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Seven singularities

"Short Sellers Retreat Amid Rally," ran the headline in Saturday's *Wall Street Journal*. Curious readers stopped and stared. It was the premise of the headline that arrested them. Who knew that there was even one bear left to give ground at the 100-month mark of the post-2008 levitation?

El toro is the topic at hand. It's a most unusual bull market (we count as one the updrafts in stocks and bonds). An unzestful, low-volume and low-volatility affair, it seems to belong on a psychiatrist's couch. We write to catalogue its singularities—No. 1 is the zest deficit—with the purpose of addressing the always pertinent question: What to do with money besides enjoy it?

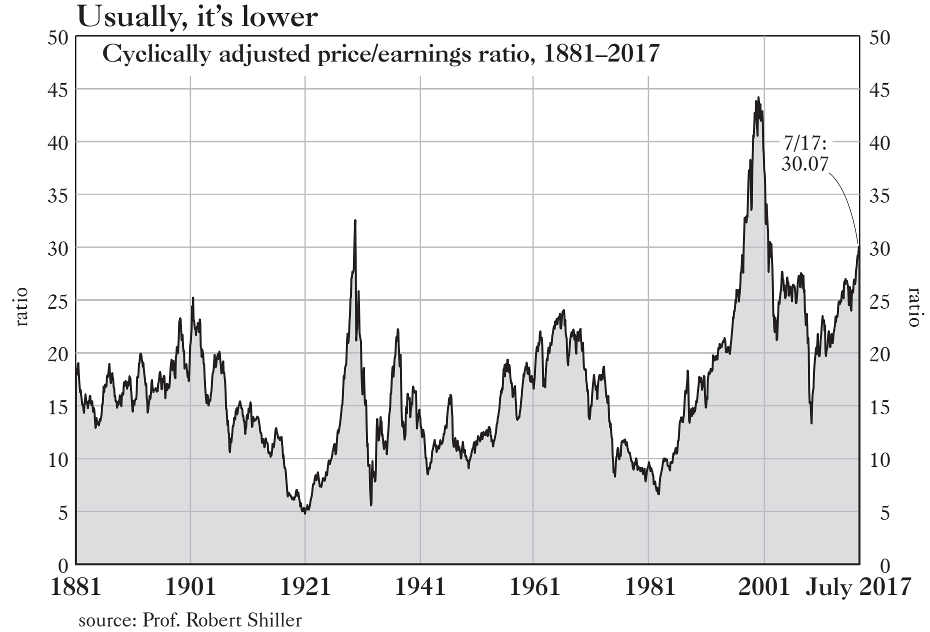
Since the S&P 500 bottomed at an intraday low of 666.79 on March 6, 2009, the blue chips have appreciated by 271%. The country has grown, too, though—famously—the economic expansion leaves much to be desired. Trailing 12-month earnings for the S&P 500 peaked in the third quarter of 2014, and disappointments abound in the data that purport to measure growth in GDP and productivity. A paradox, this last, observes the investor Paul J. Isaac: "Somehow, enormous improvements in inventory control, capital equipment management and business processes across a wide range of service and industrial activities don't seem to be making much of a macro difference. Technology is advancing at an extremely rapid and apparently accelerating rate. Business disruption and obsolescence anecdotally appear to be at an all-time high in many countries and industries, presumably eliciting aggressive responses from any incumbent capable of doing so. Somehow this dynamism coincides with historically slow measured economic growth."

You'd expect more joie de vivre. There's little enough on Wall Street, where the price war in money management spells profitless prosperity for the leaders in index funds and ETFs. Not that the remnant of surviving active managers appears any happier than the index administrators. According to Bank of America Merrill Lynch's Global Fund Manager Survey for July, non-indexed investors are the least committed to (the "most underweight of") American equities since the start of 2008. Happily for the bulls, stock-pickers are in the minority. A report dated June 13 from J.P. Morgan Securities finds that active investors account for a mere 10%, more or less, of equity trading today.

Neither do fixed-income investors seem comfortable in their own skin. The same BofA Merrill Lynch canvass identifies a bond crash as the managers' current top concern, displacing the worry about a Chinese credit calamity. Not that this expressed anxiety has translated into cautionary investment action: The survey finds zero percent of managers "significantly underweight" in bonds, either the high-yield or investment-grade kind. Maybe that's not so surprising in view of post-1981 experience. Let an interest-rate decline persist for three or four decades, and people start to get used to it.

A second singularity of the 2009–17 bull market is the shrunken level of the activity that sustains it. In the year to date, the S&P 500 has traded an average of 565 million shares a day, down from a

Usually, it's lower



source: Prof. Robert Shiller

daily average of 642.2 million last year and 1,290.5 million in 2007. Trading in bonds, currencies and commodities has similarly dwindled (at least, as recently reported by JPMorgan Chase & Co. and Goldman Sachs Group, Inc.). "This is the only bull market in history where trading volumes have collapsed," says Christopher Cole, founder of Artemis Vega Fund.

A perhaps related anomaly is the dwindling population of American investor-owned businesses. In 2007, there were 4,783. As of Monday, there were 3,982. Private-equity firms are swallowing listed companies whole. Initial public offerings, as distinct from initial coin offerings, are few and far between (128 last year compared with 363 in 2014). Abundant venture funding goes far to explain the IPO drought. Profitless Uber Technologies, Inc. has raised $11.5 billion at a $69 billion private valuation.

El toro's third unique feature is the undifferentiated nature of the advance. "At the March 2000 peak of the (first) internet bubble," observes Deputy Editor Evan Lorenz, "investors funded purchases of stocks like Cisco Systems, Inc., valued at 228.4 times trailing earnings, by selling stocks such as Lockheed Martin Corp., valued at 11.7 times earnings. The capitalization-weighted S&P 500 traded at 30.6 times trailing earnings, while the equal-weighted S&P—in which all stocks count for the same, their market cap notwithstanding—traded at 20.7 times.

"There is no such dispersion today within the blue-chip index," Lorenz goes on, though there is plenty among the stocks and bonds that are too small to catch the bids of the index buyers. "Apple, Inc., Facebook, Inc., Alphabet, Inc. and Amazon.com, Inc. trade at 17.9, 43.7, 31 and 195.2 times trailing earnings, respectively, and command an aggregate market cap of $2.4 trillion, which represents 11% of the S&P 500's total value. In light of these magnitudes, it isn't so surprising that the cap-weighted index changes hands at a lofty 21.7 times trailing earnings. What is surprising is that the S&P 500 Equal Weighted Index trades at 21.8 times. Either way, or both ways, according to the cyclically adjusted price/earnings ratio (which compares the price of the index to its average inflation-adjusted earnings over the prior decade), today's S&P is the third most expensive in U.S. history, trailing only 1929 and 1997–2001."

Central-bank-sponsored miniature interest rates and the runaway success of indexed investing, we count as singularities Nos. 4 and 5.

Ultra-low rates coax income-seeking investors into the stock and bond markets. They invest because cash equivalents and short-dated savings instruments yield them nothing. The buyer of an S&P 500 index fund is—must be—indifferent to valuation; he or she is buying the market. Even the nominally value-sensitive investor is likely to be ill-informed as to the real worth of the securities that stock his 401(k).

Corporate managements and ETF sponsors independently misrepresent valuation; it's a decentralized effort of many minds and hands. Let's call it singularity No. 6, while acknowledging that "profit" is ever a defined term. Today, there are more definitions than ever.

"'Adjusted' earnings are the standard nowadays," Lorenz points out. "They exclude restructuring charges, one-time items and other expenses which management deems to be non-recurring. The longer the bull market lasts, the more inventive do managements become at finding costs that can be designated as such. (For a look into the deterioration in quality of one company's reported earnings, see the analysis of Whirlpool Corp. in the Feb. 10 issue of *Grant's*.)

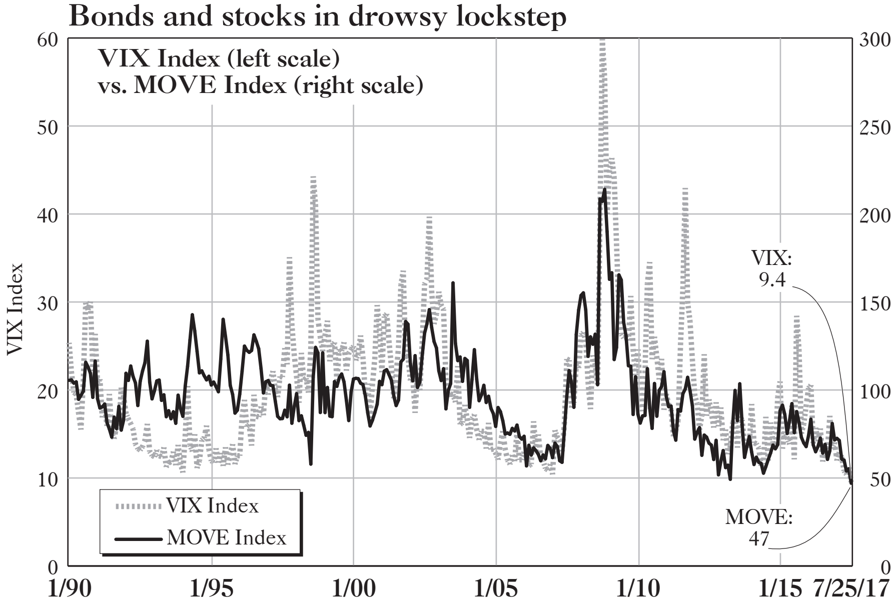
"Adjusted figures, rather than the ones calculated according to generally accepted accounting principles, are the default setting on Bloomberg," Lorenz goes on. "Check out Kraft Heinz Co. (KHC on the Nasdaq), a pick not to click in the March 24 issue of this journal. Bloomberg shows KHC trading at a trailing price/earnings ratio of 25.9 times. Using audited GAAP numbers, the stock is priced at 31.1 times. Bloomberg shows the S&P 500's price/earnings multiple as the aforementioned 21.7 times. Using the as-reported earnings data from S&P Dow Jones Indices, the S&P 500 is actually priced at 24.7 times trailing earnings."

FUN WITH MATH

The index-makers pick up where the chief financial officers leave off. Consider, for instance, the PowerShares QQQ Trust Series 1 ETF (QQQ on the Nasdaq), the ETF that tracks the Nasdaq 100, an index of the 100 largest Nasdaq-listed nonfinancial companies. The QQQ has a price/earnings ratio of 22.2 times, according to the Invesco PowerShares website. It's not what you might have expected. The top-five index constituents—Apple, Alphabet, Microsoft Corp., Amazon.com and Facebook—boast a combined market cap of $3 trillion, or 43% of the index market value, and trade at a weighted average multiple of 57.3 times adjusted earnings. How can the QQQ claim a multiple of less than half the grand total of so large a constituent sample?

Steven Bregman, co-founder, with Murray Stahl, of Horizon Kinetics, has investigated this interesting question. First, he observes, the QQQ price/earnings calculation excludes the results

Bonds and stocks in drowsy lockstep



source: The Bloomberg

of loss-making companies. Many indices—the Nasdaq Biotechnology Index, for instance—do the same. In the real world, Bregman observes, an unprofitable company drags down the portfolio of which it's part. In the indexed world, the omission of an unprofitable company makes the investment portfolio from which it's been plucked seem cheaper and more desirable.

The manner in which the price/earnings ratio of the QQQ is calculated makes another retail selling point. "Weighted harmonic mean" is the technique, which a footnote on Invesco's website seeks to explain: "A method of calculating an average value that lessens the impact of large outliers and increases the impact of small ones." A check with Wikipedia furnishes a more granular, if not immediately more clarifying, description: "The harmonic mean can be expressed as the reciprocal of the arithmetic mean of the reciprocals of the given set of observations."

How's that? Let's proceed slowly (we can't give up now). Take a hypothetical portfolio of four equal-weighted stocks valued at 10, 20, 30 and 300 times earnings. Divide the sum of those four P/Es by four. The answer is 90.

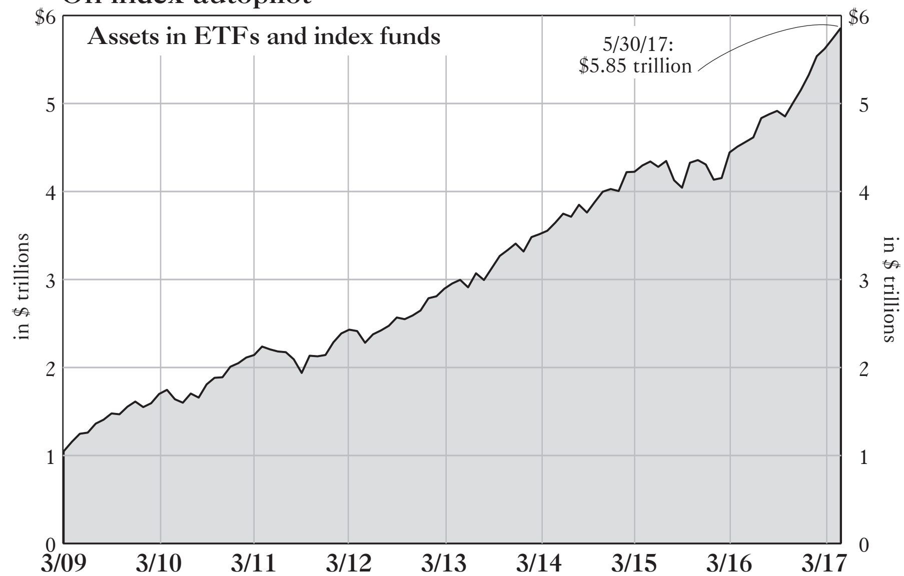
Now for the weighted harmonic mean. First, recall that a reciprocal is 1 divided by a quantity. So, sum the reciprocal of the price/earnings ratio of each stock: $^1/_{10}$ plus $^1/_{20}$ plus $^1/_{30}$ plus $^1/_{300}$. You get 0.1867. Divide by four to find the average, which is 0.0466. Next, take the reciprocal of this product, or $^1/_{0.0466}$. It comes to 21.4. Thus, a basket of stocks that has an equal-weighted average earnings multiple of 90 times has a weighted harmonic mean multiple of 21.4 times.

The pure index-investment approach, pioneered by John C. Bogle, the founder of Vanguard Group, is to invest in the stock market, the whole market, as mimicked by the S&P 500. You can do it for pennies on the dollar. Start young, don't stop, and you may have the pleasure of dying rich.

The ETF approach, as typified by the $55 billion QQQ, is a very different proposition: Invest in a particular segment of the stock market, a necessarily concentrated (and probably hot) segment. Cleverly time your entrance and exit. Repeat for as long as your capital holds out.

Bigger than Rihanna is the drive to index. American equity ETFs grew to $2.9 trillion in May from $482 billion in March 2009, according to data from the Investment Company Institute, and

On index autopilot



source: Investment Company Institute

index-focused mutual funds expanded to $3 trillion from $570.2 billion over the same period.

Growth in assets under management is one thing, and the profitability of managing those assets is something else. BlackRock, Inc. (BLK on the New York Stock Exchange), which owns the best-selling iShares family of exchange-traded funds (*Grant's*, Sept. 30, 2016), illustrates the squeeze in index-related margins. In the second quarter, BlackRock enjoyed net inflows of $104 billion, or an average of $1.6 billion per business day. Net inflows over the past year have reached $336 billion. Thanks to the twin gushers inflows and price, BlackRock's AUM on June 30 jumped by 16%, measured year over year, to $5.7 trillion. Still and all, that immense surge in assets delivered just a 6% uptick in second-quarter revenues and operating income. The not-for-profit Vanguard Group, which cuts fees as it gains scale, is a tough competitor.

If you can't make money on vanilla index funds and ETFs, you must develop "value-added instruments for which your starting fee can be 10 times what commoditized fees are," as Bregman puts it. "You start out with a new ETF at 50 to 60 basis points or higher if it back-tests well, and you hit the right theme." Not that back-testing tells you much about risk except what it looks like in the rearview mirror. Nonetheless, notes Bregman, the way to sell a new, value-added ETF is to show that it fits the low-volatility profile. Which is to say, *has* fit the low-volatility profile of an arbitrarily chosen span of recent history.

Low volatility is as much a marker of the post-2008 bull market as is low turnover or high valuations. It's our singularity No. 7.

The VIX Index, a measure of implied volatility on one-month options on the S&P 500, today stands at 9.4, below its long-term average of 19.5. In the 27½ years of its existence, the VIX has closed below 10 only 25 times, and 16 of those somnolent readings have occurred since May. You can explain the plunge in implied volatility by observing the still more precipitous fall in realized volatility. Here the readings are less than seven. There has been no period so financially still since 2006 (and, before that, the years 1995, 1964 and 1952), according to the afore-quoted Christopher Cole.

"The problem," Cole continues, "is that by definition vol can never go to zero, but it can—and has—gone to 100. When people short volatility, what they don't realize is they are actually shorting variance [i.e., the spread between numbers in a data set], which has a nonlinear return profile. You have a very limited gain shorting volatility from 10 to 5. You have a very large, non-linear loss profile if vol and by-proxy variance move from 10 to 100."

It's a comic conundrum that the most volatile commander-in-chief should preside over the least volatile stock market, but Donald J. Trump has so far achieved it. With volatility falling, the price of the Big Board-listed security on which one can wager on a rising VIX—its ticker is

VXX—has been sawed in half this year. Volatility bears have sold short 63% of VXX shares outstanding.

"As a window into investors' expectations for future volatility," Lorenz suggests, "type 'Will VXX' into the Google search bar and see what autocomplete suggestions appear—i.e., the most common VXX-related queries. The top two as we go to press are 'Will VXX ever go up' and 'Will VXX go to zero?'"

A VALUE ANOMALY

Which is not to say that every single equity is expensive. A value-seeker must know where to look. Cheap stocks exist outside the pale of indexation and in industries that most people would rather give wide berth to. "Not because of the quality of the company," notes Bregman, "simply because they are not in the liquidity flows. They don't have sufficient trading liquidity or interest from the ETF industry. The aggregate market cap of that segment is pretty small. Just to give you a sense of it, if you add up the market cap of all the small-cap stocks in the U.S. (defined as $2 billion or less), it adds up to only about 4.5% of the entire market cap of U.S. equities."

C&J Energy Services, Inc. (CJ on the NYSE), a top-10 service provider to the oil and gas industry, is an example of the type. C&J performs services relating to well construction, well completion, well-killing, drill-bit-fishing, well support, etc. It's trying to put some crisis-wracked years behind it.

C&J's June 2014-announced acquisition of the well-completion and -production businesses of Nabors Industries Ltd. virtually coincided with the postcrisis peak in West Texas Intermediate crude oil. That price was $107.26 a barrel; the value of the Nabors transaction, denominated in cash and stock, was $2.7 billion. Within two years, the founder and CEO of C&J, Josh Comstock, a father of five, would die in his sleep, at age 46, and the disastrously enlarged and encumbered company which he conceived and led (over the objections of a segment of litigious owners) would file for bankruptcy protection.

On April 7, C&J relisted on the Big Board, now with no debt, more humility, a cash balance of $300 million and an equity-market capitalization of $2 billion.

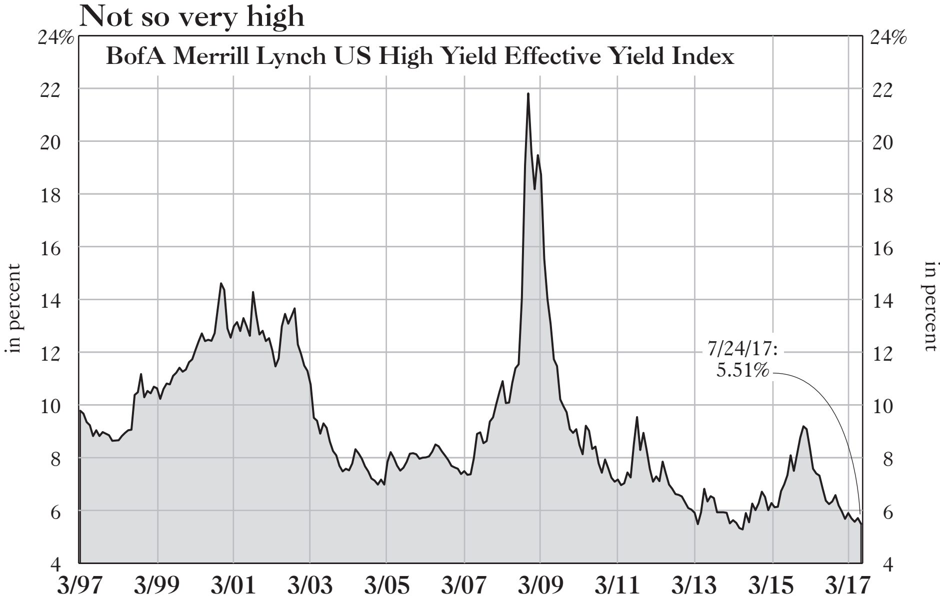
"The funny thing is, they went into bankruptcy with $1.4 billion of debt and now it has a $1.7 enterprise value," Ian McCulley, a managing director at Dialectic Capital Management and former analyst at *Grant's*, tells Lorenz. "So, it is basically valued at prior debt."

No more empire-building for C&J, the post-bankruptcy front office pledges: "[W]e are acutely focused on enhancing margins and generating positive earnings across all of our product lines rather than just growing top-line revenue for growth's sake," C&J Energy CFO Mark Cashiola said on the company's May 9 earnings call. "And we will only refurbish previously stacked equipment and order new equipment if the economics can be clearly justified."

The first quarter delivered a loss of 58 cents, the loss being, in part, a consequence of post-bankruptcy accounting adjustments. Opportunity for improvement lies in better pricing in the tight-as-a-tick oil-services market. "We think that pressure pumping and fracking capacity is over 90% utilized and potentially 95% utilized, which is why they were able to get pricing," says McCulley. (On Monday, a *Financial Times* story on capacity constraints in the fracking business echoed a report in the prior issue of *Grant's* that there is a six-month wait to get a crew in the Permian Basin.)

Certain expectations—that oil-service companies will be able to increase prices and that C&J will refurbish dormant equipment to meet rising demand—embellish the forward valuation: Shares command multiples of price to forecast earnings of 13 in 2018 and 9 in 2019. If the Street is wrong about the shale industry and oil prices, C&J has more flexibility than most to wait out the down cycle.

Not so very high



source: Federal Reserve Bank of St. Louis

'PLATFORMS' NEED 'PRODUCTS'

Hyperactive central bankers do the creditors no favors. A bond may be a senior security. An indenture may specify a bondholder's contractual rights. Still, the purchasing power of coupon income is contingent on central-bank policies which aim to cheapen the value of the money in which the coupon is denominated. And the indenture protections against a deterioration in credit quality have become feebler as negotiating power has swung to the borrower's side of the table.

In June, covenant quality of newly issued high-yield bonds was the weakest since 2011, when data-gathering began. Moody's, which collects the information and performs the analysis, blames "the highest concentration of high-yield-lite (HY-lite) bonds we have ever seen and a high volume of private-equity-sponsored bonds featuring weakest-level protection."

At a glance, you can tell that yields are low. Just how low requires deeper investigation. Martin Fridson, chief investment officer of Lehmann Livian Fridson Advisors, has kindly deconstructed the meaning of today's average 5.51% junkbond yield. "The option-adjusted spread on BofA Merrill Lynch US High Yield Index is 363 basis points," he writes to Lorenz. "The historical-average default rate is about 4.5%, and the historical-average loss rate is about 60%, which gives a historical loss of around 270 basis points. Subtracting that gives us 93 basis points. That's less than the option-adjusted spread on the investment-grade BofA Merrill Lynch US Corporate Index, which is currently 109 basis points." In other words, the average prevailing investment-grade corporate yield, which amounts to 3.11%, affords a greater margin of safety than the average speculative-grade yield, the just-cited 5.51%.

Can you spot the analytical holes in the Fridson analysis? Fridson himself finds a few. First, he points out, the exercise assumes that the long-term default rate will apply to the next 365 days, though mean-reversion in defaults may or may not play out on the calendar clock. Implied, as well, is the assumption that defaulting bonds start the year quoted at 100 cents on the dollar, while rare is the bankruptcy-bound security that observant investors have failed to rough up in the secondary market before the Chapter 11 filing. Thus, Fridson prefers to subject high-yield debt to the test of an econometric model that incorporates such variables as credit availability, capacity utilization, industrial production, the current speculative-grade default rate and the five-year Treasury yield. Interestingly enough, Fridson concludes, this second approach yields the same answer as the first: The market is "greatly overvalued at present."

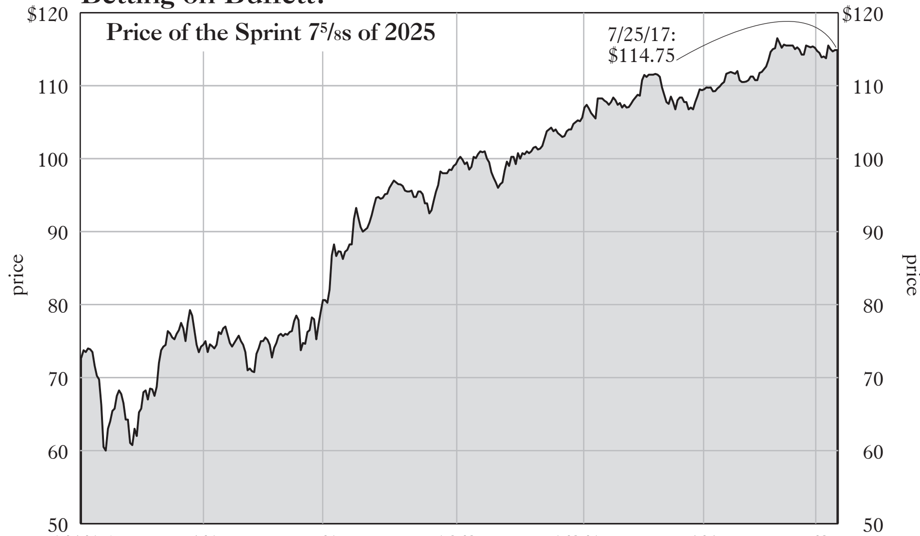
Hefty valuations are thus one common attribute of stocks and bonds in 2017. Low volatility is a second. The Merrill Lynch Option Volatility Estimate (MOVE) Index reached a record low of 47 on July 24, less than half series' average of 96.8 going back to 1988. A penchant for low-cost, index-based investment vehicles makes another cross-asset commonality. Since March 2009, the value of fixed-income ETFs has jumped to $490 billion from $69 billion, according to ICI.

BlackRock, having built a $10.3 billion mortgage-backed securities ETF (MBB on the NYSE Arca), is now preparing to unveil the iShares Consumer Asset-Backed Securities ETF, a vehicle that could sprout to 10 times the size of MBB.

"With BlackRock envisioning the vehicle as possessing massive buying power—some think it could reach $100 billion—the firm is concerned that there might be too few deals flowing into the market to fill its portfolio," according to the June 23 edition of *Asset-Backed Alert*. In a twist on Say's Law, BlackRock is trying to show that demand can create its own supply. The world's largest money manager is said to be making the rounds of auto lenders like Ally Financial, Inc. and credit-card lenders like Capital One Financial Corp. to prod them into issuing new ABS. The summons comes at a time of rising delinquencies and defaults across consumer-loan types (*Grant's*, June 2) and in the midst of an SEC investigation into charges that online personal-loan originators are falsifying borrowers' incomes and transporting these fantasy facts into securitized-deal documents (as *Asset-Backed Alert* has also reported).

The problem of a "platform" in search of "product" brings to mind the state of things in the days of innocence before 2007. "If you have a significant distribution platform," the Sept. 8, 2006 issue of this publication quoted a Moody's managing director as saying about the structured credit markets, "there are many things you can do to move those assets—through securitizations and outright resale, among other things. What you need is product to feed the machine." In one way, today's ETF and passive-investment-fund machine is more avaricious than the structured credit contraptions of a decade ago. To sustain revenue and earnings growth in a time of collapsing management fees, BlackRock and its ilk need ever-growing fund flows. Hence the search for new assets, new ETFs, new investment themes.

Betting on Buffett?



source: The Bloomberg

WRONG NUMBER

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It is no singularity (rather par for the course) that overpriced assets do not return to fair value merely because a certain twice-monthly investment journal impugns them as overpriced—in fact, if we do say so, it positively proves it. This bull-market status report concludes with a return to a pair of bearish credit calls that leave nothing to be desired except that they are (so far) off the beam.

The single-B-rated Sprint Corp. senior unsecured $7\frac{5}{8}$s of February 2025 were a featured target in the Dec. 23 issue of *Grant's*. The bonds traded at 103.56 to yield 7%—up from 60, to yield 16.2%, at which they had languished only 11 months earlier. Today, the $7\frac{5}{8}$s fetch 114.75 to yield 5.2%. Bulls bank on the hope of a Trump-blessed deal with T-Mobile U.S., Inc. or perhaps the benign intercession of Warren Buffett.

The bear case invokes a fact which the data-dependent Fed chair herself adduced in her June press conference. Janet Yellen blamed "a huge decline in cell telephone service plan prices" for holding down headline inflation.

(For its part, Sprint was offering free voice and free, unlimited data service to new customers switching from a competing network. Just how does the concept of "free" figure as a CPI input?)

The observation that data usage grows every year is one for the bulls. The fact that mobile operators must invest to stay competitive is one for the bears. Sprint's spectrum licenses skew towards high frequencies which do not propagate as far as lower ones. They therefore require heavy spending to maintain coverage. Sprint's high debt load (more than six times trailing EBITDA after adjusting for peculiarities in how mobile operators report earnings and adding capitalized leases) means that the company does not internally generate enough cash to fund these network build-outs.

"To conserve cash," Lorenz relates, "Sprint has slashed spending to the bone: Network capex fell to $2 billion in fiscal year ending March 31, 2017, from $4.7 billion and $5.4 billion in fiscal years 2016 and 2015. To stave off bankruptcy—yes, bankruptcy—management began mortgaging its spectrum assets. The fewer the assets, of course, the lower the protection afforded to senior unsecured creditors in the event of bankruptcy; prospective recovery values, too, melt away along with the hypothecated corporate assets.

"To remain competitive," Lorenz proceeds, "Sprint will have to compensate for those years of network under-investment. After all, the customers to whom Sprint grants a free year of service expect competitive download speeds. On July 14, *The Wall Street Journal* broke news that SoftBank Group Corp. chairman and CEO Masayoshi Son, the majority shareholder in Sprint, had contacted Warren Buffett and media titan John Malone about a $10-plus billion dollar deal with Sprint, the terms of which have not been made public."

Problem solved? Doubtful. "[W]hile an infusion of outside equity would certainly relieve the pressure on Sprint to quickly strike a deal with T-Mobile, it is hard to imagine that anyone would want to make a big equity investment without a deal," a July 17 MoffettNathanson Research report speculates. "And, of course, even if Sprint and T-Mobile do reach a deal, they would then face the problem of highly uncertain regulatory approval. And here's the problem . . . the combined equity valuation of the two companies already appears to discount almost certain regulatory success, an assumption that, in our view, is wholly inappropriate."

As Son is undoubtedly aware, Buffett doesn't work for free. He invests in leveraged and struggling companies only at deep discounts and with a suitable margin of safety. Maybe—belatedly—the Sprint bondholders are coming to accept that reality. The 7⁵/₈s of 2025 have drifted down to 114.75 from 116.50 since the speculation began on a potential deal with Berkshire.

HOLLYWOOD-BOUND

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"Asymmetric returns" was a concept front and center in the March 10 issue of *Grant's*. We reviewed a collection of "high"-yield bonds whose upside potential shrank before their downside risk. The Netflix, Inc. senior unsecured 4³/₈s of November 2026 was an archetype.

We took no stand on whether the one-time DVD vendor would succeed in remaking itself as a Hollywood movie studio, only that the transformation would be costly and the outcome uncertain. Success, so far as the bondholders are concerned, would take the form of the timely receipt of interest and the ultimate return of principal—only that and no more.

In 2016, Netflix invested $5.8 billion in "streaming-content assets," or $108.21 per user, up from $76.55 per user in 2014. The result—as growth in spending gallops ahead of that in revenue—is gaping deficits in free cash flow. The effect of our sensible, well-constructed and altogether sound analysis can be easily shown. The 4³/₈s have rallied to 101.88 to yield 4.1%, from 98.69 to yield 4.54%.

On July 17 came second-quarter results: the addition of 5.2 million streaming members, beating guidance of 3.2 million, while the free cash flow burn jumped to negative $608 million from negative $423 million in the first quarter and negative $254 million in the second quarter of 2016.

"The Netflix second-quarter earnings call was a paradigm of bull-market pageantry," Lorenz observes. "The company eschewed the typical format of management's reviewing results and then opening up the line to questions. Rather, the entire 39-minute call was an extended Q&A between Netflix management and one hand-selected analyst, Douglas Mitchelson, who rates Netflix as a buy for UBS Securities."

The tone was, to say the least, friendly. "And, I think, congratulations on all the Emmy nominations to the company and for you specifically, Ted. Ninety-one. Someone had to count all of those," was one of Mitchelson's opening salvos to Netflix's chief content officer, Theodore Sarandos. "Thank you," Sarandos replied. "That's definitely a team effort, beyond my own content team, the marketing and PR groups and everyone who kind of makes that happen. It's hard to forget that it is a race. So, it is a big campaign that attaches to that stuff, too, but 91 nominations is an all-time record for us and we're thrilled."

Bondholders ought not to be thrilled at a comment by Netflix co-founder and CEO Reed Hastings on the same call (thank you for monitoring the proceedings, Tim Hlavacek). "Look," said Hastings, "when we produce an amazing show like *Stranger Things*, that's a lot of capital upfront and then you get a payout over many years. And seeing the positive returns on that for the business as a whole is what makes us comfortable that we should continue to invest and integrate to basically self-develop many more properties, as Ted can find the appropriate ones. And then there's comfort with being able to finance it. And, of course, our debt to market cap is incredibly low and conservative [helped, no doubt, by the company's adjusted price/earnings ratio of 228 times]. So we've got lots of room there. And I think that combination—that it's spent well, and we can raise it—is what makes us very excited.

"The irony is, the faster that we grow and the faster we grow the owned originals, the more a draw on free cash flow that will be," Hastings wound up. "So, in some senses, the negative free cash flow will be an indicator of enormous success."

How long investors will continue to fund Netflix's yawning deficit remains to be seen. Should they balk, Hastings et al., taking a page from Sprint's book, could mortgage some corporate intellectual property. *House of Cards* bonds, anyone?

COMPLETE WITH CURTAIN CALLS

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Our seven singularities describe a low-volume, low-conviction, low-energy stock market (FAANG being the notable exception). In the context of a standard, three-act bull-market drama, the tone perhaps resembles an inconclusive second act more than a climactic third. Maybe the sound and fury and the ultimate upside are yet to come. On the question of how high is up, we yield to the technicians.

We have our own thoughts on interest rates. Here, along with the invention of QE and the collapse of volatility, are the standout singularities of our time. Not for 5,000 years, until 2015, had sovereign governments been in a position to fund themselves at substantially negative nominal bond yields. Last summer, seemingly all at once, the *Financial Times* tallied $13.4 trillion of securities that would certainly deal their holders a nominal loss if held to maturity. Was this not the culminating act (complete with central bankers' curtain calls) of the great bull bond market? It seems so to us.

What to do with money, besides enjoy it? A question with no correct answer, of course. For ourselves, we like neither the stock market nor the bond market and abominate the prevailing monetary arrangements. If we are confident about anything in the future, it's that bargains and tumult will return.

Professional investors, being paid to invest, can't just do nothing, as profitable as that course of action might ultimately prove. For the rest of us, we must decide if tomorrow's opportunities might not be more interesting than today's. For those who reply, "Yes, they very well might be," and who have the luxury of time and the gift of patience (and who share our foreboding about modern money), a modified Scrooge McDuck portfolio could be the thing: Heavy in cash and gold, light in inflated stocks and bonds.

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