03/02/2017 - Still funny?

Still funny?

- **Disappointed**
- **Recession looms**
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Did the Trump presidency, just stop being funny? From the *Financial Times*:

> '*James Mattis, US defence secretary, on Friday warned Pyongyang that Washington would respond to the use of nuclear weapons with "effective and overwhelming" force, just days after the White House launched a comprehensive review of North Korea policy.*'

The nuclear deterrent is supposed to deter anyone from beginning a nuclear war.

The acronym MAD explains why: Mutually Assured Destruction.

In the seconds that it takes a country to ascertain that a nuclear weapon is ing their way, they can respond with 100 nuclear weapons ing the other away.

Kaput!

Of course, the concept of a deterrent, and MAD, relies on the protagonist and antagonist both being rational human beings. Between the US and North Korea, that may not necessarily be the case.

We'll see. But for now, we'll err on the side of saying that the Trump presidency is still funny…

Markets

Overnight, the Dow Jones Industrial Average closed down 6.03 points, or 0.03%.

The S&P 500 gained 1.3 points, or 0.06%.

In Europe, the Euro Stoxx 50 index dropped 5.31 points, or 0.16%. Meanwhile, the FTSE 100 closed up 0.47%, and Germany's DAX index fell 0.27%.

In Asian markets, Japan's Nikkei 225 index is up 124.23 points, or 0.66%. China's CSI 300 index is down 0.31%.

In Australia, the S&P/ASX 200 is currently up 12.77 points, or 0.23%.

On the commodities markets, West Texas Intermediate crude oil is US$53.89 per barrel. Brent crude is US$56.56 per barrel.

Gold is trading for US$1,213.18 (AU$1,585.12) per troy ounce. Silver is US$17.38 (AU$22.72) per troy ounce.

The Aussie dollar is worth 76.53 US cents.

Disappointed

Signs, signs, signs.

We're always looking for signs.

A certain type of sign in particular.

That is, a crash warning sign.

We've seen them before. They come and go. Some turn out to be valid. Others turn out to mean nothing at all.

But aside from all the usual, fancy signs, such as the 'Death Cross' and the 'Dow Theory', there is one sign that beats them all.

The sign in question?

Profits.

The finance industry has a habit of making things appear harder than they need to be.

The average analyst research report or company annual report has more jargon in it than a duck has feathers.

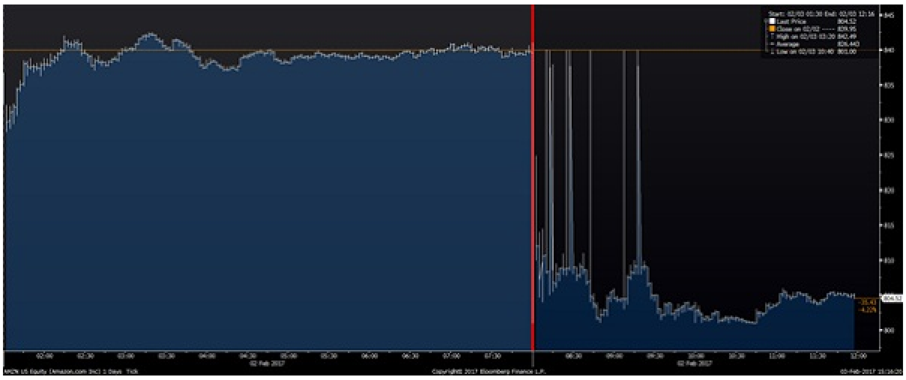
But when it comes to analysing a company, there really is one aspect that's more important than anything else: profits.

Ideally, you want a company to make a profit. Even better, you want the company to make a bigger profit than its last one.

But what you don't want to do, in the world of the stock market, is to make a profit that's less than the market expects. Because as **Amazon.com Inc [NASDAQ:AMZN]** discovered overnight, the market doesn't take kindly to that happening.

The following is a one-day chart of the Amazon.com share price. The price action to the left of the red line shows the stock price during regular trading hours.

The price action to the right of the vertical red line shows the stock price in 'extended hours' trading. As you should be able to tell, the price fell — heavily — by 4.22%.



Source: Bloomberg
Click to enlarge

The reason for the price fall? You've got it: the company is forecasting lower earnings than the market expected.

As Bloomberg reports:

> '*Operating income in the current quarter will be $250 million to $900 million, less than a year ago even though revenue is forecast to increase as much as 23 percent to $35.8 billion.*'

As far as earnings ranges go, that's about as wide a range as you'll get from one of the world's biggest companies.

But Amazon.com wasn't the only tech company to disappoint investors. Look also to **GoPro Inc [NASDAQ:GPRO]**, the company responsible for enabling youngsters to put video cameras on their s, in order to film themselves riding skateboards or diving out of an aeroplane — unfortunately, with a parachute attached to their back.

(Speaking of the annoyingly active, it reminds us of the joke: How do you know if someone has run a marathon? Don't worry, they'll tell you!)

As Bloomberg reports:

> '*GoPro Inc. gave a disappointing outlook for sales this quarter, missing analysts' estimates and reflecting slow demand for its action cameras and the delayed launch of a new drone. The shares fell as much as 14 percent.*'

Stunningly, the report continues:

> '*Revenue will be $190 million to $210 million in the first quarter, GoPro said in a statement Thursday after the markets closed. Analysts were expecting $267.6 million, on average. In the fourth quarter, sales rose 24 percent to $540.6 million, also missing analysts' average estimate for $573.3 million.*'

GoPro's revenue fell 26% from 2015 to 2016. And the company went from a US$36.1 million profit in 2015, to a US$419 million loss in 2016.

Not good.

That's not all. You'd think that, given the current environment, cybersecurity stocks would be as hot as hot chips. But perhaps not. More, from Bloomberg:

> '*Cybersecurity company FireEye Inc. tumbled in extended trading after issuing a sales forecast that fell short of analysts' estimates and announcing a spate of executive changes.*
>
> '*Revenue in the current quarter will be $160 million to $166 million, the company said Thursday in a statement. On average, analysts had been predicting sales of $176.9 million. FireEye also forecast a wider adjusted loss than estimated. The company's shares fell as much as 20 percent in extended trading.*'

That's not good either. By the end of extended trading, **FireEye Inc [NASDAQ:FEYE]** shares were down 17.7%.

We agree this is only a snapshot. Other companies have met or exceeded forecasts. Even so, this must be a worrying sign. Market darlings such as Amazon.com in the US, and **Domino's Pizza Enterprises Ltd [ASX:DMP]** in Australia, have or are predicted to disappoint investors.

The shine (what's left of it) surely is wearing off of this market rally very quickly. We sense more trouble a.

Recession looms

More bad news…this, regarding retailer, **Woolworths Ltd [ASX:WOW]** — of which your editor is a shareholder via our family super fund:

> '*"Significant deviation" from prices at Coles and Aldi may indicate margin pressure for Woolworths in 1H17, Credit Suisse analysts, led by Grant Saligari, write in a report.*'

We're telling you, despite the still rather lofty Aussie market, our money is on Australia later this month recording its first recession in 26 years.

We're not the only one to think this way either. Details here.

Shock discovery: Someone who's smarter than me!

We don't normally do this (unless it's for the purpose of trying to sell you something), but today's *Port Phillip Insider* includes a guest essay from a gentleman I first met in France two years ago.

His name is Ivan Carrino. He's an economist at one of our partner organisations in Argentina, Inversor Global.

After meeting Ivan in 2015, I didn't see him again until the recent Agora Economics roundtable in Baltimore. We got chatting, and Ivan asked if he could interview me for his monthly newsletter.

I agreed. But after some thought, I realised that this guy is much smarter that your editor. It's I who should interview him. So, late last week, I dropped Ivan a line, and asked if he would appear as a guest on the latest episode of the *Financial Anarchists* podcast.

He agreed. We'll release that podcast episode tomorrow. If you already subscribe to our free Financial Anarchists podcast, it will download automatically to your podcast player. If you don't yet subscribe, just search on iTunes or Stitcher for 'Financial Anarchists', hit subscribe, and then wait for the next episode to download tomorrow morning.

The interview with Ivan lasted nearly an hour — twice as long as planned. But he had so much to say that was interesting, I didn't want to cut him off.

Anyway, to give you an idea of just how smart he is, I've also republished an essay he recently wrote for Panampost.com. You can find the original article here.

Otherwise, read on below…

Cheers,
Kris

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Dear Feminists, Capitalism Is Not the Enemy
Ivan Carrino, Economist, Inversor Global

A few days ago I finished reading Mercedes D'Alessandro's book *Feminist Economics*. The author, a PhD in Economics, a Marxist, and self-proclaimed Argentinean feminist, focuses not on wealth inequality but rather between men and women.

According to D'Alessandro, there is a big gender gap in wages and in the burden of household tasks — and capitalism is to blame. Her solution, although not so clearly stated, relies on increased state regulation.

The book is a good summary of the views held by feminist economists. However, it is rife with contradictions, faulty arguments, and ultimately a misguided diagnosis of the current situation.

The first thing that garners attention is its proposal to '*…think about a form of social organization in which women can play a different role than the one they have today.*'

What role? That of a 40 year-old professional woman? That of a primary school teacher? Or perhaps Christine Lagarde's role as the director of the International Monetary Fund?

I wonder whether it is not a little pretentious to speak for all women and just assume they don't have the role they want.

The second controversial point is that domestic work — she quotes statistics that nine out of 10 women perform domestic work regardless of whether they have a day job — is unpaid employment and therefore exploitation.

This is simply not true.

For example, consider the following arrangement in a couple: by mutual agreement, A stays home and manages the household while B goes out to work in order to earn money. This is how many families are organised nowadays.

Now, there is no doubt that A works within the home, in the same way that B does outside. However, it is not true that A is not compensated for what he or she does.

In short, B's income becomes the entire family's income and serves to provide for the whole group. The family, or the couple in this case, works as a team that splits up the tasks. Both activities, however, are equally compensated.

B takes up a job in the labour market in exchange for a salary, while A gets a place to live, goods, services, enjoy vacations, etc.

This idea of unpaid household work would be the most misguided were if not for the author's incoherent criticism of capitalism. Quoting Silvia Federici, D'Alessandro argues that '*in a society shaped by monetary relations, the lack of a salary has transformed a form of exploitation into a natural activity.*'

However, thanks to capitalism, women play an increasingly important role in the labour market. According to economist Steve Horwitz:

> '*Two things began to happen in the 20th century that would eventually undo what looked to be a fairly stable family form. First, technological innovation slowly began to produce labor-saving devices for household production. Second, continued market-driven economic growth increased the demand for labor (including female labor) and continued to raise the real purchasing power of wages across the economy.*'

In other words, thanks to the growth of the market economy, being a stay-at-home mom or dad is increasingly less necessary. Therefore, the arrangement of having the man in the labour market and the woman at home is losing strength.

Curiously, D'Alessandro acknowledges this advance. '*In the 1960s, only two out of 10 women worked outside the home; nowadays almost seven out of 10 do.*'

On the other hand, the author also asserts that, although for every dollar US male workers earn women receive around 79 cents, this number used to be at 59 cents. This means women's wages have grown by no less than 20 percent over the last 50 years.

Finally, she also highlights how women's situation has improved in the corporate world:

> '*Over the last decades, women have enjoyed more access to high positions. According to the US census, in 1980 only seven percent of women had an administrative or managerial position, compared to 17 percent of men. By 2010, this gap had virtually disappeared.*'

Despite these favourable trends, D'Alessandro continues to say that '*the wage gap between men and women has been around for a couple of hundred years, and there is no sign that it will change substantially.*' This assertion contradicts the figures she mentions just a couple of paragraphs before.

Feminist economics starts off from a fundamental mistake: to consider women as a homogeneous whole, without taking into account the nuances and differences that exist between them. Second, it erroneously assumes that any activity not done for money is akin to exploitation.

Finally, she incorrectly accuses capitalism of causing inequality, when it is the system that has done the most to improve the living conditions of both men and women. Fundamentally, capitalism has freed women from the need of getting married to improve her material conditions.

Feminism is wrong about capitalism and by seeking to undermine it, it may end up going against its own interests: women's greater economic well-being.

Ivan Carrino
For *Port Phillip Insider*