

I wrote a whole series of articles warning people about the stock market over the years. [You can see them here](#). It's gotten worse. So I thought I would write some more about why you should probably avoid putting any new money into the stock market...

If you haven't noticed, individuals are avoiding the stock market in droves. There has been an [enormous exodus from equity based mutual funds](#). Why ? Because people buy stocks for only one reason, they want them to go up in price. If you don't believe the market is going to go up. If you don't believe you can find a greater fool to buy your stock, or the stock your funds own, why would you buy either ? You wouldn't and people aren't.

The amazing thing is that doing nothing in the market is the smartest approach to the market. It is pretty much impossible for some man or woman or child who devotes a couple of hours per week to the market to outperform the professionals who spend 24x7 doing this for a living and when they are asleep, they have a workforce full of people doing more of the same. In this day and age, none of us are smarter than the market.

I didn't always think this way. I didn't ever think there was a truly efficient market until just recently. What changed ? The availability of capital changed. While we can argue about whether or not the market is efficient because everyone has access to the same information, I would always argue that they didn't efficiently use that information and even if they did, capital was not always allocated correctly to every market segment.

Capital found its way to where people/funds thought they were smarter than the rest. Some people thought they understood the tech markets better than others. Some thought they understood retail better, etc. The belief that an individual/fund had an advantage drove where capital was allocated. People posted good performance or identified macro opportunities and put their own and others money to work. Others saw the success and followed. Like the saying goes "first there were the innovators, then the imitators, then the idiots". Fortunately for market participants over much of the history of the stock market, if you were the innovator that was smarter and faster than the other guys, you could make money on the long and / or short side of the market before the imitators and then the idiots flooded the market.

The door was open to opportunity in the past simply because capital was relatively expensive. It was expensive to raise, it was expensive to borrow. **High cost of capital creates scarcity of capital.** The more expensive the scarcer. The scarcer the capital, the more untapped opportunities just waiting for innovators to exploit and the longer it took the imitators and idiots to chase the same opportunities and close them. Which is why you found funds and smart people posting great returns over a long period of time.

But a not so funny thing happened on the way to and through the Great Recession. Capital became progressively cheaper. It became the opposite of scarce. It became readily available. To anyone.

The innovators had put together unique mortgage programs. The imitators made it a little easier to partake. Then the idiots took over. Capital was so easy and suckers and idiots so prevalent, everyone believed that there was always going to be a greater fool to buy their house and /or give them refinancing money. Until the idiots couldn't collect on the mortgages they lent or pay the mortgages they took out. That de-levered the system and we know what happened next to the banking, mortgage and housing industries and the entire economy.

In response to that great de-levering, the government stepped in and I truly believe they saved us. Sure, they watched as the idiots dragged us into the mire. Sure they allowed all those mortgages to be guaranteed and that was a key culprit in the Great Recession. Our government has never been very good at being proactive at anything. Reactive... that's another matter. That gets the votes.

So the government reacted and poured money into the system. They allowed just about any bank with a pulse to borrow money. To this very minute it is incredibly cheap to borrow short term capital. Particularly if you are in the business of [trading/hacking](#) the stock market. If you are a big fund or investor, money is cheap. **Unfortunately for the stock market, it is cheap for everyone. In other words, capital is not longer expensive and it is no longer scarce.**

When capital is so cheap that everyone with a pulse thinks they can make money once they borrow it, the stock market is in trouble.

Remember the rule about first there are the innovators, then the imitators, then the idiots ? It is why the stock market is truly in trouble.

There is SO MUCH CAPITAL available at so little cost to so many that the timeline from innovator to idiot is measured in days, hours and probably even milliseconds. The guys who are actually smart and uncover new opportunities can't even get in a position large enough to make it worth their while before the imitators and then idiots pile in right behind them.

Remember the Flash Crash and the discussion about how trades are made in milliseconds, what I called hacking the system ? I don't know for certain, but I'm willing to bet that those innovators that made money by trading in milliseconds, now have so many imitators and idiots that have piled in behind them, putting servers right next to theirs and hiring their algorithm coders away from them, that there is no longer any advantage, or not enough of one for any of the players to make any real money.

There is so much capital chasing so little return that big time players are [getting out of the business](#).

So what does this mean for you ?

It means that I don't know if the market will go up or down, or by how much. My guess is that it stays in a trading range for a while. There isn't much money coming in, **but enough of that easy to come by capital has so much ego attached to it, that the same people will get in and out of the market over and over again and trade amongst themselves.**

**Until something happens. What that will be, I have no idea.**

But I do know that I have continued to add to my cash balance or sovereign debt from around the world (that I have owned for a while now and has been profitable and is very, very liquid.) The stocks I still own for the most part pay me a nice cash on cash return, or I have owned them for a long, long time and have more in gains than I want to pay taxes on. But in total, I have been a net seller of stocks for more than a year. The only investments I am making are small buys into private companies. I want as much "powder dry" as possible for when something happens.

I'm not saying you should get out of the stock market. What I am saying is that it is not a bad thing to accumulate cash right now. Retention of capital is a good thing. Don't go chasing stocks. Something is going to give in this market. Like I said, I don't know what it is, but I want to have as much capital available as possible for when it happens.

Baron Rothschild said "the time to buy is when there is blood in the streets", Warren Buffet said it differently when he said "you pay a very high price in the stock market for a cheery consensus"

This is the time to start saving for a "bloody day". There will be a time when capital regains its scarcity. When it becomes more expensive. When it does, what do you want to have in as great an amount as possible? Capital.

So save your money. Pay off your credit cards. Put your money in the bank where it is insured. Be patient. Get a good night's sleep knowing that your money is not going anywhere and just wait till your capital is in demand and you get paid for it. When everyone is complaining about the money they lost, you will be ready to step in and buy.

That is how fortunes are made. Having money when no one else does. And you can take that to the bank!