Fake News: How to Filter Fact from Fiction

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We are bombarded with fake news to influence our thoughts and actions. Filtering fact from fiction is not easy.

Given that the intent of fake news is '…*to mislead in order to gain financially or politically*', treating financial and political institutions w healthy scepticism is essential to our financial wellbeing.

How many people, to their great cost, believed former Fed chair Ben Bernanke when, in 2007, he said '…*the subprime market seem be contained*'?

Was Bernanke guilty of fake news or did he simply not have a clue? My guess is the latter.

Whatever the reason, the lesson is crystal clear: You believe these self-interested bozos at your own peril.

The fact that the Fed has doubled down on the same strategy (low interest rates and increased liquidity) that created the dotcom an bubbles tells you so much more than any of its public statements.

The closeted academics in charge of this economic nuthouse have learnt *nothing*.

The other fact is that hardly any in a position to influence public thinking is warning people about this deception.

Thankfully, there are some exceptions.

Nobel Prize winner warns of cathartic crash

In the UK *Daily Telegraph* on 19 January 2017, Ambrose Evans-Pritchard wrote (emphasis is mine):

> '***America should brace for a final blow-off surge in stock markets akin to the lastphase of the dotcom boom or the "Gat years of the Roaring Twenties, followed by a cathartic crash****and day of moral judgment, according to a Nobel prize-winning economist.*
>
> '…*"I think there will be a Trump boom for a while. Stocks look high, but they are not yet super-high. In 2000 the (Cape Shiller) price-earnings ratio was over 45 and we may see a repeat of that,"*[*Professor Robert Shiller*]*said.*
>
> '*The Cape Shiller P/E index measures the average earnings of S%26P 500 equities over 10 years in real terms, and is closely w by investors as a gauge of underlying value.****It is trading at roughly 25****. This is the highest level in over 130 years, excluding the anomalies of the late 1990s and 1920s.*
>
> '…*"What happened after 1929 is a sobering tale. American attitudes changed abruptly. People cut back on spending and this compounded the effects of the depression. There was a collective repudiation of what had gone before.*
>
> '***"There is a strong narrative to the Great Crash. People saw it as the day of judgment on the 1920s, and I think we could repeat of that.****The public will reject Trump's policies and what he stands for," he said.*'

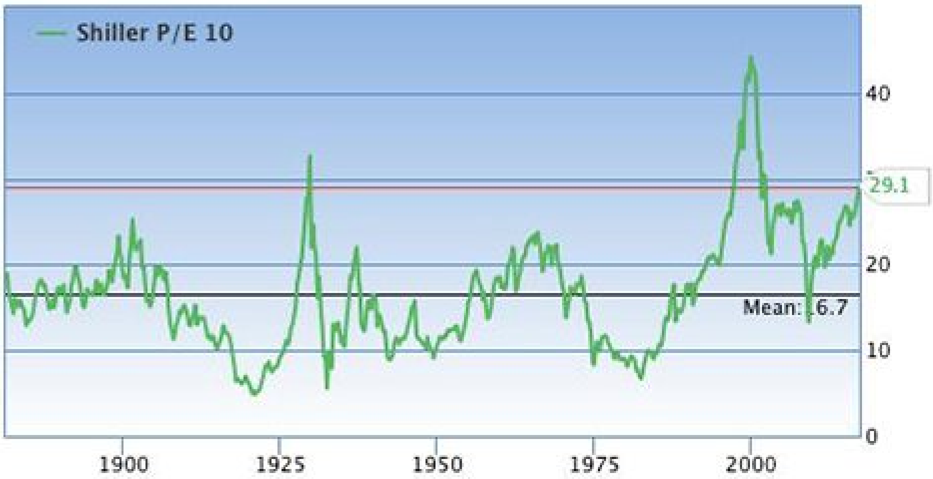
Is Professor Shiller spreading fake news or genuine views? He could be a Democrat voter with an axe to grind.

However, over the years, I've found his opinions to be well-reasoned and impartial to alarmist commentary.

Professor Shiller is the creator of the Shiller P/E 10 index — developed from the teachings of investing legend Benjamin Graham (W

Buffett's mentor).

This is the latest reading on the Shiller P/E 10:



Source: GuruFocus
[Click to enlarge]

In January, the Shiller P/E 10 index was trading at roughly 25-times.Today it is trading at 29-times.

Are we witnessing the 'final blow-off surge' before the 'cathartic crash'?

Some in the Fed are showing a little nervousness about US stock prices. This is from CNBC on Wednesday, 5 April:

> '…*the Fed released its meeting minutes from March which read: "Broad U.S. equity price indexes increased over the intermeetir period, and some measures of valuations, such as price-to-earnings ratios, rose further above historical norms… Some participa viewed equity prices as quite high relative to standard valuation measures."*'

What's interesting about the statement is this wording: '*Some participants viewed*'.There are 12 members on the Federal Open Marl Committee (FOMC) and only *some* view the market as '*quite high relative to standard valuation measures*'.

How many is *some*? Three, four, five or more?

Was Janet Yellen one of the *some?* Probably not.

Was this wording added to appease the few dissenters within the FOMC ranks?

After reading *Fed Up: An Insider's Take on Why the Federal Reserve Is Bad for America*, and discovering what happens at these FC meetings, I'm inclined to think that there were enough FOMC members — perhaps four or five — who insisted on their views being r public.

This somewhat timid warning may dampen animal spirits for a period of time. But if Trump has a 'win' in Congress, then the surge is be on in earnest.

Probable truth

The best I can do — in this world of self-interest, fake news and vacuous thinking — is attempt to discern a probable truth.

On historical valuation methods, is the US market undervalued, fairly valued or overvalued?

It's overvalued.

Can share markets go higher from the current level? Absolutely.

By how much? To reach the Shiller P/E record of 45-times, it could be as much as 50%.

What's the probability of that happening again? Low.

What's been the level of downturn after previous peaks in the Shiller P/E 10? 40% to nearly 90%.

My probable truth is that the US market is probably going higher, but by how much is a guess. Let's split the difference between 0% and say another 25%…taking the Dow to 25,000 points.

Let's also split the difference between the potential correction that awaits, and say the US market falls 65% in value.

This is greater than the two previous downturns. However, the epicentre for those two downturns were tech stocks and property — v broad market caught in the crossfire.

This time, it's the broad market that's been the recipient of the Fed's great asset price reflation. Therefore, it should be right in the 'e storm'.

If the market does rise to 25,000 and then corrects by 65%, the Dow would come to rest around 8750 points…taking it back to the le in June 2009.

This would wipe out all the paper wealth created since the GFC.

The probable truth is that none of us know how far out on the return limb you can go — another 10%, 20% or 50% — before it snaps sends you crashing to the ground.

The absolute truth for the risk averse — those who cannot afford to see their wealth shrink by possibly two-thirds in value — is that y go out on a limb at all.

You stay on the ground and watch with interest the antics of those who accept the risk and exhilaration that comes from scaling heig without a safety net.

Personally, those days are over for me.

While I wait for the 'cathartic crash', I intend to tune out of the fake news and focus on doing my 'life admin' in preparation for the once-in-a-lifetime bargains that are ed our way in the coming year or two.

Regards,

Vern Gowdie,
Editor, *Markets %26 Money*

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Vern Gowdie
Vern Gowdie has been involved in **financial planning** in Australia since 1986. In 1999, *Personal Investor* magazine ranked Vern a
Australia's Top 50 financial planners. His previous firm, Gowdie Financial Planning, was recognized in 2004, 2005, 2006 %26 2007,
Financial Adviser magazine as one of the top five financial planning firms in Australia. He is a feature editor to *Markets and Money* a
and Chairman of the *Gowdie Family Wealth* advisory service and editor of the *Gowdie Letter*To follow Vern's financial world view mo
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