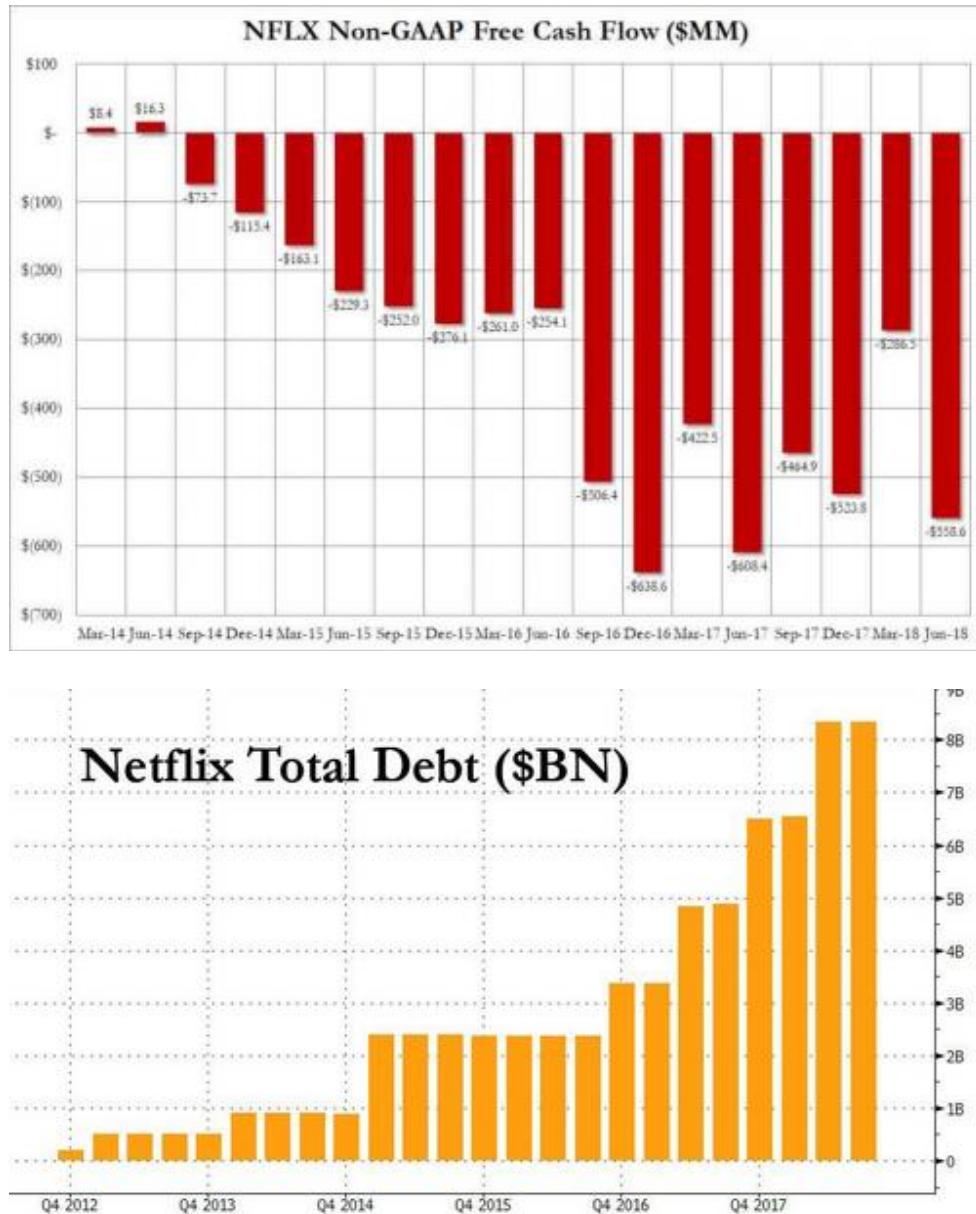


Figure 18. Netflix cash flow and debt.

"Google and others are suppressing voices of Conservatives and hiding information and news that is good. They are controlling what we can & cannot see. This is a very serious situation-will be addressed!"

~Donald J. Trump, President of the United States

Google. The share price of Google is up a tame 600% from the '08 lows. With control of 90% of the search market, further penetration will have to come from other sources. Scott Galloway sees antitrust activity ramping up, although it seems to me like a weaker case than the one against Amazon.^{ref 155} Google is accused of biasing search results toward advertisers that pay more, which may pose an optics problem but is also how capitalism works. Leaked emails showed that Google helped Hillary with biased search results,^{ref 156} although not enough apparently. Its participation in deep-state filtering including ham-fisted if not downright abusive attacks on right-wing YouTube sites could lead to fines (a sarcastic BFD) or antitrust activity (a *real* BFD). Strong ties with the NSA are consistent with the widely held belief that all social media companies offer back doors to the Deep State.^{ref 157} (If you are confused as to why I keep referring to the Deep State pejoratively, you've got some catching up to do.)^{ref 158} To get dominance in China, Google appears to be signing off on a platform that allows totalitarian-state-level censorship (code-named Dragonfly).^{ref 159} Squeals from within the Google employee echo chamber urged Google to drop its military-funded drone program. As a compromise, it dropped its 17-year-old guiding catch phrase, "Don't Be Evil,"^{ref 160} replacing it with "Be Evil." A \$5 billion fine was a wrist slap.^{ref 161} Tangible constraints on them may be less benign.

Brand blemishing from firing James Damore last year got another smudge when a post-election video showed the high command at Google self-righteously spewing political views as truths and nothing but the truths.^{ref 162} The former head of public relations says that Google suffers from serious truth issues.^{ref 163}

"Give us a hundred years and us billionaires will show what wealth disparity looks like."

~Sean Parker, former president of Facebook

As I type, the markets are having their way with the FAANGs—a "FAANG bang." Maybe it's just more jiggles en route to \$2 trillion market caps for all...or maybe not.

Gold

"You very rarely, if ever, hear a serious discussion of the role of gold in the system going forward. I don't see any appetite within that community to revisit that issue."

~William White, formerly at the Bank for International Settlements

“The major gold-producing nations are tired of an international gold price that is determined in a synthetic trading environment having little to do with the physical gold market.”

~Sergey Shvetsov, deputy governor of the Bank of Russia

“If gold is a relic of history, why do central banks and the IMF still hold over \$1T of gold? If it’s meaningless, why is everybody still holding it?”

~Alan Greenspan, May 2018

Gold has been boring for years, lurking in what a friend calls “the Collum range . . . oh, about \$1,200.” (Figure 19). It will be tested during the next downturn and consequent stimulus effort, but until then I’ve largely stopped reading articles about why gold will tank or soar. If it hedged against monetary idiocy, I would be living on my own Island in the Caribbean. Occasionally, however, I stumble across a nugget. Gold dropped linearly from April to August (Figure 20). Maybe that’s normal or maybe Bernie Madoff whistleblower Harry Markopolos is right: Linearity in finance is fraud. (A 21-day linear drop in silver was even more awesome.) Hedge funds went net short,^{ref 164} suggesting correlation if not causation, possibly fueling the brief dip below \$1,200. Evidence of horseplay appeared in the form of 260,000 futures contracts—\$34 billion notional value—monkey-hammering gold in 4 hours in June.^{ref 165}

Nobody even blinks at these anymore, especially not the regulators. Of course, a couple of gold-rigging charges were made—one guy even admitted that it had been happening at the industrial scale for years—but they were disposable traders and got acquitted anyway.^{ref 166} Canada’s Scotiabank will pay \$800,000 to settle charges of “spoofing” (fake bidding).^{ref 167} Wow. \$800,000. HSBC has been caught four times rigging the price of gold, promising four times to never do it again.^{ref 168} For those interested in buying allocated gold, the Texas Bullion Exchange has opened its vaults.^{ref 169} You get the convenience of a debit card while still enjoying the projectile-vomit-inducing price fluctuations of gold. There are others such as the Tocqueville Bullion Reserve.^{ref 170}



Figure 18. Ten-year gold price.



Figure 19. Linear drops in gold.

“You can feel the dejection among hard core gold owners. They’re finally starting to ask themselves why there don’t seem to be any kind of market conditions in which gold *works* as an investment or hedge.”

~Mark Dow (@mark_dow), hedge fund manager and gold bear

The debate about the future of gold in the global monetary system rages on among the 10 people who care. Craig Hemke (TF Metals Report) was early to notice an apparent

pegging of the yuan to gold (Figure 20).^{ref 171} Could be true or just goldbug pareidolia; regardless, it seemed to end this fall. Canada sold every last ounce of sovereign gold by 2016,^{ref 172} putting their holdings below those at the Bank of Dave. China, Russia, Poland, Hungary, Pakistan, Egypt, and Mongolia kept accruing the Bar-B-Qued relic.^{ref 173} Hungary cranked its inventories 10-fold with an affiliated repatriation from foreign vaults.^{ref 174} Turkey decided its gold was safer at the Istanbul Exchange than in JPM's vaults in New York.^{ref 175} Rumors that Russia and China have outlined plans to create a 100% gold-backed currency system to replace the U.S. dollar as the world's dominant currency are wild speculation and provocative (Figure 21).^{ref 176} They certainly trust gold more than the dollar-denominated global banking cartel.

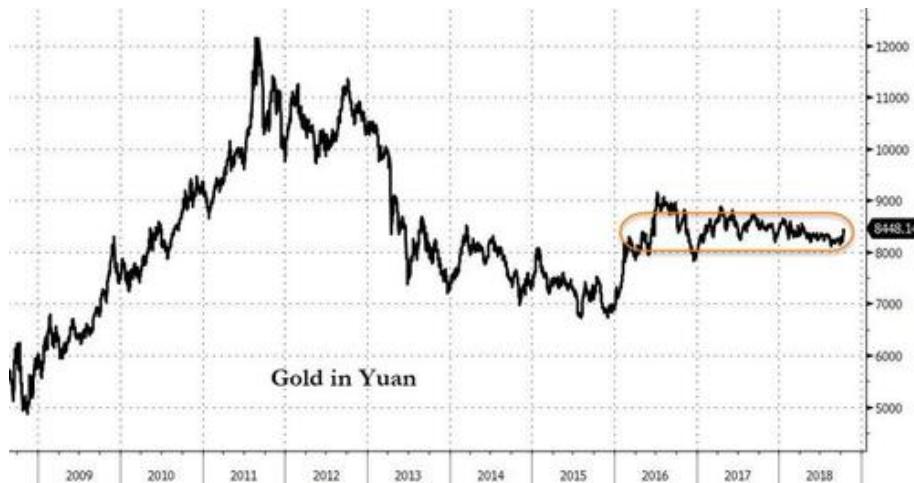


Figure 20. Yuan-gold peg and gold in U.S. dollars.

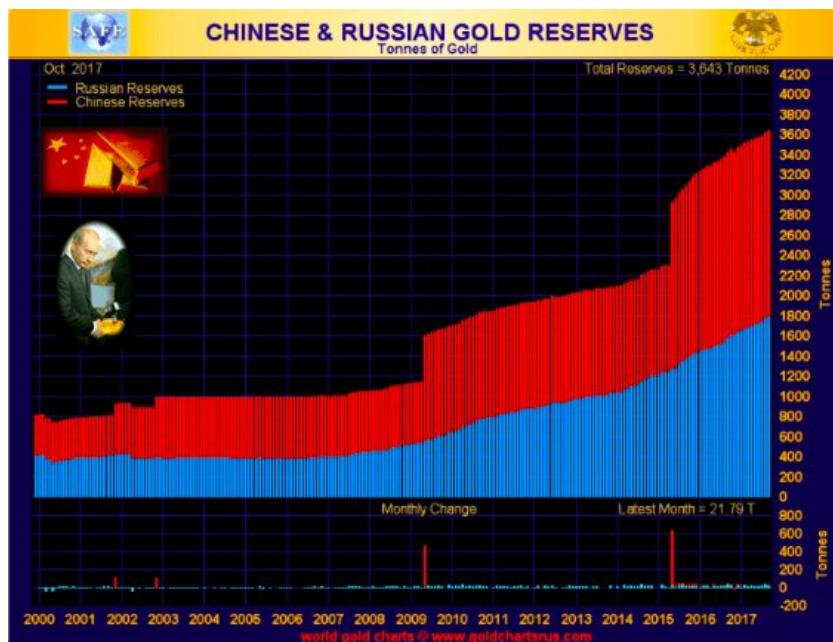


Figure 21. Russian and Chinese gold acquisition.

You really can't put a value on gold (or eat it), but there are technical indicators suggestive of future price movements. The so-called speculators—the dumb money, whatever that means—went net short for the first time since the 2001 bottom, while the banks—the smart money (?)—went net long for the first time in history. We are parked at an all-time high of >500 claims against each ounce of gold at the COMEX vaults,^{ref 177} which could leave some wondering who Madoff with their gold.

"In recent years, bullion inventories have fallen materially, and last summer Charlie and I concluded that a higher price would be needed to establish equilibrium between supply and demand."

~Warren Buffett, on silver, 1997

"We have a very similar situation in gold . . . it appears that a higher price is needed to establish equilibrium between supply and demand. . . . This won't matter till it matters. Whenever it does, it will likely be too late to do anything about it."

~Jesse Felder

For the gold-is-real-money crowd, the market value of all above-ground gold as a percentage of U.S. financial assets currently stands at 3.4%, which is well below the historic peaks of approximately 16% and not too far from the historic lows of approximately 2%.^{ref 178} In the spirit of bear markets die of boredom, Vanguard Gold Fund dropped "gold" from its name at the 2001 bottom and dropped the fund altogether this year.

In the world of human interest that even non-goldbugs can appreciate, the Roosties dropped 3 tons of gold all over the runway when taking off at the Yakutsk Airport.^{ref 179} "Risk" players know that nothing good happens in Yakutsk. An amphora containing hundreds of fifth-century gold coins was found in excavations in Italy, while a Spanish galleon containing an estimated \$17 billion in gold may have been located.^{ref 180}

"Gold could be in a prolonged tailspin."

~Barron's headline

Silver got pummeled a bit but, fortunately, nobody owns any (except me). The industrial demand keeps my relatively small position intact. Solar now consumes about 10% of annual silver production,^{ref 181} and silver is found in non-recoverable form in *every* electronic device. The gold–silver ratio has soared from 16:1 by weight in the ground to 80:1 by price in the market.^{ref 182} The notion that it should somehow price in proportion to supply is hotly debated, although the consumption of silver but not gold would

logically give *silver* the relative boost in my opinion. JPM is said to control over 50% of the COMEX silver inventories—new-era Bunker Hunts or simply their clients’ silver.^{ref 183} For now, I watch with bemusement.

“The question as to whether the Fed can engineer yet another cycle (as it was able to in 2009) or whether the coming crash will be the end of the Supercycle will determine whether gold (and the miners) go up a lot or whether they rise to a terrifying degree.”

~Daniel Oliver, founder and managing director of Myrmikan Capital

Bitcoin: Tales from the Crypt

“Don’t put any money into bitcoin that you can’t afford to lose. But I don’t think we should ban it—the green bills in your pocket don’t have an intrinsic value, either.”

~Sheila Bair, former chair of the U.S. Federal Deposit Insurance Corporation

“Cryptocurrencies do not fulfill any of the three purposes of money. They are neither a good means of payment, nor a good unit of account, nor are they suitable as a store of value. They fail dramatically on each of these counts.”

~Agustín Carstens, general manager of the Bank for International Settlements

In the battle of gold versus cryptos—the Bugs versus the Crypts—I am in the bug camp, but I am sympathetic and respectful of the cryptophiles. Against the current monetary regime, the enemy of my enemy is my friend.

“Millennials are afraid stocks are too risky, so they’re investing in bitcoin.”

~MarketWatch

The strongest case I can make for cryptos is karmic: I don’t own any. It’s still the Wild West, but that’s not to say this sector can’t make doubters look like boobs going forward. Some speculate that the loss in volatility—the onset of boredom—will be their demise, but I completely disagree. If they are to become currencies, they *must* calm the hell down. That plateau in the \$6K zone in Figure 22, therefore, seemed “highly constructive”—until the bottom fell out. Shaking youthful day traders from the “space” is also constructive. Start with George . . .



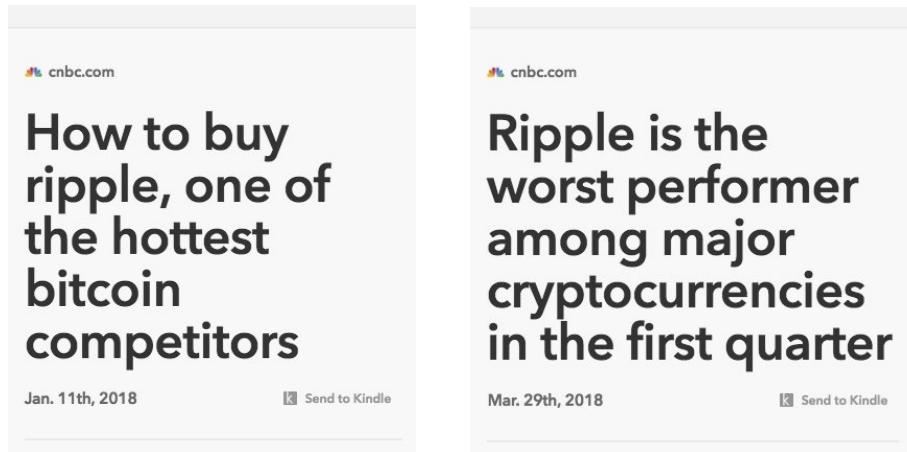
Meet cryptocurrency guru George Weksner — he's 11



Figure 22. Bitcoin price.

From Figure 22 we see that the cryptocurrencies got pegged this year as investors spit the bit. The trip from sublime to supine did not take long. After bitcoin was driven above \$20,000 in late December 2017 (on its trek to \$1,000,000, of course) it has now pulled back to about \$3,200, which I believe is below the estimated \$8,000 to mine it.^{ref 184} (It is said that crypto mining uses more energy per year than Ireland does.^{ref 185}) The founder

of the cryptocurrency called Ripple became richer than Zuckerberg^{ref 186} before a little market inefficiency got cleaned up by handing Ripple a 90% drop in two days.^{ref 187} (Now if only we could get some market efficiency on FAANGs.)



Dogecoin, invented as a spoof four years ago,^{ref 188} hit a market cap of \$2 billion in January, eventually pulling back 90%.^{ref 189} It seems indisputable that the vast majority of cryptos will find strong technical support at zero. KuCoin, with a market cap of <\$50,000, can't be long for this world. Obviously the beatings took some of the piss and vinegar from Cryptomania, but The Big Three—Bitcoin (BTC), Ethereum (ETH), and XRP—retain a combined market cap of \$80 billion at the time of this writing, and there are more than 2,000 cryptos listed at CoinMarketCap.com.^{ref 190} Since its inception, the crypto space has taken beatings that would make Whitey Bulger blush (or die), yet they have shown remarkable anti-fragility.

“If authorities do not act preemptively, cryptocurrencies could become more interconnected with the main financial system and become a threat to financial stability. . . . Accordingly, authorities are edging closer and closer to clamping down to contain the risks related to cryptocurrencies. . . . Cryptocurrencies are, in a nutshell, a bubble, a Ponzi scheme, and an environmental disaster.”

~Agustín Carstens, BIS

There are, however, some serious problems that pose existential risks. The authorities—every developed sovereign state and central bank in the world—have oligopolies on creating money and taxing money flows. If they can't assimilate the Crypto Collective into the Borg Collective, they will try to destroy it. Crypto "hodlers" (hang on for dear lifers) stand defiantly (Figure 23), but it would scare the bejesus out of me. My Texas Hold 'em all-in bet would be on the awesome power of the State.



Figure 23. Tommy Lee lowering his expectations, predicting a 250% rally in Bitcoin in the last two months of 2018.

The State will try to tame Bitcoin before just crushing the crypto bastards garishly. Given that ignoring the cryptos wasn't working, we witnessed subtle efforts to mainstream them. First, the banks had to stop the use of credit card purchases of cryptos for obvious reasons: the crypto collapse would (and did) cause people to default on their credit cards.^{ref 191} Banks then began introducing new crypto products—crypto futures, brownies, and vapes. This set the stage for the Commodity Futures Trading Commission (CFTC) to ride into Dodge City to get control.^{ref 192} During the routs this year, there were some huge buyers stepping in to provide what appeared to be J.P. Morgan-esque support. We're talking \$500 million purchases.^{ref 193} However, a federal judge ruled that cryptocurrencies are "commodities"^{ref 194} and, unlike all other markets on the planet where manipulation runs unchecked, the authorities promised to mete out some jail sentences. The SEC is "probing investment advisers for potential misconduct involving cryptocurrencies, signaling a new direction in its oversight of this emerging market."^{ref 195} Ominously, Google announced a ban on all crypto and initial coin offering (ICO) advertising. This is the power of the State using Google as a stalking horse. (I capitalize state to get you to say, "Ooooooh" and shake with fear.)

(Bloomberg) --
U.S. Treasury Secretary Steven Mnuchin said he will work with the Group of 20 nations to prevent cryptocurrencies such as bitcoin from becoming the digital equivalent of an anonymous Swiss bank account.

The IRS declared the gazillions of crypto transactions are merely gazillions of taxable events creating gazillions of miles of red tape and gazillions of new criminals, tipping risk-reward calculations decidedly toward risk.^{ref 196} Can you imagine if every time you bought a product with dollars it became a line item on your tax return? (Of course not: the dollar purchasing power monotonically drops.) How about all those cool toys, houses, and Lamborghinis bought with liquidated Bitcoins? They've got the goods *and* huge capital gains tax bills.^{ref 197} Could be worse, as Saxo Bank has pointed out: Some particularly resilient consumers purchased the toys on credit, comforted by the cushion of Bitcoins priced at \$2,000 apiece.^{ref 198} They've now got the toys, debts, and crypto cushions that are more like donuts.

Claims that hackers from Russia were interfering in the crypto markets means the crypto space is a national security concern.^{ref 199} The NSA is now tracking the cryptos—they always were, silly—which means the whole privacy thingie is hooey.^{ref 200} (Hooey is Russian slang for horseshit.) It is also the rallying cry for more State intervention.

What would a mania be without human folly, self-inflicted wounds, and some serious humor? North American Bitcoin Conference organizers in Miami stopped accepting bitcoin payments for conference tickets owing to network fees and congestion.^{ref 201} A long position in bitcoin futures in Hong Kong's OKEx crypto exchange processed a \$416 million trade.^{ref 202} The exchange was “unable to cover the trader’s shortfall as Bitcoin’s price slumped.” Rob Arnott says bitcoin futures are 10–20x leveraged,^{ref 203} which accounts for the big moves both ways. CNBC had a guest whose firm offered a 100x leveraged bitcoin product.^{ref 204} I’m guessing they are now untraceable in the blockchain (like Lawnmower Man). A company called *Proof of Weak Hands Coin*, referring to themselves as “a Ponzi scheme” on Twitter complete with a pyramid avatar, raised \$800,000.^{ref 205} Hackers promptly drained its funds. Another Ponzi scheme was so bad that the Russians shut it down, but it has resurfaced and is thriving in the Heart of Darkness (Africa).^{ref 206} A video promo for BitConnect was produced Gangnam style—some serious sleaze on display.^{ref 207} BitConnect turned out to be a Ponzi scheme and, unlike the other Ponzi schemes offered by Wall Street, actually collapsed.^{ref 208} There is no BitConnect without Bitcon. The miracle of creative destruction is on full display as Uber scooped up the influx of new drivers.

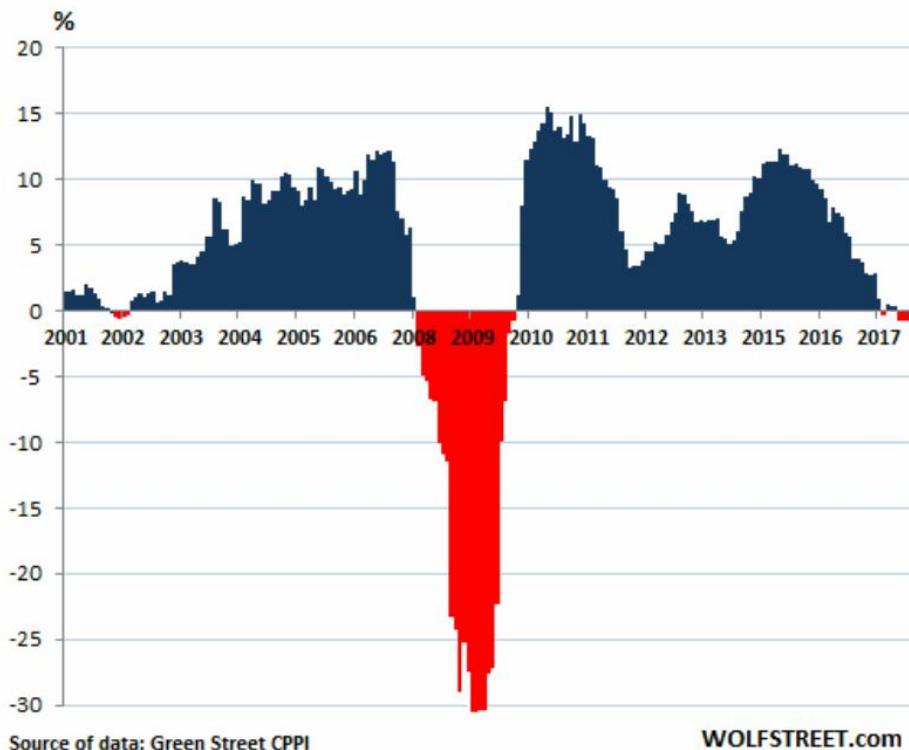
Legitimate (albeit pathetic) companies added “blockchain” to their names, causing their market caps to soar.^{ref 209} Eastman Kodak announced a crypto coin, causing shares to take off in flash. “Long Island Iced Tea” became “Long Island Blockchain.” Smith Corona changed its name to Smith Coinola and did an ICO. (OK, I made that one up.) After a brief spike, the Kool-Aid swillers gave it all back, of course.^{ref 210} There are, however, emerging legitimate uses of blockchain. The LegalFling app, for example, records consensual sex agreements (blockchain keys to the chastity belts).^{ref 211} As Jim Rickards said, “Have fun, kids.” Here’s some funny satire.^{ref 212}

Real Estate

"There is a tsunami of supply comin' down the road. If someone on this panel can tell me where the demand is gonna come from to meet that supply, then we got something to talk about."

~Sam Zell

Commercial Property Price Index
Year-over-year Change, Green Street CPPI



Seems like a truism to me that as rates drop, real estate prices will rise—and vice versa. It's not shocking that big real estate bubbles occurred in the 1920s and 2000s during periods of loosening policies. And, of course, rates being too damned low for too damned long should goose prices too damned high, but I don't sense that buyers and lenders have completely lost their minds this time. With mortgage rates at a 7-year high and rising (Figure 24), we will soon find out.

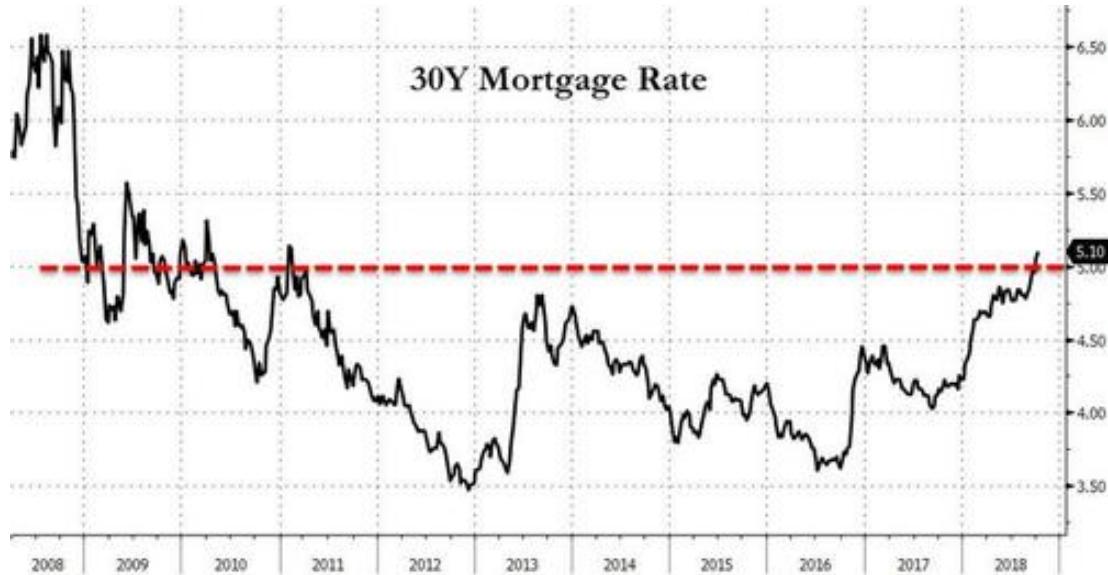


Figure 24. Thirty-year mortgage rates.

Some think we will have another crippling real estate bust. My canaries in the coal mine are the single-family rentals. As Joe and Jane Six-pack drove away from the burbs in '09 watching their former abode shrink in the rearview mirror, the rest of you witnessed the absurdity of rising home prices in the face of falling occupancy (Figure 25). Nobody slipped you acid. The private equity guys jumped in to buy the houses at steep discounts and then drove the prices higher.^{ref 213} Mind you, single-family rentals are a terrible business that works only when the paper-thin capitalization rates (profit margins) are amplified by leverage—cheap money—relying on low interest rates. The obvious risks are, of course, rising interest rates. That risk didn't stop Cerberus from increasing its portfolio with a \$500 million expansion of FirstKey Homes.^{ref 214}

I suspect, however, that the boom (and Cerberus) may die as rising interest rates and commensurate falling cap rates cause the private equity guys to decide the game is over and start liquidating their large shadow inventory to flood the real estate market. For now, however, we are witnessing more froth than fragility. For those interested, that image in Figure 25 in which two normally correlated prices diverge is called “alligator jaws.” There are a lot of 2018 charts from all over the financial universe that look like that. Alligator jaws are known to slam shut without much warning. It is not a subtle metaphor.

Existing Home Median Price (\$thousand) vs. Homeownership Rate

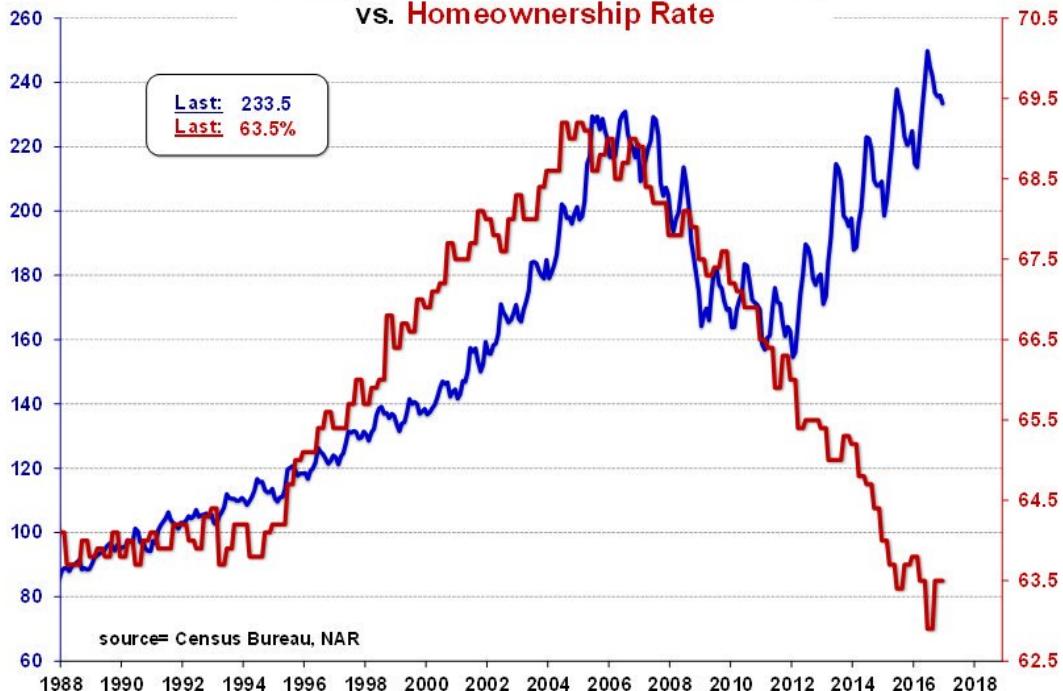


Figure 25. Home ownership rate versus price.

The enthusiasm for housing did get a bit manic, with a third of U.S. homebuyers (or should I say buyers of U.S. homes) bidding sight unseen.^{ref 215} A five-story Manhattan townhouse sold for a new record of \$37.2 million—quadruple what the buyers had paid in 2012.^{ref 216} Credit unions are once again offering 0% down for mortgages up to \$2.5 million.^{ref 217} I saw a show this morning describing how a divorced couple who had a house-flipping show during the last bubble have gotten past their hatred and contempt to restart the show. (Ding! Ding! Ding!) Real estate analyst Mark Hanson lays out city-by-city plots showing serious froth (Figure 26). These numbers are *not* inflation corrected.^{ref 218}

CASE SHILLER HOUSE PRICES:
BUBBLE 2.0, OR NOT, IT'S TIME TO LEVER-UP THE SECTOR... AGAIN
(GET READY FOR NEXT-GEN, NON-FICO DRIVEN RISK UNDERWRITING; NON-AGGREGATED PRICING; & "HELOC-MANIA")

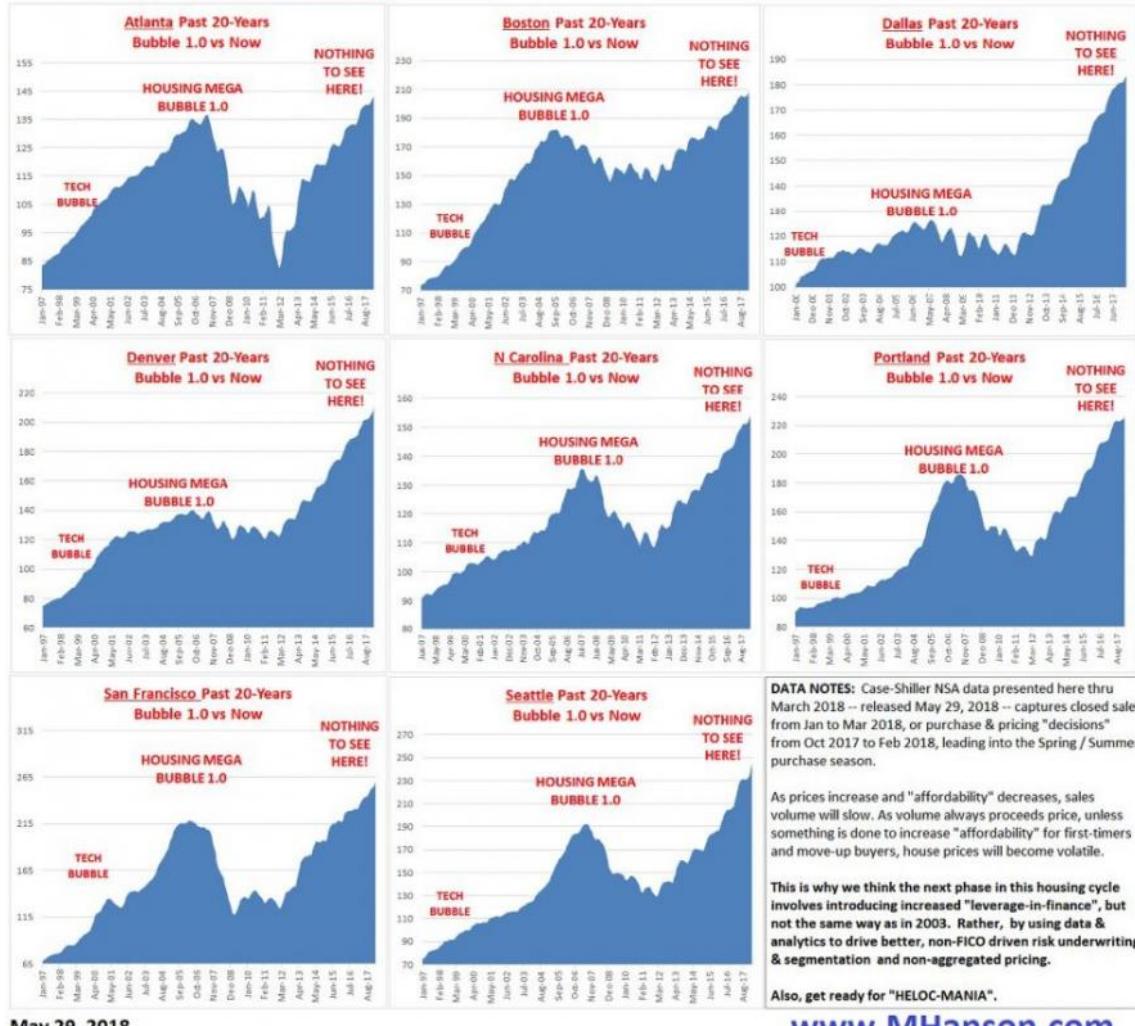


Figure 26. Mark Hanson analysis.

Despite surveys showing a willingness of the *majority* of California residents to at least consider leaving the state,^{ref 219} the California housing market is on fire! (OK, *that* was tasteless.) As we witness a net population exodus from The (shit-stained)^{ref 220} Streets of San Francisco for the first time ever,^{ref 221} the cost of a median single-family dwelling in San Francisco rose to \$1.6 million (Figure 27).^{ref 222} An 804-square-foot house in nearby Palo Alto sold for \$100K in 2003 and \$5.3 million in 2018.^{ref 223} A 900-square-foot bungalow near downtown Palo Alto listed for \$2.6 million,^{ref 224} below the median listing in Palo Alto of \$3 million.^{ref 225}

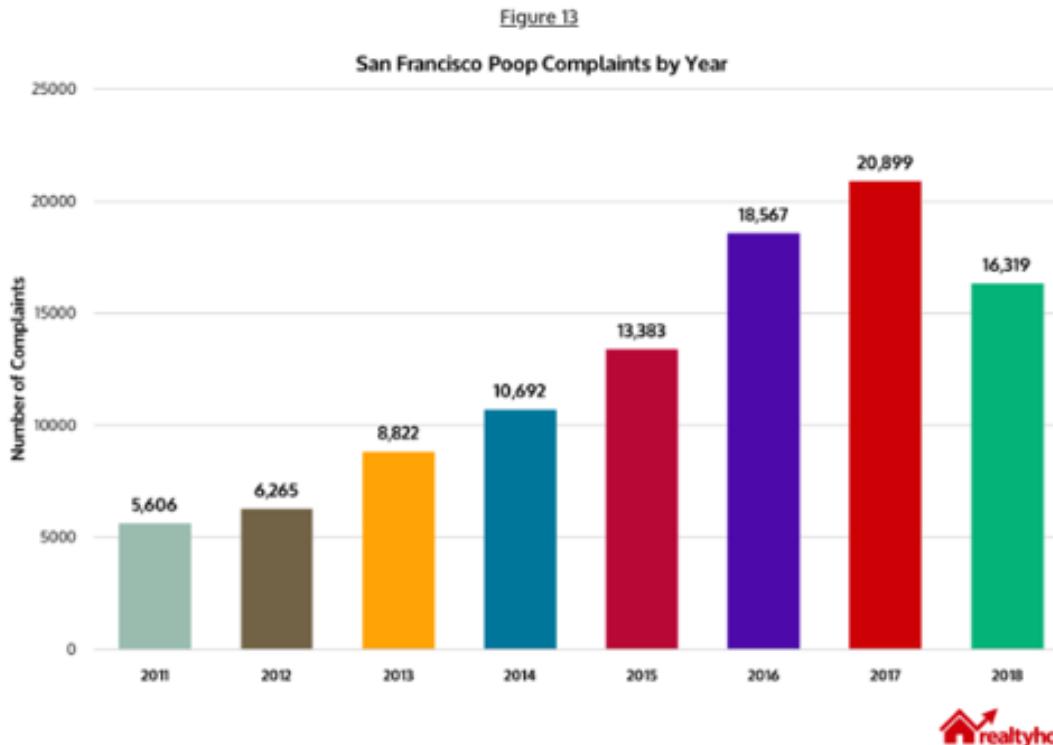
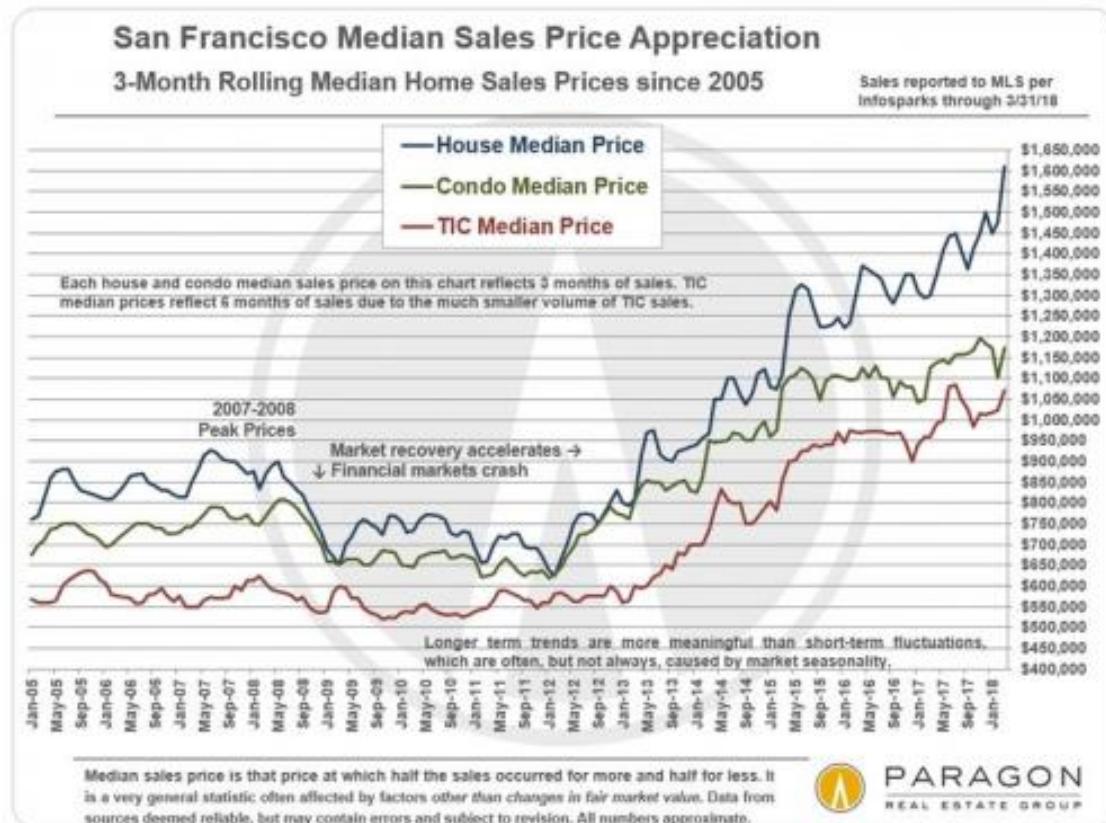


Figure 27. San Francisco housing and their feces reports.

Evidence of housing market softening, however, is very real. Shares of homebuilders have been getting crushed (losses of 29–55%) in an economy said to be booming.^{ref 226} According to prominent economist Lakshman Achuthan, the national home price index was contracting by mid-year.^{ref 227} I—a friggin' chemist—saw the subprime and banking crisis as far back as 2002.^{ref 228} Bank and credit analyst Chris Whalen reminds us that the bust was clear by 2005.^{ref 229} He now says “nothing changed since 2008, but as in 2006, we have convinced ourselves that everything is just fine.” Total real estate sales in Manhattan fell 11% year over year.^{ref 230} Offers are coming in well below asking prices.^{ref 231} The drop was attributed to an acute oversupply of luxury units as foreign buyers sat on their hands, rising material costs of construction, and changes in tax deductibility of mortgage payments.^{ref 232} This latter point is important: If you can only deduct \$10,000 per year of your state taxes on your Federal return, the prices of higher-end housing will necessarily adjust downward.

Canada never really experienced a bust when the U.S. did. It seems like they have rolling booms and busts as hot money moves from city to city. While the British Columbia median prices rose 9.2% year over year, the once-hot Vancouver housing market dropped over 40%.^{ref 233} The two biggest Canadian banks cranked up lending rates right before 50% of all Canadian mortgages were poised to reset.^{ref 234} Stay tuned. Toronto buyers were feeling their oats, as people were flipping their pre-sale houses—tripling the money on their down payments before the sale even closes.^{ref 235,236} The down payments were acting like levered options. That game may have ended. A 3,500-square-foot *lot* with a 650-square-foot *house* sold for *only* \$1.1 million because it is too close to a highway.^{ref 237} The Carlyle Group is committing a \$225 million senior secured loan to Canadian homebuilder Empire Communities.^{ref 238} Timing seems sketchy, eh? This turn-key, ready-for-occupancy gem in Vancouver is listed for \$4 million:

2573 W 3rd Avenue
Vancouver, BC, V6K 1M2 · Kitsilano · Listing ID: R2293412

\$3,990,000 Est. \$15,963/mo

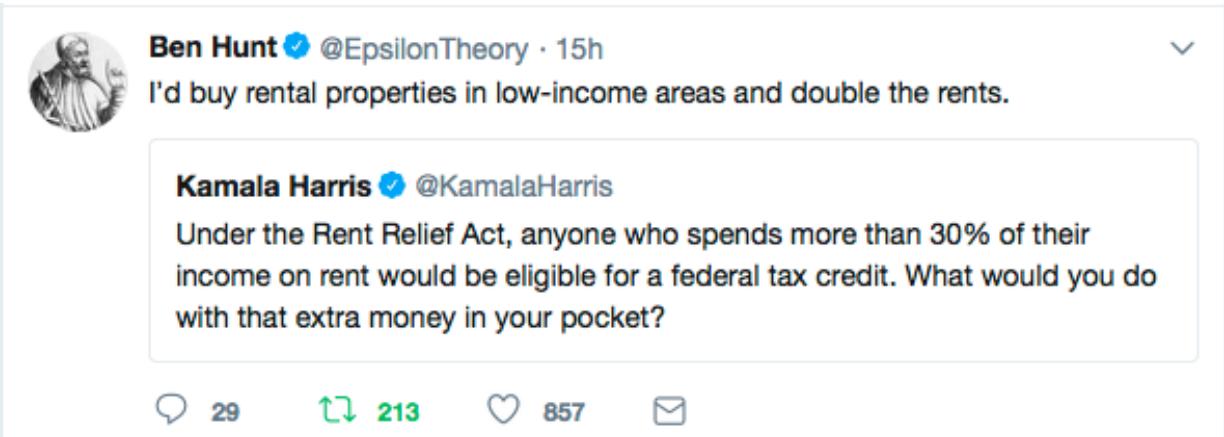
0 Bed	0 Bath	N/A Sqft	Land/Lot
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Contact agent » Call Agent Email Agent

Figure 28. Vancouver handy-man's dream.

The price of a house in London has increased fourfold in 20 years.^{ref 240} It appears as though Brexit, political upheaval, and mounting consumer debt may finally be causing the formerly red-hot London market to drop precipitously.^{ref 241,242} Spain's housing bubble seems to have burst too.^{ref 243} China's cap rates are in the razor-thin 1–3% range. Down in the Woop Woop of Australia, the credit bubble and housing boom seems be a bit of a boomerang, leaving homeowners a bit crikey and stonkered. Australian house prices are down 14% from their peaks and may not even be halfway to the lows,^{ref ref 244} which would pose way more systemic challenges than 30–45% drops in equities.

Another housing bust will call for more government intervention. It will be as feckless as the last:



Ben Hunt  @EpsilonTheory · 15h
I'd buy rental properties in low-income areas and double the rents.

Kamala Harris  @KamalaHarris
Under the Rent Relief Act, anyone who spends more than 30% of their income on rent would be eligible for a federal tax credit. What would you do with that extra money in your pocket?

29 213 857

Pensions

“If you were going to look for what’s the possible real crack in the financial architecture for the next crisis, rather than looking in the rearview mirror, pension funds would be on our list.”

~David Hunt, CEO of \$1.2 trillion asset manager PGIM

“But if you look at these state pension funds, they’re a mess. These bills have got to be paid. . . . [A] good rate of return today of 2.5% to 3.5% doesn’t do the job. A big fear to me is who the hell in their right frame of mind would be buying bonds now?”

~Ken Langone, former CEO of Home Depot, on quantitative easing (QE)

"U.S. pension fund collapse isn't a distant prospect. It could come in 5 years"

~Bloomberg headline

"Why your pension is doomed"

~Wall Street Journal headline

"42% of Americans are at risk of retiring broke"

~CNBC headline

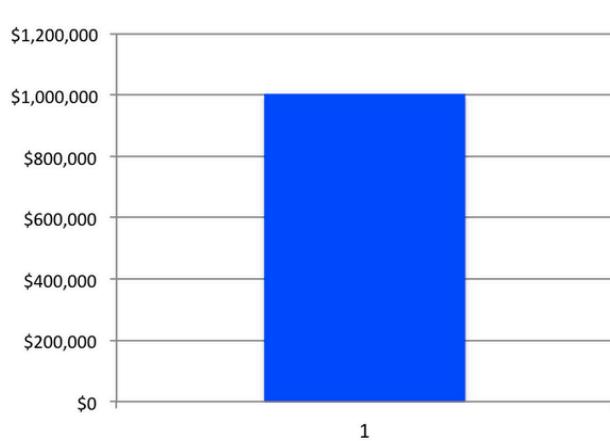
In ancient Rome, Augustus set up a military pension fund using the equivalent of \$500 million of his own money and put ex-military trustees in charge. It got pilfered.^{ref 245} We have pilfered essentially every modern-day pension plan as well. Underfunded pensions are a form of leverage, and the pensioners are the creditors. Looming defaults will be devastating.

Headlines focus on the risk posed by Social Security that, in conjunction with Medicare, is leveraged \$50 trillion^{ref 246} backed by a tax base racking up >\$1 trillion (6–7%) annual deficits. The state, municipal, and corporate pension plans and private retirement accounts (401Ks and IRAs) are where the real bodies are buried. More than 100 million working-age Americans who should be progressing toward a stable retirement have saved precisely zero.^{ref 247} As you read the anecdotes below, keep in mind that pension holes are based on aggressive assumptions of 7–8% returns. The only safe bet is that those rates of return are not safe bets. The *targeted* balances—the balances the pros say you will need to retire comfortably—in personally funded accounts are pathologically understated.^{ref 248} If we really are in the Mother of All Bubbles (MOAB), what happens if it bursts?



Following

If you want to be a millionaire, this is how much money you'll need.



The states' unfunded pension liabilities have grown sixfold since 2003, and are now exceeding \$1.4 trillion with the pedal to the metal. State pension costs are swallowing >25% of general revenues. The underfunding is estimated to eventually impose a surcharge to each household ranging from \$30,000 for Tennessee to \$180,000 for Alaska.^{ref 249} Kentucky has 16% of the funding needed, becoming the topic of a *Frontline* episode that made officials there look like a bunch of gullible hicks.^{ref 250} California's CalPERS is funded to <70%, with *every private citizen* in California owing >\$100,000.^{ref 251} Illinois owes >\$100 billion to its pension funds—six times the annual state revenue—and the liabilities are on track to double every 6 years (11% compounded).^{ref 252} It is said that if the Illinois state government put 50% of state revenue toward debt, pensions, and retiree healthcare, it will reach full funding in 30 years.^{ref 253} The state could raise taxes, but the Fighting Illini (tax payers) are already ranked #1 in the nation. Go team! New Jersey has \$80 billion socked away to pay for \$280 billion of future liabilities.^{ref 254} (The funding ratio fell from 93% in 2003 to approximately 30% in a dozen years.) Michigan, Pennsylvania, Florida, Ohio, Oregon, Colorado, Kentucky, and Rhode Island are said to *not* have the biggest actuarial problems but are at risk of running out of cash first.^{ref 255} I'm not even sure what that means. For 28 states, accrued liabilities have grown by 50% since 2003, way faster than their statewide GDPs.

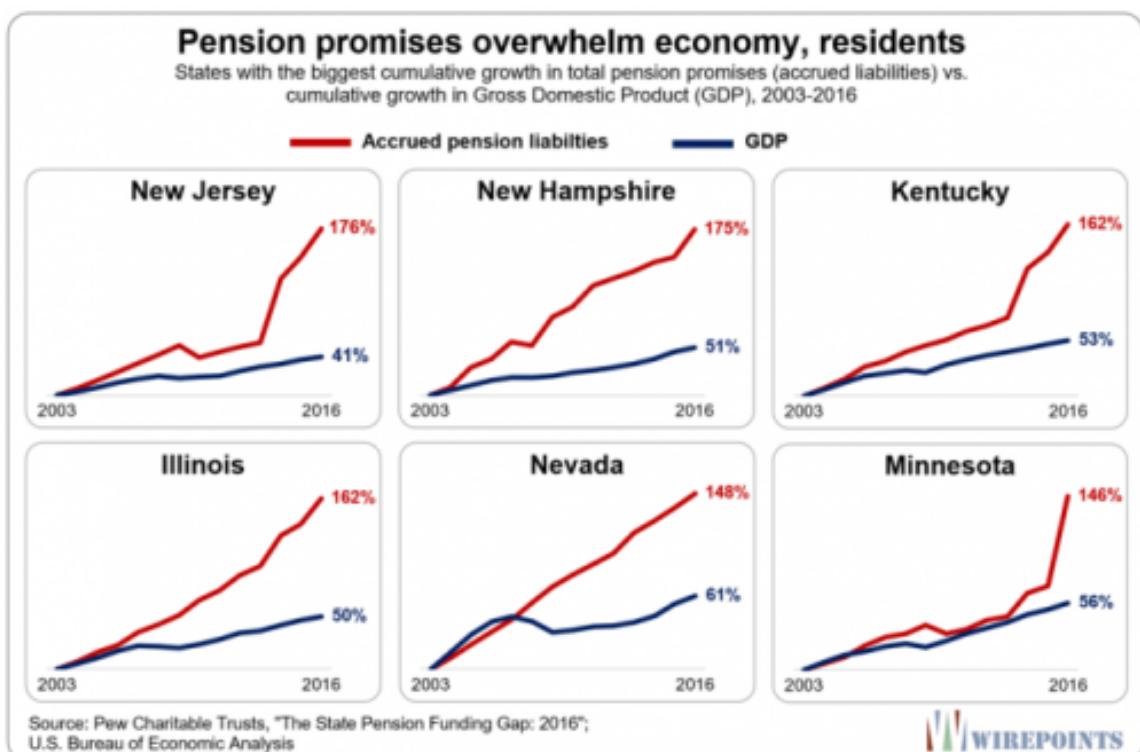


Figure 29. Six states with problematic pension–GDP gaps.

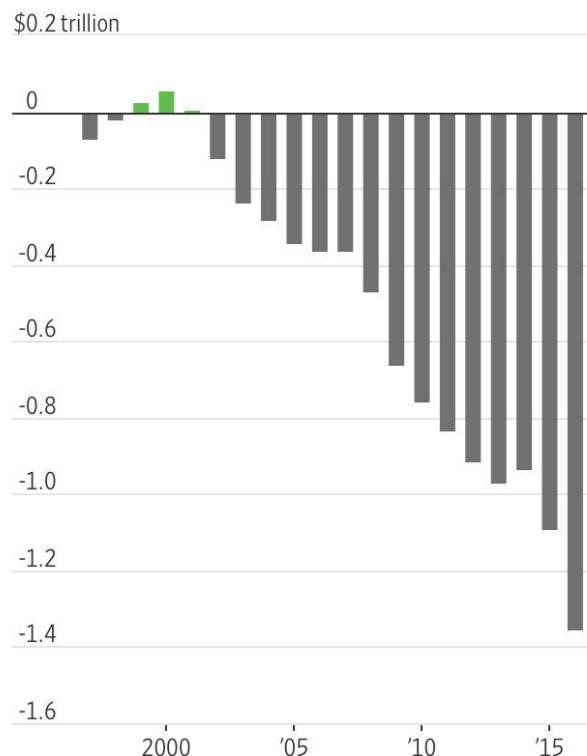
What are states to do? The California Supreme Court will decide whether pensions can be cut on government employees.^{ref 256} I'm gonna guess no. The Illinois Supreme Court blocked state

pension reforms in 2015, consistent with the idea that you cannot *selectively* screw one class of creditor.^{ref 257} CalPERS voted to increase the amount cities must pay, leading cities to foreshadow Chapter 9 bankruptcies.^{ref 258} Governor Jerry Brown wanted to crank up gas taxes by 40%, which could move him markedly closer to retirement.^{ref 259} Illinois wants to borrow \$100 billion to speculate on equities.^{ref 260} That ought to help its already junk-level credit rating. The League of California Cities urged CalPERS officials to think “out of the box” to improve on their already aggressive 7% presumed annualized returns.^{ref 261} Short the VIX, dudes! It’s a one-decision trade. The state will be “totally bankrupt by 2021–2022.”^{ref 262} Between 2006 and 2017, Kentucky’s bond portfolio has grown from <1% junk bonds to 53% junk.^{ref 263}

Reaching for yield is never a good idea, despite being forced at gunpoint by the Fed. Connecticut is broke: It may hock (sell) \$2 billion worth of its buildings and lease them back at 7.5%.^{ref 264} Meanwhile the Fed has designed a bailout of the insolvent PBGC (Pension Benefit Guarantee Corporation)—a bailout mechanism in its own right—but one that does not cover state pensions.^{ref 265} My suspicion is that the Fed will loan the states money knowing full well it will never be paid back.

Deepening Deficit

State pension deficits have grown steadily over the past two decades.



Source: Pew Charitable Trusts

Figure 30. Total state pension deficits (dated data but trending).

The local (municipal) plans aren't doing much better. New Orleans firefighters can expect 10 cents on the dollar based on their 10% funding level.^{ref 266} Wilkes Barre's police and firemen's pensions are <50% funded.^{ref 267} Courts ruled that they couldn't stick the pensioners. Next up: Chapter 9 restructuring, which *is* the *legally* correct solution. Cops and firemen in the tiny burg of Central Falls, Rhode Island, agreed to forfeit >50% of their pensions to escape insolvency.^{ref 268} New York, Philly, LA, Houston, and Phoenix all have \$20,000–\$30,000 per-capita pension IOUs coming due.^{ref 269} The murder capital of the country, Chicago, has a pension funded to 30%.^{ref 270} While the equity markets tripled from 2009 to 2018, Chicago's liabilities more than doubled. Each Chicagoan is on the hook for more than \$50,000 in pension debts and >\$100,000 in total debts—not to mention the bar tab from the state.^{ref 271} Chicago's problems are a little vague because Chicago's and Moody's bean counters disagree by a factor of two owing to different actuarial assumptions. Rahm Emanuel is taking a lifeboat—retiring...on a good pension—to distance himself from the Titanic problems. Before leaving, however, he wanted to borrow \$10 billion to dump into the equity markets, but that got put on hold.^{ref 272} Maybe Illinois will lend you the money, Rahm. Similar strategies sent Detroit, Stockton, and San Bernardino into insolvency.^{ref 273}

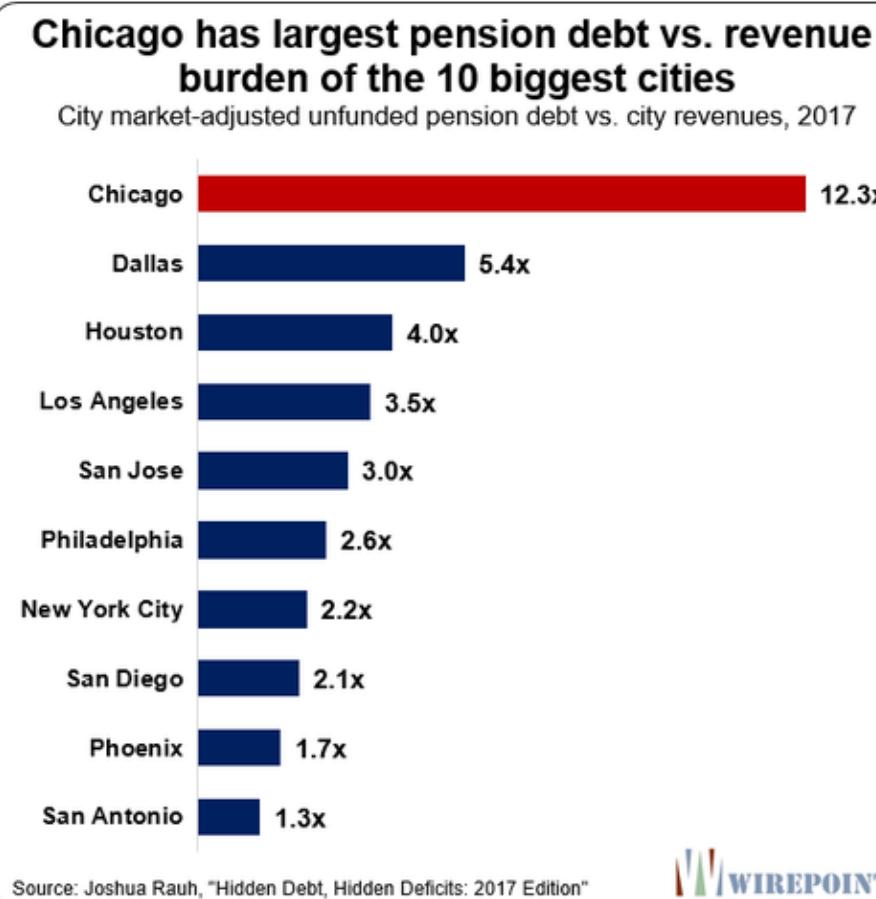


Figure 31. Municipal pension deficits versus tax revenue for 10 major cities.

There are countless reasons why we're in this mess, but let's just look at a bulleted list of waste that illustrates part of the problem, while retaining a comedic touch.

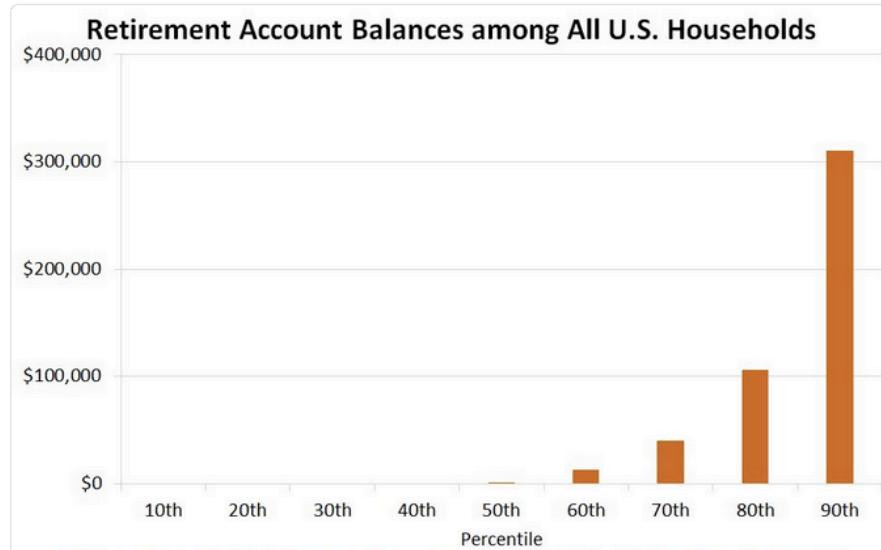
- The head of the Oregon Health & Science University retired on a \$913,000 per year benefit, while the poor University of Oregon's retired football coach of 15 years only gets only \$560K per year.^{ref 274} There are 2,000 Oregonians who get more than \$100,000 per year.^{ref 275}
- The pooper scoopers who are charged with cleaning up shit off the streets in San Francisco make \$184,000 per year.^{ref 276}
- The mayor of Ithaca, Svante Myric, is proposing that the city provide "free" child care. (I know Svante: He is a young man who I think will run for president someday. His platform will likely include some freebies.)
- Illinois has been generous. The top 10 pensioners are *each* expected to pull an estimated \$8–10 million from the state pension plan before they die (unless they visit Chicago). One gets over \$400,000 per year as the superintendent of a school district with 1,200 kids.^{ref 277}
- Illinois taxpayers will be on the hook for more than 20,000 six-figure annual pensions for educators. Their pension benefits have compounded at 9% annually for nearly 30 years.^{ref 278}
- More than half the states have grown their pension promises at >5% annually since 2003.^{ref 279}

One could make the argument that some of that is odious debt—debt incurred by somebody else (usually sovereign leaders) that is so odious that you say, "Screw it: I'm not paying."^{ref 280} I believe, however, that the courts are unlikely to consider odiousness at lower levels.

Self-directed retirement plans—so-called defined contribution plans—are in brutal shape. Data from the Saint Louis Fed (Figure 32) show that the median retiree has almost nothing (\$1,100),^{ref 281} and the highly indebted boomers with little time left to correct the error in their ways are altogether unready for retirement. The rallying cry that 80 is the new 50 ignores the harsh reality that 50% of retirements are forced by personal circumstances to retire,^{ref 282} and folks who do seek post-retirement employment—that's not retirement—take a 25% pay cut.^{ref 283} Most people have not been adequately trained to be their own human resource specialists.



The median U.S. household has only \$1,100 in retirement account savings bit.ly/2vK22NQ



Retirement Account Balances by Age Group

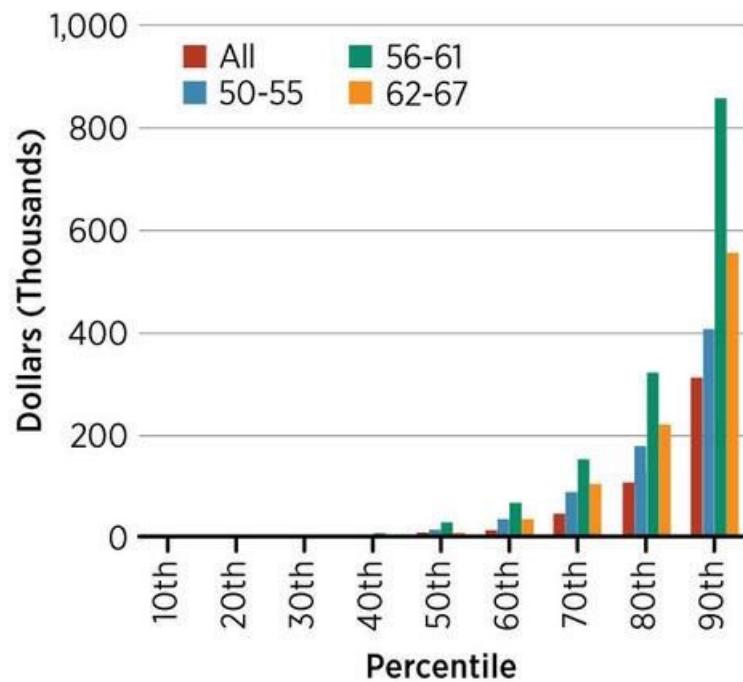


Figure 32. Median retirement account and median boomer accounts.

On the bright side, the millennials are getting the memo early enough to act. The challenge is that the message seems to be either “Don’t worry; be happy” or “Don’t bother.” Surveys show that even those with retirement accounts seem to have saved little. Those same millennials, not known for letting reality encroach on their world, want to retire, on average, at 56 years old.^{ref 284} Time to cut back on the bottled water, pumpkin spice lattes, and, for that matter, any form of food. It’s time to stop being a bunch of dingleberries, put your phones down, and pay attention.

On that latter point, there is a new group called FIRE—“financial independence, retire early.”^{ref 285} Members of the group want to work hard, cut costs, and then retire in their 30s and 40s to travel the world:

"How to retire in your 30s with \$1 million in the bank"

~*New York Times* headline

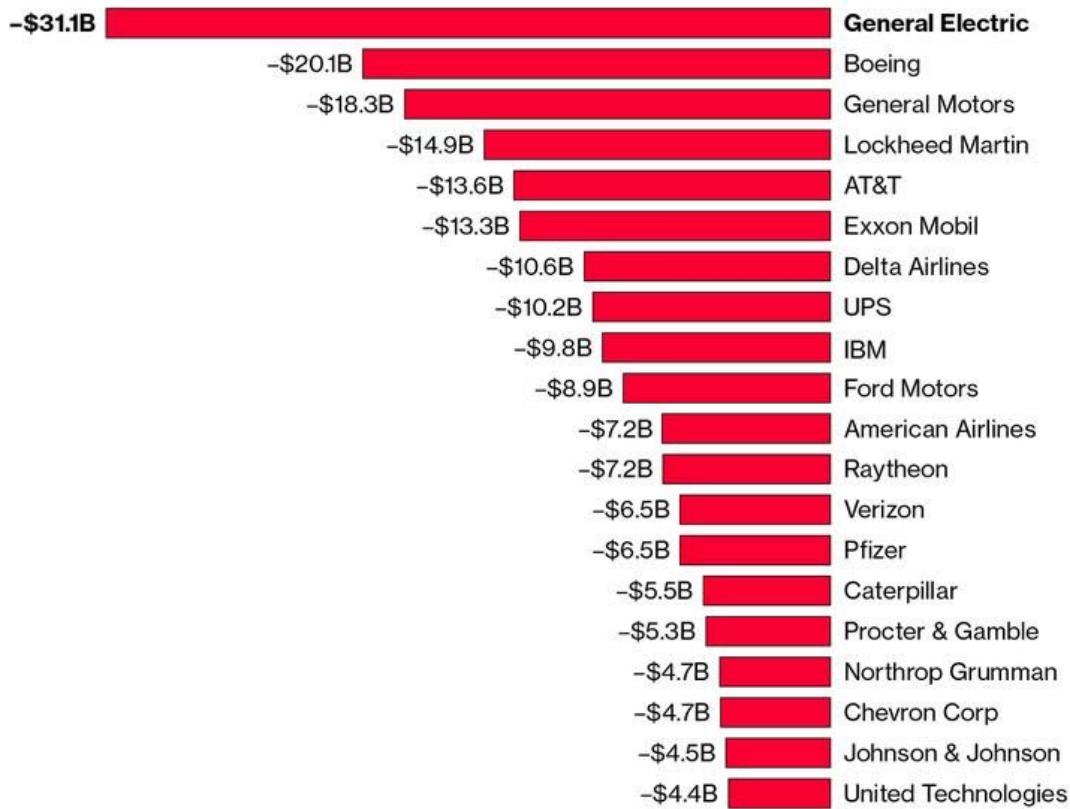
“Nothing was wrong with the job—it was a great company, good money, six figures. I was 26 and I said, ‘Why am I going to spend my 20s sitting at a desk?’”

~Mason, 29-year-old retiree

There are over 400,000 subscribers to FIRE on Reddit,^{ref 286,287} sharing tips like “how to survive a Minnesota winter without shoes, gloves, or coats.” Suze Orman blew out both ovaries noting, “I hate it. I hate it. I hate it. I hate it.”^{ref 288} This group will be positioned perfectly for the Great Attitude Adjustment (GAA).

Well at least we have the corporate pensions to fall back on, but they are underfunded as well (Figure 33). Corporations could always top off their pensions if they diverted funds from share buybacks and other forms of financial engineering. Ironically, that would cut into the multi-sigma profit margins, crush share prices, and, ironically, shrink everybody’s pensions plans. That’s swell. Pension coffers should be bloated with FAANG-based returns as we near the end of this investment cycle. They obviously are not.

Companies With the Biggest Pension Deficits



Source: Bloomberg

Figure 33. Corporate pension shortfalls.

The aforementioned PBGC bailout plan does *not* cover the state-funded (or should we say state-unfunded) plans. There are discussions of using Puerto Rico as a beta test to introduce Chapter 9 legislation to allow for state bankruptcies, which are currently not allowed under the federal bankruptcy code.^{ref 289} Bankruptcy laws are designed for precisely when available assets are insufficient to cover liabilities. Private defined-contribution pensioners—the IRA/401K crowd—are gonna be investing doggie style and playing a lot of Dialing for Dollars.

Debt

“It is incumbent on every generation to pay its own debts as it goes. A principle which if acted on, would save one-half the wars of the world.”

~Thomas Jefferson

You have a debt problem when you have more debt than the capacity to pay it off. It arises from consumptive debt that is non-self-extinguishing. As far back as David Ricardo in the

nineteenth century, we have known that debt-financed spending is not constructive to GDP. The debt problem goes global when the collective promises of sovereign states to their masses cannot be satisfied by future output. Not everybody can live the metaphorical American Dream no matter what global leaders have promised. There is a paradox in that you *can* save at the local level—personal, municipal, state, and even national—by having others outside your defined group owe you future goods and services (albeit accounted for using units of currency). You cannot, however, save globally. Because sovereign-level debt problems are PAYGO (pay-as-you-go) plans *by definition*, we've been trapped by compensation mechanisms that have increasingly relied on unfulfillable promises in the future rather than payment in the present. Now we find ourselves in a putative global asset boom—one that I find to be a sandcastle built by central bank largesse—while concurrently having debt problems. In the U.S., for example, *average* household net worth is soaring while the *median* family needs credit for basic needs and has squat for retirement savings.

“The great bond bull market began waaaay back in 1982—36 years. And as governments were able to keep financing at lower and lower rates, they kept promising more and more.”

~Capitalist Exploits on the social justice movement

In the following sections I treat debt and savings as two sides of the same coin while somewhat arbitrarily separating corporate, personal, and sovereign debt problems from a looming global pension crisis and, for that matter, problems in the real estate market. I suspect that the Fed's pathological aversion to letting the economy sink or swim on its own may stem from its PTSD-levels of fear of the next recession, which—I hasten to add—is as inevitable as death and taxes. The *Wall Street Journal* worries that we will burn a decade recovering from the next recession. I worry that they are optimists.

All this debt has accumulated with a tailwind of relentlessly falling interest rates from a 36-year secular bull market in bonds. The blowoff phase of the bond bull is a decade of rates wrestled to 5,000-year lows by central bankers. Now we are in a rising-rate environment. The gyrations across global markets are just the trailer. If the secular bear market in bonds goes wheels up—if rates begin a multi-decade upward march because of our modern-era guns-and-butter policy—many of us may not be around to see resolution.

Corporate Debt

“This time around, the big bubble is the extreme leverage on the corporate balance sheet, where the chart of debt-to-GDP looks a lot like the mortgage debt-to-GDP in 2007.”

~David "Rosie" Rosenberg

“Corporate debt has soared, but most of it has been used for financial engineering. . . Who knows how many corporate zombies are out there because free money is keeping them alive? . . . Competition is a better tool than price control for protecting consumers. That applies to Amazon *and* the bond market.”

~Stan Druckenmiller

“It is clear that this is a very different corporate bond market, and history-based financial models will most likely be found wanting.”

~Louis Gave, cofounder of GaveKal

The corporate debt market is a complicated story because huge amounts of debt to financially engineer pump 'n' dump schemes with share buybacks were waiting to be extinguished by repatriated savings (tax amnesty) from overseas. Assessing corporate leverage—debt *net* offsetting cash and other assets—is more important than usual. That said, from my perspective up in the nosebleed section, loose monetary policy managed to create a mountain of corporate debt, which is unsurprising to everybody but central bankers. Whocouldanode? The 54 AAA-rated companies in the S&P before the crisis have been reduced to only two because of leverage.^{ref 290} Many—myself included—believe that the corporate bond market will be Ground Zero of the next crisis. In case I haven't said it enough times, we are in a rising rate environment: The fuse has been lit. Net leverage normalized to EBITDA (earnings before interest, taxes, depreciation, and amortization) has doubled in only a few years. Tighter banking regulations acted like Prohibition, opening the door to hooligans, hedge funds, and other non-bank grifters *with their own leverage*. There is a so-called shadow banking system^{ref 291} that is so enormous, complex, and hidden from the light of day for us Philistines. Here's a trick question: Who do *they* borrow from? These corporate-focused lenders will scamper away in a heartbeat in a downturn. The retail investor will see bids for corporate paper (debt) buried in their portfolios disappear, and it could happen in a matter of days, hours, or minutes.

Mario Draghi's European corporate-bond-buying binge sent some corporate bonds into negative interest rates—companies were being paid to borrow—and the Bank of Japan has now joined in.^{ref 292} The global bond binge caused the premium spreads—the extra interest paid for buying total garbage like commercial-mortgage-backed securities versus AAA bonds—to reach lows not seen since early 2007.^{ref 293} Those spreads are now widening. Companies are citing higher interest expenses chewing into earnings, which will amplify the credit spreads. Over \$2.5 trillion—50% of the investment-grade corporate debt market—is rated just one notch above junk.^{ref 294} Exchange-traded notes (ETNs) based on corporate debt are unsecured, subordinated debt that trades daily. A day will come when they don't trade. The volume of covenant-lite corporate bonds—bonds with lower levels of constraints than the stuff we call garbage^{ref 295}—has soared and poses a huge risk because of (not despite) the fuzzy name. U.S. firms sold \$9.2 trillion in bonds since 2013, a non-trivial \$3.5 trillion being used for share buybacks (\$850 billion in 2018).

Is this really a systemic problem? I think so. As I am writing, GE and Deutsche Bank are gasping their last breaths—debt rattles—while doing laps around the drain. GE has \$170 billion in debt owing to years of financial engineering.^{ref 296} Its productive assets will live on in the hands of new owners, but current holders of its debt and equities will be dealt with severely. Deutsche Bank is so huge that it seems likely to be nationalized. Rumors of a merger with Commerzbank just surfaced in what seems like one of those '08-esque shotgun weddings.^{ref 297} Companies like GM and IBM are not far behind. These are Mothra-sized butterflies flapping their wings.

“The debt load for U.S. corporations has reached a record \$6.3 trillion, according to S&P Global. The good news is U.S. companies also have a record \$2.1 trillion in cash to service that debt.”

~CNBC headline

What CNBC seems to have missed is that borrowing money (the \$2.1 trillion part) to pay the interest on the \$6.3 trillion is a Ponzi scheme,^{ref 292} and I’m not speaking metaphorically or hyperbolically. Individual companies that don’t have the cash flow to make interest payments are called zombies, implying that they are dead but somehow still stumbling around the planet posing existential risks to the living. Of course, they are rare, right? Well, 20% of the Russell 2000 index and 14% of the S&P 500 are zombies.^{ref 299} Passive index investors own the shares of these gems and, if not, are financially linked to clowns called “counterparties” who own them. The problem is, as noted by the Bank for International Settlements (BIS), zombies do not come back to life.^{ref 300} Unlike real zombies in which all you need to do is tie the recently departed’s shoelaces together, these Walking Dead require the free market metes out shots to their heads.

The beginning of what looks like a serious bond bear is hammering risk-parity funds—bond funds that used leverage to seek the risk of equities.^{ref 301} Congrats, guys: You found it! And then there is the “leveraged loan market,” in which companies too weak to access the junk bond market go and borrow from a guy named Vinnie. These are the payday lenders for corporations. Retail investors with this crap in their retirement accounts will be toe-tagged and bagged.

“The selloff in GE is not an isolated event. More investment-grade credits to follow. The slide and collapse in investment grade debt has begun.”

~Scott Miner, CIO at Guggenheim Partners

Let’s finish by taking a special look at GE’s debt. In 2002, I predicted that GE was headed for trouble in an email to a friend at Goldman.^{ref 302} Years of financial engineering finally worked their magic.^{ref 303} GE survived ’08–’09 with a lot of help from the authorities but appears to be on life support now. It is getting crushed by debt estimated at \$40–\$170 billion depending on who is doing the bean counting. The confusion is probably caused by off-balance-sheet debt . . .

. just like Enron. A bunch of GE debt is still investment grade, but it is “trading like junk,” which means we’re waiting for the rating agencies to read them last rites. To avoid bankruptcy, GE eliminated its quarterly dividend, causing double-notch bond rating downgrades.^{ref 304} The debt burden owing to a Hail Mary strategy of borrowing heavily for M&A (mergers and acquisitions) is probably now too high. GE is said to be “locked out of the commercial paper market,”^{ref 305} which means it’s time to call Vinnie. A default is said to be “unthinkable,” posing systemic risks as well as sentimental risks owing to a fall of an American Icon. On that note, Sebastian Mallaby gave us a *“Crisis for Dummies”* description of how cascading failures happen.^{ref 306}

Personal Debt

“How do you make poor people feel wealthy when wages are stagnant? You give them cheap loans.”

~Vincent Daniel in *The Big Short*

According to a Federal Reserve study, Americans have \$1 trillion of credit-card debt, \$1.5 trillion of student debt (Figure 34), \$1.5 trillion of auto loans, and \$13.5 trillion in mortgage debt.^{ref 307} So many zeroes: What the hell does that even mean? We can manage the mind warp by bringing it down to the family level. The average household has \$140,000 in total debt.^{ref 308} This number does *not* include unfunded liabilities at the municipal, state, and federal levels. The student debt is disturbing in that 40% of it is held by senior citizens who are defaulting with troubling frequency (37%),^{ref 309} and the boomers now owe more than the millennials: “Thanks, Mom and Dad. I’ll swing by on my way to Fort Lauderdale this spring.” There are 101 individuals with over \$1 million of student debt, and one dentist owes >\$2 million.^{ref 310} The \$100,000 student debt club has 2.5 million members. Owed mortgage debt is almost 5x the yearly salaries of the owners.^{ref 311} Credit card debt has climbed back to its 2008 peak,^{ref 312} but the average interest rose 3% to a lofty average 15.5%. Consumers are paying \$100 billion a year in interest payments with their disposable income. One could argue that if you have credit card debt, you have *no* disposable income.



Optimize Your Life @MattLaneWrites · 8h

I graduated from law school 6 years ago with \$250,000 of student loan debt. But after years of hard work and tens of thousands of dollars of payments, I can officially say that I now owe \$315,000.

Hooray!

A depressing milestone

Outstanding student debt surpassed \$1.5 trillion for the first time

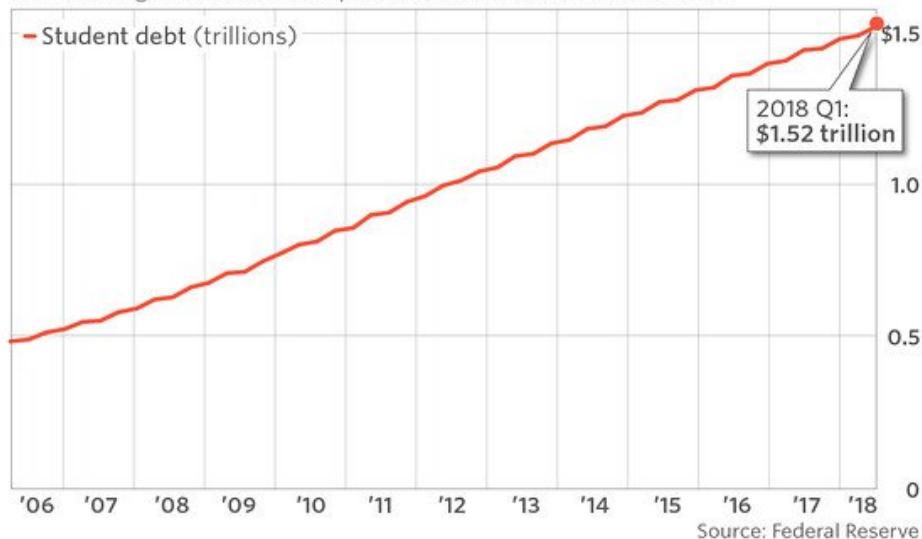
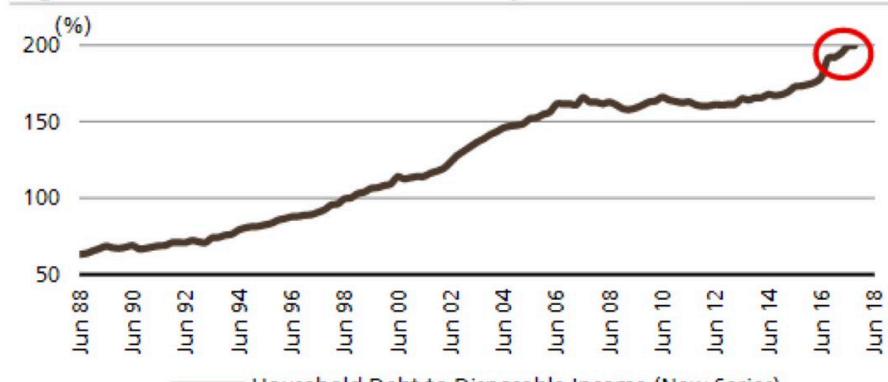


Figure 34. Student debt or monetary policy?

Consumer debt is growing at 2x the rate of salaries (Figure 35) while 100 million Americans have no job to make such a comparison. The auto debt market continues to show stress fractures. Approximately 30% of trade-ins are in functional default (worth less than the loan balance.)^{ref 313} Trading in a beater for an improved newer model is a bad decision. An estimated \$280 billion of subprime auto loans are defaulting, stressing the smaller subprime lenders.^{ref 314} A heavily cited stat this year was that 40% of Americans do not have enough money to cover an unexpected \$400 expense without borrowing the money or selling something they own, and 60% can't cover a \$1,000 tab.^{ref 315} This is not a moral judgment, just the facts.

Figure 1: Household Debt to Disposable Income, restated



Source: ABS, RBA, UBS estimates

Figure 35. Household debt normalized to disposable income.

It's hard to know whether the consumers are feeling the stress. The millennials are certainly in a rush to retire with <\$20K saved (see "Pensions").^{ref 316} Another survey showed that 41% of them spent more money on coffee than on investing in retirement last year.^{ref 317} No problem: There is a Congressional bill that would allow students to pay student loans with future Social Security money.^{ref 318} You get just deserts only after you eat your seed corn. Whoever hatched that plan should take some of that bank lobby money they obviously accepted and get professional help.

For every debtor there is a creditor. A global debt problem is less about some crazy form of owing too much but rather counterparty risk—the risk that debtors can't pay. Good news: Somebody owes you \$500,000. Bad news: It's your teenage son.

"Twenty years ago there was \$40 trillion of debt in the world; today there is \$250 trillion worth of debt in the world."

~David Stockman, former Reagan economic advisor and Blackstone Group

"\$20 trillion got to \$21 trillion in 186 days: That is blistering. . . . Donald is pro-Warfare State, pro-welfare state and has just slashed Uncle Sam's tax take to 16.6% of GDP—the lowest rate since 1950."

~David Stockman

Sovereign Debt

"The only question is whether we are able to look reality in the eye and face what is coming in an orderly fashion, or whether it will be disorderly. Debt jubilees have been going on for 5,000 years, as far back as the Sumerians."

~William White

The markets most important to the functioning of capitalism—the credit markets in which lenders and borrowers haggle to determine the cost of money—are damaged. Central banks have subverted price discovery, sending bizarre signals to market participants. I asked the Twittersphere what interest rate they would demand to buy a 30-year Treasury that they were *required* to hold for 30 years—no selling, trading, or hedging. The answer was telling:



Dave Collum

@DavidBCollum



If you were to buy 30-year treasuries and be required to hold them for 30 years, what interest rate would you demand?

4% <4%

11% 4-5%

27% 5-7%

58% >7%

3,055 votes • 3 hours left

Figure 36. Twitter poll about the term premium^{ref 319} that investors would require for 30-year treasuries.

It would appear that 30-year bonds are priced wrong because somebody *will* be holding these assets for 30 years. My personal answer is comfortably above 7%. The interest payments on U.S. debt rose by 14% over the last year owing to increased principal payments on inflation-protected securities ("just the TIPS"),^{ref 320} continued generalized debt growth motoring along at 6–7%,^{ref 321} and overall higher rates. We will add well over \$1 trillion of debt before the year is over.^{ref 322} Stanley Druckenmiller submits that the next recession will usher in a \$2 trillion deficit. Many say we should have issued century bonds—100-year treasuries—when interest rates were low. I disagree profoundly: Forcibly jamming rates low, eliciting fixed-income investors to do unnatural things with barnyard animals just to get income, and then stiffing your counterparties with such abominations would be bad karma. In any event, that ship may have sailed because sovereign holders of treasuries such as Japan, Russia, and China are now sellers.^{ref 323} We are on a path to our Minsky Moment at which debt overruns our capacity to make payments. We will just inflate it away, right? Maybe not. You create inflation by creating money, and you create money by creating debt. It makes me scratch my head.

"People who confidently think they know the consequences—none of whom predicted this—know what's going to happen next? Again, witch doctors. How many in this room would have predicted negative interest rates in Europe?"

~Charlie Munger, Berkshire Hathaway

Global debt rose from 276% of global GDP in 2007, wallowed through the Great Recession, came out the other side topping 327% of global GDP, and continues to expand at >10% per annum.^{ref 324} Simon Black notes that while the economy grew 36%, the debt grew 123%.^{ref 325} The IMF blames the growth on a prolonged period of low interest rates—those foisted on us by central banks—for nearly a decade.^{ref 326} By early 2018, sovereign debt returning negative nominal interest rates—absurdities that should never exist in a functioning bond market—topped \$10 trillion.



Daniel Lacalle

@dlacalle_IA

Following

The \$8 Trillion Bond Bubble.

In early 2014 there were no bonds globally trading at negative interest rates. Today, there are still around \$8trn, or 16% of the total.

Now rates are rising, the nominal and real losses will be astronomical.

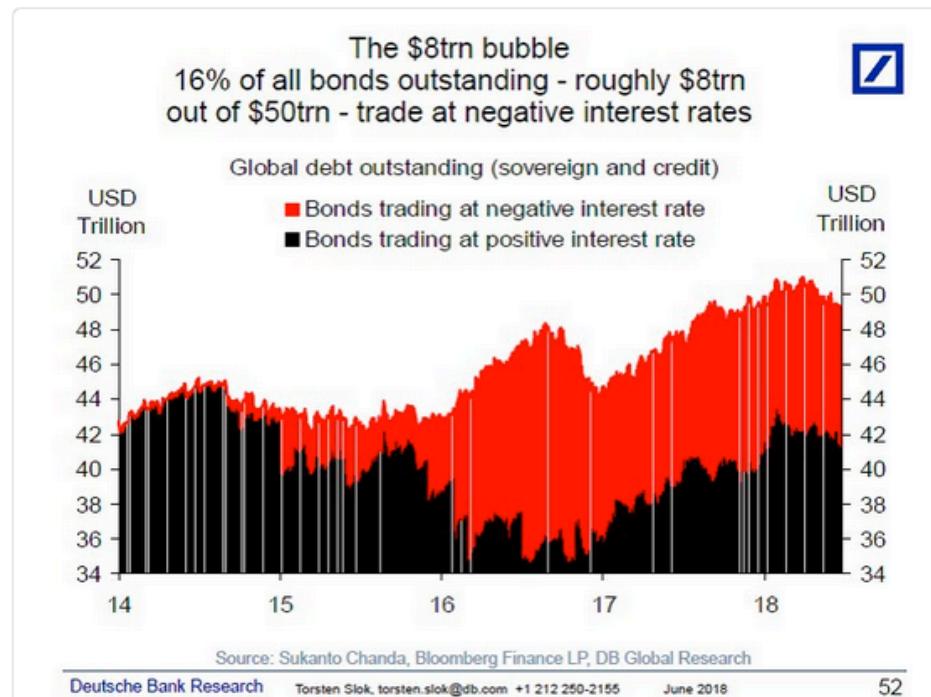


Figure 37. Negative interest rates on sovereign debt.

"If 2.60% is broken on the upside—if yields move higher than 2.60%—a secular bear bond market has begun."

~Bill Gross, the former Bond King (2017) on the 10-year yield

"If we take out 3 percent . . . it's bye-bye bond bull market. Rest in peace."

~Jeff Gundlach, the new Bond King (2017) on the 10-year yield

2.915 % -0.076

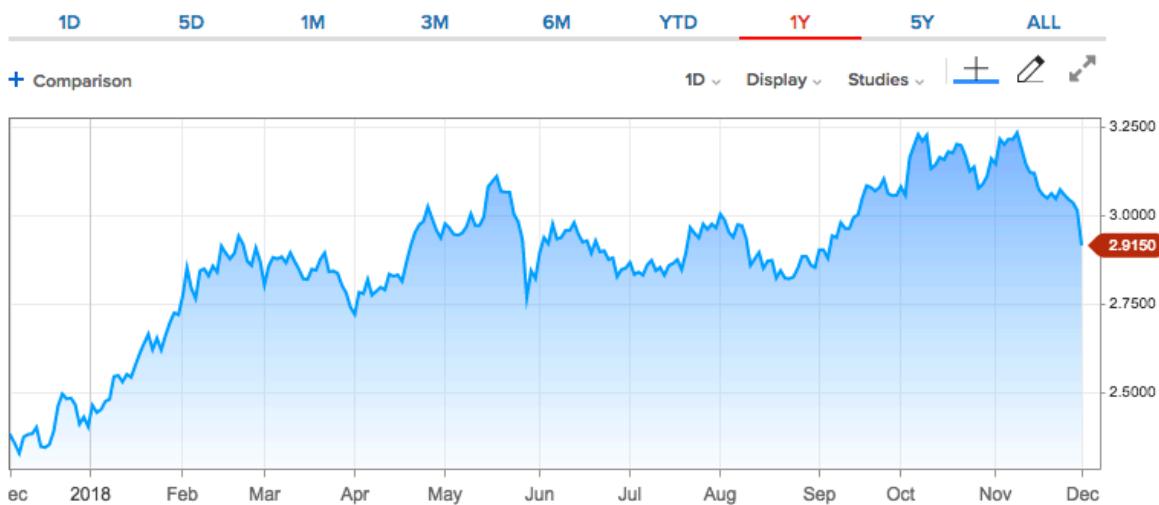


Figure 38. Ten-year treasury yields.

Bank of America's Michael Hartnett says, "the lowest interest rates in 5,000 years have guaranteed a melt-up trade in risk assets," which explains the 600% wilding of the FAANGs off the '09 lows. The rising-rate environment means that resolution and redemption—dead bodies—may start floating to the surface. JPM reported that the global bond yield curve inverted in June (Figure 39), which will trigger, sequentially, the following: (a) "yield curve deniers" will declare such inversions irrelevant, and (b) a potentially bone-crushing recession will arrive. There is also a big debt rollover coming in 2019–2028 (Figure 40). I've added the iconic plot of mortgage resets foreshadowing the '08–'09 crisis just in case anybody else sees parallels.

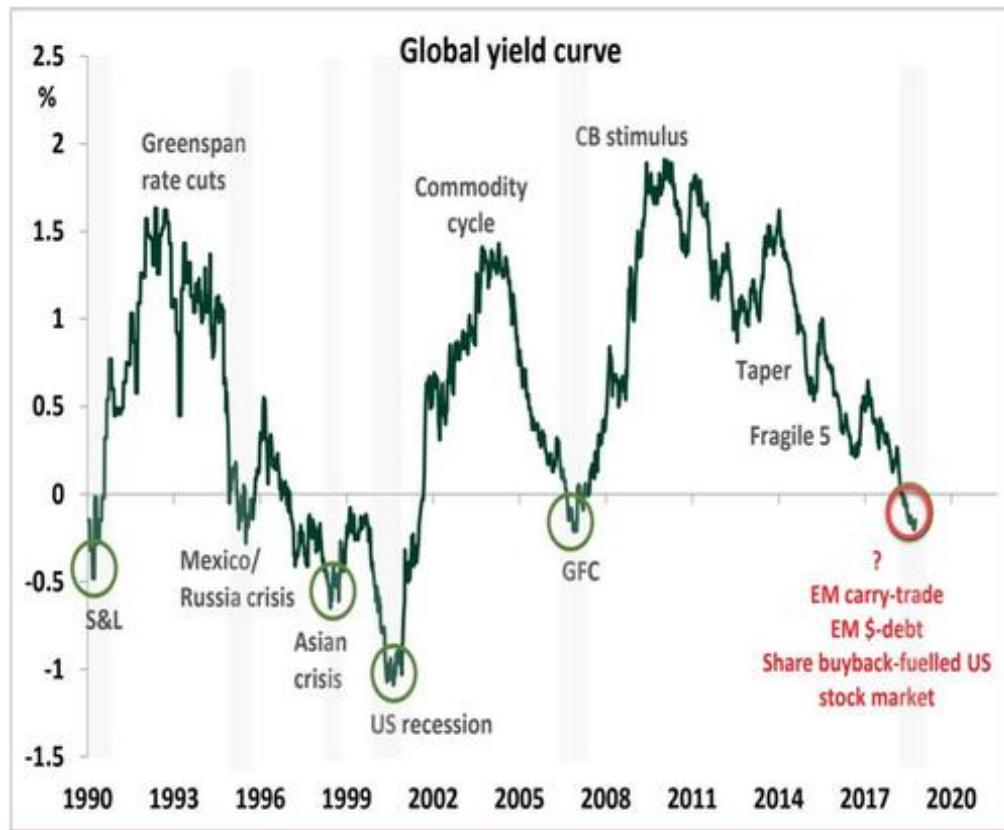
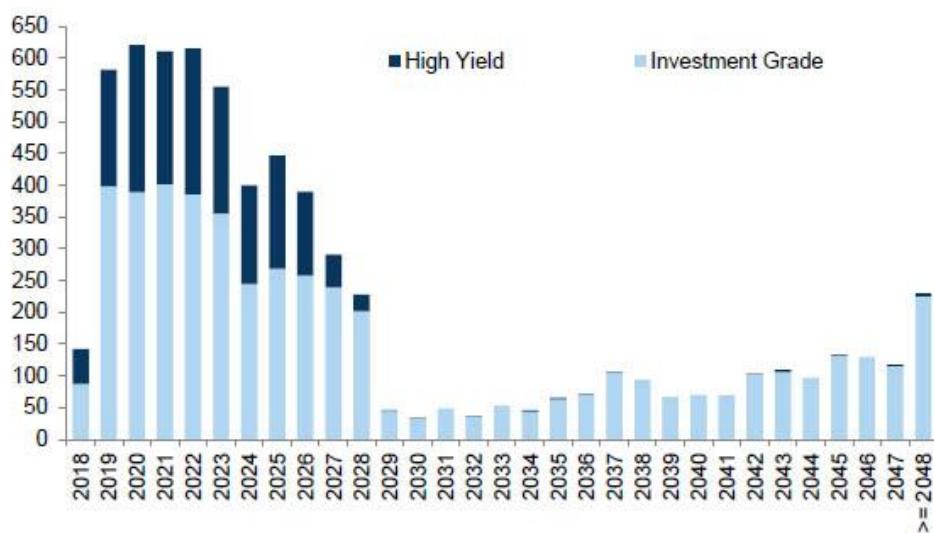


Figure 39. Global bond yield curve turning negative.

Exhibit 11: Over \$1.3 tn (20%) and \$3 tn (47%) of total debt outstanding is set to mature through 2020 and 2023, respectively
Face Value of US Non-Financial Corp. Debt by Year of Maturity (\$, bn)



Monthly Mortgage Rate Resets

(First reset in billions of U.S. dollars)

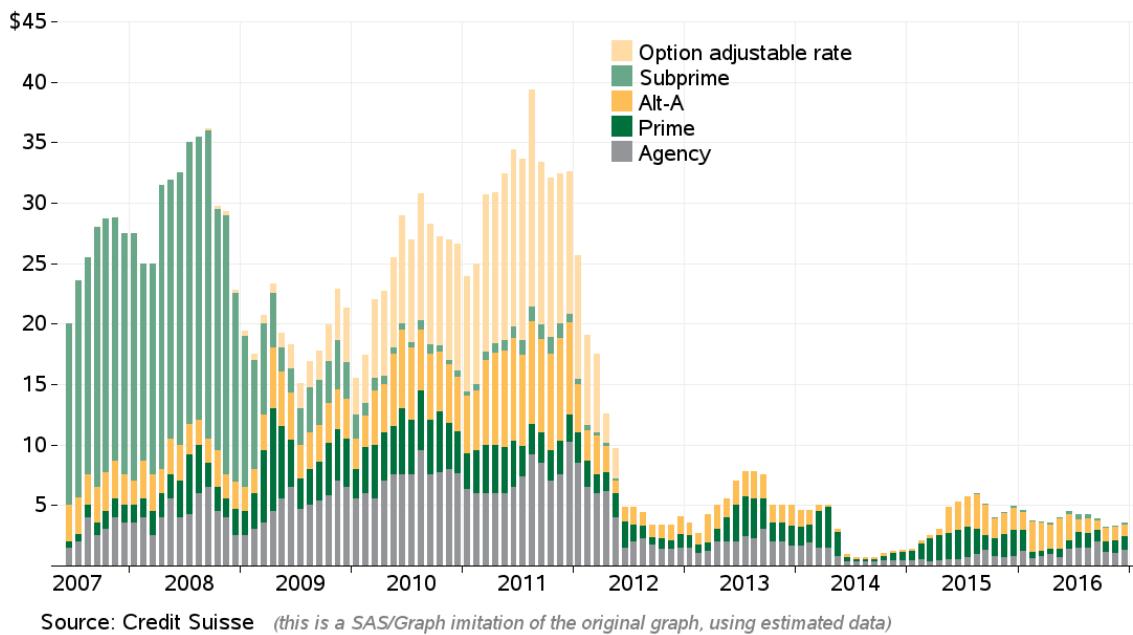


Figure 40. Debt rollover, 2019–2028, versus mortgage resets, 2007–2012.

“Consider for a second that for the first time in 18 years (!), U.S. 10-year yields are trading at a premium (10 bps) to Australian comparables! The long bond at 3.21% is 6 bps above Italian 30-year yields. . . . America is an AAA credit, and Italy is BBB.”

~David “Rosie” Rosenberg

Europe seemed relatively quiet. Brexit looms, but I refuse to spend any more time reading about the carnage that *will* happen and patiently wait to see what *does* happen. The idiocy of central bankers is reflected by negative yields on Spanish sovereign debt, 10-year Swiss debt returning 0%, bonds maturing in 2055 returning 0.5%, emerging-market junk-bond yields that are now below U.S. junk-bond yields, and a Greek 10-year yield below that of the U.S. 10-year yield. Negative yields on Italian debt concurrent with the country’s budget imploding finally triggered a VIX-like response (Figure 41). Mario Andretti would be in awe of the acceleration on that price discovery. Meanwhile, the covenants underlying much of this sovereign debt are said to be weak.^{ref 327}

NIRP's Revenge Italy 2-Day Bond Massacre: 2-Year Yield



Figure 41. Italian bond massacre.

"China is rewriting the economic history books because they have embarked on a view that they can simply borrow twice the amount of output growth as the growth in GDP."

~Jim Chanos, Kynikos (on Real Vision)

The out-of-body experiences are found in the emerging markets. Emerging-market debt tripled during the last 8 years.^{ref 328} China's bond market is opaque but said by many to be a profound risk to global markets. According to S&P, China's local governments have \$5.8 trillion of off-balance-sheet debt, representing "an iceberg with Titanic credit risks."^{ref 329} Jim Chanos, who is a galaxy-class short seller, says that the Chinese are building two to three times the number of apartments that demand can absorb. Outstanding loans are growing by >10% year over year.

"My thesis is that over the next decade we will endure increasingly damaging debt crises that culminate in a coordinated global default—"The Great Reset," as I call it. There are limits in how much leverage the world can handle and I think we are already beyond them. And that is before we have a global recession. The only question now is how we will manage the collapse."

~John Mauldin, founder of Mauldin Economics

Japan doesn't even have a bond market; it was nationalized by the Bank of Japan to the point that there are days in which not a single bond trades.^{ref 330} A market with a single buyer is called a "monopsony" (brought to you by Snapple.) Japan already spends a quarter of its tax revenue just to service its debt even though rates are ridiculously low.^{ref 331} If interest rates in Japan rose to 1% (not exactly usury), the nation's annual debt service would literally exceed all government tax revenue. When what few private bondholders left sell causing rates to flicker higher, the BOJ intervenes (*three times in a single week*), buying up all the bonds.

Argentina defaults on its debt every 15 years on average.^{ref 332} In 2017 the country issued 100-year bonds—century bonds or what I call “Beanie Bonds”—that were oversubscribed by some of the biggest names in U.S. finance: Fidelity, BlackRock, Lazard Asset Management, and who knows how many multinational banks (Figure 42).^{ref 333} Gillian Tett of the *Financial Times* noted that these bonds “may end up being the government bond market equivalent of the Pets.com IPO during the 2001 tech boom—the sign of a bubble peak.”^{ref 334}

Big funds that bought a bad, bad bond

Emerging market bond funds and ETFs that bought Argentina's 100-year bond

FUND or ETF	TICKER	TOTAL ASSETS	TOTAL VALUE OF HOLDINGS OF 100-YEAR ARGENTINA BOND**
iShares JP Morgan U.S. Dollar Emerging Markets Bond ETF*	EMB	\$11.4 billion	\$37,634,720
PowerShares Emerging Markets Sovereign Debt ETF*	PCY	\$4.5 billion	\$60,887,200
Lazard Explorer Total Return Institutional	LETIX	\$166 million	\$9,950,547
Fidelity Series Emerging Markets Debt	FEDCX	\$1.3 billion	\$4,462,065
Fidelity Advisor® Emerging Markets Income M	FAEMX	\$5.4 billion	\$34,557,818
Fidelity New Markets Income	FNMIX	\$6.1 billion	\$41,802,233

*As of October 31, 2017

**As of December 31, 2017

Source: Morningstar Direct, Fund SEC Filings

Figure 42. Purchasers of Argentine century bonds.

It took less than 1 year for Argentina to functionally default.^{ref 335} Of course, its GoFundMe campaign secured \$50 billion from the IMF to prevent global market turmoil by paying off its creditors.^{ref 336} Jim Rickards thinks the whole affair was a “backdoor way for China to lighten up on dollars. Yeah, it’s complicated.” That is outside my wheelhouse. What I *do* know is that it is never the country being bailed but rather the seemingly moronic creditors . . . which is *not* moronic if the creditors *know* bailouts are preordained. The IMF launders money from a number of countries to pay for such bailouts, but the primary sponsor is the United States—the U.S. taxpayer. Meanwhile, a 25% inflation rate and interest rates soaring to 40% are frying Argentina’s empanadas whether the country defaults or not.

“China reminded us that the tale of synchronized growth was false and that what we have been seeing in recent years has been synchronized growth of debt.”

~Daniel Lacalle, eighth-ranked “economic influencer” in the world!^{ref 337}

I suspect that when the cost of money resets—when price discovery rears its fugly head—many of these assets will cease to exist. What’s left will likely have new owners.

Inflation and Deflation

“I just don’t see much inflation pressure.”

~James Bullard, president of the St. Louis Federal Reserve

“If I had to bet my life on higher or lower inflation, I’d bet a lot higher.”

~Warren Buffett

“We know how to deal with inflation. We don’t know how to deal with deflation in this country.”

~Gary Cohn, former CIO of Goldman Sachs and former chief economic advisor to President Donald Trump

“My generation gave former tenured economics professors discretionary authority to fabricate money and to fix interest rates. We put the cart of asset prices before the horse of enterprise. We entertained the fantasy that high asset prices made for prosperity, rather than the other way around. We actually worked to foster inflation, which we called ‘price stability.’ . . . We seem to have miscalculated.”

~James Grant, talking to our future selves and grandchildren, 2014

The Fed claims that a small amount of inflation is good and then wavers as to how much is optimal. Never mind that luminaries like Paul Volcker have denounced such thinking as delusional. I asked financial Twitter for the best arguments supporting the Fed's ideas and got a host of answers, all of which had chards of truth and none of which made complete sense. The debate drew in big fish and little fry.

Some claimed that inflation is needed to coerce people to invest as though profit motive isn't enough. Others said consumers will retrench if they know products are going to get cheaper, contrary to data on tech gadgetry and common sense aside. William White, formerly of the BIS, previously noted that "the widely held assumption that consumers and corporate investors will extrapolate from past price declines and hold off on making purchases as a result of deflation has essentially no empirical support behind it."^{ref 338} Other Tweeters pointed to the dreaded deflation that has been MIA for almost a century. Of course, the reason deflation is so dreaded is that for it to appear against the headwinds of our inherently inflationary banking system means that central bankers already did way too much—they screwed the pooch.

Governments embrace inflation because they like to squander money they don't have to buy votes and, as Milton Friedman said, "Inflation is taxation without legislation." They also like the covert tax of inflation, and *love* taxing nominal gains that are illusory.

"I hate the word deflation because it is only a symptom of the problem. It's not the reason we have the problems we have today."

~Richard Koo, chief economist at Nomura Research Institute, talking about Japan

Some chimed in that the psychological impacts of wage cuts are so devastating that they are better masked by positive nominal gains. Others believe paying somebody in debased money is better than laying them off; it is a sticky wage argument. The *Wall Street Journal* had made such an assertion:

"Higher inflation could have other benefits. It could help economies adjust after a downturn by lessening the need for outright wage cuts, because rising prices will erode wages anyway."

~*Wall Street Journal*

The ultimate foolishness is that a Committee of Elders—the Fed—thinks it is better equipped than the Wisdom of Crowds—the free markets—at setting the price of capital. Its members appear to me to be just a bunch of fools making shit up based on hopelessly flawed Gaussian models claiming to be "data dependent." It is odd that nobody in the mainstream seems to think that when deflationary pressures appear, maybe the markets are telling us that we need a dollop of deflation.

The article in the *Wall Street Journal* that enthusiastically endorsed inflation I found problematic and Tom McClellan found support for this monetary creationism inexcusable.^{ref 339} He attacked the Fed for trying to keep too many ligma balls in the air at one time:



Tom McClellan @McClellanOsc · 3m

Listen up @federalreserve. The "policy" which Congress handed you is "stable prices". That means 0% inflation, not 2%. If a house was sliding into a ravine at a rate of 2% per year, would you say it was "stable"? Stop thinking that you have authority to change Congress' mandate.

Dave Collum @DavidBCollum

I am appalled that this thing made it to the WSJ. What the hell has happened to our system? Is it run by morons?

wsj.com/articles/polic...

The mystery of this most recent decade is that creating vast sums of new reserves in central banks—an estimated \$20 trillion—did *not* generate high or even hyper-inflation (yet). I'm a goldbug; I thought inflation was coming. Ben Bernanke blamed the “savings glut” of our trading partners, which seems to be just looking for a scapegoat. Mervyn King (see “Books”), however, did a nice job of explaining that if our trading partners let trade imbalances chase financial assets rather than goods and services, you get a lousy economy *and* inflation in the financial assets. That's *exactly* what we got. Of course, those who speculate in those financial assets *love* that kind of inflation until it unwinds (oftentimes violently).

“I've never bought into that.”

~William White, on the “savings glut” thesis

Just as deflation is demonized by the Fed, inflation is demonized by the blogosphere. Somebody called it the “the date rape drug of taxes.” Bloggers squealing about the dollar losing 97% of its purchasing since 1913, however, often forget that there are compensating mechanisms along the way in the form of nominal pay raises and nominal asset appreciations. David Andolfatto, vice president of the St. Louis Federal Reserve and who seems to function as an outreach coordinator for the Fed, addresses this in a thoughtful blog, noting that you are 97% poorer only if you took your 1913 dollars and stuffed them in a mattress.^{ref 340} Ironically, if they were in uncirculated condition, you would enjoy nominal gains of up to 200-fold in the numismatic marketplace. Andolfatto also makes the curious argument that high interest rates are anti-inflationary by stepping on the economy (check) but *pro-inflationary* by jamming gobs of interest into the system. Wait. *What?* That idea is new to me and creates a bit of a monetary paradox, but I keep thinking about it.

Michael Hartnett of Bank of America, noting 700 rate cuts and \$14 trillion asset purchases by central banks since the Great Recession, sees parallels of 2018 and 1966.^{ref 341} Millennial chart monkeys will likely not appreciate that the years after 1966 witnessed virulent inflation, horrific *real* (inflation-adjusted) returns on financial assets, and an economic malaise that lasted until the early 1980s. The shift in preference from equities to hard assets and high-interest-rate bonds—notice I didn’t say “flow” into or out of anything, which is risible nonsense—caused severe turbulence. It was a terrible time to invest for most.

Official reports of inflation are starting to creep up, although by no means outside the Fed’s highly fluid comfort range. Anecdotal reports, however, are painting a more serious picture. The CEO of Sherwin-Williams said that “raw material inflation has been unrelenting and accelerating.”^{ref 342} Eric Cinnamond listens to hundreds of microcap investor conference calls each quarter and says that CEOs are all complaining of cost pressures.^{ref 343} Companies like Caterpillar report that price increases are not keeping up with rising production costs.^{ref 344} The CEO of Lincoln Electric claims that “We’re in a very rapidly increasing inflationary environment.”^{ref 345}

“J.B. Hunt says 10% raises are the antidote to the truck-driver shortage”

~Bloomberg headline

The tariffs discussed in the “Economy” section are causing companies to arbitrarily implement 15–25% price hikes anticipating raw material or finished goods costs emanating from China.^{ref 346} (I can’t help but wonder, admittedly with a *low* probability weighting, if the tariffs aren’t part of a covert bilateral agreement.) The wage pressures seem real. Teachers across America have been walking out of school classrooms to attend rallies in protest for higher salaries and improved classroom resources.^{ref 347} Jobs are going unfilled. Wage inflation scares macro bean counters. BIS economists suggest that a global shrinkage of the working-age population is causing inflation to trend up (more money chasing, fewer workers).^{ref 348} Paul Tudor Jones sees Fed chair Powell as George Custer, sandwiched between a mountain of debt on one side and inflationary pressures on the other.^{ref 349} He thinks Powell needs to hike rates *pronto* to curb margin debt in the markets and facilitate a more efficient allocation of capital.

“Volatility collapsed after the crisis because of central bank manipulation. That game’s over. With inflation pressures now building, we will look back on this low-volatility period as a five standard-deviation event that won’t be repeated.”

~Paul Tudor Jones

By now most have read about the distortions of substitution and hedonic adjustment foisted on us by the Boskin Commission^{ref 350} and unfoisted by John Williams.^{ref 351} I’ve already taken a bat to the MIT Billion Prices Project—I think there is an Achilles’ heel in it—and won’t return to it.^{ref 352} We also know that products that don’t last should be priced per unit function: They are

not. Figure 43, showing the cost of various goods and services, blanketed the internet this year. Do you really think you can buy a TV for 4% of what you paid in 1990? Sure it's a better TV (or at least a cooler TV), but you are not walking out of Best buy with an \$8 TV even on Black Friday. Have prices of cars really not moved in 20 years? A Ford F150 cost \$17,000 in 2007 and \$40,000 in 2017. Yes, it now has a backup camera and anti-lock brakes, but it costs more than twice as much to move firewood, display our gun collections, and wield MAGA bumper stickers. Try Googling rents or single-family home prices: Are they really up only 61% since 1995? I am calling bullshit on this chart. It was undoubtedly created by hedonic-adjusting tools (economists).

“Americans are getting stronger. Twenty years ago it took two people to carry \$10 worth of groceries; today a five-year-old could do it.”

~Henny Youngman, comedian

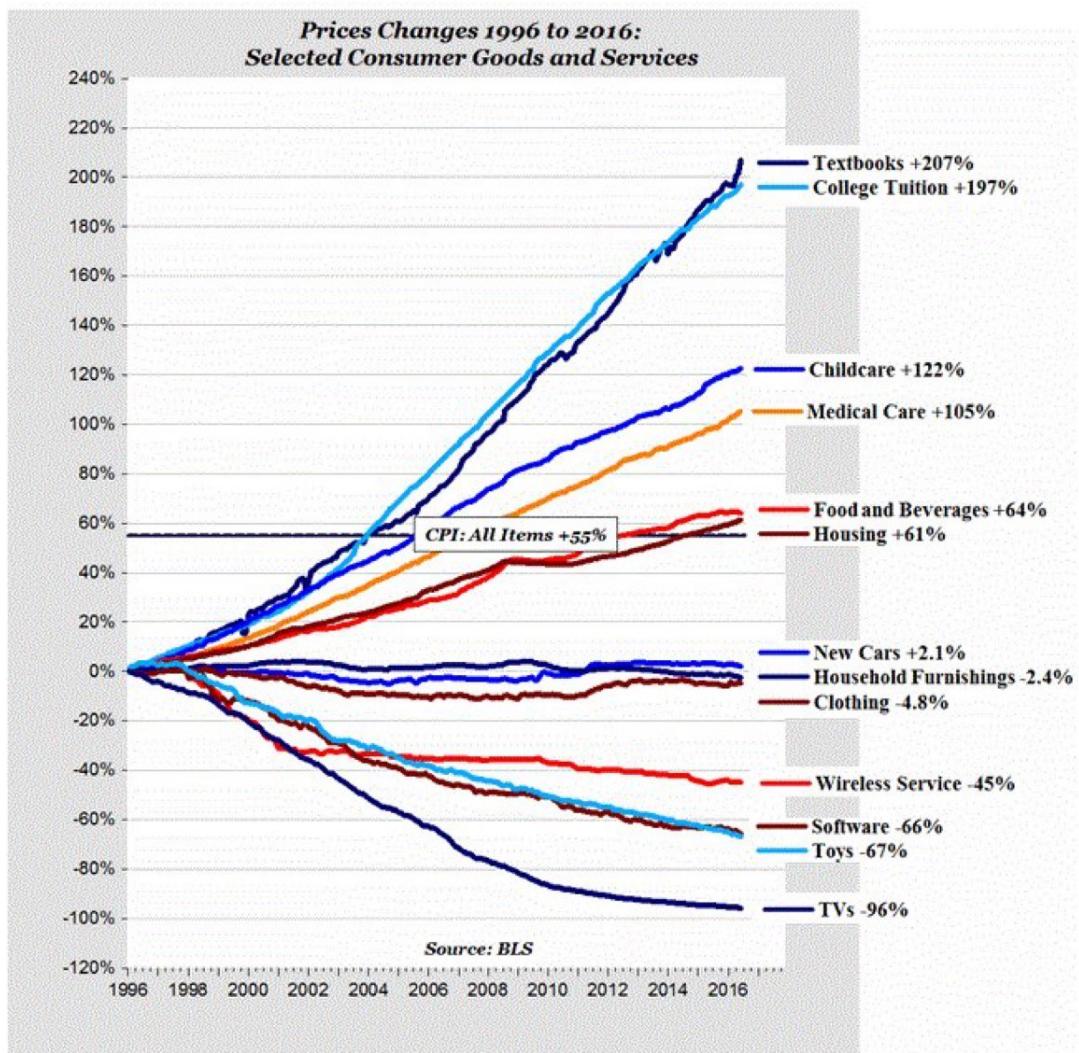
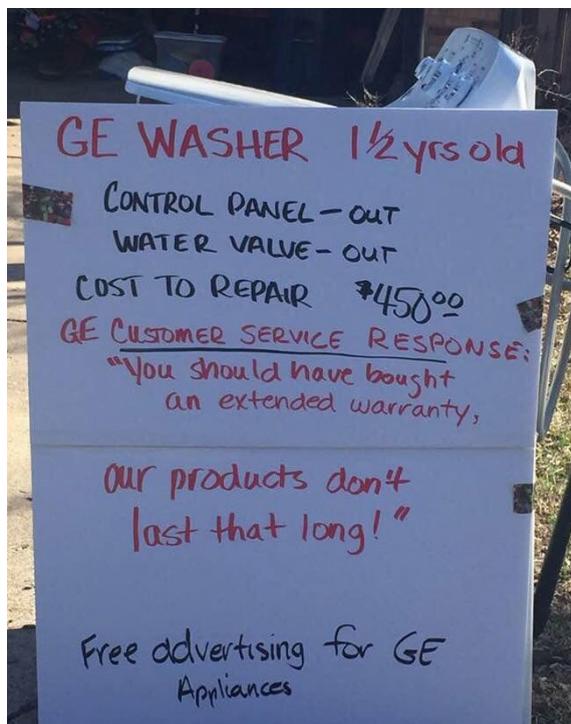


Figure 43. Hedonically adjusted prices.

I take a swipe at hidden inflation every year. The durable goods we buy have a programmed and accelerated senescence that borders on progeria. Your kids' toys *are* cheaper, but do they last more than a few minutes? A toaster that cannot be repaired when it breaks is expensive, especially when it breaks fast. The quality reduction can be profound too. Processed food uses animal and vegetable parts that were previously fed to pigs. Food scientists have rendered them palatable through very clever tricks like adding buttloads of salt and sugar (or high-fructose corn syrup). The meat in Dinty Moore stew is disgusting. Cracker Jacks no longer are made from popcorn. Your appliances are shiny with lots of buttons that you never use, and they don't last. Shrinkflation has been around for eons. Coke cut its 1.75-liter bottle to a 1.5-liter bottle and then raised the price. At some point, the company will offer a really large bottle (1.75 liters) for an even higher price. I still haven't figured out how to account for laptops, iPads, iPhones, and internet service. For what you get, they are amazingly cheap. As a part of a family's budget, however, they pose existential financial risk. How do you account for amazing technology that you *must* own—even the Mennonites own them—but that you cannot buy without a HELOC? Check out Figure 44. Try a little mental math on how much a paycheck could buy you in 1938.



1938 COST OF LIVING	
<u>LIVING</u>	
New House	\$3,900.00
Average Income	\$1,731.00 per year
New Car	\$860.00
Average Rent	\$27.00 per month
Tuition to Harvard University	\$420.00 per year
Movie Ticket	25¢ each
Gasoline	10¢ per gallon
United States Postage Stamp	3¢ each

FOOD	
Granulated Sugar	59¢ for 10 pounds
Vitamin D Milk	50¢ per gallon
Ground Coffee	39¢ per pound
Bacon	32¢ per pound
Eggs	18¢ per dozen

Figure 44. Cost versus quality.

And here is a curious little anecdote:

1932 gold ounce = \$20.67

1932 Yale University tuition, room, and board = \$1,056 (51 ounces of gold)

2018 gold ounce = \$1,225

2018 Yale University tuition, room, and board = \$65,000 (53 ounces of gold)

Banks

“With mortgage applications declining, executives have a choice to make: Should underwriting standards be lowered? When volume becomes the defining metric for how loan officers and mortgage companies get paid, then loan quality deteriorates.”

~Chris Whalen, Whalen Global Advisors

“Your problem is that you are trying to understand it as an economic story. Once you think of it as a crime story, you’ll get it.”

~Insider to Matt Taibbi when writing about the subprime crisis

We’re told that the post-crisis banking rules were tightened to make the banks safe again, and now we are about to unwind these protections with the poorly named “Economic Growth, Regulatory Relief, and Consumer Protection Act” that would return the banks to their birthright as gigantic hedge funds.^{ref 353} A 1982 declassified memorandum included Jack Anderson, a journalist, discussing the upcoming collapse of the banking system and the CIA’s risk assessment.^{ref 354} There were crises of course; the late 80s savings and loan crisis may have been what was spooking the spooks. Do the bankers never learn? Are they doomed to loop around this infinite Mobius strip? In a sense, yes. This year’s winner of the Nobel Prize in economics, Paul Romer, and some famous guy named Akerlof, wrote a 1994 paper titled, “Looting: The Economic Underworld of Bankruptcy for Profit.”^{ref 355} They describe how the inefficiency of the boom–bust cycle is exploited by the banks during both phases. During the boom, the bankers make huge fees and pay themselves handsomely because, well, they are wonderful stewards of capitalism. During the bust, profits stem from looting the system, cloaked by the chaos and pandemonium of bailouts. The bankers then pay themselves handsomely because they are wonderful stewards of crony capitalism too.

Recall in ’09 when huge bonuses were defended to keep talent around long enough to save the world from the Apocalypse caused by all this talent? Banking is like Danegeld—payments to the Vikings to stop them from looting and spreading their DNA around the Isle of Britannia. Soon the Danes wanted more money and hot chicks. I suspect we have finished the boom half of the cycle again and are now looking for the raping and pillaging phase to commence. What will trigger the next crisis? Bank analyst Chris Whalen already sees lenders bracing for

problems and reducing staff in their consumer and mortgage lending businesses.^{ref 356} Eyes are on the European banking sector getting its market caps deracinated. One of the popular risk measures—the Libor–OIS margin^{ref 457}—is vibrating like the puddle in Jurassic Park.

“The Senate just voted to increase the chances your money will be used to bail out big banks again.”

~Elizabeth Warren (@SenWarren), insert politically incorrect Indian joke here

Despite regulatory constraints, the banks have managed to insert leverage into every orifice imaginable while moving the risks away from themselves or so they say. Bank loans to non-bank financial firms have increased sixfold since 2010.^{ref 358} Big banks are not making lots of subprime auto loans but rather lending to subprime loan bundlers who have jammed a record \$345 billion of subprime loans.^{ref 359} In a crisis, the autoloans default first, and then the bundlers hit a bridge abutment. Hmm . . . who is on the hook now? Increasingly popular and dubious loans to unsuspecting, near destitute, and likely to be transitory homeowners are called “non-qualified mortgages.”^{ref 360} Truth in advertising. That particular form of high-risk lending doubled in a year and is said to be on track to double again next year.^{ref 361} The direct risks posed by notional derivatives, which have grown 50% to \$1 quadrillion since ’07, are watched nervously.

“Getting a lot of calls about DB today. Where to begin? A hedge fund in drag that pretends to be a bank. . . . Earth [to] Merkel.”

~Chris Whalen

Bearing down on a few specifics, the systemically important financial institutions (SIFIs) are all wobbling in synch—precessing—while their credit default swaps (CDSs) have arisen from their slumber.^{ref 362} Deutsche Bank (DB), for example, is five times the size of the former Lehman when it brought the system to its knees. DB also has the largest derivatives book on the planet. Of special interest, it is trading like Lehman, having lost 94% off its ’07 high (Figure 45). An 80% drop in earnings in 1 year suggests that the bank is insolvent and headed for nationalization. DB fired 10,000 employees (10% of its workers), a drop in the bucket.^{ref 363} I think it’s time it changed its name to Deutsche Blockchain.

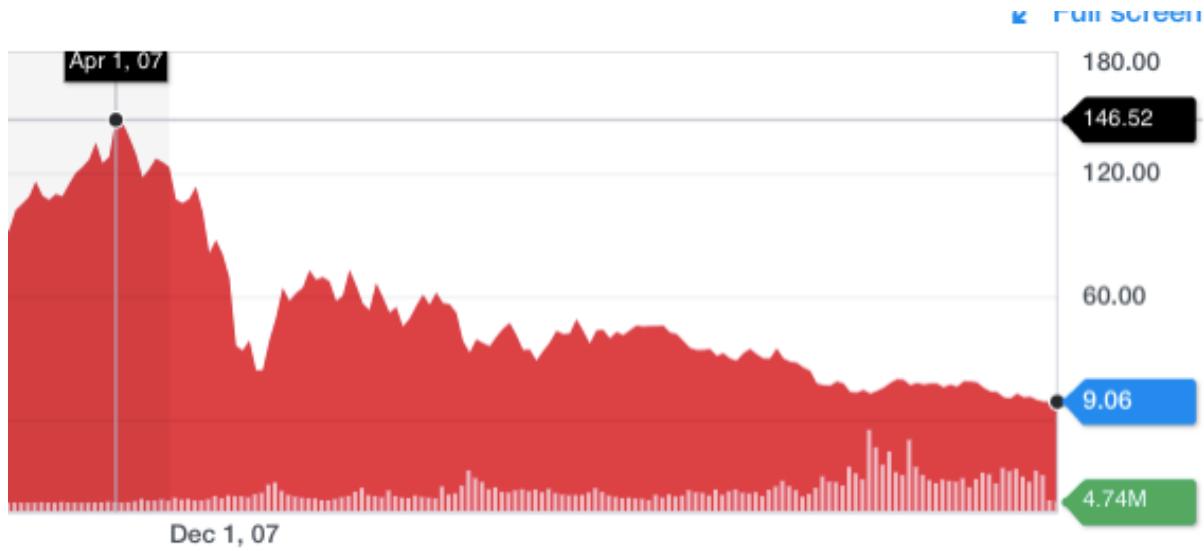


Figure 45. Deutsche Bank.

"The best thing that could happen to society is the bankruptcy of Goldman Sachs."

~Nassim Taleb, author of bestsellers (see "Books") and former Goldman trader

Banking is supposed to be boring, but there were a few humorous moments this year. Goldman got caught stealing billions from the 1 Malaysian Development Bank (1MDB),^{ref 364} but who cares about the impoverished Malaysians? That's a rhetorical question: Other sovereign wealth fund managers seemed to care.^{ref 365} As Jimmy Carter said, "I guess you just can't trust Goldman." Danske Bank laundered over \$200 billion according to whistleblowers.^{ref 366} That ought to generate a few fines and send a lot of business back to HSBC. Wells Fargo had a "glitch" that led to double dipping on some payments and even some accounts being emptied.^{ref 367} It got fined \$2 billion for stealing from millions of customers. Since fines for committing felony on a gargantuan scale are considered a business expense, the bank will get a nice tax break.^{ref 368} It was downgraded by its bank brethren for having inadequate safeguards to prevent getting caught.^{ref 369} Once Wells emptied its coffers to pump shares with stock buybacks,^{ref 370} it had insufficient funds to keep 26,000 people on payroll.^{ref 371} *On the bright side, the CEO got a 36% raise this year to ensure that he sticks around to clean up his mess.*

Of course, Wells Fargo's largest shareholder, Berkshire Hathaway, played activist and jumped in to bring some honor back to this once great institution. Yeah, right. Neither side of Warren Buffett's mouth was available for comment, but the irrepressible Charlie Munger chimed in:

"Wells Fargo will end up better off for having made those mistakes. I think it's time for regulators to let up on Wells Fargo. They've learned."

~Charlie Munger

Yes, Charlie, we've all learned: Crime pays, and your bluntness is surpassed only by your ruthlessness. The miracle of modern medicine is that you can sleep at night. That Wells hasn't been auctioned off for parts and its high command marched off to a gulag illustrates the efficacy of the Obama-era "No Banker Left Behind" (NBLB) program. Being owned by Berkshire is also a "protected class." The most satisfaction customers will get comes in the form of checks to compensate them for their losses. I've gotten two such checks for settlements of class action suits. They both were <0.1% of my assets under management. You know what this means? I got screwed three times: (a) the brokerages slipped roofies to me Cosby-style and repeatedly jammed illegal hidden fees up my . . . , (b) the lawyers took half the settlement, and (c) the justice system settled for squat and didn't hang any of the bankers with their genitalia stuffed in their mouths. Do I sound bitter?

Several academic papers concluded that Wall Street firms trade on inside information and that "changing the law to fix that may not even be feasible."^{ref 372} (Academics actually get *paid* to come up with such epiphanies.) Bank of America (BofA) did not have a single day trading loss in the first quarter.^{ref 373} Seems like an improbable run in a straight game. BofA also got caught robbing safe deposit boxes again.^{ref 374} Recall that the state of California was emptying safe deposit boxes and selling the contents without even inventorying them first.^{ref 375} BofA has also been freezing the accounts of people suspected of being illegal aliens, no doubt out of a deeply moral conviction and support for Trump's immigration policies.^{ref 376} One of Morgan Stanley's highly compensated bankers has been driving for Uber in his free time.^{ref 377} Any bets on who gets the >\$100 billion Uber IPO? Finally, Jeffrey Skilling of Enron fame got out of prison.^{ref 378} The bankers who helped set up all the off-balance sheet scams have not been released because, well, they never got arrested.

The party isn't rockin' until somebody calls the cops or puts an eye out. Until then, the social IQ of the partygoers just keeps dropping. Nothing is happening yet—the KRE banking index is comfortably 200+% off the '09 lows and only –20% off its 2018 highs.^{ref 379} There are, however, stresses building within the banking system. SocGen analysts list four triggers: trade wars, significant market repricing, European policy uncertainty, and a hard Chinese downturn.^{ref 380} The FDIC monitors "assets of problem banks" and reported a 200% increase during the third quarter of 2018.^{ref 381} The four largest U.S. retail banks are witnessing consumer stress in the form of credit card losses.^{ref 382} Scott Miner suggests that small hikes in lending rates will blow out the zombies (see "Corporate Debt"), causing a wave of defaults that are long overdue.^{ref 383} Miner notes, "There are a lot of companies that are zombie companies that survived the last cycle. As these companies have their debt repriced by the market with rates going up, it's going to be harder and harder (for them) to stay alive." The credit system is surely at risk if corporate paper starts defaulting. Jesse Felder suggests that "a cottage industry has developed to explain what is behind the dramatic move in Libor."^{ref 384} Something is stirring below the placid surface. (Cue the *Jaws* sound effects.) Europe in general and Italy in particular pose serious risks, as does China. Whalen Global Advisors claims that net interest income for all U.S. banks will be declining by early 2019 and that, "the superficial narrative parroted by Wall Street pundits that rising interest rates are good for banks and other

leveraged investors will be shown to be complete nonsense.”^{ref 385} Cheap funding is over. “Banks in the U.S. are about to get caught in an interest rate squeeze of gigantic proportions,” causing shrinking profits and—wait for it—a recession! There will be 11 Wells Fargo employees who couldn’t care less because they won a half billion dollars in California’s Powerball.^{ref 386}

“From the economy’s vantage point, instead of asking how the banks are to be saved ‘next time’, the question should be, how should we best let them go under.”

~Michael Hudson, Levy Economics Institute

The Fed

“You will never see another financial crisis in your lifetime.”

~Janet Yellen, spring 2018

“I do worry that we could have another financial crisis.”

~Janet Yellen, fall 2018

“The lower-for-longer approach promises, in effect, to allow the economy to boom. The FOMC needs to make a credible statement endorsing such an approach, ideally before the next downturn.”

~Janet Yellen

“We have undertaken to stabilize economic forces, to mitigate the effects of the crash and to shorten its destructive period. I believe, I can say with assurance that our joint undertaking has succeeded to a remarkable degree.”

~Herbert Hoover, 1930

“The Fed can change the way things look, but it cannot change what they are.”

~James Grant

“The last duty of a central banker is to tell the public the truth.”

~Alan Blinder, former U.S. Federal Reserve vice chairman

“For more than three decades, macroeconomics has gone backwards.”

~Paul Romer, winner of the 2018 Nobel Prize in economics

The Fed has been oversteering and overmedicating the economy since 1913. The Fed promptly spawned a credit bubble in the 1920s that led to the biggest crisis in our history and was, in my opinion, the primary cause of the Great Depression.^{ref 387} The emergence of Greenspan sent us through a series of micro-crises ultimately leading to the big one in 2008–09. (Actually, I think the Big One is coming, but that is conjecture.) Everybody agrees that Greenspan kept rates too low for too long, laying the groundwork for the crisis. In response, Bernanke and eventually all central bankers began coloring way outside the lines. What did he do? As Stan Druckenmiller puts it, *“They tripled down on what caused the crisis, and [they] tripled down globally.”*

“Data dependent Fed: average real GDP growth during QE was 2.2%. During no QE and the 5 rate hikes it’s averaged 2.1%.”

~@GreekFire23, smart guy—possibly in prison or Goldman (but certainly not both)

Now the central banking cartel has created what appears to be an epic bubble of equities, bonds, and pretty much anything denominated in dollars. Bernanke opened the tap; Yellen kept it open and went for a smoke. All central banks served up buckets of punch, and the global economy became a sloppy drunk. Jerome Powell was left with the job of getting everybody to the vomitorium and cleaning up the vomit. Some think he’ll blink and let the party resume, but don’t forget that in 2001, the Fed hiked rates 50 basis points—a monetary bitch slapping—with the Nasdaq already 40% off its 2000 highs. Let’s hope that as Jay moose-knuckles the rates higher he has a steady, consistent hand on the rudder:

“I think we are actually at a point of encouraging risk-taking, and that should give us pause. Investors really do understand now that we will be there to prevent serious losses . . . we look like we are blowing a fixed-income duration bubble right across the credit spectrum that will result in big losses when rates come up down the road. You can almost say that that is our strategy. I think there is a pretty good chance that you could have quite a dynamic response in the market.”

~Jerome Powell, chairman of the FOMC

“There’s no reason to think this cycle can’t continue for quite some time, effectively indefinitely.”

~Jerome Powell

“The US is on an unsustainable fiscal path; there’s no hiding from it.”

~Jerome Powell

“When it is time for us to sell [Fed assets], or even to stop buying, the response could be quite strong.”

~Jerome Powell, before becoming FOMC chair

As @GreekFire23 said—I can’t believe I just typed that—the average GDP growth during QE was only 2.2%. During the subsequent period witnessing multiple rate hikes GDP has averaged 2.1%. One might ask “What is it good for?” The answer could be “Absolutely nothing! Say it again!” Economists at the St. Louis Fed published a report card on the efficacy of QE and, shockingly, concluded that it was largely a bust.^{ref 388} The Fed made stone soup hoping that the free market would start adding substantial ingredients. While QE pushed up asset prices as intended, the economy limped along feebly. The Fed was trying to shove credit into a saturated credit market. This is how it plays out in my head:

Borrowers: “We would like to borrow some money.”

Savers: “OK. Here is what it will cost.” (Some haggling ensues.)

Savers: “We have a deal?”

Fed: “That price is too high. We know because we have PhDs! We’ll pound it lower.”

Borrowers: “Deal!”

Savers: “Dufuq?”

So how does QE actually work? In theory, banks can sell treasuries to get cash equivalents to be used as reserves for lending—treasuries are technically not considered reserves. Alas, that is a zero sum game because now cash is depleted elsewhere. When the Fed replaces long-maturity assets with short-maturity reserves via QE, no cash drains and the banks now have larger reserves against which they can lend more money with a 10- to 12-fold multiplier. Richard Koo noted that the 19-fold increase in reserves risked a 19-fold inflation and got . . . crickets.^{ref 389} Indeed, there was some lending, but arguably not lending conducive to economic growth (share buybacks, for example), and banks stored these reserves at the Fed in interest-bearing accounts more like an annuity to kick off a steady cash flow. The Fed economists who wrote the QE report seemed to question the practical consequences of QE and even the theoretical underpinnings:

“It is not clear that QE should have any effect and it might actually be detrimental to the efficiency of the financial system. . . . QE works much as conventional accommodative policy does—it lowers bond yields and increases spending, inflation, and aggregate output. But we should be skeptical of this interpretation.”

Frequent and willing sparring partner and vice president of the St. Louis Fed, David Andolfatto, often tells me that this cash-for-treasury swap is no big deal:

"I do not think QE facilitates credit creation. QE simply relabels the public debt as 'interest-bearing reserves' instead of 'interest-bearing treasuries'."

~David Andolfatto, vice President of St. Louis Federal Reserve

By the end of the ensuing debate, I find myself asking something like, "Then why did they do it?" I guess we will find out if it is no big deal in reverse, too, as they dehydrate the markets (drain liquidity) via quantitative tightening (QT). But I am ahead of myself.

Charles Gave notes, "purchasing government bonds from domestic banks, so flooding them with reserves, the Fed can engineer an increase in the U.S. monetary base." OK, but as Andolfatto would say, "so what?" Based on efforts in the U.S. and in Japan, where QE was big, or in Canada, where no QE was undertaken, the skeptics in St. Louis wondered whether there was *any* evidence that QE increases inflation or, more important, real GDP: "Evaluating the effects of monetary policy is difficult, even in the case of conventional interest rate policy. With unconventional monetary policy, the difficulty is magnified . . . perhaps the private sector can do a better job than the central bank in turning long-maturity debt into short-maturity debt." We also got a report out of Deutsche Bank claiming that, with respect to "unconventional" monetary policies such as QE and negative interest rates, "the impact on the economy was negative."^{ref 390} Prominent economist Daniel Lacalle concurs: Monetary stimulus does not work.^{ref 391}

"In my view it failed, 100 percent. It caused the stock market to go up because people took all that liquidity and invested it in the stock market, but it did not cause the economy to grow even 10 basis points faster."

~Steve Eisman on the effect of QE

One can only imagine what's coming next and how we get out of this monetary lobster trap. Maybe QT will be a bust just like QE—no big deal. Oddly, Richard Koo claims he could find no papers whatsoever describing how to exit QE and submits that it might be quite a bitch—a *Hotel California* moment. Some say the Libor rate that determines corporate borrowing rates is already tightening ahead of the Fed. This is way above my pay grade, but the folks at BMO Capital Management seem seriously concerned.^{ref 392} They say a slow, methodical and putatively painless natural unwind by paying 2.5% on reserves will add \$50 billion to our already bloated deficit every year. Why? Because it will deplete the cash flow from the Fed to the U.S. Treasury, which uses the cash flow to pay bills. Many don't realize that the "FAST Act", which authorized the U.S. government to plunder excess capital from the Federal Reserve, established a mechanism for the Fed to monetize Federal debt.^{ref 393}

“Fed officials will be under enormous pressure to accommodate swelling federal deficits—even if it means pretending that the central bank is a source of revenue to the Treasury. The operative model of political economy here is Argentina in the 1970s.”

~Chris Whalen

“One of the characteristics of a struggling republic is the inability to separate its central bank's resources from the fiscal largesse of the federal government. Using central bank resources to avoid addressing funding of the government is a sure path to runaway inflation, economic decline, and periodic financial crisis.”

~David Kotok, co-founder of Cumberland Advisors

“Stop talking about ‘The Fed’. Talk about central banks. . . . Their balance sheets are the highest they've ever been.”

~Jim Bianco, founder of Bianco Research

Jim’s point is that everything you see the Fed doing is being done across the globe. The Bernanke QE model was implemented on industrial scales without even beta testing it. QT will be carried out with equal care and preparation.

“The success of our institution is really the result of the way all of us carry out our responsibilities. We approach every issue through a rigorous evaluation of the facts, theory, empirical analysis, and relevant research.”

~Janet Yellen

“Congress has taken away some of the tools that were crucial to us during the 2008 panic. It's time to bring them back.”

~Bernanke, Paulson, Geithner

“Rubbish, they had all the tools necessary. They just never recognized beforehand that the economy was a massive credit bubble—just like it is now.”

~Albert Edwards, Societe General (SocGen), in response to the Bernank

Let’s finish with some quotes that give me pause and may give a few bloggers some quote porn.

“Although we work through financial markets, our goal is to help Main Street, not Wall Street.”

~Janet Yellen

“If the Fed can cause a 500-basis-point change in interest rates, it is absurd to wonder if monetary policy is important.”

~Paul Romer

“The Federal Reserve may have to press harder on the brakes at some point over the next few years. If that happens, the risk of a hard landing will increase.”

~Bill Dudley, former president of the New York Federal Reserve and former economist at Goldman Sachs

“Central bankers are like stupid magicians: They are as surprised as the audience when they pull a rabbit out of their hat that they just put there.”

~Sean Corrigan (@TrueSinews), Cantillon Consulting

“History suggests that if the Fed waits too long to remove accommodation at this stage in the economic cycle, excesses and imbalances begin to build, and the Fed ultimately has to play catch-up.”

~Robert Kaplan, president of the Dallas Federal Reserve

“I see roughly equal odds that the U.S. economy’s performance will be somewhat stronger or somewhat less strong than we currently project.”

– Janet “Yogi” Yellen

“We’ve become so complacent about central bank policies that we’ve quietly tolerated a rise in financial asset prices to the point where even a little inflation would devastate portfolio returns.”

~Eric Peters, CIO of One River Asset Management

“We have been suppressing rates. If rates rise it’s a ticking time bomb.”

~Richard Fisher, former President of the Dallas Fed, speaking in 2015

“Everything we see about the near-term outlook is quite strong.”

~Ben Bernanke, July 2018

“The Fed has acknowledged no failures. All the experiments have been successful, every one: no failures, no negative side-effects, no perverse consequences, only diminishing returns.”

~Peter Fisher, former official at the New York Federal Reserve

“Try to publish an article critical of the Fed with an editor who works for the Fed.”

~J. K. Galbraith, Harvard University and author of *The Great Crash, 1929*

“Even when things happen in the economy that would otherwise have triggered inflationary episodes, they don’t today because financial markets trust the Fed to do the right thing to keep inflation under control.”

~James Bullard

The yield curve will soon be inverted
As many have clearly asserted
When everything tanks
The fault? ...central banks
Their policies? ...clearly perverted

~@TheLimerickKing

Human Achievement

“Opportunities don’t happen; you create them.”

~Chris Grosser

We are now transitioning from economics and markets to the political and social events of 2018. As noted at the outset, I have over a hundred pages of quotes, notes, and anecdotes about Trump, Russian collusion, and the nefarious activities going on in the Deep State. It has grown progressively harder to wrap my brain around what I am actually witnessing. I can no longer write a chapter or two. I may be able to write a book, but certainly not in the months of November or December. It is what it is. I have focused on what catches my eye and what is achievable.

Random topics that come across my field of view that I capture are loosely defined as "Human Achievement". Who could forget the heroics in Thailand as cave divers saved the Thai soccer team?^{ref 394} Buddhist teachings by their coach helped them cope with stress and lower their oxygen intake for two weeks. Two heroic cave divers found them.^{ref 395} Divers from around the world suffering from toxic masculinity—no pussy hats or man buns on those guys—pulled them out. Meanwhile, Elon Musk was show boating with a useless submarine and calling one of the heroes a pedophile^{ref 396} and then gets sued.^{ref 397}

Although watching sports is too time consuming for me, I catch a lot on the fly. 2018 had some unlikely sports heroes. A 36-year-old accountant, Scott Foster, was called to play goalie for the Winnepeg Jets. The night before he was playing rec league for "Johnny's Icehouse" and probably did so the following weekend. On that one memorable night, however, he played 14 scoreless minutes in the Big League.^{ref 398} A 32-year old rookie got called up to play for the LA Lakers, came off the bench, and drained 19 points.^{ref 399} (It's not quite like those six three-pointers by the autistic kid,^{ref 400} but it's still amazing.) The winning Superbowl coach was coaching high school football nine years earlier.^{ref 401} (Trivia point: years ago, Cornell fired one of a long string of marginally successful football coaches. He was George Seiferth. You can't get talent into the Ivies.) The Boss of the sports world was an approximately 12-year-old fan who, when handed a game ball by the infielder, had the smarts to give it to a seriously hot chick sitting behind him... but not before switching it with the ball he bought from Dicks Sporting Goods.^{ref 402} *That's metagame.*

The PyongChang Olympics had six Cornell alums (mostly women's hockey).^{ref 403} In my opinion, women's hockey is as good to watch as men's hockey. Meanwhile, American Elizabeth Swaney achieved everybody's dream by competing for Hungary in the half pipe while being awful—seriously wretchedly bad.^{ref 404} She spotted a seam in the rules that qualified her for the Olympics by amassing top-30 finishes at international events. She traveled the world competing in all half-pipe competitions with fewer than 30 entrants.^{ref 405}

Other bulletable achievements included:

- Tiger won his first tournament since 2013. It's all about redemption.
- Jordan Bohannan tied Chris Street's University of Iowa record for most consecutive free throws, 34, that had withstood two decades. Chris had died in a car accident 3 days after graduation. Bohannan, stepping up to the line to set a new record, looked at his brother in the stands, bonked it against the iron, and pointed to the sky: "It was not my record to have." Superheroes don't always wear capes. I am tearing while I type.^{ref 406}
- In March madness, #16 seeded UMBC beat #1 seed University of Virginia 74–54, busting every March Madness Bracket in the World.^{ref 407}

- Drexel came back from a 34-point deficit, setting a new comeback record for Division I basketball.^{ref 408}
- LA Tech football team lost 87 yards in a single play.^{ref 409}
- Watch this kid play catcher; you wouldn't notice if I didn't tell you he has only one arm.^{ref 410([hotlink](#))} I hope he applies to Cornell.

"I think the question we have to ask ourselves is this: What is the right way to behave to honor our sport and to respect our opponents?"

~Martina Navratilova, returning Serena Williams' serve

And then there were the darker moments. Serena Williams reached hero status by delivering her latest kid and in the blink of an eye making it to the finals of the US Open Singles Championship.^{ref 411} In the final match, however, a serious shitfit at the line judge put a dark smudge on the game. The authorities kowtowed (which is a Chinese term that translates to "acted like pussies"), causing much of the glory to be taken away from the winner, Naomi Osaka.^{ref 412} It wasn't Williams' first outburst.^{ref 413}

And for some more Bullets from the Dark Side:

- Phil Michelson six putted (if you include the two-stroke penalty for whacking a moving ball) and then claimed (admitted) it was tactical to avoid an even worse outcome.^{ref 414} The Mets signed him because he could hit a moving ball.
- USA Gymnastics admitted it had more coverups of pedophilia than the Catholic Church.^{ref 415}
- Khabib Nurmagomedov—Khabib for short and for obvious reasons—beat Conor McGregor in the UFC. (Khabib literally wrestled grizzly bears as a kid,^{ref 416} so it was not a shock.) Risk was brought to a new level when a huge and arguably most dangerous sports brawl in history broke out.^{ref 417}
- A Russian curler was charged with doping using a well-tracked substance.^{ref 418} Something is fishy...so many questions.
- Another female Russian Olympian donning a shirt stating, "I don't do doping" tested positive for doping.^{ref 419}
- Nigerian soccer star Emmanuel Eminike divorced Miss Nigeria 2013 to marry Miss Nigeria 2014.^{ref 420}
- The first zero-emissions solar-powered boat is said to be circumnavigating the globe this year.^{ref 412} Correct me if I am wrong but one of Magellan's zero-emissions wind-powered boats made it around some time back. Contrary to popular opinion, Magellan did *not*.

"The art world is the biggest joke going. It's a rest home for the overprivileged, the pretentious, and the weak."

~Banksy

Away from sports, Banksy punked the art world when, seconds after the auction gavel fell on one of his \$1 million paintings, a mechanism hidden in the frame shredded it.^{ref 422} The art world punked him back by declaring the painting's value just doubled.^{ref 423} A guy jumped from 25,000 feet without a parachute and landed "safely" in a net.^{ref 424} Another got the coveted hat trick when, after having been mauled by a bear and bitten by a rattlesnake, he got attacked by a shark.^{ref 425} While astronomers recorded the first video from the surface of an asteroid,^{ref 426} others identified a new type of aurora and named it "Steve".^{ref 427} Watch this girl playing a concerto on the violin with a prosthetic arm connected from her collar bone.^{ref 428} *That* is toxic femininity! This woman piloting a passenger jet has the engine blow off the plane and blew a hole in the plane sucking a passenger out. She displayed nerves of steel.^{ref 429(hotlink)}

If you dig long and hard, you eventually find the bottom of the barrel. A couple raised \$400,000 for a homeless vet and just squandered it before the courts could intervene.^{ref 430} The author of "How to Murder Your Husband" was arrested for allegedly murdering her husband.^{ref 431} A man who thought he was possessed by crocodile hunter Steve Irwin was arrested for tranquilizing and raping alligators.^{ref 432}

In the non-hominid division, Beadnose (Bear #409) displayed impressive salmon-sourced cellulite, toppling the reigning champ, Otis (Bear #480), in Alaska's 2018 Fat Bear Championship (Figure 46).^{ref 433} The Flying Dog Championship witnessed a new jumping world record of 31 feet.^{ref 434} I'd like to see Beadnose try *that*.



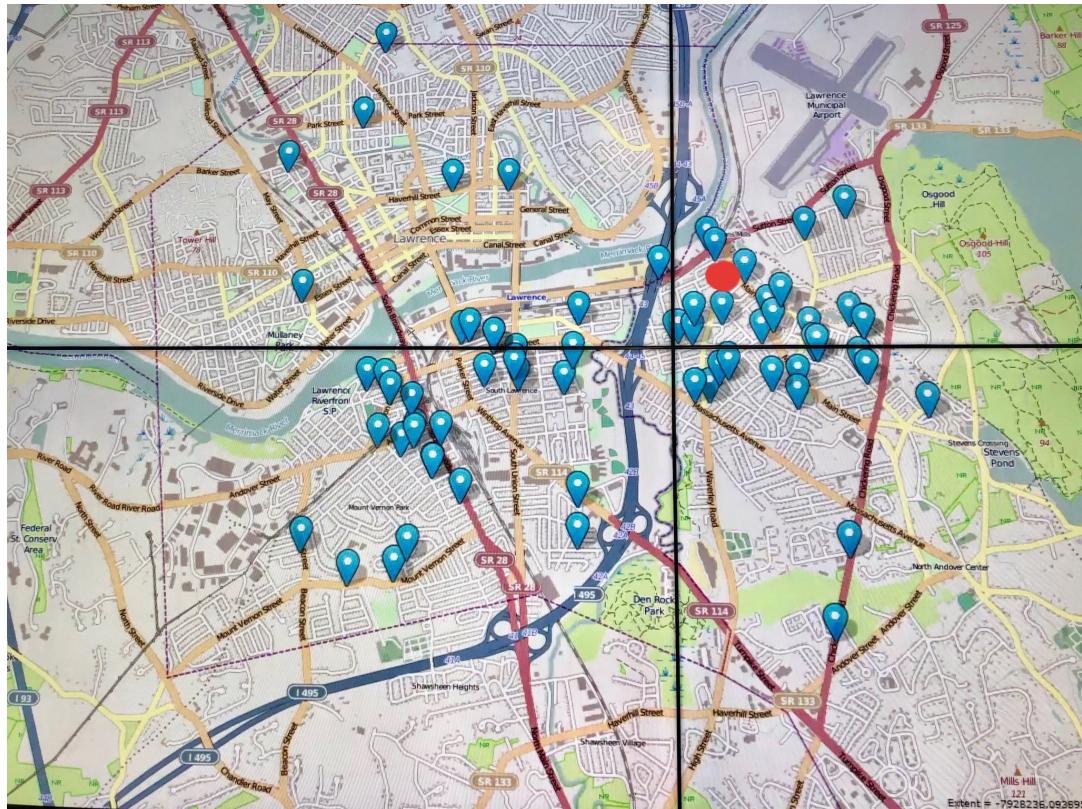
Figure 46. Beadnose Bear at top feeding weight.

Had to save two for last. Ten players and two coaches of the Humboldt Broncos Youth Hockey Team coming from Humboldt, Saskatchewan were killed in a bus crash.^{ref 435} They were dominant on the ice. GoFundMe raised a \$15 million memorial fund,^{ref 436} but

I don't know how that town of 5,578 inhabitants will recover. RIP boys. (I'm tearing again.) Keep it in perspective folks.



You know all those fires in Boston that lit simultaneously due to an over-pressurized gas line (without a peep from the news questioning terrorism)?^{ref 437} My son was at the "red dot" chatting with me on the phone when they started. Like I said, keep it perspective.



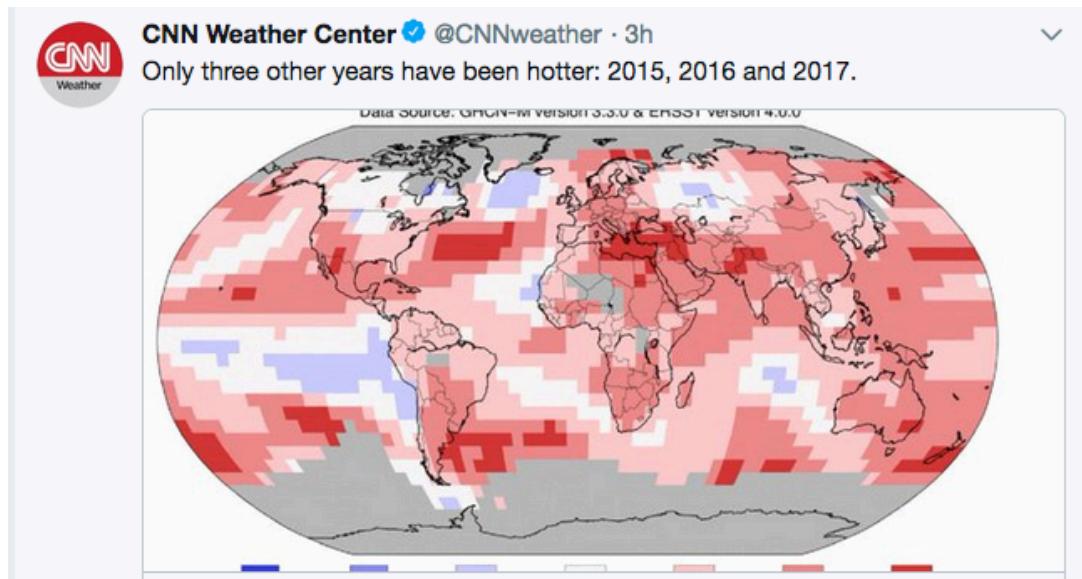
Nature

"I know what it means to know something, and it's hard."

~Richard Feynman, physicist

Every year nature takes a bat to us in predictable and not-so-predictable ways. I have long stayed away from the global warming (or climate change, whatever) debate just because it is too rancorous, and I have little to offer. I once told the Secretary of Energy I was agnostic. After cleaning snot off my glasses I explained that I had not put in the 10,000 hours needed to form an educated opinion. For that matter, few have. Thus, all my colleagues in science with relatively few exceptions will sign off on the notion of anthropomorphic global warming with what is a vote of confidence in their scientific brethren but inadequate self study, providing an overstated scientific consensus. Here's what I *will* say. There are highly credible scientists on both sides now, not just whackadoodles looking for ten minutes of fame. I was shocked when I started Googling some of the deniers on this list to find out they are both prominent and disbelievers.^{ref 438} Let me be equally clear because I am a wuss and so you don't hang some PC label on my sorry butt:

If I had to bet a paycheck, I would bet anthropogenic global warming is real. If I had to bet ten paychecks, I would bet that we are going to do the experiment despite the best intentions of those who worry. Resource depletion is what scares me.



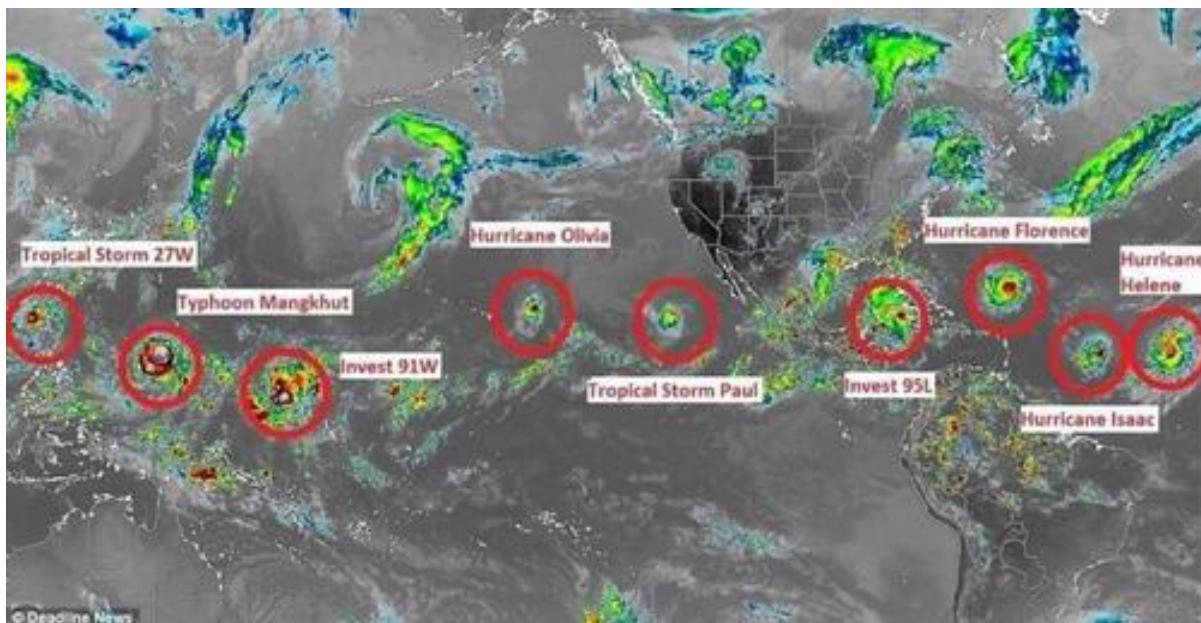
Let me make one important point: you can't watch the weather or make *any* anecdotal observations and say, "See. I told you so. You guys are full of crap." You sound like an idiot to anybody who is not an idiot (unless you are being a snarky punk, which is fine).

Hundreds of hurricanes have hit North America in the last century; nothing says the last 20 are anthropogenic. Snow in October and warm days in January mean nothing:

"This week in 1936, North Dakota was 121 degrees. This week in 1913, California was 134 degrees. This week in 1901, hundreds of New Yorkers died in the streets from the heat."

The warming trend, even if raging and eventually creates wind chill factors of 114 °F, is well inside the detection limits of *simple* human observation. With 365 days in a year, 100 years in a century, and more metrics of weather than pregnant teenagers, do you know how easy it is to break an all-time record? Those who claim to see patterns are being Fooled by Randomness. And the celebrities all know there is global warming. Remember when the star in TV medical drama "Quincy, M.E.", Jack Klugman, testified to Congress about health care? Most celebrities are idiots as are members of Congress. Why do you think they didn't study robotics or bioengineering? Only good science supported by good data analysis can tease signal from the noise. And what may prove to be the most ironic part of the global warming debate is that NASA scientists have found that a "big crack opened in the Earth's magnetic field and plasma started pouring in."^{ref 439} Meanwhile, a disturbing lack of sun spots and solar flares suggest an impending mini ice age is coming.^{ref 440} "Men plan, God laughs" or as Emily Litella would say, "Never mind."

Why don't I worry about climate change? It is for practical reasons. Humans are not proactive; they follow the Law of the Commons, also known as the Law of Selfish Bastards. Look how happy the French are after being told they will get to pay a nominal energy tax to stop global warming. There was some serious heat on the streets of gay ol' Paris. We are going to do the experiment.



We had lots of hurricanes this year, with Hurricane Michael being the headline grabber. As it wiped out Mexico Beach, Florida,^{ref 441} it appears to have whacked a handful of our stealth bombers inside a hanger.^{ref 442} Although there is a nice tutorial on why not every stealth bomber can be moved on short notice,^{ref 443} it's less obvious why you would store billions of dollars worth of hardware in a hanger that was not hurricane proof. Moving on to Hurricane Florence and North Carolina, we find that only 3% of homeowners have flood insurance and those that do also have counterparty risk; the Federal program providing flood insurance is \$20 billion in the hole.^{ref 444} On a funny note, Hurricane Florence appeared to be ravaging a reporter struggling to hold his ground against gale-force winds to get a story...until two guys strolled by in shorts:^{ref 445}



Figure 47. Risking life and limb.

Of course, fooled by randomness applies to other events like activity on the Ring of Fire. For those not paying attention, we are not talking about a Bangkok-hot curry but rather the ring circumnavigating the Pacific Ocean loaded with volcanic and other geological events. Seems to be acting up a lot lately. This year's Hawaiian volcano reminded homeowners that their houses built on formerly red hot lava might get squeegeed away, and they may no longer own ocean front property. Where some see disaster others see opportunities: can you buy futures on land that is not yet above sea level? I also waited with bated breath for Paul Krugman to write about his "broken pineapple fallacy". The

Yellowstone caldera—an ancient super volcano—keeps rising *a lot* and spewing reminders that rare events happen.^{ref 446} By the way, "Krakatoa" by Simon Winchester is a great book and offers a fascinating description of plate tectonics.

The anti-vaxxers may have a case, but the evidence against a number of claims is profound (convinced me). I have zero doubt that, all things considered, vaccinations save lives. In regions where anti-vaccination campaigns have gotten legs, we are starting to see epidemics reappearing for the first time in many years.^{ref 447} Disturbingly, polio has reappeared in Venezuela.^{ref 448} I guess we didn't eradicate it after all. I'd be vaccinating against *that* one. The only thing that scared me as a kid were (a) my Dad's stink-eye, and (b) images of iron lungs and polio wards:



Contrary to popular opinion, scientists in Big Pharma would love to cure diseases; there is no conspiracy there. Popular opinion is also correct that marketing teams will try to get you to snarf down as much healthcare as theoretically possible. We continue to be seriously outnumbered in our battle against bacteria. I think those in the know are worried. Bacterial resistance to antibiotics is appearing before the drugs hit the marketplace. *They are becoming non-cost effective to produce.* At the street level, new flesh-eating bacterial infections of the genitals are somehow linked to best-selling diabetes drugs, causing the flesh around the genitals to literally rot away.^{ref 449} The CDC is now warning of an antibiotic-resistant strain of gonorrhea.^{ref 450} An oral cancer epidemic in men is linked to oral sex.^{ref 451} The message is clear: abstain. A mind-controlling parasite—yes, these things are precedented in biology and can have *wildly cool effects on animal behavior*—has been found in cat feces.^{ref 452} If you are eating cat feces you now officially have shit for brains. On the bright side, the virus has been linked with an almost reckless entrepreneurial spirit (not joking). It has been identified and named Elon Muskovitis (joking).

Of course, Nature's wrath amplified by Man's poor judgment was on full display as fires ravaged California. I was in a house fire in high school; I jumped out of a second story window into -2 °F weather buck naked (but who hasn't done that a few times.) People

are dying from watching TV shows about fires. You have seconds to get the hell out. When your neighborhood is on fire, *get out*. Pepperdine University made the call to leave all students on campus.^{ref 453} That could have been a tragedy of a higher order. Some criticize the administration for commandeering the resources of all firefighters in the area. Others criticize them for doing it on purpose to ensure the university was protected. It is an interesting hypothesis, but I cannot fathom that level of sociopathy, even at a university.

I watch people lamenting the loss of their house and memories and think, "You're alive, your belongings were tacky, and your memories are safe in the cloud. Get over it." It is altogether different, however, when your house, school, church, stores, and employer burn to a crisp like in the ironically named Paradise, California. You really do have nothing now. It's not Yemen, but it's bad. There are regions in California that got one inch of rain since May in a much more secular (multi-year) draught. It was only a matter of time. I have read that the 20th century was the wettest of the last ten centuries in the State of California. It seems possible that millions moved into a desert without realizing the consequences.



Humans are a durable lot; they do not take guff from Mother Nature without a fight. In a battle against the weather, Volkswagen shoots off "hail cannons" near their Mexican factory to prevent formation of car-damaging hail stones, denying Mexican farmers rain for their crops.^{ref 453} We managed to finally exterminate the last white rhino because, well, who needs another large mammal that doesn't even make good stew meat.^{ref 455} Round-up is suggested to not only be solving our weed problem, but also eradicating

those damned bees.^{ref 456} I'm sure Monsanto will figure out how to pollinate everything at some nominal cost. We are winning the war against sea creatures by filling the oceans with remarkable heaps of single-use plastic, generating an enormous wad of crap called the Great Pacific Garbage Patch.^{ref 457} The Chinese are rumored to be planning condos or a military base.



Middle East

"We're going to take down seven countries in five years. We're going to start with Iraq, then Syria, Lebanon, then Libya, Somalia, Sudan. We're going to come back and get Iran in five years."

~Wesley Clark, Four-star general in 2002, quoting a peer

According to Ellen Brown, none of these countries is "listed among the 56-member banks of the Bank for International Settlements (BIS). That evidently puts them outside the long regulatory arm of the central bankers' central bank in Switzerland. The most renegade of the lot could be Libya and Iraq, the two that have actually been attacked." And from an interview long, long ago...

Lesley Stahl: "We have heard that half a million children have died. I mean, that's more children than died in Hiroshima. And, you know, is the price worth it?"

Madeleine Albright: "I think this is a very hard choice, but the price — we think the price is worth it."

That 1996 *60 Minutes* exchange hasn't aged well.^{ref 458} In the sequel, we pick up the plotline in the same country by following the antics of Bush the Younger. Press secretary Ari Fleisher referred to it as "Operation Iraq Liberation",^{ref 459} somehow not seeing a problem with the acronym. I find our Middle East policy to be confounding except for one guiding principle: keep them all fighting. It is not really about oil but about war and banking. Following the collapse of the Soviet Union our multi-trillion-dollar defense industry needed a new foe. (Bombing Canada was a non-starter.) As we mow through conflict after conflict it all makes sense if you assume that our goal is to keep the Middle East in a perpetual state of war. Quadafi gets too strong? Kill him. Assad gets too strong, throw a false flag and bomb him. We also don't hesitate to remind those that we haven't bombed (yet) about the merits of the petrodollar: we agree to buy oil in dollars and, in return, they agree to fund our federal deficit and prop our asset markets with these dollars.

In case it isn't obvious, we don't really like democracies. As The Donald showed in 2016, we don't know how to control them. We are having issues with that will-of-the-people malarkey. They're tolerable for Europe but less developed regions—the shithole countries as the Donald is known to say—require focused targets for bribes and threats of death and dismemberment. Dictators are optimal—Shahs for example—but a small gaggle of warlords is manageable. Stephen Kinzer's *Overthrow* describes 13 explicit US-backed coups that overturned foreign leaders, including democratically elected ones.^{ref 460}

Our adventures in the Middle East have cost us an estimated \$6 trillion dollars. Some is salary paid to soldiers but most is going to companies as part of our No Defense Contractor Left Behind Program (NDCLBP). Take a look at the price chart of Boeing, Lockheed Martin, Halliburton, Raytheon, or any other defense contractor (Figure 48). They are well bid based on both past and future earnings. Trump promised to be the least militaristic president—a low bar—and then increased our military budget.

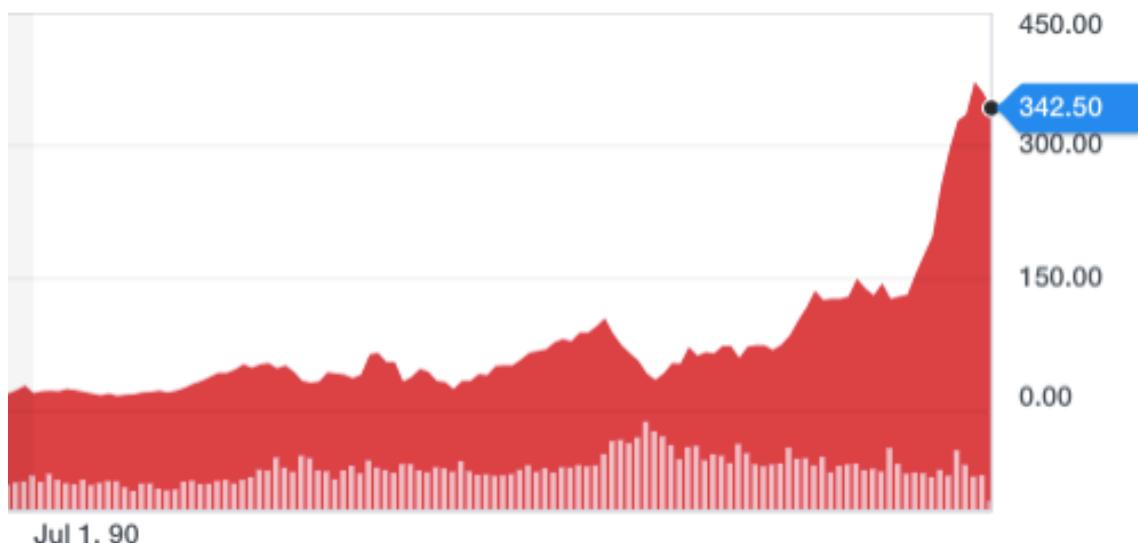


Figure 48. Share price of Boeing

The Saudi regime is ruthless. They fly planes into buildings, chuck gays out of windows, and behead people for non-violent crimes. Women are tortured who dare to drive a car, remove their hijabs, or have the audacity to get raped. If you are the wrong person in Saudi Arabia, Islamophobia is not even a theoretical construct because the fear is not irrational. You wanna see a hero in the flesh? She's Iranian (not Saudi), quite possibly dead, but now an iconic image of global feminism, a meme:

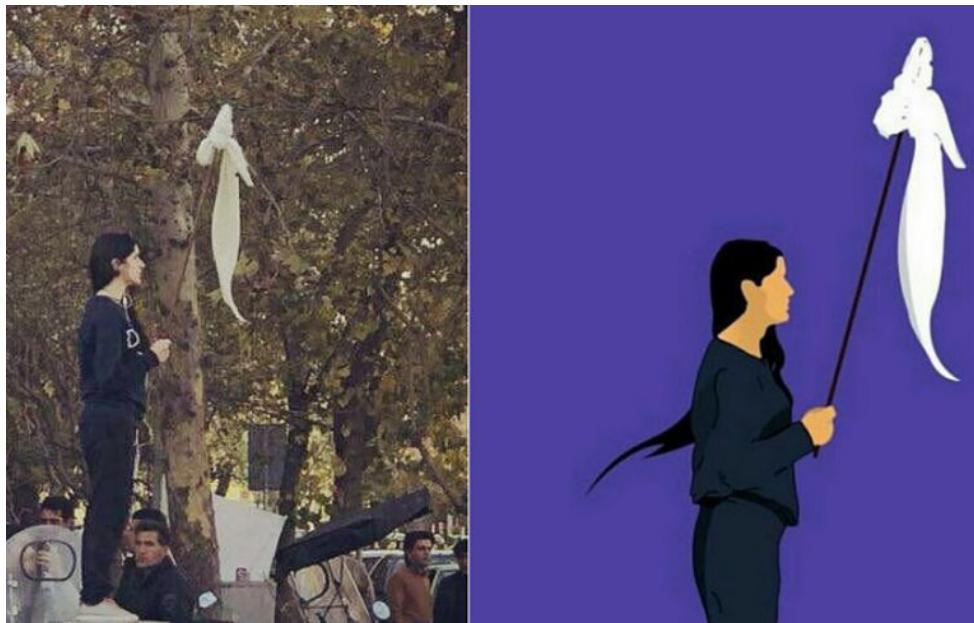


Figure 49. Principled when it's neither cool nor safe.

Meanwhile the Saudis are slaughtering Yemenis (Houthis specifically), risking starvation of as many as 18 million of them.^{ref 461} Let's go to CNN headquarters to get the latest on the global uproar:^{ref 462}

Rand Paul: "We are refueling the Saudi bombers. So we are essentially part of the Saudi campaign. We are helping them choose targets. It is said that thousands of civilians have died in Yemen because of this. Yes, we need to have a debate over this."

Wolf Blitzer: "So for you this is a moral issue cause, as you know, there are a lot of jobs at stake certainly if a lot of these defense contractors stop selling war planes, other sophisticated equipment to Saudi Arabia. There's going to be a significant loss of jobs and revenue in the United States. That's secondary in your standpoint."

The stark truth of that must-see exchange slathered with latent sociopathy leaves me gagging on my vomit. The Pentagon insists we are minimizing civilian casualties when it's just infanticide masquerading as politics. "OK guys: let's keep it under 18 million if we can." *US*

foreign policy is fostering this carnage by providing the Saudis with "the engines of death." You can blame Trump but don't you dare blame *just* Trump.

Enter one Washington Post journalist named Khashoggi. He gets suckered into an embassy, sliced into pieces, and fed to the camels.^{ref 463,464} The journalists kicked it into gear and denounced the horror.

"You gonna eat that?"

~Jeff Dahmer to Mohammed bin Salman

Here is my very unpopular take: It was a bit gruesome, but not by Saudi standards that we enthusiastically tolerate. He is also just one damned journalist. Let's put this in perspective: 18 million dying Yemenis versus One Dead Kashoggi (ODK). The world has gone collectively sociopathic on this one. You know why y'all care about some guy whose name you didn't even know six months ago and still can't spell? It is, in part, because Journalists Lives Matter (JLM), and psychopaths in high places are telling journalists to tell you what to worry about. Wake up or shut up. Let's get those priorities in order. And as happened before, Nassim and I have locked arms once again:

"A single journalist is a tragedy; ten thousand Yemenis is a statistic".

~Nassim Taleb channeling Joseph Stalin

Epilogue: The journalists are now starting to notice the carnage in Yemen. Alas, it was never about Khashoggi or Yemen. They are just chess moves.

Syria

"We'll be coming out of Syria, like, very soon. Let the other people take care of it now."

~Donald Trump

"A new confirmed chemical attack in Syria would pose a dilemma for President Trump, who ... recently said he wants to get the United States out of Syria."

~NYTimes

"Just so there's no confusion here, if the Syrian regime uses chemical weapons we will respond very strongly, and they really ought to think about this a long time."

~John Bolton

Three days after Trump's announced pull out there was a chlorine gas attack attributed to Assad. That is some serious bad luck. A leaked 2006 memo shows we have been trying to "election monitor" and destabilize Syria for quite some time.^{ref 435} For several years I have been writing about false flag attacks under the Obama administration trying to georelocate Assad's remains across the Levant. A Sputnik article *predicted* fake chlorine gas attacks were imminent.^{ref 466}



Department of State

@StateDept

Follow

.@JohnKerry: Today the last 8% of declared chemical weapons were removed from #Syria. Great work done by all involved go.usa.gov/9N7H

10:32 PM - 23 Jun 2014

Figure 50. 2014 Department of State tweet declaring "Mission Accomplished: "Heckuva a job Johnny!"

A disturbing trend is that those pulling off such scams are getting sloppy, relying increasingly on simply controlling the press coverage. There are, however, rogue pundits who refuse to play along. Seymour Hersh declared the chlorine attacks and anti-Syrian rhetoric to be a crock.^{ref 467} Tucker Carlson, as he so often does now, stepped out on a limb and gave a brilliant must-see diatribe denouncing the neocons for marching us toward a military conflict.^{ref 468} Pat Buchanan joined with the doubters.^{ref 469} And, of course, Russia's Ambassador to the EU in Syria declared it was a complete farce, a hoax concocted by the 'white helmets' to justify US forces to bomb Assad.^{ref 470} I did an RT interview on the chlorine gas attacks as follow up to the Skripal poisonings (see "Nerve Gas Poisonings"). I was so brain dead trying to keep it all straight that I Freudian slipped into a Skripal poisoning plotline before the interviewer reeled me in.^{ref 471} German Chancellor Angela Merkel denounced the attacks as evidence we failed to eradicate Assad's chemical arsenal, but Germany refused to enter the fray.^{ref 472} British

ambassador to the United Nations, Karen Pierce, blamed the Russians of course.^{ref 473} (She must have slipped plotlines too.)

Social media dismembered the story. You would have time to run from the house, admittedly coughing and feeling really crappy, maybe even dying later.^{ref 474} The stacks of bodies inside the house smelled wrong, and the notable absence of sick survivors was odd.^{ref 475} The bodies were in different states of decay, showed assorted traumas, and displayed blood accumulating in the wrong places. (I'm sure there are Middle Eastern startups that provide bodies on-demand—there is no shortage—but the quality control might be lacking.) Most tellingly, the same bodies were being recycled for different photos.^{ref 476} One kid claimed he was walking along the street (probably staring at his cell phone), grabbed without warning, and hosed down in front of camera-wielding observers capturing his ordeal.^{ref 477} An intrepid western reporter, Robert Fisk, actually went to the scene—I'm surprised too—and found nobody knew about the attacks.^{ref 478} That's a special kind of PTSD. The public seems to not buy into these stories. Mike Krieger of LibertyBlitz blog caught a Fox News Twitter poll asking whether people were for or against attacking Syria because of the chlorine gas attack.^{ref 479} With 49,000 votes tallied—a non-shabby sample size—69% did not support action. Within two hours, 140,000 pro war supporters joined in and supported the attacks (Figure 51). We are all getting duped.



Figure 51. Fox poll swinging wildly (h/t @LibertyBlitz)

Who are these "unarmed and impartial" good Samaritans—these caped crusaders—known as the "White Helmets" who clean up the messes caused by pro-Assad bad guys?^{ref 480} They are called the Syrian Self-Defense Group. Max Blumenthal, a journalist with considerable experience in the Middle East, calls them a "shadowy group" who also appear to be creating the messes (the arsonist-firefighter combo platter.)^{ref 481} White Helmeted caped crusaders by day, dark villain mad bombers by night. According to Max, the group is part of a well-funded larger organization called the United States Agency for International Development (USAID) that travels the globe intervening in places like Cuba and Venezuela. The Netherlands figured this out and pulled their support.^{ref 482}

I repeat my original assertion: our interest in the Middle East is more about war than oil. Eisenhower nailed it in his farewell address.^{ref 483} It's about money and power—the military-industrial complex. I found this *Creature from Jekyll Island*-like documentary about banking and war to be entertaining.^{ref 484}



Prof. Steve Hanke ✅

@steve_hanke

Following

As my good friend @DavidBCollum says about the Middle East: "We should just stay the hell out." Involvement in the region, as we've seen time and time again, yields no results.

Nerve Gas Poisonings

A former colonel in Russian military intelligence who turned MI6 agent and his daughter Yulia were found unconscious on a public bench in Salisbury, England. Headlines flashed that a novichok-class nerve agent put the Skripals into comas. They eventually recovered and were whisked away to a secret location for their safety.^{ref 485} This is just spy versus spy stuff at best, but Prime Minister Theresa May and the British authorities were quick to condemn the Rooskies:

"It is now clear that Mr. Skripal and his daughter were poisoned with a military-grade nerve agent of a type developed by Russia. This is part of a group of nerve agents known as novichok. Based on the positive identification of this chemical agent by world-leading experts at the Defense Science and Technology Laboratory at Porton Down, our knowledge that Russia has previously produced this agent and would still be capable of doing so."

~Theresa May, Prime Minister of the UK

This is a heap of Moose and Squirrel feces. "Hey. There's novichok in the mass spectrum; let's start World War III!" The authorities were lying their asses off. The hyperbolic language—"military grade" to distinguish it from the crap sold at Walmart—and the suggestion that only the Rooskies know how to make it is hogwash. These novichoks are some of the simplest organic molecules with biological activity.^{ref 486} They are no harder to synthesize than Tylenol, so I called them out:



Dave Collum
@DavidBCollum

Following

To all you fuckwitted nerve gas/geopolitical experts: the nerve agent attributed to the Rooskies is trivial to make. Stop saying it points to the Russians or it couldn't be easily characterized. Maybe they did it; maybe they didn't, but many would like it to look like Russia.

9:57 AM - 15 Mar 2018

Although that tweet got picked up later,^{ref 487} it was crickets at the time. As the international sabers began to rattle loudly, I took another Tweet at it:

Dave Collum
@DavidBCollum

I will say it again: Anybody who tells you this nerve agent must have come from Russia is a liar--a complete and utter liar. They are simple compounds:



UK Government Preparing To Confiscate Russian Capital "Of Dubious Origin"

The goal is to ensure that any property attained by unknown means is registered, according to the law...

zerohedge.com

7:54 PM - 26 Mar 2018

1,756 Retweets 1,814 Likes



186

1.8K

1.8K

|||

"That Russia Tweet was a fkn DAISY CUTTER man you are controversial. I applaud it."

~Tony Greer, @TGMacro

That "f*cking daisy cutter" did the trick. It was all over the international press that a Cornell chemist threw a flag. As a nouveau Roosky apologist I found myself on George Galloway, *Russia Today* (RT),^{ref 488} Stranahan and Nixon on *Faultlines*,^{ref 489} Scott Horton,^{ref 490} and a missed opportunity to hit Al Jazeera. I was warned by nervous Cornell authorities about the propaganda machine *RT*, to which I asked, "Worse than CNN?" It also brought Tweeters into my feed from intelligence organizations prompting me to STFU.

The UK authorities say that the incidents in Amesbury and Salisbury are linked, but Professor of Chemistry at Cornell University, Dave Collum, told RT that "*it's impossible to make a connection as there's been no data presented*" to the public to back those claims. He also reiterated that London's statements of only Russia being capable of producing the novichok chemical were "*totally false.*" He described the nerve agent as "a simple compound," which is actually just "three steps from commercially available materials." "*I've put it on a final exam in my course... and they [the students] all got full credit. It was so easy, I knew none would lose credit because it's like asking a bunch of bakers to make chocolate chip cookie recipe,*" the US chemist said.

~RT^{ref 491}

The boys and girls at Britain's Porton Down—the nerve center of the UK chemical weapons program(me)—refused to finger the Rooskies,^{ref 492} causing the rhetoric to target motive:

"There is no doubt the nerve agent used in the attack was the military-grade nerve agent from the Novichok series. This has been confirmed by specialists, our specialists,...There is also no doubt that the Novichok was produced in Russia by the Russian state. Russia has investigated ways of delivering nerve agents likely for assassination purposes. Part of this programme has involved producing quantities of Novichok agents. The fact that the Novichok was produced in Russia and the fact that Russia has a history of state-sponsored assassinations and the fact that Russia has responded with the usual playbook of disinformation and denial left us with no choice but to conclude that this amounts to an unlawful use of force by the Russian state against the United Kingdom. All of the UK's actions have been fully consistent with our obligations under the Chemical Weapons Convention."

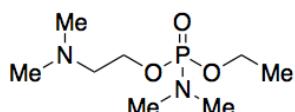
~Dr. Laurie Bristow, British Ambassador to Russia

Who had the skill and motivation? Russia and any country interested in making it look like Russia did. That narrows it down to pretty much every sovereign state in the World,

including, in the vernacular, the "shitholes." According to a private communication from a physicist in Finland, novichoks appear to have been made by the US, Iran, UK, Canada, Czech Republic, France, Israel, Sweden, The Netherlands, and Germany. The head of the military laboratory said his lab had made 'novichok'-related chemicals for testing. His statement was called "unfortunate" by the country's Prime Minister, and then he got fired.^{ref 493}

To test my theory that it was easy to make, I put a question on the final exam of my first-year graduate-level organic chemistry course:

II. The "novichok" nerve agents are said to be "phosphorus-based military-grade nerve agents whose formulae were strictly classified" (although wikipedia has them.) The claim was that they are uniquely Russian technology, pointing a finger directly at the Russians as assassins of several unlucky souls. The one below, for example, was used to poison a Russian banker. I somehow made it to the international press this semester by declaring that the novichok nerve agents were *not* necessarily prepared by Russians because any decent organic chemist could make them (albeit not safely).



A. Let's do the test. Starting from POCl_3 , provide a synthesis of the nerve agent. (Hint: It should be three steps!) (10 points)

B. Assuming the nitrogens are pyramidal rather than planar, draw this nerve agent in its most stable conformer showing all 6- and 7-atom interactions. There could be weird electronic stereoelectronic effects; ignore them. (10 points)

Figure 52. 2018 Final exam in Chem 6660, *Synthetic Organic Chemistry*.

All got full credit except one kid who obviously will never cut it as a terrorist. It's worse than that: I think you could pour the four critical ingredients in a bucket *simultaneously* and end up with a punch that would flatten way more than just a bunch of fraternity brothers (at Yale). These nerve agents weren't state secrets: their structures were reported in an eight dollar book^{ref 494} (that apparently only the Russians can afford) or, if you are particularly tech savvy, Wikipedia.^{ref 495}

I wasn't standing alone in my doubt. Craig Murray, former UK ambassador to Uzbekistan, was screaming at the top of his lungs.^{ref 496} The Spiez Laboratory at the Swiss Federal Institute for NBC-Protection, a division of the Federal Office for Civil Protection, got a sample and claimed it wasn't even a novichok that whacked the Skripals but rather a substance used by the United States, the United Kingdom, and other NATO states.^{ref 497} Seymour Hersh didn't buy it:^{ref 498} "When the intel community wants to say something they say it...High confidence effectively means that they don't know." Famous British journalist, John Pilger, called the Skripal poisoning "total bolox"

and wondered "Why do we journalists write down what governments tell us?"^{ref 499} (That's a trick question: they are made men and women, many of whom on payroll.) The Ron Paul Institute noted that the British claim of Russian assassinations "reads like another desperate repetition of the falsehoods and insults towards Russia issued by Theresa May's lame-duck Government."^{ref 500} The most interesting theory is that the Skripals got shell-fish poisoning from a seafood restaurant they ate at that day.^{ref 501}

The Rooskies blamed Porton Down, which is only eight miles from Salisbury and had recently cut 132 staff (motive), prompting their spokesperson to say, "There's no way that anything like that would ever have come from us or leave the four walls of our facilities."^{ref 502} The internet sleuths dug in. Nobody could understand how a contaminated door nob at the Skripals could fail to kill the Skripals—there is a non-lethal dose, of course, so that logic is wrong^{ref 503}—and why nobody else got sick.^{ref 504} Before long, Skripal was being connected to the Steele Dossier.^{ref 505} *I am not joking.* I dissed that idea until more evidence emerged.^{ref 506}

"One should be mindful that the chemical components or precursors of A-232 or its binary version novichok-5 are ordinary organophosphates that can be made at commercial chemical companies that manufacture such products as fertilizers and pesticides."

~Ex-Soviet Scientist^{ref 507}

This ex-Soviet scientist who wrote "the book" on Soviet nerve agents was remarkably obtuse, seemingly playing both sides.^{ref 508} Go figure. One exchange was particularly entertaining:

Mirzayanov: It is obvious to me that Moscow hoped that no one would catch them.

Interviewer: But you published the formula for novichoks eight years ago.

Mirzayanov: I don't know if the FSB [Russia's security group] saw my book.

As the story began to die down and people were left pondering the whereabouts of Yulia Skripal—maybe with that Vegas security guard?—it happened again. Another couple in Salisbury got poisoned supposedly by somebody filling her Chanel perfume dispenser with eau du novichok.^{ref 509} She died; he recovered. Theresa May was at it again:

"No other country has a combination of the capability, *the intent*, and the motive to carry out such an act."

~ Prime Minister Theresa May on the Salisbury poisonings

"Mr Speaker, we are quite clear that Russia was responsible for this act. As I set out for the House in my statements earlier this month, our world-leading experts at the Defense Science and Technology Laboratory at Porton Down positively identified the chemical used for this act as a Novichok – a military-grade nerve agent of a type developed by the Soviet Union. We know that Russia has a record of conducting state-sponsored assassinations and that it views some former intelligence officers as legitimate targets for these assassinations. And we have information indicating that within the last decade, Russia has investigated ways of delivering nerve agents probably for assassination, and, as part of this programme, has produced and stockpiled small quantities of Novichoks."

~Theresa May on the Salisbury poisonings

This time they rounded up a couple of Roosky assassins, but that story began to fall apart almost immediately. The two patsies were fingered by two officers who were said to have a "rare skill in memorizing faces."^{ref 510} Hokey Smokes, Bullwinkle: now the are just lying like teenagers. The residue detected in the assassins' hotel room found *two months later* could not be detected the following day.^{ref 511} That's not how chemistry works, folks. As they separately walked down the jetway at the airport a camera caught them at the exact same position in the jetway with the exact same time stamp *to the second* (Figure 53).^{ref 512} If they were even a second apart, one picture would necessarily show two men. Camera's showed them walking around London far away from the crime scene minutes before the putative crime, walking in the wrong direction.^{ref 513} The camera angles were also wrong.^{ref 514} If this was a Russian hit, they have lost their groove; real assassins get the job done (bumper sticker). One disturbingly knowledgeable tweeter noted that serious assassins have an independent team do the reconnaissance.



Figure 53. Fake photos showing two spies at the same place at the same time.

So what is it all about? More sanctions. More Russophobia. More demonizing of Putin. The New Cold War. Theresa May's Government imposed sanctions on Russia, including the expulsion of 23 diplomats.^{ref 515} While France refused to play along,^{ref 516} the US chummed the water:

"This attack on our Ally the United Kingdom put countless innocent lives at risk and resulted in serious injury to three people, including a police officer... To the Russian government, we say, when you attack our friend you will face serious consequences."

~US State Department's Official Statement

The Russians weren't happy:

"The Skripal poisoning was not an incident but a colossal international provocation... Any threat to take 'punitive' measures against Russia will meet with a response. The British side should be aware of that."

~Maria Zakharova, Russian Foreign Ministry Spokeswoman

"I simply don't have any normal terms left to describe all this...expulsions won't go unanswered...I said that the United States took a very bad step by cutting what very little still remains in terms of Russian-American relations."

~Sergei Lavrov, Russian Foreign Minister

Rob Slane of Blogmire blog summed up the situation nicely:^{ref 517}

"It's all remarkably clever, and it seems to have been specifically designed to generate the impression to the uninitiated that investigators are simply making it up as they go along."

Any Russian will tell you that when things look bleak, drink vodka. A Bristol distillery promptly offered a new product, "Novichok Edition." Staggering from withering criticism, they found themselves apologizing, as often happens when alcohol is involved.^{ref 518}



Kavanaugh versus Blasey Ford

“We now live in an age that risks a new form of sexual McCarthyism. . . The best way of assuring that we don’t is to accord every person, regardless of his status, the kind of fundamental fairness we would expect for ourselves if we were accused.”

~Alan Dershowitz, Harvard University



At risk of life, limb, and all forms of appendages, although I punted the ball on a lot of political topics this year, I've got to write about the Kavanaugh hearings because I believe the casual observer missed most of the plot. Quick disclaimer: As a pro-choice atheist I probably have a few bones to pick with Kavanaugh's politics. Highly respected journalist Ambrose Evans-Pritchard described his dealings with Kavanaugh in unflattering terms years back during the Vince Foster and Whitewater investigations.^{ref 519,520} (That just got weird fast.) Unfortunately, hearings that were supposed to vet his credentials to be a Supreme Court justice were reduced to one simple question: Is Brett Kavanaugh a drunken serial rapist? Kinda gives me pause.

The protests against Kavanaugh began the minute his nomination was announced. Protesters hired by companies like Crowds on Demand to “astroturf” any issue^{ref 521,522} sifted through stacks of signs opposing all possible nominees to pull out the anti-Kavanaugh signs.^{ref 523} As the story goes, Christina Blasey Ford (CBF) contacted Senator Dianne Feinstein about a sexual assault by Kavanaugh when she was 15. The details were both sketchy and fluid, possibly because she had forgotten about the whole affair until 2012 counseling sessions dredged up suppressed memories.^{ref 524} Feinstein paid for a lie detector test and then sat on the story until the time was right to pounce. I suspect that CBF thought she could drop a quick grenade and move on to a new career as a decidedly elevated heroine of the progressive community. As so often happens, all bets are off once the first shots are fired. Her name was leaked, and the journalists were off and running.

Reinforcements showed up. A woman claimed Kavanaugh swaffled her in the face at Yale, but she was decidedly fuzzy on details and it was a bit late to swab her face for DNA.^{ref 525} Another showed up with the Lawyer of the Porn Stars, Michael Avenatti, claiming she witnessed a dozen Kavanaugh-sponsored gang rapes until she realized how self-incriminating that sounded.^{ref 526} In an odd coincidence, she had previously filed a sexual harassment suit against New York Life . . . using the attorneys representing CBF.^{ref 527} (Wait. It gets weirder.) She and Avenatti are now under investigation for bearing false witness.^{ref 528} A guy claimed he witnessed Kavanaugh rape a woman on a boat until the FBI entered the scene. He lost his bearings fast and found himself out on the gangplank.^{ref 529} A new Jane Doe sent an anonymous letter describing being raped by Kavanaugh in a car, but she's now not-so-anonymously heading for an altogether different hearing after admitting it was a fib and that she had never met him but was pissed off.^{ref 530} NBC knew that at least one of his accusers was lying like a dog but ran with the story anyway.^{ref 531} I'm old enough to remember when NBC was staffed by respected journalists.

“We have already reviewed your client’s allegations. We focus on credible allegations. Please stop emailing me.”

~Mike Davis, U.S. Senate Committee on the Judiciary, to Michael Avenatti

Kavanaugh detractors asked *inane* rhetorical questions like, “Why would they lie?” You just can’t fix stupid I guess. The anti-Kavanaugh #MeToo team submitted that all those accusers, no matter how non-credible when in isolation, couldn’t *all* be lying. Recall that over 100 people found syringes in their Pepsi cans.^{ref 532} Why would *they* lie? They were *all* convicted of fraud. The pundits seemed to forget that rapists are determined by 12 of their peers in courts of law. With the accusers’ stories getting scalded by the light of day as non-hyperbolically summarized by *The Weekly Standard*,^{ref 533} David French,^{ref 534} Byron York,^{ref 535} and others.^{ref 536} the future of the Supreme Court came down to just two people in an epic he said—she said battle in the Congressional Octagon.

“I only drank beer to excess one time in college. When? If I’m remembering right, it was from 1977 to 1981.”

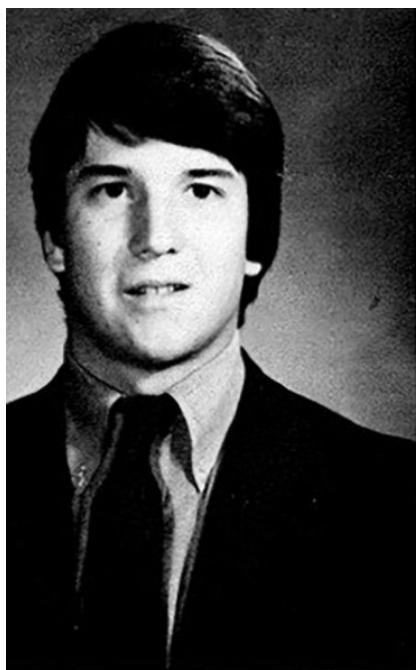
~Andrew C. McCarthy, contributing editor of the *National Review*

“I do not believe that the temperament of Kavanaugh can be judged from this one, unique circumstance. He was accused, among other things, of leading a virtual rape gang in high school. That would leave most people rather ticked and angry.”

~Jonathan Turley, constitutional law scholar at George Washington University

Kavanaugh threw early punches trying to make the case in a pre-game interview that he was a choirboy, but nobody bought it. His yearbook showed an amazing résumé but included jargon-rich comments typical of young men, showing he might have been a hooligan at an all-boys prep school. Allusion to a girl dubbed “Renate Alumnus” mentioned by name only (except to those who do not know what that semi-colon thingie is) was inferred as evidence that she was a favorite among the boys—a slut in the vernacular—but she was also one of the 65 female signers of a letter of support saying they knew Kavanaugh and he was honorable.^{ref 537} Police records from New Haven showed that Kavanaugh may have chucked a glass of ice on somebody at a bar while at Yale.^{ref 538} That proto-ice bucket challenge was morphed into a violent-drunk plotline. CBF had a yearbook too that was scrubbed but retrieved by the WayBack Machine.^{ref 539} It is said to be salacious, but I didn't bother to look; it's not relevant.

During the hearings Kavanaugh threw what appeared to be tantrums. I think they were ill-advised in retrospect, but I have no doubt that they *were* advised, not just spontaneous outbursts. Many say his behavior was unbecoming of a judicial nominee. Here's how I see: If I am being falsely accused of such heinous crimes, I would get so medieval that my next hearings would be in a court of law looking at serious time spent in a condo that locks from the outside.



Brett Michael Kavanaugh
4915 Jamestown Court
Bethesda, Maryland 20816

Varsity Football 3, 4; J.V. Football 2; Freshman Football 1; Varsity Basketball 3, 4 (Captain); Frosh Basketball (Captain); J.V. Basketball (Captain); Varsity Spring Track 3; *Little Hoya* 3, 4*** Landon Rocks and Bowling Alley Assault — What a Night; Georgetown vs. Louisville — Who Won That Game Anyway?; Extinguisher; Summer of '82 — Total Spins (Rehobeth 10, 9 . . .); Orioles vs. Red Sox — Who Won, Anyway?; Keg City Club (Treasurer) — 100 Kegs or Bust; Anne Daugherty's — I Survived the FFFFFFFFourth of July; Renate Alumnus; Malibu Fan Club; Ow, Neatness 2, 3; Devil's Triangle; Down Geezer, Easy, Spike, How ya' doin', Errr Ah; Rehobeth Police Fan Club (with Shorty); St. Michael's . . . This is a Whack; Wendy Whitney Fan Club; Judge — Have You Boofed Yet?; Beach Week Ralph Club — Biggest Contributor; Maureen — Tainted Whack; George Hyman; Beach Week 3107th Street; Those Prep Guys are the Biggest . . . GONZAGA YOU'RE LUCKY.

“There is something deeply unsettling in the scene of a United States senator going through the yearbook entries written by a teenage boy in High School as a material issue for a confirmation to the United States Supreme Court.”

~Jonathan Turley

In a matter of a few months, Kavanaugh had been reduced from the lofty position of Supreme Court nominee to mean, beer-guzzling gang rapist displaying violent mood swings. As to the accused assault of CBF, he pulled out a calendar showing that he was out of town when the alleged assault took place^{ref 540} and has acute CCHD (compulsive calendar hoarding disorder). The dog piling came from every direction and was astonishing. *USA Today* accused him of being a pedophile (Figure 54). The American Civil Liberties Union (ACLU) committed \$1 million dollars to keep a Supreme Court nominee off the court. Wrap your brain around *that* irony. Kavanaugh's current employer, Harvard University, managed to start a Title IX charge against him and implied that if he did not get confirmed, he would be unemployed.^{ref 541}



USA TODAY @USATODAY

From [@usatodaysports](#): "The U.S. Senate may yet confirm Kavanaugh to the Supreme Court, but he should stay off basketball courts for now when kids are around," writes [@ByErikBrady](#).



Is Brett Kavanaugh right that he can no longer coach girls basketball?

ACLU @ACLU

NEW: When we said we're going to use the full force of the ACLU to stop Brett Kavanaugh, we meant it.

We're spending more than \$1 million to run ads like this in...

Figure 54. Fair and balanced

The battle was fierce. Lindsey Graham put on a now-legendary tirade:^{ref 542}

“This is the most unethical sham since I've been in politics. . . . Boy, y'all want power. Boy, I hope you never get it. I hope the American people can see through this sham, that you knew about it and you held it.”

~Lindsey Graham, US Senator from South Carolina

Oddly enough, the media immediately began omitting, “Boy, y'all want power. Boy, I hope you never get it.” I think it had a little too much truthiness.

The day of CBF's testimony finally arrived, and what a show! Rachel Mitchell, the questioner with 25 years' experience prosecuting sex crimes, allowed the skanky old white guys with sordid pasts and taxpayer-funded slush funds to bribe their own victims^{ref 543} to sit back and watch. The PTSD that caused CBF to forget the entire event until it was resurrected by therapy in 2012 gave way to lurid details with “100% confidence.”^{ref 544} She described how she had a second door installed in her house out of feelings of insecurity from the decades-old event and leaving family members baffled at what was going on in her head. Even flying was said to be a horrifying experience. CBF described her lie detector test as a bewildering new experience. Mitchell followed up with an equally bewildering question as to whether CBF had ever *helped* anybody else take one.^{ref 545} WTF was *that* about? Hold that thought. Mitchell subsequently summarized her concerns in a letter,^{ref 546} concluding that CBF's testimony did not pass Mitchell's smell test (although the GOP *did* hire her.) The court of popular opinion had a few opinions of its own, expressed in thoughtful, measured tones:



((Christine Fair))

@CChristineFair

Follow



Look at thus chorus of entitled white men
justifying a serial rapist's arrogated
entitlement.

All of them deserve miserable deaths while
feminists laugh as they take their last gasps.
Bonus: we castrate their corpses and feed
them to swine? Yes.

The press referred to her testimony as emotional, gripping, compelling. She described the trauma of being thrown on a bed and barely escaping. So what is the problem here? Let's just hang the bastard. I'm gonna open big: I don't care what all the sycophantic virtue-signaling pundits had to say, *CBF was not credible*. I know enormous numbers

of women in academics. They all have gravitas. Teaching anywhere from 40 to >100 lectures a semester grooms stage presence and amplifies the gravitas. Her résumé shows that she is rather accomplished.^{ref 547} Although I could quibble over factual errors in what she said (and there were a quite a few^{ref 548}) the problem was in the presentation. She spoke like a 9-year-old girl, a rather pathetic one at that. We all had childhood memories that were ruined by our childhood, and then we #moveon. I grew up with a drunk mother—a face-in-her-mashed-potatoes drunk mother. It groomed independence. Oh, now I can hear you saying, “But Dave, you privileged punk: You've never been sexually assaulted,” and you would be wrong. When I was about 8 years old—even unresurrected memories get a little fuzzy in detail—my brother and I were molested by an eye doctor named Dr. McGraw who grabbed our nuts for an hour straight. “First or second? I'll take neither, you goddamned perv!” If I had been a little older, I probably could have reshaped his Prince Albert with a ball-peen hammer. Instead, we told my dad, ate dinner (probably mashed potatoes), and sat down to an episode of Mr. Ed (“Willburrrrr”).

When a well-known voice actress called out CBF's fake voice—her “fry”—on YouTube, the actress was promptly fired.^{ref 549} I tried to find footage of CBF lecturing and came up with a goose egg. I'm waiting for some to show up after the fact, showing her in her natural state. Some screen grabs of her RateMyProfessor.com evaluations^{ref 550} provided insight into her unedited and unflattering demeanor. For example:

“Prof. Ford is unprofessional, lacks appropriate filters, and I am honestly scared of her. She's made comments both in class and in e-mails, if you cross her, you will be on her bad side. I fear to think of the poor clients that had to deal with her while she got her MSW and her LCSW. Absolutely the worst teacher I ever had.”

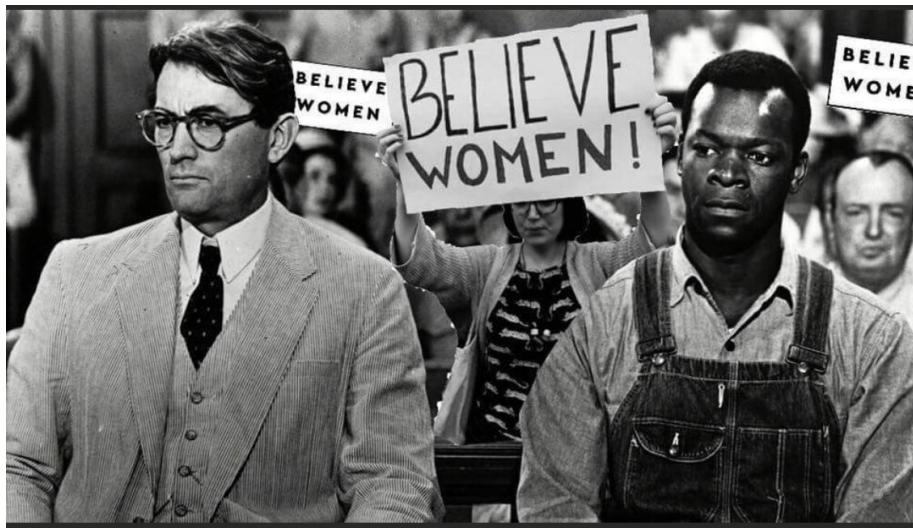
~RateMyProfessor.com from a furry screen grab^{ref}

Supporters cried, “Fake!” OK, but how would we know? The originals got scrubbed from the website (probably with help from the Googleheads.)^{ref 551} Be my guest: go check.

And when you thought it couldn't get weirder, her friend of 10 years and boyfriend of 6 years said in a *sworn affidavit* that CBF never mentioned the assault and flew in planes (including some sketchy ones) many times without fear.^{ref 552} The new front door installed to alleviate her PTSD just so happened to allow her to illegally rent part of her \$3 million house to affluent Google techies, and its timing failed to match her claims.^{ref 553} The question about helping others with a polygraph is the plot thickener. The boyfriend testified that he *witnessed CBF coaching a friend on how to pass a polygraph test.*^{ref 554} Pretty good for somebody who has never taken one. Must have worked, because that friend soon thereafter joined the FBI and stayed until soon after Trump's win “triggered” her resignation. CBF's decidedly shifting memories of the assault that had been suppressed until 2012 are curious given that she is a psychologist. By the

way, what is her research specialty? Glad you asked: suppressed memories and how one can shape them and even create new ones.^{ref 555,556}

Then it gets *super* weird. CBF is said to have CIA ties, FWIW.^{ref 557} Sounds like internet legend, but renowned pundit David Icke seemed to buy it.^{ref 558} Her parents also have been tied to the CIA.^{ref 559} Her FBI buddy and handler, Monica McLean,^{ref 560} worked for Preet Bharara,^{ref 561} a highly political former prosecutor. One of McLean's superiors answered to Jim Margolin, who just so happened to be working the Michael Cohen case.^{ref 562} Another CBF handler during the hearings had also helped Anita Hill take on Clarence Thomas.^{ref 563} Politics is a very dirty business indeed. CBF's brother has been tied to Fusion GPS,^{ref 564} the same clowns who faked the Trump–Russia collusion dossier. My head just exploded, destroying yet another keyboard.



Let's wrap this up, ACLU claims aside, to make a case against somebody, you need data. Otherwise, it's just a lynch mob. Just ask Tom Robinson. Some subset of the #MeToo movement doesn't agree with this, but they are wrong. It is a profound problem that sexual assaults often leave no evidentiary trail. I hasten to add that if you read Martha Stout's *The Sociopath Next Door*,^{ref 565} you'll learn that an estimated 1 in 25 people are said to be clinical sociopaths. Stir in dirty politics, and the odds of flawed testimony soar. You're welcome to blindly take people at their word, but on issues of such polarizing importance, you would be a fool (or, worse, a virtue signaler). In short, I will *not* just believe you in the absence of evidence. That's not how Western justice works.

The final chapter may be unfinished. The democrats took a beating for tactics that seemed evil even among independents.^{ref 566} Of course, they blamed Avenatti, not themselves.^{ref 567} After Stephen Colbert asked, "So how did our politics get so poisonous?" one of his staffers, Ariel Dumas, expressed the left's horror at their failure and solace in their pyrrhic victory:



Ariel Dumas
@ArielDumas



Whatever happens, I'm just glad we ruined Brett Kavanaugh's life.

10/6/18, 6:36 PM

Oh dear Ariel. You are a hateful person. I hope I haven't offended you. I presume you already know this.

The political establishment has no further use for CBF. It did, however, leave her with a GoFundMe campaign, which kept the spigot cranked open even after everything quieted down, raising over \$867,000 to pay off whatever bills and costs were incurred during the ordeal (which is none because the DNC picked up the entire tab).^{ref 568} I'm sure it helped her remember why she did it.

10 MINUTES AFTER KAVANAUGH IS CONFIRMED AS A SUPREME COURT JUSTICE



One could argue that the Kavanaugh story is one of redemption—a potentially precocious teen showing some questionable judgment. Whoopie Goldberg, Malcolm X,

Nelson Mandela, and Tim Allen did. I'm willing to let the ambiguity of what Kavanaugh may or may not have done as a teenager be corrected by time as well.

A GoFundMe campaign also left Kavanaugh with >\$500,000, which he promptly and certainly mandatorily donated to charity.^{ref 569} Kavanaugh is now a justice on the Supreme Court of the United States. Those on the left may try to impeach him.^{ref 570} If they fail, maybe they will take the case all the way to the Supreme Court. Pundits on Fox enjoyed the final victory by, no kidding, downing a couple of beers on air.^{ref 571} Lindsey Graham seems to have recovered, displaying what may be the smuggest look I have ever seen. That pedophilic eye doctor in need of a beating with a ball-peen hammer is probably dead, but his legend lives on in his nickname: Quick Draw McGraw.



Epilogue: A video of Kavanaugh and his wife celebrating with Trump brought up one last serious question: Does he beat his wife? Oh FFS! Women claiming to work with battered women, however, say they have seen the look a million times. I confess that I watched the damning footage^{ref 572} of it quite a few times and, while the narrative is a reach, I could be convinced. This one is gonna live rent-free in my head for awhile.

Political Correctness: Adult Division

“Political correctness is elevation of sensitivity over truth.”

~Bill Maher, comedian

The construct of political correctness finds its roots in 1930s communism, in which it was “a semi-humorous reminder that ‘*the Party’s interest is to be treated as a reality that ranks above reality itself.*’”^{ref 573} A national survey showed that 80% of American adults think that political correctness is a problem,^{ref 574} suggesting that a relatively minor 20% are highly educated virtue signalers. Technically, I am a doctor of philosophy, but I identify as a medical doctor and can write you a prescription for a new pair of gonads. Virtue signaling—saying things to impress those around you to show that you are thinking correctly—is said by Taleb to be like paying for indulgences. It is a form of lying that, according to late evolutionary biologist John Maynard Smith, is a way of getting laid. He called it the “sneaky fuckers strategy.”^{ref 575} But am I not also virtue signaling to the 80% when I pejoratively call the signalers a bunch of wankers? No, because I may be dead wrong but I’m not lying.

A malign interpretation of political correctness—PC for short—is how the politically far left and left-wing power structure exert control over the population. Don’t blame me: I got this little thesis from Malcolm X:^{ref 576}

“If you study the structure of the negro community—economically, politically, civically, psychologically, and otherwise—it’s controlled by the white liberals who usually pose as the friend of the negro who actually differs from the white conservative. . . . I’m suspicious of whites who join negroes and always have to be in the lead. Who always have to be at the top. Who always have to be in negro organizations. Let them give some advice to negroes and stand on the sidelines. . . . [Negro leaders] are puppets who have been put in front of the negro community.”

~Malcolm X, Nation of Islam and civil rights activist

PC encompasses all sorts of oddities, including cultural appropriation and overt disdain for the hat trick of evil—white/heterosexual/male. The blunt but highly effective tool is to hang a repugnant-sounding label on your opponents—misogynist, racist, homophobe, or Canadian—which is guaranteed to send them scrambling for safe spaces (or Jonestown). If the label sticks, you’ve vanquished the bastards.

2018 may have been a turning point. One senses that pushback will not *necessarily* get you fired. (Keep your savings account topped off, just to be safe.) The Supreme Court ruled that wedding cake bakers do indeed have constitutional protections.^{ref 577} We saw the emergence of Jordan Peterson, a decidedly no-frills University of Toronto psychologist who cut his teeth opposing mandated PC speech.^{ref 578} All imaginable labels have been tattooed on Jordan’s ass, but the guy has thought deeply about his beliefs and is a worthy foe. In what became an epic must-see interview—a meme in the making—he eviscerated Cathy Newman.^{ref 579} Newman was so brutalized by his logic and her inability to brand him by shoving words in his mouth that she embarked on a

post-debate victim march and enrolled herself in a concocted witness protection program.^{ref 580} No, Cathy: Your beating was painful but only metaphorical. The left's hatred of Jordan helped sell millions of copies of his book that would have sold a few hundred copies to friends and family otherwise (see "Books"). As is so common nowadays—what kind of word is *nowadays*?—ideas pose a threat. We can't have any of those! Peterson's ideas took root so fast that his personal YouTube channel was closed down but then reinstated.^{ref 581} I watch his interviews like a coach watches game films to see how not to get beat by skullduggery. Cathy would have owned my sorry ass.

Let's take a peek at the year's PC Follies in the adult world using a bulleted list—Can I use the word *bulleted*?—revealing what the "batshit crazies" got into this year. You may find yourself checking the mirror for facial drooping and listening for slurred speech:

- A rapist identified as a trans woman was incarcerated in a women's prison, where she sexually assaulted four more women.^{ref 582}
- A survey claims that 50% of millennials are socialists and that 75% of those don't know what it means.^{ref 583}
- The #MeToo movement has spread to corporate America, wherein men supposedly meet to "talk through their feelings, allowing themselves to grow more vulnerable, and, yes, to cry together."^{ref 584} I'm tearing up just thinking about it (sob). Despite the fact that *this* is clearly hyperbolic crockery, some have expressed concerns that these are men's-only groups.
- A woman hired by Facebook to review content flagged as highly dubious has sued Facebook for being "exposed to highly toxic, unsafe, and injurious content" that caused PTSD.^{ref 585}
- A controversial release of a pedophile on bail got the perp's decapitated corpse delivered to the judge's front door.^{ref 586} That, by the way, is *not* PC.
- Transgender women continue to do shockingly well in women's sporting events, including a gold medal at the 2018 UCI Masters Track Cycling World Championships.^{ref 587} To all you moms and dads who drove your daughter to practices—to the moms in the must-see iconic P&G "Thanks, Mom" Olympic commercial^{ref 588}—just remember that everybody is a winner.
- Columbus Day celebrations were canceled in Columbus, Ohio.^{ref 589}
- The pink pussy hat has been deemed offensive to transgender women and gender non-binary people who don't have typical female genitalia (pussies) and to women of color, whose genitals are not always pink.^{ref 590}
- GOP candidate Ron DeSantis got slammed for telling voters not to "**monkey it up**" by voting for his gubernatorial opponent in Florida (who happens to be black).^{ref 591} The left went nuts, saying they have never heard of this phrase or, apparently, this thing we call Google. Obama showed his white-nationalist roots by saying he "monkeyed around" with something.^{ref 592}
- NASCAR's Conor Daly lost sponsorship of Lilly Diabetes owing to a racially insensitive remark made by his *father* in the 1980s.^{ref 593}

- Silicon Valley elites are spending \$20 per gallon on raw water—water that is fully untreated.^{ref 594} An old SNL spoof ad sold *Swill*, mineral water from Lake Erie.^{ref 595}
- The Miss America pageant is removing the bathing suit competition.^{ref 596} Major news outlets reporting the story invariably showed pictures of prior contestants in skimpy bathing suits. They are replacing this leg of the competition with a quantum mechanics exam and calling it the Cal Tech Admissions Pageant.
- A Canadian restaurant manager booted a customer for wearing a MAGA hat. Customers choked down their bear-meat omelets and left irate.^{ref 597}
- A woman tried to hang her kid in the basement—we've all done *that* one—and struck a bicyclist and a car driven by a pregnant woman while being pursued. The judge gave her probation.^{ref 598} I must confess that she is statistically unlikely to repeat that again.
- The new celebrity fashion trend is to get facials made from cloned baby foreskins.^{ref 599} The nickname "Dicknose" seems appropo although something more subtle like Smegyn would work.
- People are squealing for the rights of sex dolls to not be abused.^{ref 600}
- The Brits, never bashful about asking somebody to hold their beers, are discussing whether to make misogyny a hate crime or just let the birds fend for themselves.^{ref 601} Some note that “everything in the UK has been criminalized except crime.”
- Microsoft is warning customers using Office, Xbox, Skype, and other products that the company is prohibiting offensive language and inappropriate content. Can I use phrases like "totalitarian", "Stalinist", or even "rot in hell fascist pigs?"^{ref 602}
- The mayor of London tweeted that “there is never a reason to carry a knife. Anyone who does will be caught, and they will feel the full force of the law.”^{ref 603}
- A restaurant in Britain charges white customers £13 more than people of colour—it's spelled *color*, you plonkers—to challenge racial wealth disparity.^{ref 604} I would guess that the owners personally helped narrow the wealth gap.
- The French had their hold-my-Chablis moment: They are considering a bill to make cat-calling of women a crime punishable with a €750 fine.^{ref 605}
- A Polish brewery, The Order of Yoni, produced a beer marketed as being brewed using vaginal secretions from two smoking-hot models.^{ref 606} *Yoni* is Sanskrit for vagina. (I'm not joking . . . and it's not PC either.)
- Students in Indonesia are making moonshine out of used Tampons.^{ref 607}
- Black Lives Matter and former NAACP kingpin Shaun King was exposed for having some very white parents.^{ref 608} Rumors of a romance with Rachel Dolezal remain unconfirmed.
- #MeToo activist Asia Argento is said to have paid off a 17-year-old (underage) actor to shut him up about an affair. She now claims her underage love muffin assaulted her.^{ref 609}
- Rhode Island is pondering a one-time \$20 fee to access porn sites or other “offensive material” online.^{ref 610} That really sucks.

- High fashion's latest trend is said to be male models wearing prosthetics to look pregnant and macho men wearing bras.^{ref 611} The marketing head at Target says they can't keep them in stock.
- Literature published by a California health information provider, in an effort to deal with modern gender issues, refers to the vagina as the "front hole."^{ref 612} Those who hatched this idea are now called "A-holes."
- A Roanoke City social services worker was fired and escorted from the building for having a concealed carry permit.^{ref 613} Not the gun; just the permit.
- Nurses in South Africa have to acknowledge their white privilege before treating aboriginal patients (or get their heads hacked off).^{ref 614}
- The BBC is reducing the salaries of some male journalists after criticism over unequal pay.^{ref 615} Can't say I saw that one coming.
- Craigslist shut down personal ads—"SWM looking for hot monkey love"—after Congress passed a bill on sex trafficking.^{ref 616}
- The Manchester Art Gallery took down pre-Raphaelite paintings of naked nymphs to appease the perverts who think other perverts can't look at them as just art.^{ref 617}
- To fight obesity, the UK wants to legislate that pizzas shrink or lose their fattening toppings.^{ref 618} Are you guys *trying* to have a revolution?
- I personally heard a rumor that an employee at one of the FAANGs got reprimanded by human relations for calling a tall colleague a "long drink of water." The correct greeting is, "Hey, Stretch!"
- A judge meted out a 25-year sentence without parole for drunk driving in which nobody got hurt.^{ref 619} I imagine there was a chronic problem, but you get less for shooting your spouse. Something like house arrest with an ankle bracelet for tracking might have sufficed.
- Team USA was criticized for cultural appropriation for having Native American motifs on their gloves at the Winter Olympics.^{ref 620} Lacrosse teams around the country are scrambling to figure out how to play without sticks.
- The former head of the CDC grabbed the ass of a friend of 30 years at a party, apologized, and nine months later was arrested and fired.^{ref 621} The woman said she worried about hurting someone by coming forward . . . and then wrote an article in the *New York Times*.^{ref 622} It just so happens that he was up to *his* ass in the politically charged vaccine debate.
- Swedish authorities pixelated the face in the photo of a man wanted for murder.^{ref 623}

Anything called "The War on . . ." is likely to be a bad idea and ineffectual. The War on Big Gulp Sodas has given way to the War on Straws. Restaurant owners who hand out unsolicited straws in California are subject to \$1,000 fines and 6 months in prison *for each infraction*.^{ref 624} The originator of the movement, Milo Cress, claimed that 500 million straws are handed out unnecessarily. Milo's data comes from—wait for it—a phone survey of straw manufacturers he conducted in 2011 when he was just 9 years old.^{ref 625} The Raw Water lobby was unconcerned because it sells its products in plastic

bottles. Some wonder if a plastic straw conviction will keep you from getting a gun permit.

Starbucks is remarkably progressive, but it discovered that the intolerant left eats its own. It got into a spat about whether several black customers were loitering.^{ref 626} It's likely that mistakes *were* made. A corporate-wide policy change to tolerate *all* such loiterers has now converted Starbucks into a safe space for crackheads.^{ref 627} The bathroom-dwelling coke-snorters will have to bring their own straws. Starbucks's new inclusiveness training also warned employees not to "accidentally mistake scruffy-looking husbands for homeless men." Finally, somebody defends *me*.

"Dumbass fucking white people marking up the internet with their opinions like dogs pissing on fire hydrants."

~Sarah Jeong, journalist and New York Times editorial board

Journalist Sarah Jeong was brought onto the editorial board of the *New York Times*. The newspaper claims to have been fully cognizant of her polarizing tweets over the years. How polarizing? She supported killing cops, killing men, and being remorseful that she will reach the end or her life without having killed a single guy.^{ref 628,629,630,631,632} The defense that she was fighting trolls by illustrating troll tactics fell apart when the vile tweets just kept surfacing spanning years.^{ref 633} Vox noted that "a lot of people on the internet today [are] confusing the expressive way antiracists and minorities talk about 'white people' with actual race-based hatred, for some unfathomable reason."^{ref 634} *The Verge*, where Jeong still worked, described any assertion of racism in Jeong's tweets as "dishonest and outrageous."^{ref 635} Slate, a publication just slightly left of Putin, came to her defense referring to the work of conservative trolls.^{ref 636} Of course, she was fired immediately and booted off Twitter. Just kidding. She kept her job and got verified on Twitter because we couldn't possibly know whether it was her or just some generic hateful, foul-mouthed troll. She hit peak irony when old tweets trolling her current employer surfaced in vast numbers.^{ref 637}

"After a bad day, some people come home and kick the furniture. I get on the Internet and make fun of *The New York Times*."

~Sarah Jeong

I didn't write about media this year—I had plenty of material but not enough time—but I will say that with Constitution protections offered to journalists come Constitution-level responsibilities. So many of you really suck now. I am talking the bottom-of-the-barrel, "suck the chrome off a trailer hitch" levels of suck.

There is nothing more sanctimonious than Hollywood multi-millionaires shaking their Oscars and talking about oppression. I find it odd that every TV show and movie now

includes profound violence and multiple scenes where a lead actor sweeps off the top surface of a desk or kitchen table, plops some starlet's yoga-tightened ass down, and bangs her lights out. Aren't they supposed to ask permission—"May I touch your breast?"—or is that rule negated when your paycheck is on the line? Let's see what Hollywood was up to this year:

- In the moon-landing movie *First Man*, actor Ryan Gosling refused to plant the American flag.
- The BBC faces backlash for its decision to cast able-bodied Charlie Heaton in its adaptation of *The Elephant Man* rather than any one of dozens of seriously deformed men who decided their best option was to go to USC's acting program.^{ref 638}
- Hollywood pulled Scarlett Johansson from the role of a transgender man in *Rub and Tug* because she is not a transgender man.^{ref 639} That's why it's called acting. Daniella Greenbaum defended casting her, but then quit at Business Insider when it pulled her column.^{ref 640} On the bright side, it was a principled call because they surely didn't boot Scarlett to pump up the box office proceeds.
- Bill Cosby was found guilty of sexual assault. Good riddance.^{ref 641}
- ABC executives regret their "knee-jerk" decision to fire Roseanne Barr because of a few tweets (that I happen to think had no racial intent) after realizing that destroying its best show (and her career) was an expensive blunder.^{ref 642} Norm MacDonald defended Roseanne for saying the #MeToo movement has gone too far and then was promptly pulled from a *Tonight Show* appearance.^{ref 643}
- The Weinstein Company filed for bankruptcy, ending all non-disclosure agreements. This could get interesting.^{ref 644}
- Elijah Wood had spoken out boldly about pedophilia in Hollywood saying, "It was all organized. There are a lot of vipers in this industry, people who only have their own interests in mind. There is darkness in the underbelly . . . victims can't speak as loudly as the people in power. That's the tragedy of attempting to reveal what is happening to innocent people: They can be squashed."^{ref 645} Elijah now declares no direct knowledge of pedophilia in Hollywood.^{ref 646} The perverts got to him.
- Having attained predator status as an alleged pedophile, Kevin Spacey got written out of the script of *House of Cards*.^{ref 647} His new movie, somewhat ironically named *Billionaire Boys Club*, which was already in the can, opened in eight theaters and made \$287.^{ref 648} That is not a typo. It would have been less if the one guy who went and sat in the back pleasuring himself—let's call him just "Kevin"—also bought a large Coke and popcorn. (How do you know when it is bedtime in the Spacey house? When the big hand touches the little hand.)
- The Academy Awards hit an all-time low Nielsen rating—a 24% drop year over year—because sanctimony doesn't sell.^{ref 649} Remember the olden days when they would defend victims like Juanita Broaddrick? Me neither.
- The new Jack Ryan series was "blasted" for pushing "masculine American heroism" and "white male entitlement."^{ref 650}

- My wife dragged me off to see *Mama Mia* (the sequel). The *four* men in the theater that night were literally congratulating each other for falling on their swords. By movie's end, I wondered if Hollywood may start delivering us leading men—three in this case—lacking any semblance of masculinity.

PC loses its humorous component when it goes violent. Antifa seems to have taken over Portland, Oregon. I never expected to read about “The Battle of Portland.”^{ref 651} This liberal enclave seems to be unprotected by the police, who were told to stand down.^{ref 652} Antifa has now been declared “domestic terrorists” by the authorities.^{ref 653} Portland citizens cheered as a squad of police scrubbed the streets of Antifa rascals harassing passersby.^{ref 654} Antifa vandalized the Metropolitan Republican Club in New York City and sees no irony in talk about punching Nazis.^{ref 655} A professor of philosophy who cold-cocked an unsuspecting person is out on \$200,000 bail.^{ref 656} Apparently, if you are a prominent republican, you are no longer eligible to dine in public because the intolerant left has the right to make you miserable. A rare unmasked Antifa thug screamed vile insults to the widow of a 9/11 victim (a fireman).^{ref 657} The assailant escaped harm by a razor-thin margin. The Unmasking Antifa Act of 2018 proposes laws prohibiting protesting with a mask.^{ref 658} I’m fence-sitting that one. An investigative journalist undercover probing Antifa appears to have been whacked shortly after he vowed to expose George Soros.^{ref 659}

A friend of the family supported this no-rules approach to politics, prompting me to “lose my shit” and state, “You are declaring war. Do you realize that my team has all the fucking guns?” This prompted my wife to send me to the store on an errand.

liberal

'lib(ə)r(ə)l/

adjective

willing to respect or accept behaviour or opinions different from one's own; open to new ideas.

There is a really ugly side to the gender battles that I had underestimated until now. Let’s open with a tweet that sat in my notes for months:

“Well, I don’t want to go up and talk to her, because I’m going to be called a rapist or something.”

~Henry Cavill, actor who plays Superman in the DC universe films

Mike Pence, darling of the left (not), noted his policy to never have dinner alone with a woman who is not his wife.^{ref 660} This got called the Pence Rule and led to some investigative journalism. What they discovered is that corporate America, in addition to

all the misogynist white men, is heavily populated with men fearing that they will be accused of something without cause.^{ref 661} Some said that they won't ride alone in an elevator with a female colleague. Others have age cutoffs, below which the women are avoided. This is truly horrifying—what economists might call a negative externality of higher order. Young women need access to mentoring and opportunity. Fear of association—call it a phobia if you wish—is profoundly destructive. One gent said that the solution is obvious: "Just don't be an asshole."^{ref 662} He is trivializing this paradox (and virtue signaling). We are moving women and minorities into positions of power and authority. Society hasn't completely worked out some of the details.

Political Correctness: Collegiate Division

"The wind of freedom blows."

~Stanford University's motto

"You can't spend your whole life worrying about your mistakes. You fucked up! You trusted us."

~Otter in *Animal House*

Many administrators, professors, and students are working their asses off to get it right, going about the business of scholarship and education. Parents hand us their kids and ask us to equip them with technical and social skills needed to become functional adults. They also ask us to keep them healthy and safe for their first road trip. Most exceed our expectations outside the control of their parents (at least before cell phones). Forget not that these students descended from mammoth hunters. The headlines you read and YouTube clips you see of faculty and students acting like assholes belie the thousands of success stories that would make you proud and that Make America Great. (OK. Maybe I'm pressing my luck now.) There is, however, a creeping Tyranny of the Few—noisy whack jobs—who can alter the tenor of campus life. When they start throwing their feces, all hell breaks loose. I would call it Tyranny of the Minority, but that might be misconstrued as some racist dig, and I would find myself in front of a tribunal or angry mob (which I file in the Department of Redundancy Department.)

"The darkest part is not the rise of radicalism, but the passive acquiescence of the vast majority of faculty and students."

~Lee Jussim, professor of psychology at Rutgers University

“When they come to you—your kids—and say, ‘I’d like to study critical race theory and intersectionality and bullshit 101 whiteness.’ Then you say, ‘Yeah, well, you are going to pay the \$60,000 because I am not going to pay the money that I have amassed through my hard work for you to be polluted learning about nihilistic academic fields that are intellectual terrorism.’”

~Gad Saad, professor at Concordia University

Universities suffer from a host of self-inflicted wounds. Surveys show that what was a 2:1 left-wing lean among some faculty now tips the scales at anywhere from 10:1 to well over 50:1.^{ref 663} Some colleges are said to have *no* conservatives. (I suspect they are in closets.) The rallying cry is that faculty members are all left leaning because of their great intellects. There is a core group of academics (students and faculty) that seems to have an insatiable need to gripe about wide-ranging topics that have been codified as “grievance studies.”^{ref 664} If your kid’s major ends in the word “Studies,” you might want to peek at the curriculum. Actions that are so insignificant as to be called “microaggressions”—mathematically one-millionth of a normal aggression—are now campus horrors to be strangled in the crib. In a grand bargain to create the most inclusive communities, universities are dismantling freedom of association of like-minded students.^{ref 665} Removal of such self-assembled support groups—think fraternities, for example—is forcing students to suffer an odd crowded isolation. If you oppose this new order, be ready to be tagged with a pejorative label that ends in “–phobia,” “–archy,” or “–ist.” Society is also trying to remove all semblances of hierarchies as being unfair or not inclusive, ignoring the fact that they are biological and cultural evolution’s mechanism to *minimize* conflicts.

“My daughter is looking for a summer job. She’s a millennial so she’s hoping to find part-time work as a CEO.”

~Brian Kiley (@kileynoodles)

We as a nation measure our intellectual worth by numbers of college graduates. Of course, students and their parents are loading up on mountains of debt to spend four or more years to “find themselves.” The military or Peace Corps will do so more cost-effectively, and for a mere \$150,000, I will *personally* find your kid and save you a lot of money. The proliferation of college experiences that leave students with little or no chance of discharging their debt after graduation has done irreparable damage to a generation. This is not hyperbole: *irreparable damage*. I suspect that replacing half of our college degrees with technical training would provide huge benefits. An elevator repair guy told me that after a five-year paid apprenticeship, he will make a six-digit salary. What does four or five income-free, debt-laden years in college guarantee you?

“Whereas the University of Chicago has traditionally sought to cultivate an intellectually robust and diverse student body by seeking out creative and unconventional thinkers, the introduction of a pre-professional business major would attract applicants who view their education primarily as a preparation for lucrative careers.”

~An activist’s letter, nailing it!

The Department of Education claims that administrative positions have grown at 10 times the rate of tenured faculty positions.^{ref 666} The University of Michigan currently employs a staff of 93 full-time diversity administrators.^{ref 667} More than 25% earn in excess of \$100,000—as much as elevator repair techs. These soaring added costs are exacerbated by an arms race to provide better food, dorms, study and safe spaces, and gym facilities. Schools either upgrade or watch the talent head off to greener pastures. Jonathan Haidt and Greg Lukianoff (see “Books”) say that colleges crossed the Rubicon when they began thinking of students as consumers, and we all know the consumer as King. The unwillingness of college administrators to stand up to precocious and, at times unruly, consumers has been called an “epidemic of cowardice.”

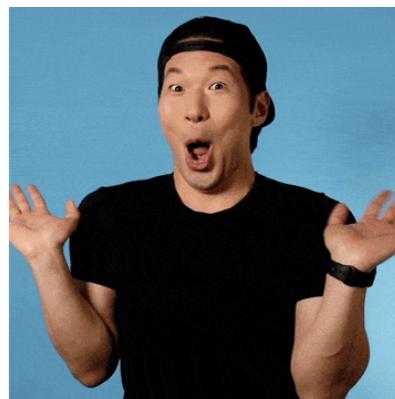
“Universities are becoming ungovernable.”

~Anonymous university president

Now let us wander through anecdotal disasters that occasionally visit college campuses—stories that should touch a wide range of emotions, including the fear somebody slipped you a roofie. Colleges and universities constitute the mothership of political correctness. Let’s begin with just some seriously goofy shit. Bear in mind that some of these ideas get attributed to universities when they are more likely emanating from university-sanctioned organizations—student clubs—that are given the coveted right to free speech, which they promptly exploit to suppress free speech from others:

- Standardized tests are being removed so that objective measures of skill and merit can be replaced with more subjective measures of things like, oh, ideological conformity.
- A Michigan State University study concluded that Latinos who support meritocracy, hard work, and independence are perpetuating a bias problem.^{ref 668}
- A Clayton State University professor offered students extra credit to attend an event of the Democratic Party’s gubernatorial candidate: The school intervened.^{ref 669}
- Gonzaga University hosted an “International Day of Tolerance,” urging students, particularly “white people,” to ask themselves, “Am I a tolerant person?” and “Do I stereotype people?”^{ref 670} There is a concept rich in irony.

- The University of Colorado-Boulder has removed the term “illegal aliens” from its library catalog in favor of “more ethical subject headings” to foster an “inclusive atmosphere.”^{ref 671} I have thoughts on what else you could remove from where.
- University of Texas treats masculinity as a “mental health issue,” empowering young men to “break the cycle.”^{ref 672} I’m guessing the Alamo is no longer in the curriculum.
- Clapping has been banned at the University of Manchester student union to avoid triggering anxiety and improve accessibility. It has been replaced with “jazz hands.”^{ref 673}



- A Fresno State professor followed a series of dubious tweets—we've all done *that*—with one baiting people to call her. The phone number she posted was for a mental health hotline instead.^{ref 674} Bet that worked well for this high-function moron.
- Students at law schools are being triggered by curricula covering entire branches of study. Lectures on rape law, for example, are popular targets.^{ref 675} These same activists are likely to speak out in support of rape victims, albeit in total ignorance.
- Emotional support dogs are growing by leaps and bounds.^{ref 676} That’s cool; I have three Labrador retrievers, although I would not call them supportive.
- George Washington University students launched a petition to change the school’s mascot from the Colonials to the Hippos because Colonials is too evocative of colonization and oppression.^{ref 677} Hippos are *really* fat: aren’t you fat shaming *and* culturally appropriating hippos?
- Princeton put on (packed on?) a “fat-positive dinner” to discuss “fat-positive programming for the spring semester.”^{ref 678} The university also offered a course to help students fight “fat phobia” through dance. I’m more than a few pounds heavy now, and my wife fat-shames the heck out of me.

“If someone calls you fuckin’ fat, they may be bullying you, but you might be fuckin’ fat.”

~David Goggins, former Navy Seal

- I did the math: The famous “Freshman 15”—the pounds gained from all-you-can-eat buffet-style dining—causes Cornell’s North Campus housing to gain 45,000 lbs. every fall semester. I wonder if building codes accounted for this.
- Students at Lee University petitioned to disinvite Vice President Mike Pence, declaring that Pence’s political views are “at odds with Christian values.”^{ref 679} What would Jesus say?
- A professor who teaches politics and global security at Virginia Tech tells us that fossil fuels are contributing to a warped sense of “masculine identity” and “authoritarianism” among men, coining the phrase “petro-masculinity” to describe what she sees as a convergence of “climate change, a threatened fossil fuel system, and an increasingly fragile Western hypermasculinity.”^{ref 680} Nailed it.
- A group of UCLA students earning \$13 an hour to promote diversity on campus started a “Toxic Masculinity Committee.”^{ref 681} I’m guessing that they don’t lift weights together.
- A St. Mary’s College professor offered a term project instead of a real final exam on topics ranging from “environmental racism,” “the Green Movement in Africa,” and “eco-normativity in Western environmental campaigns.”^{ref 682}
- Mount Holyoke College, an all-women’s school, is discouraging calling female students “women” to promote a “gender neutral” classroom environment.^{ref 683}
- A Cornell student gave her senior thesis defense in her underwear^{ref 684} because her professor—a progressive and widely respected female faculty member—suggested that what she was wearing in her practice talk was potentially inappropriate.^{ref 685} Yeah, well, I was Cornell’s first streaker, running through Bio 101 in the fall of 1972.

“I tell 18-year-olds, ‘Six years ago you were 12; what the hell do you know?’”

~Jordan Peterson, Professor of Psychology and author of *12 Rules for Life*

- A University of Wisconsin student filed a dreaded “bias report” after a peer hogged weights at the campus gym then yelled at him to back off.^{ref 686}
- A website entitled, “Make them scared UW,” run by University of Washington students, allows individuals to anonymously accuse people of sexual assault with no evidence.^{ref 687}
- A Marquette University student group is telling “white folks” to “stop calling the cops” when they feel threatened. “Hey, what do ya say you put down your dukes and give me a big hug?”^{ref 688}
- A math paper was withdrawn in an uproar because it tried to model the genetics of gender differences.^{ref 689} (There’s an “irrational number” joke in there somewhere.)
- A paper suggesting that males have fat-tailed intelligence bell curves—they tend to occupy the extremes of the spectrum—created such a ruckus that the National

Science Foundation wanted acknowledgement of support removed. The paper got retracted.^{ref 690}

- A professor at Wilfred Laurier University wrote a book with a chapter entitled, “When a Man’s Home is Not a Castle: Hegemonic Masculinity Among Men Experiencing Homelessness”. The detailed description does not clarify the idiocy.^{ref 691}
- A professor who was charged and pleaded guilty to a work-unrelated domestic violence charge years earlier was written up in the school newspaper. A shitstorm ensued, and he killed himself.^{ref 692} Y’all have blood on your hands and maybe lucky he turned the gun on *himself*. There are good articles on “academic mobbing” and other neo-Stalinist behaviors.^{ref 693}
- A paper on gender dysphoria by a Brown University assistant professor drew so much attention that Brown distanced itself from the work. A dean at Harvard hammered the president of Brown for being a coward (my words).^{ref 694}
- The University of Minnesota is considering introducing a “Pronoun Rule.” Professors, staff, and students who use the wrong pronouns (he, she, ze) risk firing or expulsion.^{ref 695} Zat is nuts.
- Food workers at NYU’s dining facility celebrated Black History Month with “racially insensitive” meals.^{ref 696} The employees are African-American. Seems like it ought to provide some cover. The real crime was that the girl—can I call a teenager a girl?—said she—can I say she?—was “ignored.” A woman scorned...

“[T]his modern-day trend of cultural appropriation of yoga is a continuation of white supremacy and colonialism, maintaining the pattern of white people consuming the stuff of culture that is convenient and portable, while ignoring the well-being and liberation of Indian people.”

~Shreena Gandhi, a religious studies professor at Michigan State

“Nothing could be more asinine than outrage against ‘cultural appropriation’.”

~Steven Pinker, professor at Harvard University

- A psychology study by researchers at San Francisco State University claims that 25% of millennials have PTSD because of the 2016 elections.^{ref 697} Heterodox Academy says it is the Gen-Zers, not the millennials, that began disrupting campuses abruptly in 2014-ish.^{ref 698}
- Hofstra students want to remove a Thomas Jefferson statue (because he was such a douche).^{ref 699}
- The removal of a Civil War statue at North Carolina State by protestors took hours, but campus police did nothing. Turns out the protestors were outside agitators, not students.^{ref 700}
- Students at Baylor University will receive training in microaggressions.^{ref 701} This training includes “talking to the victim” and “educating the attacker.” Recall that

complimenting a woman on her shoes is considered a microaggression, so maybe the term "attacker" and "victim" is just a wee bit hyperbolic.

- Feminists at Yale University are lobbying the administration to force all-male fraternities to open recruitment to women while *not* pushing to integrate sororities.^{ref 702}
- University of Wisconsin-Stevens Point will be cutting programs to "recognize a growing preference among students for majors with clear career pathways".^{ref 703} Tenured faculty in Art, English, Geography, History, Philosophy, Political Science, and Sociology will be packing their bags. I'm speechless.

"I cultivate a cutting-edge approach to human geography through a theoretical edifice that foregrounds emerging thematic concerns within the discipline by incorporating both poststructuralist critique and a radical revival of anarchist philosophy."

~Simon Springer, professor and anarchist-geographer at the University of Victoria

Hyper-active political correctness is not unique to the United States. Lecturers in Britain have been told "not to use words in capital letters in course assignments because it might 'frighten students'."^{ref 704} BOO! Made ya flinch. A journalism school's staff have been told to mollycoddle students by "writing in helpful, warm tones, avoiding officious language and negative instructions."^{ref 705} The memo refers to "enhancing student understanding, engagement, and achievement" and listed frowned-upon words. A Dutch university mob protested the appearance of Jordan Peterson because of "his politically-incorrect worldview."^{ref 706}

Three academics totally punked the grievance studies community by writing a bunch of fake papers—getting a few published and another pile accepted—before they pulled back the curtain.^{ref 707} My favorite podcaster, Joe Rogan, interviewed two of the perpetrators, Peter Boghossian and James Lindsay (Helen Wilson was not present).^{ref 708} This is 2 hours of eye-watering hysteria. They describe fake papers about gendering dogs at dog parks and putting men on leashes. They used the search-and-replace command on Hitler's *Mein Kampf* to replace "Jew" with "white male" and then wrote a paper using the new sentences. A paper titled, "Going in Through the Back Door" described the desensitization of heterosexual men to homophobia by inserting various objects into their butts. The referees' suggestions, without fail, made the papers even nuttier. They learned to "problematicize" the target thesis and use "word laundering" to take a normal word and give it special meaning. (If you like binge-watching stuff, try Joe Rogan's 1200 podcasts.)

"There is no such thing as black racism."

~A professor at Florida Gulf Coast University

Psst. Professor. Come here. Closer...YOU'RE AN IDIOT! Goofy ideas begin to do damage by leaking into the curriculum. As told by one of my favorites, *Campus Reform*, Berkeley offers courses about white privilege to "confront uncomfortable conversations about privilege and positionality" and to "understand where white bodies have the responsibility to be in movements against white supremacy and in solidarity with marginalized peoples and groups of color."^{ref 709} Berkeley offers over 150 student-taught courses, which helps keep the lights on and is said to be "an excellent way of meeting the University's minimum unit requirement." One can only imagine the course content. A course at Salisbury University in Maryland titled, "Pyramid of White Supremacy" teaches students about—I don't know—maybe pyramids of white supremacy?^{ref 710}

Those little twinges of bias can get rather specific. A gender studies professor at Northwestern University suggests we should be able to "hate men."^{ref 711} I can sign off on a few. If you surmise that the professor is referring to women, you might be wrong. Self-loathing and virtue signaling is considered admirable among young men. A University of Maryland support group called "White Awake" was designed to help white students who may "sometimes feel uncomfortable and confused before, during, or after interactions with racial and ethnic minorities."^{ref 712} Pressure caused the University to change the name to "Anti-Racism and Ally Building Group." How about just "Race Baiting 101"?

One of the big stories is that Harvard is getting pounded in court for racism in its admissions.^{ref 713} When a school bends over backward to accept underrepresented kids, it necessarily excludes others. Society decided long ago that, in moderation, this is an acceptable price to pay. Apparently, those of Asian descent—what we call *Asian Americans*—are taking the brunt of it, and numbers showing the bias are compelling^{ref 714} and drawing fire from the courts.^{ref 715} I once personally stepped on a rake by claiming just such a latent bias exists. I can't even fake the PC thingie I guess. Evidently, kids with Asian-sounding names were scoring rather poorly in the subjective categories involving personality. I think universities have the right to accept only Americans if they want, whether such a policy is advisable is an altogether different story. They do not, however, have the right to discriminate against those named Chang, Chen, Lee, or Park.

"The greatest threat to free speech is no longer governmental."

~Bret Weinstein, former professor at Evergreen State College

"This is beyond free speech; this is disrespectful."

~President of Fresno State University

Probably the largest and most consequential political shift is the move away from free speech. One survey showed that 50% of students would support a law making it illegal to say offensive things in public.^{ref 716} Another revealed that only 35% of female college students think free speech is more important than “diversity and inclusion.”^{ref 717} A Gallup poll showed that the majority of American college students support “disinviting” speakers they don’t like; 37% support shouting them down; and 10% support using violence to silence them.^{ref 718} Anti-abortion clubs have been banned because the ideas being discussed are considered subversive.



“Identity” politics—the decidedly left-wing idea that you subsume your identity to that of the group and, thus, necessarily forfeit independent thought—arrived on campuses with little warning around 2013–14. Scholars like Haidt and Lukianoff have burned a lot of ATP trying to understand from whence it came and why. I have a theory! Kids are influenced profoundly during their formative years—their Wonder Years. What book series totally dominated the childhoods of current college kids? That’s right: *Harry Potter*. Early in the first book, the little wand-wielding wizards are assigned a group for the rest of their stay at Hogwarts by a magic hat. Once assigned, they assume the behavioral norms of their group. May God have mercy on your soul if you become a Slytherin. This is the stuff of Harvard psychology PhD theses showing how quickly

people form group identities. It's the classic prisoner-guard experiment.^{ref 719} It's what inspires normally sane people to sit in -20°F weather in Green Bay wearing a cheese hat while rooting for a team full of guys with whom they have absolutely *no* shared ideals or experiences. We are witnessing the Slytherins coming of age and arriving on campuses.

"Apparently, all that is required to throw a student out of school is that some other student claims to feel unsafe."

~Gregory Germain, professor of law

The Title IX program that began with normalizing college commitments to women's sports has morphed into a commitment to women's rights more generally. It's a great idea on paper. In the hands of activist university administrators, however, it can be nightmarish.^{ref 720} On the heels of a tenure case at Cornell in which an unsubstantiated assertion arguably cost an assistant professor tenure according to the courts,^{ref 721} the young accuser—Jane Doe, of course—subsequently exacted retribution on one of the faculty member's graduate students, slamming the brakes on his PhD defense by filing yet *another* Title IX complaint.^{ref 722} Two dozen Cornell law professors interceded, demanding that Cornell grant the student his PhD and stop the bullshit (my words, not theirs).^{ref 723} As I've said before, if you ever run into John Doe or Jane Roe, for heavens sake stay away. Nothing good can happen.

A decidedly progressive sociology professor at University of Michigan, after accusing a student of plagiarism, was accused of harassment.^{ref 724} In a world where accusations are so vague and difficult to sort fact from fiction, Oberlin has a 100% conviction rate.^{ref 725} That is what they used to call "a hangin' judge". The courts are routinely beating up universities and exacting large fines when due process drops below minimally acceptable levels. Courts are demanding universities up their games on due process, which is sorely lacking on some campuses. This long-overdue pushback against unchecked Title IX cases has the most militant supporters of the #MeToo movement angry. After years of sexual harassment and abuse at the hands of men, they feel that women's evidence-free accusations should suffice. Nearly 100 students at the University of Southern California demanded a tenured professor be fired after he sent a reply-all email noting that "accusers sometimes lie."^{ref 726} Others hold the quaint view that trying to destroy somebody's life is a problem regardless of the weapon of choice. Cases of demonstrably false accusations keep piling up in numbers not approaching legitimate accusations but sufficient to underscore the importance of due process.^{ref 727} Here is my bottom line: If you have no data you have no case, regardless of how heinous the crime. I repeat: It's how our system works.

“Racism is a serious issue, and unfortunately what we found were many examples of students willing to use that charge in an attempt to get back at their peers in everyday squabbles.”

~Chris Rochester, director of communications at MacIver Institute

I chose not to describe dozens of grisly stories, including many false accusations, and instead finish by noting that progress toward normalcy is detectable. We are starting to have discussions about identity politics. The now legendary Evergreen State College appears to be going even further down the rabbit hole toward totalitarianism and headed for insolvency.^{ref 728} That’s probably a win. Nationally recognized progressives including Alan Dershowitz, Steven Pinker, John McWhorter, Bret Weinstein, Heather Heyling, and Jordan Peterson—collectively referred to as the “Intellectual Dark Web”^{ref 729}—are now defending against leftist McCarthyism on college campuses. Betsy DeVos, secretary of education, is attempting to tighten up some of the details of Title IX (much to the horror of fuming progressives).^{ref 730} Nicholas Christakis, one of the controversial Yale professors who found himself in the middle of Social Justice Warfare by supporting the idea that Yale students are capable of choosing their own Halloween costumes, has been awarded one of Yale’s Sterling Professorships, the highest honor a faculty member can receive.^{ref 731} Right-wing activist group TPUSA has watchlists of left-wing professors. That would look like a telephone book and is *very* bad idea for a bunch of free-speech libertarian types.^{ref 732} Princeton University has become the second Ivy League school, after Yale, to face a federal Title IX investigation into allegations that some of its programs discriminate against male students.^{ref 733} This too shall pass.

“We’ve been paid to leave a burning building.”

~Heather Heyling, commenting on her and her husband Bret Weinstein’s severance packages to leave Evergreen State College

Political Correctness: Youth Division

“Prepare the child for the road, not the road for the child.”

~Jonathan Haidt, author of *Coddling the American Mind*

No generation is completely ready for the next one. Certainly the Greatest Generation was ill-prepared for the arrival of drug-addled boomers who trusted nobody over 30. The latest generation of young punks has discovered porn on their phones, rendering back issues of *National Geographic* obsolete. Cyberbullying is acute, especially for girls who seem to be more at risk *and* are more prone to destroying social structures without having to resort to formal violence according to Haidt and Lukianoff (see "Books").^{ref 734}

(When you Google this you will get articles about the girls as victims without clear statements about girls as perpetrators.) The boys, taking cues from the *Jackass* series, impale themselves from skateboards, dive into bonfires, and eat Tide Pods (killing more than one of these Tide Podlers).^{ref 735} Procter & Gamble is making its Tide Pods even less appetizing, if you can imagine that.^{ref 736} The sport of snorting a condom and pulling it out of your mouth probably has a funny back story.^{ref 737} Efforts to test boundaries are now “hold my phone” moments. Although Darwin Awardees in Training are not new, one wonders how many fatalities uploaded to the cloud are *caused* by the iPhone.

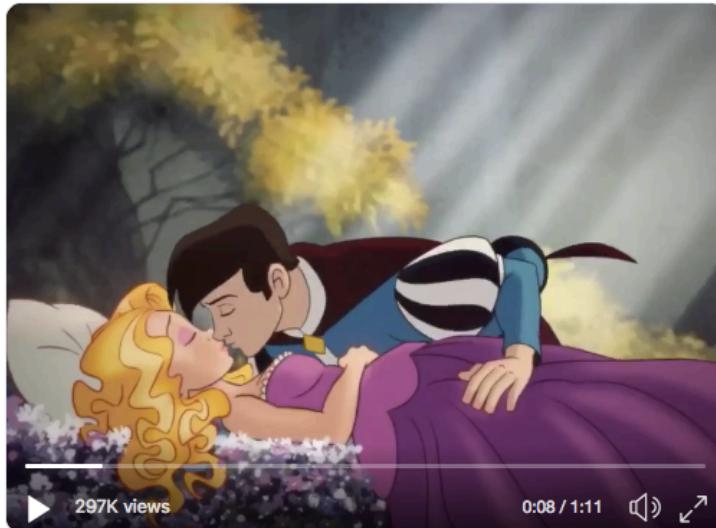
What has changed, however, is what the boomers will do to protect the little dumplings, inadvertently doing more damage in the process. These protective measures range from sketchy to moronic. (Sorry: If the shoe fits wear it, pinhead.) Parents are now monitoring their kids’ calls, email, and phone messages. Phone apps now exist that make the kid check in, or the cops get called and the phone tracked.^{ref 738} “We found your kid, Mr. and Mrs. Stalin. Their battery had died. Would you like us to take them to the Gulag anyway?” What happened to “be home for dinner by six and don’t be late?” An Edmonton day care is requiring kids bring helmets to protect them on the playground.^{ref 739} Sugared drinks are being mandated by law to be removed from children’s meal menus at restaurants.^{ref 740} Several towns have made it unlawful for a 12-year-old to trick or treat,^{ref 741} presumably to protect the littler kids who are, without fail, now accompanied by dozens of adults. A fine of \$25 or “up to 6 months in jail” seems a bit weird. “I’ll take the \$25, your Honor.” We check the kids’ candy to make sure there are no razor blades or poison, unaware that every documented case of such attempted infanticide has been traced to a family member. “Honey, I poisoned the kids.” In one county, 10- and 11-year-olds must have at least one parent “get to the choppers” (helicopter parent) when the kids are outside playing.^{ref 742} Disney’s *Sleeping Beauty* is finally drawing scorn for the scene in which Prince Charming ravages the sleeping girl with a non-consensual kiss.^{ref 743} Hey, Amnesty International: Don’t you have bigger fish to fry?



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So, @imkristenbell is right - we need to talk about #consent - and fairytales are an excellent place to start.

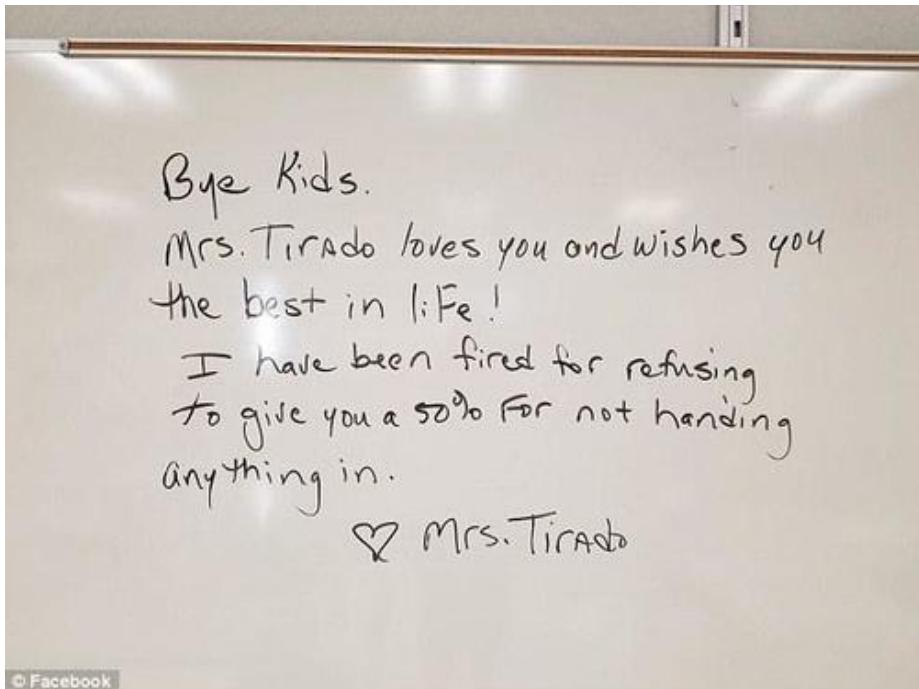


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Of course, once the kids hit high school, it's time to give some slack to the leash. Yeah, right. One high school declared that oral presentations in class are an unreasonable burden for those with anxiety.^{ref 744} Jonathan Haidt notes that we have about 100 kidnappings per year—most by a pissed-off divorcee parent—while 10 kids *per day* are killed texting and driving. One Girl Scout got the clever idea of selling her cookies in front of a pot dispensary.^{ref 745} I suspect a boomer parent hatched that plan. She sold 312 boxes to the stoners. Girl Scouts of America declared it "not cool."^{ref 746} The GSA administrators in the Colorado chapter, however, declared that it was "totally cool, Dudette."^{ref 747} One teacher decided that the term "Ma'am" was inappropriate in the current PC culture. When the kid just couldn't shake this rural nicety, she made him write the word repeatedly (which seems kinda backward) and have his parents sign it.^{ref 748} The teacher also said that if she had had something, she "would have thrown it at him." I can only imagine *that* parent–teacher conference. Schools are banning children from using the term *best friend* over fears that some really unlikeable, spoiled little douche may feel left out. This also ensures that kids will not form tight, lasting relationships. A teacher in Florida was fired for refusing to give students a grade of 50% even though the assignments were not turned in.^{ref 749} The school had an unstated "no zero" policy. Ironically, the school was run by a bunch of zeroes.



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Most of these are marginally harmful lobotomizations that may not leave scars (provided the kid doesn't become a cutter). However, many child psychologists suggest that increasing academic problems in young boys stem from repeated chastisement for acting like, well, young boys. Schools are denouncing toxic masculinity in kindergarten.^{ref 750} Kids caught "sexting"—sending semi-lewd or lewd pictures via cellphone—are being charged with trafficking in child porn.^{ref 751} One elementary school passed around flyers denouncing "white privilege."

The institutionalization of PC not only hurts the kids but also infringes on parents' rights to add any post-genetic finishing touches and determine levels of risk. A mom was investigated for letting her 8-year-old walk the dog around the block. Another received a visit from the police because her kids were playing in the front yard "unsupervised." She noted that, "For something like this to happen to me, there's something really wrong." Ya think? Something like this once happened to my wife and I, and a woman from social services showed up. Once this sanctimonious piece of human detritus—Do I sound like I'm over it?—started citing the scriptures in a decidedly sanctimonious way, I told her that "I am fighting the urge to throw you out the door on your fucking head." My wife suggested my comments were counterproductive. I thought I showed great restraint.

Schools are throwing Common Core math at them, ensuring that they will *all* share a common denominator: total mathematical ignorance including not knowing what "common denominator" means. After dropping \$400 million on its development, the Gates Foundation declared common core math a total failure.^{ref 752} It is still in use, lobotomizing children across the country. I suspect its deep-seated purpose was to forcibly engineer equal outcome at any cost. So much for inclusivity. Ian McEwan, an

award-winning author, began to wonder about the system as a whole when after helping his son with an essay *about his own novel* his son received a C.^{ref 753}

"If you breastfeed your sons, you are training them to be rapists when they grow up. You're basically teaching them that they can touch a woman's body whenever they want. If you oppose rape, stop breastfeeding boys!"

~Shaykha Alia (@AliaAbheed), activist, *not* joking

Schools are increasingly filled with boys, girls, and fence sitters. I must confess that sexual and gender ambiguities must be traumatic for kids who are already in traumatic periods of their lives. I watched my son for at least 5 years wondering if and when he would come out (even to his family). He waited till it was time. *Nobody else gets to make that call.* Let the parents ponder how to raise the kid in the most nurturing and constructive manner possible.

I even support parents who are serious loons doing stuff I think is sketchy because *it's not my kid*. A new class of child called "theybies" are babies and kids raised gender neutrally, ensuring that they will consume copious quantities of mental health services later in life.^{ref 754} One woman fought gender norms by naming her son Vagina.^{ref 755} Middle school may get a little rough. Didn't Johnny Cash write a song titled, "A Boy Named Vagina"? There are, however, some real consequences moving down to the younger age brackets. Pediatricians and psychologists are battling it out over gender dysphoria, what it means, and what to do about it. Scientists are using fMRI to study transgenderism^{ref 756} (sounds good) to aid earlier "transition" (gettin' a little sketchy), possibly as early as age 3.^{ref 757} Hold your horses there, Buckeroos: You might want to wait till they can talk and get through a whole day without Pull-Ups (gender-neutral colors, of course.) Some worry about "social and peer contagion" of the gender dysphoria;^{ref 758} this is not like some passing lesbian phase sophomore year in college. One judge removed a 17-year-old transgender teen from her parents because they refused to allow hormone treatments.^{ref 759} All of this reminds me of the *Saturday Night Live* skit with the doctor who delivered 4,000 girls in a row. Half needed only a minor postnatal surgical procedure. One thing is clear, if your son transitions to become a girl, get ready to pay more for toys and clothes.^{ref 760} Somehow the free market has figured out that there is a recessive X-linked gene for insensitivity to price. If, on the contrary, your daughter transitions to a boy, you will be able to afford college. Jazz hands!



When I was a kid we had one rule: Be home for dinner. I was riding my bike miles from home by age 8 and groping young girls (not like Brett Kavanaugh!) and hitchhiking *with permission* at 12, drinking *without permission* at 13, smoking pot at 14, and dropping acid at 15. I started to study at 17, graduated from Cornell with a degree in genetics at 22, and got my PhD in chemistry at 25. (Yes folks: That is a 2.7-year PhD from Columbia and no post-doc, all with damaged chromosomes to boot.) *Nobody broke my spirit by declaring me flawed.* My peer group played copious quantities of only *self-supervised* sandlot sports until middle school. We laid out the field, made up the rules, refereed the games, and had some Lord-of-the-Flies moments. This peer group generated a three-time first-team All-American lacrosse player at Syracuse, the 12-year center for the Dallas Cowboys, and probably the only faculty member in the modern era to have been an assistant or head coach of two collegiate sports (me).

How about some solutions or suggestions, Dave? OK. Since you asked. First, read Jonathan Haidt's and Greg Lukianoff's book, *Coddling the American Mind* (see "Books"). I sent it to one of Cornell's deans, and he said it described the problems landing in his office to the letter. Let them go outside, get hurt, cause trouble, and pay some consequences. No broken bones or lost eyes? That was a good day. Stop depriving kids of constructive play by inserting vast numbers of résumé-boosting activities with oppressive levels of adult supervision. I've read college and graduate admissions applications for many years; most parents haven't a *clue* about what really

matters. Watch the movie *Stand by Me* or the often overlooked *Tree of Life*. That was my childhood. And don't you dare say those were simpler times; that's a load of garbage asserted by helicopter parents.

Others are also taking action. The French are talking about banning phones in school. At first I flinched, but I realized that they're onto something.^{ref 761} A woman named Lenore Skenazy has started the free-range parenting movement, which supports the type of parenting that used to be considered normal.^{ref 762} I am also now an enthusiastic supporter of school choice. If you insist on indoctrinating kids, at least give the parents the choice of which gulag to ship them off to every morning. And on the more micro level, give families some choice: (a) common core math versus actual math; (b) learning how to write versus reading books like *Waiting for Godot*, and (c) secular or religious philosophical underpinning. Parents shouldn't have to pay double for private schools at least in the more populated areas where multiple tracks and schools are already necessary; there would be no added cost. Finally, let the kids determine their peer groups—let's call them “boys” and “girls”—and let them play separately without adults force-feeding inclusion. Are what we called “cooties” now microaggressions with “attackers” and “victims”? There will be plenty of time in the later years for coed binge drinking and teen pregnancies. If none of this makes sense, that's OK, but may God have mercy on your soul, mofo.

Conclusion

Bad times create strong men.
Strong men create good times.
Good times create weak men.
Weak men create bad times.

It's safe to say we have tough times ahead, because that has *always* been true. If equity markets regress to the mean while the 38-year-old bond bull market turns into a bear, we will witness some serious wealth destruction. I could be wrong, of course, but if the case for overvaluation in both equities and fixed incomes is sound, I remind you that gravity always wins. It is undefeated. China seems on the cusp of the first serious lesson about the downside of capitalism. The European Experiment of a super-sovereign world may falter when fill-in-the-blanks start leaving. If the U.S. finally comes to terms with its debt problem through a mechanism I haven't yet imagined, the 12-step program will not include excessive consumption on the back of more debt (hair of the dog). Boom–bust cycles are normal, but this one could be a bit too synchronous for comfort, and it follows a supernatural monetary policy.

"I think the next downturn is going to be a different kind of downturn. I think it will be more severe in terms of the social-political problems. It will be harder to handle. . . . It will have bigger international implications."

~Ray Dalio

"There is a numbness out there, there is an ambivalence out there that's concerning. . . . When the next turn comes—and it will come—it's likely to be more violent than it would otherwise be if we let some pressure off along the way."

~Michael Corbat, Citigroup CEO

Here's what is bugging me. There has been a growing malaise since the '08-'09 crisis manifesting upheavals that seem correlated. I blame Obama and his Department of Justice in part. This is not because of his politics—they shockingly never bugged me that much, and I like the guy—but rather because he let the bad guys go *by policy*. They stitched up festering wounds that laid foundations for social upheaval (mixed metaphorically speaking). The Occupy Wall Street movement was toothless but a beta test. Now we have Antifa, which is a combination of dangerous people and gullible followers. Presumably there are right-wing analogs, but I find them harder to identify as coherent groups.

"Liberals claim to want to give a hearing to other points of view, and are then shocked and offended when they discover there are other points of view."

~William F. Buckley, founder of *The National Review*

I think the reason that those on the left are so prominent on my radar right now is that they went berserk when Hillary—the first female presidential contender—got beaten by the most repugnant opponent they could imagine. You don't have to look hard to see educated and intelligent people—they are not one and the same—saying some of the most vile things. From the left has spawned an intolerant liberal left. There seems to be a prevailing wisdom that if you know you have the moral high ground (who doesn't think that?), there are no rules. You first label your opponent—white, male, conservative, heterosexual, neo-Nazi, fascist, insufficiently progressive, or all of the above—and then attack verbally and even physically. I reached out to a decidedly progressive faculty member who was being eviscerated unjustly—scorn, hate mail, the whole enchilada. I've done this many times simply to let them know they're not alone. When I noted the irony that it was coming from the left, they responded:

"The harsh criticism on my role in the story (as reported by the media) is not coming from folks on the left, it's coming from liberals. There's a big difference, as you know."

What a fascinating response. As I understood it, liberals were compassionate and tolerant, albeit a little rich in fanciful ideas. The graphic in Figure 55 shows that everything has changed.^{ref⁷⁶³} As your political opponents move to the extreme, you move to the other extreme. We were OK in 2004, quite healthy actually. By 2017, however, we had polarized.

Democrats and Republicans more ideologically divided than in the past

Distribution of Democrats and Republicans on a 10-item scale of political values

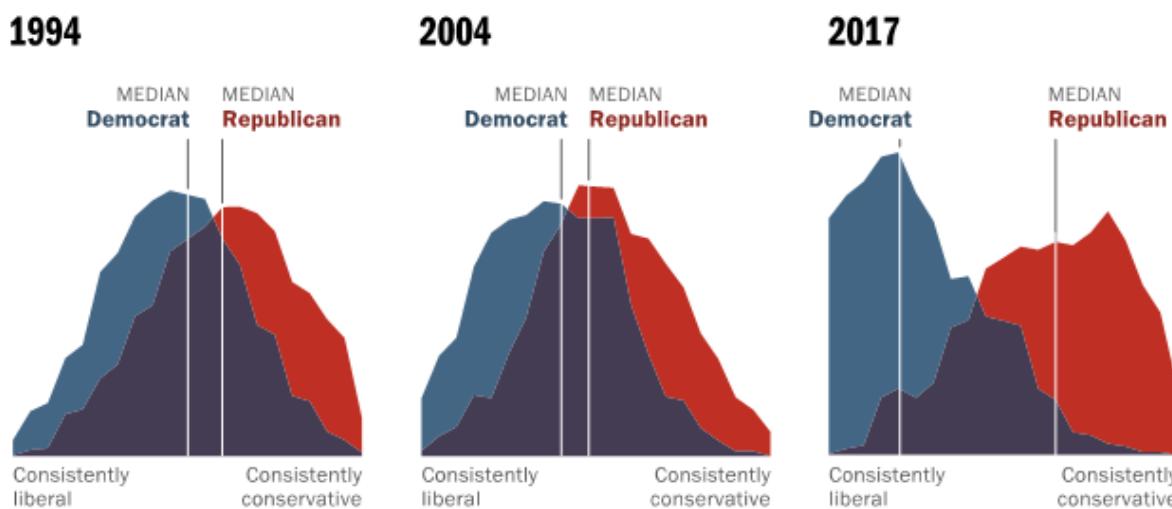


Figure 55. The growing political and social divide.

“War is when your government tells you who your enemy is, and revolution is when you discover it for yourselves.”

~Source unknown

When the riots in France started, they were reputed to be about an energy tax. You would be shocked at the number of journalists and bloggers trolling Twitter trying to find someone who could explain what was *really* happening. Here is my answer: Government is like a fiat currency. Once faith in it is lost, you will witness cascading failures that are too complex to comprehend in detail. Arab Spring began when one highly flammable Tunisian lit himself on fire. As Billy Joel says, “We didn’t start the fire.” Avalanches, explosions, earthquakes, and fires all thwart serious efforts to model them. Metastable systems—systems displaced markedly from equilibrium waiting for the right spark or trigger—return to equilibrium unexpectedly, quickly, and often violently. Social movements start small (by definition) and unexpectedly, but they move quickly and can end violently. France has been down this path. Edmund Burke was one of the few who saw the social movement in late eighteenth-century France as the first rumblings of a

murderous rebellion. The Rodney King-sparked LA riots started to spread; we got lucky when they burned out. When everyone is grumpy and some guy decides to light a car on fire, don't be surprised when others join in. They all share a common denominator: they're PO'd.

“The collapse is fundamentally due to the unstable position; the instantaneous cause of the crash is secondary.”

~Didier Sornette, Professor of Entrepreneurial Risks, ETH Zurich

The solution is to have strong social institutions and social capital that unifies the populace. This gets to my criticism of the left, not the people but rather the leaders and power brokers denounced by Malcolm X (above). When you deem it your job and derive power from providing goods and services to the masses, self-governing and self-sufficient groups represent risk. It's a turf war. Under the guise of inclusion, people are now being discouraged from self-assembly. Men and women as well as boys and girls are not allowed to have their own sports. The Boy Scouts of America, where fathers and sons congregated to train and civilize a new generation of responsible fathers, is no longer just fathers and their sons.

Fraternities are an interesting case study in social cohesion. They are on the lam from society. You house a few dozen 18- to 22-year-old men away from their parents for the first time. A few mishaps are a certainty. Statistically, if you select a few dozen men from a campus *randomly*, give them a Greek label, and monitor their behavior they will collectively look like a dumpster fire. I will admit there is also groupthink that amplifies behavior and drops average IQs to levels that can shock adults. They also represent legal bull's-eyes for lawyers when things go bad. Some universities have replaced fraternities with communal living units. Why do other schools support this increasingly polarizing Greek communal system? First, the nouveau communal units are not as cohesive as those that are self-assembled. I have a data-less theory: If universities analyzed suicides on campuses—they are common on all campuses because of the risky age bracket—they would find that the suicide rate in fraternities is low. When things go poorly—a flunked exam or being dumped by a girlfriend—the dejected kid goes back to his fraternity and gets shitfaced with dozens of his friends. It is a support group unlike any others (except for maybe in the military). From these collectives of incorrigible crazies emerge future leaders, not only of corporate America but also of university alumni organizations. I am stunned by what the Bands of Losers I lived with turned into as they got older. During reunions, fraternities fill with old friends sharing common stories—stories that are common even if they didn't overlap in college—while independents wander the campus looking at new buildings or don't bother to return at all. Are these really organizations you want to dismantle?

Let's swing our gaze elsewhere for a moment. I always viewed gentrification of dilapidated neighborhoods in big cities as a rebirth of sorts, a spontaneous urban

renewal. Out with the old, in with the new. I recently stayed with a friend (Andy Huszar) in Harlem. My life expectancy would have been 5 minutes when I was in grad school. What a miracle. What I failed to realize, however, was that those dilapidated buildings were part of *neighborhoods*, not just dwellings. Neighborhoods are like *Cheers* where “everybody knows your name.” Gentrification forces people to find cheaper housing elsewhere. They will find it, of course, but they won’t find a *community*. You can hear the fabric tearing.

"We live in a society of decreasing circles. More and more of us know fewer and fewer of us. We live alone and eat by ourselves, often with a TV or computer rather than a human being for company."

~The American Conservative (@amconmag)

Now I will go where no rational man has gone before: religion! I have been a pro-choice atheist my whole life—just a pagan with a busy sword—and am unlikely to switch sides now. As a scientist, extreme Christian views on creation and evolution are *never* gonna make sense. Over the years, however, my thinking became more nuanced as an accumulated broader historical perspective caused cognitive dissonance to encroach. The Church in medieval Europe certainly has plenty of blotches on its record, but in a “World Lit Only by Fire,” the church brought order where there would have been only chaos. Vivid imagery of Hell that made medieval life look cushy by comparison kept the nobles from abusing the peasants. How about the Spanish Inquisition? Well, they were legally trained well above the norm of their time. A documentary on the massive “inquisitor archives” showed that the inquisitors executed fewer people over four centuries than the state of Texas offed over a far shorter span. There is also evidence that the inquisitors viewed religion as outside of their jurisdiction during some periods. Why the bad rap? Every time Spain got into a war, which was quite often, the opposing team would pull out horrific tales of the inquisitors to rally the troops. Also, the norms for the era were pretty damned bad anyway (see Pinker in “Books”).

How about all the scientists that got oppressed by the Church? A little history of science shows that gets a little fuzzy too. Leonardo da Vinci carved up people in the basement like John Wayne Gacy without getting flack. When scientists discovered something new, the Church would often say, “God is even more grand than even we realized.” A savvy scientist would say, “You betcha, Pope.” The scientists who got into trouble may have lacked the self-control to avoid pushing the Church’s buttons. I know enough scientists like this to say that my thesis is in the realm of possibility.

“Defending rights against the encroachments of the government saves the common liberties of the country.”

~Alexis de Tocqueville, 18th century French diplomat, historian, and political scientist

When Alexis de Tocqueville came to America, he marveled at how much freedom Americans enjoyed and how religious they were. He also marveled at the *lack* of lawlessness (brawling aside, which he noted was way too consensual). The message was that our strong Constitution and limited laws gave us unprecedented freedom while religion gave us the will not to abuse it. You resisted stealing from your neighbor simply because it was *wrong*. You helped your neighbor because it was *right*. Charles Murray in *Coming Apart* (see "Books") paints in graphic detail how the last half-century has witnessed a stunningly abrupt replacement of morality for rules. What happens when we have lots of rules but nobody feels morally obliged to follow them?

From the left there is a relentless push to remove Christmas from schools, denounce those who support the American flag, control what is taught to children and where, emasculate men, move decisions from the local to the centralized national government through rules and regulations, take away our freedom of choice with whom to do business, confuse abstract feminism with women's rights, take away parents' rights to choose what is best for their children, and decide with whom we can affiliate and who we get to exclude. These institutions and ideas represent a critical social glue. Be careful what you take away.

Thus, I am an atheist living in a unique society that was built on strong moral values that find their roots, at least in part, in religious convictions that I do *not* share in their detail. I should be very careful, however, to not lose sight of the fact that I am reaping what I did not sow. I should have more faith in those who already have faith. I am now a cognitive dissident. And with that, my work here is done. You're welcome.

"Maybe our favorite quotations say more about us than about the stories and people we're quoting."

~John Green (who?)

Acknowledgements

There are so many people from the world of finance and markets who patiently allow me to invade their space with inane comments and questions. Many are household names—real legends—even outside of the finance world. One year I tried to thank a ton and found out how many more I excluded. As The Donald would say, “I love all of you” (but Rudy, you are the best. I love ya, man.) That said, people do reach out, and I’m happy to chew some fat. My email is dbc6@cornell.edu. If I don’t answer an email, it’s either because MSFT Outlook has filtered yet more emails (thank you Steve Sinofsky, friend and former president of Microsoft under Ballmer, for that one) or because I just screwed up. And if I know you, I’ll cook you burgers on our deck overlooking Cayuga Lake if you come to Ithaca. Some of you already have standing offers. People, not places or experiences, are what fill my bucket list. And, by the way, send your kids to

Cornell because it is a truly wonderful school. How wonderful? We have more departments in the top ten than any other school in the country . . . and “everybody knows your name.” I have no strings to pull, but I do understand the system if you want some advice.

There are always new additions. That’s Sean in the middle sleeping on Grandpa, Miles on the left, and Liam on the right in the photo on the left. Sean’s a boy until he’s old enough to decide for himself. In the right-hand photo is Claire, a rescue from a breeder. This picture is *after* we peeled 25 pounds off her. She identifies as a Lab, our *third*, although similarities to bear #409 (Beadnose) are inescapable.



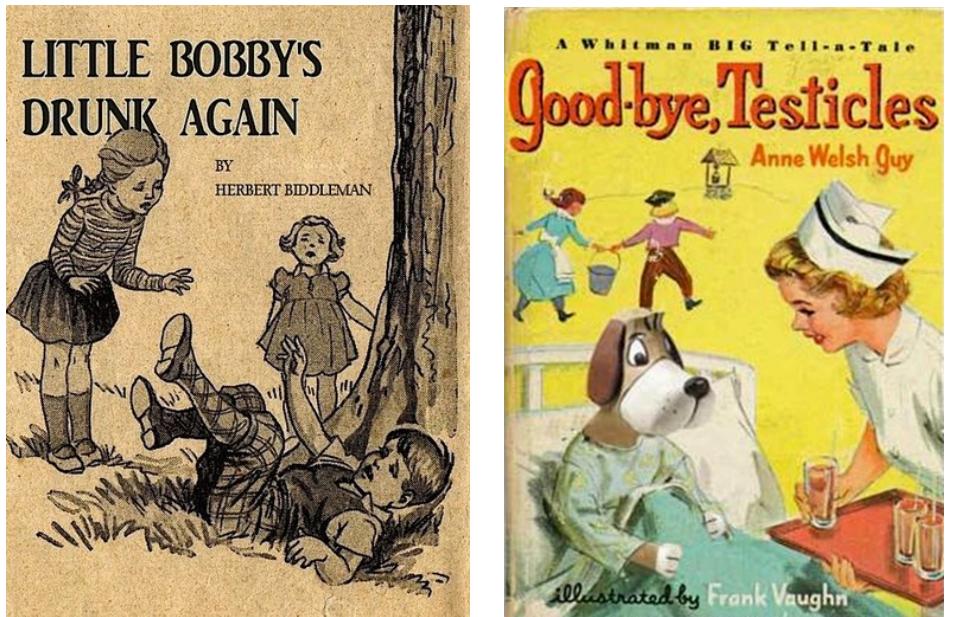
Figure 56. Three punks in training and The Master (left) and “Claire” aka “Claire the Bear” aka “The Tank” aka “Butterball” and The Master of that too (right).

Books

“Moses wrote one book. Then what did he do?”

~Sidney Morgenbesser, Columbia University philosopher

I would have read more books when I was younger if the ones they made us read didn't suck salty balls and if it were not for acute CLCS (chronic lip cramping syndrome). I was a typical boy on the lower end of the reading scale with a highly targeted curriculum:



As an adult, career and family have kept my reading list short (outside of volumes on chemistry). Enter the audiobook. Snobs say it's not reading, to which I say, "Bite me." I use my ears; you use your eyes. Hellen Keller used her damn fingers. I can get through a dozen per year just commuting a 24-minute round trip to work. When my wife asks me to go to the store, it's like asking me to read for a few minutes. And even if the books are mediocre—I try to be selective—they just keep marching forward monotonously to the finish. I have failed to finish very few (no fading Post-its). I burn them to disk for \$10 a pop via Amazon Prime so that my colleagues can mooch them. The books all profess to be non-fiction, although I have my doubts sometimes. Topics include history, markets, economics, science, psychology, anthropology, and college-level courses from the Teaching Company. I'm trying to get through American history through the eyes of presidential biographers (even with Chester Arthur in my sights). Simple treatises on complex topics (like Mervyn King's latest below) show me how to formulate and articulate complex ideas simply.

The Fifth Risk by Michael Lewis

Those who hate books that are one-third book and two-thirds fluff should appreciate Michael Lewis for brevity. Lewis's treatise blends several plotlines without bringing much of his typical comedic flare. The primary plotline is to hammer Donald Trump for his poor transition in taking over the federal government. Some of the loons Trump put in key staff positions do indeed seem to be inexcusable. I think Lewis does a credible job, although it seems a little light on awareness that (a) Trump had no clue that he would win, and (b) his transition team had support from neither political machine. The second, dominant plot is to describe some of the amazing things federal employees do that we haven't a clue about. He does this well, although he again glosses over the

estimated 2 million federal employees who are not brimming with skill and productivity. The book was informative.

https://www.amazon.com/The-Fifth-Risk/dp/B07GNTDQJQ/ref=sr_1_1?ie=UTF8&qid=1540764617&sr=8-1&keywords=The+fifth+risk

Coming Apart: The State of White America, 1960–2010 by Charles Murray

Stan Druckenmiller said that Charles Murray’s book “scared the hell out of me.” Murray, you may recall, is the putative alt-right whackadoodle who wrote *The Bell Curve* and was physically attacked at Middlebury College in 2017. I would be hard pressed to pigeonhole this book as leaning to the right. It is a great story about how the fabric of social structure is fraying badly. We’ve replaced morality and a sense of social cohesiveness with a far less effective rule- and law-based society. It’s an important book. (Jonah Goldberg admitted to me that his newest book channels Murray’s, albeit dripping with sarcasm. It’s on my list.)

https://www.amazon.com/Coming-Apart-State-America-1960-2010/dp/B007A5GPI4/ref=sr_1_1?ie=UTF8&qid=1540766157&sr=8-1&keywords=coming+apart

The Intimidation Game: How the Left Is Silencing Free Speech by Kimberley Strassel (@KimStrassel)

Kimberley Strassel is no friend of the left, so it’s not a surprise that she would focus on the evil deeds of only left-wing politicians. She does a credible job of laying out the political hijinks, which are decidedly disquieting. The emphasis is on how they use government and law as a weapon against the right. If one were to assume the right wing is equally guilty, you probably get an accurate view of how awful politics inside the Beltway has become. It was too lopsided for me to endorse it enthusiastically.

https://www.amazon.com/s/ref=nb_sb_ss_c_1_17?url=search-alias%3Daps&field-keywords=kimberly+strassel+intimidation+game&sprefix=kimberly+strassel%2Caps%2C899&crid=KTNBKEVY0EKG

Antifragile: Things That Gain from Disorder by Nassim Taleb (@nntaleb)

To the list of terms “fragile” (easily broken) and “robust” (hard to break), Nassim Taleb suggests the term “antifragile” (grows more durable under stress). The most obvious and intuitive example is the immune system. Taleb venomously attacks those he disrespects (economists), and his prose is an acquired taste. Many will find the vitriol too much. He makes interesting arguments about how our efforts to protect ideas,

objects, people, and institutions inadvertently weaken them. He reinforces maxims like "stability breeds instability" or "that which does not kill us makes us stronger."

https://www.amazon.com/Antifragile-Things-That-Disorder-Incerto/dp/0812979680/ref=sr_1_1?s=books&ie=UTF8&qid=1540766748&sr=8-1&keywords=nassim+taleb+antifragility

Skin in the Game: Hidden Asymmetries in Daily Life by Nassim Taleb (@nntaleb)

Nassim Taleb tees off on those in our world who get to call the shots and reap rewards but do not pay the price of failure. This heap of targets includes politicians, economists, and bankers. One of his strong supporters over at Amazon referred to Taleb as "rude and angry". Detractors hold a mirror up to him and ask if his disdain for advice givers isn't some form of hypocrisy. As always, I enjoy reading his books, but bring a thick (antifragile) skin.

https://www.amazon.com/Skin-Game-Hidden-Asymmetries-Daily/dp/042528462X/ref=pd_sim_14_4?encoding=UTF8&pd_rd_i=042528462X&pd_rd_r=3dd4538b-db03-11e8-8a27-e7c97784a407&pd_rd_w=H6BYO&pd_rd_wg=1XNLh&pf_rd_i=desktop-dp-sims&pf_rd_m=ATVPDKIKX0DER&pf_rd_p=18bb0b78-4200-49b9-ac91-f141d61a1780&pf_rd_r=00R3KDQCS3P0ZFCG8BQX&pf_rd_s=desktop-dp-sims&pf_rd_t=40701&psc=1&refRID=00R3KDQCS3P0ZFCG8BQX

The Four: The Hidden DNA of Amazon, Apple, Facebook, and Google by Scott Galloway (@profgalloway)

Scott Galloway is an entrepreneur, venture capitalist, and New York University professor. He knows his way around the tech world. In this book he critiques the FAANGs (ex-Netflix). Although it seems to be intended as a tell-all description of the dastardly deeds of these monopolistic, civil-liberty-encroaching companies, he cannot hide his awe. Clearly Amazon is at the top of his leaderboard as a completely mind bending and society-changing wielder of unchecked power. Apple is praised for marketing itself as a well-branded provider of elite products. (I was left unconvinced of its durability.) Facebook and Google draw fire for their powerful incursions into our daily lives. I am unconvinced that any of them are as durable as Galloway thinks. The backlash to their power may be surprising. I only wish I had this book 15 years ago; I would have made a killing as a true-believing investor.

https://www.amazon.com/Four-Hidden-Amazon-Facebook-Google/dp/0735213674/ref=sr_1_1_sspa?s=books&ie=UTF8&qid=1540768834&sr=1-1-spons&keywords=scott+galloway+the+four&psc=1

The Coddling of the American Mind: How Good Intentions and Bad Ideas Are Setting Up a Generation for Failure by Jonathan Haidt (@JonHaidt) and Greg Lukianoff

Jonathan Haidt and Greg Lukianoff are evolutionary psychologists at the vanguard of the fight to push back against political correctness and the strange form of social activism that appeared abruptly on campuses around 2014 (and, I hasten to add, graduate programs around 2018). He is openly liberal while claiming that he no longer recognizes what is called liberalism in this era. The book describes in lurid detail what is happening, how it happened, and its profound consequences. If you're the parent of young children, you should read it before it's too late for your kids. Great book. I sent it to one of our deans, and he said that what Haidt describes is what he deals with every day, and it has caused him to rethink his child-rearing tactics.

https://www.amazon.com/Coddling-American-Mind-Intentions-Generation/dp/B079P7PDWB/ref=sr_1_1?ie=UTF8&qid=1540769381&sr=1-1&keywords=coddling+the+american+mind

The Marshall Plan: Dawn of the Cold War by Benn Steil (@BennSteil)

I read this book twice, the first time in draft form while it was being written and the second in audiobook form after publication. Benn Steil is a bestselling author hailing from the Council on Foreign Relations (CFR) which gives him a remarkable view of the world and access to unparalleled human resources. After piecing together how John Maynard Keynes and Harry Dexter White negotiated the new global currency order in his bestselling, *Battle of Bretton Woods*, Steil charges into the task of probing the political machinations required to establish the global political order. He describes in scholarly detail (read: not for the faint of heart) how the Russians and the U.S. went headlong into the Cold War. The Marshall Plan to save Europe from imploding in the post-war era was politics on steroids—less humanitarian and more global positioning. The politics within the U.S. and Europe were as complex as any. What I still have not grasped, however, is why West Berlin, deeply embedded in the Eastern Bloc, was so important.

https://www.amazon.com/Marshall-Plan-Dawn-Cold-War/dp/B078F1H2SP/ref=sr_1_1?ie=UTF8&qid=1540769828&sr=1-1&keywords=the+marshall+plan

12 Rules for Life: An Antidote to Chaos by Jordan B. Peterson (@jordanbpeterson)

Jordan Peterson has had a growing presence in the culture wars. He came to prominence fighting a Canadian law that would mandate the use of pronouns for all the gender fence sitters. Peterson then rocketed to fame after a series of interviews with liberal attackers (notably Cathy Newman) in which he systematically dismembered their ideas. (I watch his interviews as though they were game films.) This book describes a

series of guidelines on how to live your life and raise your children to avoid becoming insufferable with insufferable children. The lessons are sound. The book is a good read that would have died in obscurity if not for his rise to fame, which has led to millions of copies sold. Cathy Newman made him wealthy.

https://www.amazon.com/12-Rules-Life-Antidote-Chaos/dp/B0797Y87JC/ref=sr_1_1?ie=UTF8&qid=1540771653&sr=1-1&keywords=jordan+peterson+12+rules+for+life

The Undoing Project: A Friendship That Changed Our Minds by Michael Lewis

At some level, this book is a recycling of ideas of Michael Lewis's *Moneyball* (the book, not the movie!) and Daniel Kahneman's *Thinking Fast and Slow*, both of which are brilliant books. Lewis goes into considerable depth describing how Danny Kahneman and Amos Tversky worked as "the odd couple" for many years to create the ideas underlying *Thinking Fast and Slow*, which won Kahneman the pseudo Nobel Prize in economics. *The Undoing Project* is about the two men. In my opinion, this book will likely lose a lot of appeal for readers who are unfamiliar with Kahneman's and Tversky's work. Thus, read *Thinking Fast and Slow* and *Moneyball* first, then decide about *The Undoing Project*.

https://www.amazon.com/Undoing-Project-Friendship-Changed-Minds/dp/0393354776/ref=tmm_pap_swatch_0?encoding=UTF8&qid=1544929043&sr=1-1

The Better Angels of Our Nature: Why Violence Has Declined by Steven Pinker (@sapinker)

Pinker wrote what could have been titled, *The Comprehensive History of Violence*. It covers all facets from crimes, brutal punishments, wars, domestic violence, you name it. Steven Pinker makes a strong case that we have become less violent over the centuries. He deals with those who point out atrocities of the twentieth century by invoking a per-capita metric and describing hugely violent periods that are largely unknown to most of us. The horrific stats on violence in the past are sobering, occasionally forcing me to take breaks during the more gruesome parts. To paraphrase Pinker, "I could have Adolf Hitler standing in front of me, and I would not have thought of doing *that* to him." The book could have been shorter, but it certainly is enlightening and serious scholarship.

https://www.amazon.com/Better-Angels-Our-Nature-Violence/dp/0143122010/ref=sr_1_fkmr0_1?ie=UTF8&qid=1524771442&sr=8-1-fkmr0&keywords=steven+pinker+the+better+angels+among+us

Red Notice: A True Story of High Finance, Murder and One Man's Fight for Justice by Bill Browder (@Billbrowder)

I ran across Bill Browder ever so briefly last year as I wrote about the Magnitsky case in which the U.S. put sanctions on Russia for torturing Sergei Magnitsky to death. This affair got tangled up in the Clinton–Russia dealings. Browder describes his efforts at dealing with Russian oligarchs as he was an early entrant to Russia after the fall of the Soviet empire. You can't help but notice that Browder is very much like the oligarchs he describes, strip mining Russia of assets on sale in the post-empire chaos. After reading the book, I began to run into bloggers who view Browder in a much darker light and paint him as the true villain. I am altogether uncertain about where fact and fiction meet in this book.

https://www.amazon.com/Red-Notice-Finance-Murder-Justice/dp/B00T567KIA/ref=sr_1_1?ie=UTF8&qid=1540773044&sr=8-1&keywords=red+notice+by+bill+browder

The Selfish Gene by Richard Dawkins (@RichardDawkins)

This 1970s classic describes how evolution works at the gene level rather than the group level. (This book was a natural choice for me as a former genetics major with a fondness for evolution and various nature–nurture battles.) Dawkins's gene-level evolution was pushed so strongly that it stifled contrary theories—group-level natural selection—to the point that it took decades for them to re-emerge and eventually usurp Dawkins' model. The book is a little dated, but I enjoyed it. His most lasting legacy is the idea that humans pass along non-gene-level information (ideas) through cultural evolution. He called these ideas "memes." And now you know the rest of the story.

https://www.amazon.com/Unknown-The-Selfish-Gene/dp/B004U8NB2M/ref=sr_1_1?ie=UTF8&qid=1540773425&sr=1-1&keywords=the+selfish+gene&dpID=51ovAOjmklL&preST= SX342 QL70 &dpSrc=search

The Intelligent Investor: The Definitive Book on Value Investing. A Book of Practical Counsel (Revised Edition) by Benjamin Graham, Jason Zweig (@jasonzweigwsj), and Warren E. Buffett

This, folks, is the bible of investing. Graham was Warren Buffett's mentor. This revised edition has updates from Zweig and Buffett, but it seems faithful to Graham's original edition, which I read so many years ago that I had no idea of its importance and wisdom. Modern investors who read this will say either, "OMFG!" because they understand its importance or, "This thinking blows" because they're still swilling new-era Kool-Aid. The book convinced me that I should probably *never* buy a common stock unless I am willing to throw a Hail Mary because I could not possibly do the analysis

adequate enough to be called an “intelligent investor.” My best hope is to go for sectors. On the battle of stocks versus bonds, I was struck by the claim that people who think they will necessarily make more money in stocks than in bonds in the long run are “delusional.” Debunking this belief has been my white whale for a couple of years. I think the authors are correct, but the era of interventionist (arrogant) central banking has made their maxim seem wrong for a good long time. This book is a must read for those who think they are hotshot investors. Dismiss their wisdom at your peril.

https://www.amazon.com/Intelligent-Investor-Definitive-Investing-Essentials/dp/0060555661/ref=tmm_pap_title_0?encoding=UTF8&qid=1540773969&sr=1-1

The End of Alchemy: Money, Banking, and the Future of the Global Economy by Mervyn King

Mervyn King's view of the financial crisis and monetary policy on both sides of the crisis is either precious—he is the former head of the Bank of England—or garbage, because he is one of “them.” Maybe he’s just trying to salvage his legacy, but King is remarkably critical of central banking and monetary policy. He knows that consumption is unsustainably high, and it cannot be solved with stimulus. That game is over. The level of the book is low—I think I could have written much if not all of it—but this level of “honesty” from one of the global elite is shocking. They way he articulates ideas with clarity makes the book highly entertaining.

https://www.amazon.com/End-Alchemy-Banking-Future-Economy/dp/B01GQNTC8K/ref=sr_1_1?ie=UTF8&qid=1540775043&sr=1-1&keywords=mervyn+king

Hoover: An Extraordinary Life in Extraordinary Times by Kenneth Whyte

I’m attempting to complete a history of the United States through the eyes of presidential biographers. Hoover was a natural given that he was POTUS during an economically disastrous four-year term. There are many myths propagated by Hoover owing to this little bit of bad timing that came to a head with Roosevelt beating him like a rented mule in the 1932 election. In a nutshell, Hoover was extraordinarily qualified as a businessman and, when called to service, a focused and highly competent civil servant. The guy got the job done. He has been vilified because of a largely erroneous role played during the Great Depression and because Roosevelt was a dick. Hoover saw it coming, spotted the metastability of the credit and stock markets, and sweated the details. He did everything in his power to mitigate the damage, stopping short of big-government solutions. He also didn’t pander to the masses for love or votes, which carried with it a high price politically. I was left with the sense that Hoover was one of the greats.

https://www.amazon.com/Hoover-Extraordinary-Life-Times-ebook/dp/B01MZAAX0M/ref=sr_1_1?s=digital-text&ie=UTF8&qid=1543698108&sr=1-1&keywords=herbert+hoover+biography

Sapiens: A Brief History of Humankind by Yuval Noah Harari and Derek Perkins

I mowed through two books by Yuval Noah Harari and Derek Perkins that seem to ponder the meaning of life. *Sapiens* got the bulk of the press. The book wanders through the cultural evolution that led from hunter-gatherers to what we are today. One of the more interesting concepts is that you would have trouble arguing life got better until we reached the era of modern medicine. We merely got better at packing more people into tight places. I have this odd paradox: I enjoyed wandering through the story but within a matter of months could not for the life of me tell you what it was about. Some books are sticky: The ideas stay with you. This one was not of those for me (a little like a pleasant dream that leaves your memory moments after waking). One Amazon reviewer possibly caught the spirit of my concerns noting, “Rather than being the interesting synthesis I’d hoped for, this turned out to be a series of disjointed bits touching on nearly every aspect of society.”

https://www.amazon.com/Sapiens-Brief-History-Humankind/dp/B0741F3M7C/ref=sr_1_3?ie=UTF8&qid=1543699009&sr=1-3&keywords=homo+deus

Homo Deus: A Brief History of Tomorrow by Yuval Noah Harari and Derek Perkins

As the sequel to *Sapiens*, it suffers from the same disconnected wandering through a stream-of-consciousness presentation of entertaining ideas. Once again, I enjoyed it like one might enjoy listening to a symphony, but in the end, the notes blur together. One hopes that part of this disappointing lack of stickiness is merely how the human mind indexes information. Maybe the ideas are in in my skull—part of my cultural DNA—but only retrievable when a cue from the environment resurrects them, allowing me to molest somebody with my globality.

<https://www.amazon.com/dp/B01BBQ33VE/ref=dp-kindle-redirect?encoding=UTF8&btkr=1>

The Oxford Dictionary of Allusions by Andrew Delahunty

An allusion is “an expression designed to call something to mind without mentioning it explicitly; an indirect or passing reference.” There you have it. I worked my way through a book of allusions for fun. Most aren’t that good, but I hit a couple of gems. The book is not for Philistines. (Did you catch that allusion?)

<https://www.amazon.com/Oxford-Dictionary-Allusions-Andrew-Delahunty/dp/0198600313>

The Myth of Capitalism: Monopolies and the Death of Competition by Jonathan Tepper

I read only a handful of draft chapters while this book was being written. Based on that foreshadowing, I suspect the overall message—oligopolies, not just monopolies, are destroying capitalism—will be a compelling story. I'll let you know a year from now.

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Acknowledgments

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