

Investors Have Become Brain Dead

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DUBLIN – Oil fell below \$43 yesterday. Brick-and-mortar retailers are being emptied. The auto industry – including \$1.2 auto debt – is stalling.

Meanwhile, restaurants are having trouble filling their tables. Consumers aren't buying, perhaps because their incomes approximately nowhere for decades.

House ownership is at its lowest level in half a century... along with employment participation. And consumer price inflation measured by the Bureau of Labor Statistics, is falling. So are Treasury yields.

All of these things – and more – point in the same direction: toward a recession.

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[Introducing the 95% accurate Penny Gold Stock Strategy that can average 106% gains](#)

This lifelong goldbug has done the impossible – discovered a strategy that actually WORKS on penny gold stocks. The gains over the entire 30-year historical analysis period are 106%. And that includes the rare play that went down. [Here background, including the full details on his just-revealed strategy...](#)

Blinded by the Fed

Meanwhile, in a parallel universe ed in Lower Manhattan, prices for stocks still sell near record prices.

The stock market is supposed to look a. It is supposed to see more than any one person. It is supposed to detect signs long before they appear to the naked eye.

But it seems to see nothing at all. The subject of today's *Diary*: What is the cause of this blindness? Who's to blame?

Wasting no time on the evidence, we collar the culprit and get out a rope.

Why can't the stock market see what is going on in the real economy?

Because the Fed poked out its eyes. It did this, we charge, by cutting the optic nerve that connects the equity prices to profits.

A stock represents a share in an operating business. Investors have many different businesses to choose from. Until re spent some time getting to know them and then made a decision about which was most likely to do best.

If he anticipated a cold winter, for example, an investor might buy a company that delivered heating oil. If he saw a new flying off the shelves, he might want to own the company that made it.

A more sophisticated investor might even take out a subion to Value Line and check the numbers.

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[How the “Ledbetter Memo” strategy can lead to 869% gains](#)

In a recent historical analysis, a newly revealed strategy based on obscure “Ledbetter Memos” would have produced w penny stocks, with historic gains of 867%, 700% and 869%... But here’s the catch – the strategy simply doesn’t work 9 time. [Here’s the secret to finding where it DOES work, and how it delivers 869% gains.](#)

Rise of the Quants

Today, the market is dominated by quantitative (or “quant”) hedge funds (those that use complex computer algorithms t and out of stocks) and passive ETFs (stock-like funds that simply buy and hold indexes such as the S%26P 500).

From a report by independent research firm 13D Research:

The rise of passive investing has been well-reported, yet the statistics remain staggering. According to Bloomberg, [the world’s biggest provider of passive ETFs] saw net inflows of \$2 billion per day during the first quarter of this year.

According to *The Wall Street Journal*, quantitative hedge funds are now responsible for 27% of all U.S. stock trades investors, up from 14% in 2013. Based on a recent Bernstein Research prediction, 50% of all assets under management in the U.S. will be passively managed by early 2018.

Passive ETFs do no traditional stock research. Instead, they rely on rudimentary algorithms, or sets of rules, when it comes to which stocks they buy and sell.

No algorithm ever went to a company meeting nor took the measure of the people running the firm. Nor do they care about the industry the company is in... nor its products. Nor do they attempt to make any connection between the real world of business and commerce and the stock price.

Missing Connection

Investor Steven Bregman, speaking at the *Grant’s Interest Rate Observer* conference, used the example of Exxon Mobil.

Suppose an investor, five years ago, was given advance notice of the future. He saw that the oil price would be cut in half, that Exxon’s revenue, too, would be almost halved, with earnings down 75% and the dividend payout ratio at almost three times earnings.

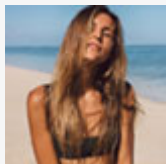
What would he think? What would he do?

Surely, investors wouldn’t miss such a big swing in Exxon’s fortunes. The market would take in this new information and the right price for the stock, wouldn’t it?

But no. A share of Exxon sold for \$82 five years ago. It sold for \$82 yesterday.

What happened to price discovery?

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[The \\$2.1 Million Miami Beach Secret: REVEALED](#)

Just inches from the aquamarine shallows of Miami Beach, a freedom-minded goldbug revealed a \$2.1 million secret about penny gold stocks. But the big profits weren't the most unique thing about his secret strategy – because historical analysis proves it can deliver winners with a startling 95% accuracy. I didn't believe it until I saw all the proof, [which you can see here](#).

How could a stock in a mature industry remain unchanged even as the price of its product (and its operating margins) halved? 13D Research again:

At the heart of passive “dysfunction” are two key algorithmic biases: the marginalization of price discovery and the herd. Because shares are not bought individually, ETFs neglect company-by-company due diligence.

This is not a problem when active managers can serve as a counterbalance. However, the more capital that floods the market, the less power active managers possess to force algorithmic realignments. In fact, active managers are incentivized to follow the herd – they underperform if they challenge ETF movements based on price discovery. This allows the herd to accumulate assets and escalate their power without accountability to fundamentals.

The missing connection to the real economy has implications for the next stock market downturn. As they bought, so they will sell. As prices fall, the quants, robos, algos, and passive ETFs will not trouble themselves to discover the value thus revealed.

They will simply sell.

How? When?

We don't know. But we wouldn't want to be standing in their way when the robots decide to run for the exits.

Regards,